Bath & North East Somerset Council

Corporate Audit Committee

Date: **Tuesday, 12th September, 2017**
Time: **2.00 pm**
Venue: **Brunswick Room - Guildhall, Bath**

Agenda

To: All Members of the Corporate Audit Committee

Councillors: Brian Simmons (Chair), Chris Dando, Andrew Furse, Barry Macrae and Christopher Pearce

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Chief Executive and other appropriate officers
Press and Public

The agenda is set out overleaf.

Sean O'Neill
Democratic Services
Lewis House, Manvers Street, Bath, BA1 1JG
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NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1

Paper copies are available for inspection at the **Public Access points:-** Reception: Civic Centre - Keynsham, Guildhall - Bath, The Hollies - Midsomer Norton. Bath Central and Midsomer Norton public libraries.

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. **Recording at Meetings**:-

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Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

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https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942

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https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505

Cabinet - Tuesday, 12th September, 2017

at 2.00 pm in the Brunswick Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 7.

2. ELECTION OF VICE-CHAIR

To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** _or_ an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES: 13TH APRIL 2017 (Pages 5 - 10)

9. HOUSING SUBSIDY BENEFIT UPDATE (Pages 11 - 18)

10. ACCOUNTS AND AUDIT FINDINGS REPORT (Pages 19 - 214)

11. TREASURY MANAGEMENT OUTTURN 2016/17 (Pages 215 - 228)

12. LOCAL CODE OF CORPORATE GOVERNANCE (Pages 229 - 244)

13. PROCUREMENT UPDATE - EXTERNAL AUDIT (Pages 245 - 248)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

BATH AND NORTH EAST SOMERSET COUNCIL

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 13th April, 2017, 2.00 pm

Councillors: Brian Simmons (Chair), Chris Dando and Barry Macrae
Independent Member: John Barker
Officers in attendance: Andy Cox (Audit Manager (Audit West)) and Jeff Wring (Head of Audit West)
Guests in attendance: Barrie Morris (Grant Thornton)

134 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

135 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was nor required on this occasion.

136 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Andrew Furse.

137 DECLARATIONS OF INTEREST

There were none.

138 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

139 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

140 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

141 MINUTES: 9TH FEBRUARY 2017

These were approved as a correct record and signed by the Chair.

142 EXTERNAL AUDIT UPDATE REPORT

Mr Morris presented the update report.

<u>Grant Certification (Appendix 1)</u>

Audit work on Housing Benefit (HB) claims is done on behalf of the Department for Work and Pensions. There is no materiality in relation to HB, so all discrepancies have to be reported. A large number of issues had arisen in relation to HB claims in previous years, and Grant Thornton had agreed with the Council to provide training to officers processing HB claims to try to address the issues. It had been agreed that the training would be provided free of charge, provided that the number of errors decreased year on year. Unfortunately the number of errors identified this year had not decreased, so there would be an addition to the audit fee of £1,895 to cover the cost of the training. DWP had been concerned, particularly about the lack of sufficient evidence in relation to pensions, which could have resulted in a drawback of over £100,000. The Council undertook further work to find more evidence, which was reviewed by Grant Thornton, resulting in a reduction in the extrapolated error to £43,008. The Council must focus on improving its handling of HB claims.

A Member expressed concern that the report might give an unduly pessimistic picture of the Council's performance in relation to HB claims; a total error of £100k in relation to total was actually very small. It might be more expensive to recruit additional staff. He hoped that the problem would be reported and addressed in a proportionate manner.

Mr Morris agreed that the quantum might appear small, but there were a large number of transactions and a number of different areas of the process where problems were found, on a relatively small sample. In addition, the error figure related only to overpayments; there was no figure for underpayments, which could impact severely on recipients of HB.

The Head of Audit West stated that it was clearly disappointing that despite the free training offered by Grant Thornton, the number of HB errors had actually increased. The service had written to DWP setting out a number of actions that they were taking which can be shared with the committee, which was positive, but we could not give a categoric assurance to the Committee that errors would not re-occur. The DWP had written to the Council and had requested recovery of the overpaid subsidy.

A Member said that it was important for the Committee to receive a detailed report from the service about the problems and the actions being taken to address them. There could be an increase in unjustified claims if the perception developed that applications for HB were not adequately checked. Underpayments were as great a cause of concern as overpayments. Another Member said that it was important for the Committee to understand that the external auditors had an obligation to make extrapolations of potential losses from their sample testing. If there were issues relating to training and expertise in the service, it was important that the head of service should acknowledge them and explain to the Committee how he would address them.

It was agreed that the head of service should be invited to attend the next meeting of the Committee and present a report.

<u>External Audit Plan for Council (Appendix 2)</u>

In response to a question from a Member Mr Morris explained that historic assets and investment assets were valued by the same team in the Council, but on a different basis. The external auditor checked to see whether the appropriate basis was applied.

He said that the external auditors were aiming to complete the audit on the 2016/17 accounts by July.

The Audit Manager reported that Internal Audit had carried out a review of iTrent System Administration and Security. This had been rated at level 3 (satisfactory) and 15 recommendations had been made. Management had responded positively and agreed to implement all the recommendations.

Mr Morris presented the External Audit Plan for the Pension Fund and the External Audit Update.

RESOLVED to note the report.

143 INTERNAL AUDIT ANNUAL REPORT

The Audit Manager introduced the report and commented on the Audit Plan Position Statement.

A Member said that he would be concerned if too much emphasis was placed on achieving Audit Plan targets. He recognised that it was not possible to commit 100% of audit resources in advance, and that there had to be sufficient capacity for unplanned work and a proportionate approach to audit work. The Head of Audit West responded that the purpose of the audit dashboard was to be open and transparent about work done. The performance indicators used for it were standard among public sector auditors throughout the country and used for benchmarking.

The Head of Audit West said that the audit partnership with North Somerset had achieved significant savings for both councils over the past 4 years, 20% for Bath and North East Somerset and 30% for North Somerset. The effectiveness of partnership working was demonstrated by the fact that the 20% reduction in the budget had only resulted in a 10% reduction in working days. However, it had to be acknowledged that working days were at an historic low. In future increasing the efficiency of the audit service would not focus on cost reduction, but on seeking income opportunities. His view was that the Council's audit services now had the minimum level of resources required for the level of risk.

The Head of Audit West drew attention to his audit opinion in paragraph 4.11 of the report.

RESOLVED to note the Internal Audit Annual Report 2016/17 and formal opinion on the internal control framework.

144 INTERNAL AUDIT ANNUAL PLAN

The Head of Audit West presented the report. He reminded Members that it was the Corporate Audit Committee that approved the Annual Audit Plan, not management. He drew attention to the two-stage risk assessment process used in formulating the plan under the Reasonable Assurance Model (RAM), as set out on agenda page

101. The results of the RAM were shown on page 109 and the Audit Plan Areas on pages 110-111.

Mr Morris said that the risk strategy and planning process was really good, but he thought it would be helpful if the risk assessment for each audit area was indicated. The Head of Audit West agreed. He said that this used to be done, but the view was now that anything that was high risk was included in the plan, and low risk areas were not. Anything considered to be above a certain risk threshold went into the plan. There were risk assessments for items in the plan, but these were very detailed and intended as an aid for internal management purposes. He was happy to share this information, but it might not be very informative for the public. The pattern was now that the audit areas changed more frequently than in the past, because, among other things, repeated savings led to continuous changes in service design along with changes to legislation and overall objectives.

A Member asked whether it was possible to identify the internal audit areas that were critical for the work of the external auditors. The Head of Audit West replied that the external auditors no longer relied directly on the work of internal audit as they may have done in the past. Mr Morris said that it was not a good use of Internal Audit's resources to continue to check functions which had already been assessed as satisfactory. If core systems had been given sufficient attention, the external auditors thought it was a better use of IA resources for them to target areas where significant change was taking place. However, if IA found a problem in, for example, payroll, the external auditors would change their approach to take account of that. The Head of Audit West said that it was informative for IA to look at areas of concern identified by the external auditors, for example the problems with HB payments, to see what further work IA might usefully do. This was a case of the work of the external auditors impacting on IA.

RESOLVED to approve the Internal Audit Plan for 2017/18.

145 AUDIT COMMITTEE ANNUAL REPORT

The Head of Audit West presented the report. He said that as in past years the proposal was for him to produce a draft annual report in consultation with the Chair. This would be circulated to Members for comment. The agreed report would be submitted to Council in September.

A Member asked whether the risks arising from the establishment of Combined Mayoral Authority should be referred in the Annual Report. The Head of Audit West replied that while the Annual Report was primarily retrospective, there is section looking forward, in which the potential future could be mentioned, such as devolution, the Virgin "Your Care, Your Way" contract and Project Brunel.

The Head of Audit West said that he was proposing that an informal workshop Members should be held in July. This could include a review of the previous year, a presentation from the external auditors and presentations on topics such as fraud. Members agreed with this proposal. The Head of Audit West said that he would circulate proposed dates by email.

RESOLVED that:

1. The Annual Report of the Corporate Audit Committee is delegated to the Chair of the Committee for approval, subject to comments from Committee Members.

2. The current terms of the Committee are appropriate and no changes are proposed.

The meeting ended at 3.33 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	12th September 2017	**AGENDA ITEM NUMBER**
TITLE:	Housing Benefit Subsidy issues – Corporate Audit Committee	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – DWP subsidy confirmation Letter** **Appendix 2 – Officers letter to DWP regarding improvements being implemented**		

1 THE ISSUE

1.1 At its previous meeting the Committee received the External Auditors report in relation to the Housing Benefit Subsidy for the year 2015/16, the report picked up a number of errors made and the Committee requested further assurance as to the Council's administrative procedures relating to these issues.

2 RECOMMENDATION

Corporate Audit Committee is asked to agree that:

2.1 This report is noted.

3 FINANCIAL IMPLICATIONS

3.1 Housing Benefit is administered by the Council on behalf of the Department For Work & Pensions and a subsidy is repaid to the Council for the support it provides to claimants on low incomes.

3.2 In most instances the Council will receive 100% reimbursement from subsidy for the support it pays out to claimants in respect of Rent. However, there are certain instances where this does not apply. In these cases the Council can often recover overpayments and if this is done efficiently it can exceed 100% recovery of total benefit paid out.

3.3 The Housing Benefit system continues to increase in complexity at a time when the working age claimants are moving over to Universal Credits. In Bath we are a full site for Universal Credits so we are seeing this change at an accelerated rate.

This coupled with the unprecedented pressure on budgets makes recruitment and retention of skilled Benefit assessors extremely difficult.

3.4 To give the subsidy claim some context the Council has administered Housing Benefit payments over recent years as follows:-

Housing Benefit Subsidy By Year £m.

2017-2018	2016-17	2015-16
Mid-Year Est	Actual	Actual
£38.8	£46.6	£53.1

3.5 The Secretary of State proposed to offset the overpaid subsidy of £62,834, referred to by Grant Thornton at the last meeting of the Committee against the under-claimed subsidy of £64,512 and to include a payment of £1,678 in our interim subsidy for March 2017 which they have done. See Appendix 1 which is the final subsidy settlement letter from the DWP.

4 CORPORATE PRIORITIES

4.1 This is a statutory function but it is important that the service is delivered efficiently and effectively contributing to the Council's priorities.

5 THE REPORT

5.1 As detailed in our letter to DWP shown at Appendix 2, we have implemented a number of safeguards to reduce the risk to subsidy loss through errors.

5.2 As a result of issues raised in this audit we have reviewed 2,500 claims between December 2016 & March 2017.

5.3 We have increased the checking of individual officers work

5.4 We have implemented continuous training throughout the year to cover the areas where mistakes have taken place

5.5 A new process has been implemented so claims will now be reviewed within a set period to reduce fraud and error

5.6 Whilst the last claim was initially qualified due to the non-availability of old claim information we were able to work with the DWP and prove that these claims were not wrong and this decision was subsequently reversed.

6 RISK MANAGEMENT

6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6.2 We review Housing Benefit Subsidy on a regular basis and meet with Finance colleagues on a quarterly basis to review our estimates.

7 EQUALITIES

7.1 Not applicable.

8 CONSULTATION

8.1 The report was distributed to the S151 Officer for consultation.

Contact person	*Ian Savigar (01225 477327)*
Background papers	*None*
Please contact the report author if you need to access this report in an alternative format	

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Housing Delivery Division
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Warbreck House
Blackpool FY2 0UZ

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MR ROBERT JOHN
CUSTOMER SERVICES TEAM LEADER
BATH & NE SOMERSET COUNCIL
RESOURCES DIRECTORATE
GUILDHALL, HIGH STREET
BATH
BA1 5AW

Date: 6 March 2017

Dear Mr John,

Housing Benefit
2015/16 Qualified Final Subsidy Claim

I am writing to inform you of the Secretary of State's decision in relation to the recovery of overpaid subsidy from your claim for 2015/16.

The Secretary of State in making this decision was mindful that local authorities are required by law to administer Housing Benefit in accordance with the relevant legislation and case law. He is entitled to expect that an authority will act with reasonable diligence to properly discharge its functions in accordance with the law when administering Housing Benefit.

The following decisions were made after considering all the available information in relation to the criteria specified in Circular S1/2002 and the additional information you have presented. The decisions have been made under section 140(C) of the Social Security Administration Act 1992.

<u>2015/16 Qualified Final Subsidy Claim</u>

Reason for qualification – amount – recovery

1. Rent Allowance Cases Excluded From Requirement to Refer To The Rent Officer - £16,894 – Full recovery
2. Rent Allowance Total Expenditure - £45,940 – Full recovery

The Secretary of State has decided to recover £62,834 of overpaid Housing Benefit subsidy from your 2015/16 subsidy claim.

The Secretary of State in making this decision has noted, with regard to S1/2002, that the incorrect assessment of benefit has resulted in subsidy being claimed in excess of entitlement, at a cost to the public purse. Consequently the Secretary of State considers that this shows a failing on the part of your Authority to exercise due care in discharging your functions in relation to the administration of Housing Benefit. Accordingly, the Secretary of State considers it appropriate, in all the relevant circumstances of your claim, to recover the total recoverable overpaid subsidy of £62,834.

The Secretary of State, however, recognises that as a consequence of the reclassification of LA Error overpayments your subsidy claim is understated by £64,512. The Secretary of State will amend your claim accordingly.

Method of repayment

The Secretary of State proposes to offset the overpaid subsidy of £62,834, against the under-claimed subsidy of £64,512 and to include a payment of £1,678 in your interim subsidy for March 2017.

Please note that the final settlement will also take into account any adjustments to your certified final claim, that you have agreed with your auditor and which sit outside the recovery decisions.

Your claim will now be settled on the above basis. This does not, however, prevent your claim from being re-opened should the Secretary of State become aware of new information relating to your claim. The Secretary of State will also consider re-opening your claim if you present further information that, in the Secretary of State's view, shows that the overpaid subsidy is less than the amount on which the Secretary of State based his recovery decision.

You should be aware that there is no right of appeal against a decision of the Secretary of State to recover overpaid subsidy under S140C(3) of the 1992 Act. The decision can only be challenged by judicial review.

Please do not hesitate to contact me should you have any queries on this matter.

Yours sincerely,

John Darrell

John Darrell
Housing Benefit Unit

Bath and North East Somerset Council
Customer Services
PO Box 2797, Bath, BA1 1WF

Mr John Darrell
Housing Benefit Unit
Department of Works and Pensions
Finance Group
Payment Resolution Service
Room B120D
Warbreck House
Blackpool FY2 0UZ

Date: 7th December 2016

Dear Mr Darrell

Housing Benefit and Council Tax Benefit
2015/16 Qualified Final Subsidy Claim

Thank you for your letter dated 28th November 2016, as we discussed on the phone I want to reassure you that procedures have and will continue to be implemented to reduce the possibility of qualifications on future claims of Housing Benefit Subsidy.

Following the qualification of our 2015/16 subsidy claim a number of remedial actions are in the process of being put in place which will continue throughout the remaining part of this subsidy year. Extensive work is currently being undertaken to review our working practises which includes:-

1. Introduced a Subsidy work plan that captures each step of the process and provides structure, framework and timescales for Managers to work to.
2. Increased claim checking to reduce error and improve accuracy. We currently commit up to 3 days a week of one Senior Officer to complete this which is fed back to individual members of staff through one-to-ones and the personal development process.
3. Developed an annual training calendar which delivers bite sized training sessions to all benefit trained staff. The subjects and content delivered are identified through errors found through claim checking, staff feedback (1-2-1 process) and results from yearly subsidy audits.
4. The introduction of FERIS has enabled us to deliver a more robust and straight forward claim review process. Each customer contact made now results in the claim being reviewed in its full entirety.
5. Senior Officers will continue to undertake monthly checking of subsidy cells to minimise errors within the subsidy year e.g. full checking of cell 11.

6. Weekly team meetings are held with Benefit trained staff where the learnings identified from the Subsidy audit together with checking and monitoring are discussed with outcomes and training and development needs agreed. As a result there has been a noticeable increase in awareness within the team of subsidy and the effects and impact their work has on the final claim.

In addition to the above work since the start of the audit in May 2016 a number additional of targeted projects are currently taking place.

1. Specific claim types including occupational pensions, state pension and those with childcare costs are having an individual claim review. This will include capturing a new claim review form.
2. In recent months significant focus has been made to recover housing benefit overpayments. To date this work appears to be progressing well with an increase in overpayment recovery.

Following our telephone conversation I can also confirm that we have now spoken with our Auditors who have requested confirmation that you do not require us to carry out further testing on the automated uprating issue and can you also clarify what you would require in terms of evidence from us in order to consider our request not to extrapolate.

To clarify the issue we discussed related to failed claims in Cell 103 where our auditor has identified just over £101,000 of extrapolated error based on 8 failed claims with no evidence; as discussed these were claims where we had unfortunately deleted the evidence from our system due to a change in document management systems. Since the auditor completed his work we have been able to gather the missing evidence from the claimants and can prove that only one of these cases would have in fact caused an overpayment totalling 0.91pence had the original claim evidence been available at the time of the audit. In addition to this we have committed to reviewing all of the claims where evidence may be missing and this will be complete by the end of this financial year.

Our auditors have acknowledged the further work we have and are doing but have said “If you have discussed the further testing which you have undertaken with the DWP and they want a revised report on this basis, then we will need to test the claims for which you have obtained retrospective evidence, and issue a revised report”; and whilst the auditor suggests that this work should correct the claim in 2015/16… If you take the extrapolation as suggested now, then we will end up losing subsidy over and above the upper threshold and we will never be able to recover this. We believe this would be unfair given the information we have provided.

Please can I ask that you confirm that a letter from ourselves and our auditor regarding these 8 claims would be sufficient for you to reconsider the extrapolated amount?

Many thanks

Yours sincerely,

I Savigar

Ian Savigar
Divisional Director, Customer Services

Bath & North East Somerset Council	
MEETING:	**Corporate Audit Committee**
MEETING DATE:	**12th September 2017**
TITLE:	**Governance Reports for Council and Avon Pension Fund, and Audited Statement of Accounts 2016/17**
WARD:	All
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1** – Audit Findings Report for Bath & North East Somerset Council **Appendix 2** – Audit Findings Report for Avon Pension Fund **Appendix 3** – Bath & North East Somerset Council Audited Statement of Accounts 2016/17 **Appendix 4** – Bath & North East Somerset Council Letter of Representation **Appendix 5** – Avon Pension Fund Letter of Representation 2016/17	

1 THE ISSUE

1.1 The Audit Findings Report summarises the results of Grant Thornton's audit of the 2016/17 accounts. It includes the issues arising from the audit of the financial statements, and those issues which they are formally required to report to you under the Audit Commission's Code of Practice and International Standard of Auditing (UK & Ireland) – 'Communication of audit matters with those charged with governance'.

2 RECOMMENDATION

The Corporate Audit Committee agrees that:

2.1 The issues contained within the Audit Findings Reports for the Council and Avon Pension Fund are noted

2.2 The audited Statement of Accounts, including the Annual Governance Statement and Letter of Representations for Bath & North East Somerset Council and the Avon Pension Fund for 2016/17, are approved.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

3.1 The Council's Statement of Accounts sets out the Income and Expenditure for the 2016/17 financial year, together with the Balance Sheet and all related supporting information.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 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.

4.2 The Accounts and Audit Regulations 2015 require that the Statement of Accounts shall be 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.

5 THE REPORT

Council's Accounts

5.1 The Narrative Report to the Statement of Accounts gives an overview of the financial position as set out in the accounts in the detailed statements and notes.

5.2 The work carried out by Grant Thornton as part of the audit of the financial statements has resulted in a number of amendments to the Disclosure Notes accompanying the Financial Statements, none of which adjusted the total net expenditure or total usable reserves.

5.3 The 2016/17 draft statement of accounts was produced and certified for issue by 30th May 2017, which was within two months of the end of the year, and one month earlier than the previous year. This achievement would meet the forthcoming Accounts & Audit Regulations (England) requirement that the 2017/18 draft accounts be issued by 31st May 2018.

5.4 Grant Thornton are proposing to issue an audit report including an unqualified audit opinion on the Council's 2016/17 Financial Statements.

Avon Pension Fund's Accounts

5.5 There have been some changes to the Avon Pension Fund accounts that were presented to the Pensions Committee in June, but only of a disclosure nature and do not affect the net assets or fund account position. The final accounts will be presented to the Pensions Committee on Friday 22nd September 2017

5.6 Grant Thornton are proposing to issue an audit report including an unqualified audit opinion on the Pension Fund's 2016/17 Financial Statements.

Annual Governance Statement

5.7 The Annual Governance Statement forms part of the Annual Accounts and the process for its completion and an update on potential issues has previously been reported to the Committee.

5.8 Whilst no significant governance failures have occurred, the Council again acknowledge that the level of grant reductions from central government are a significant issue and represent a real challenge in being able to continue to deliver excellent services to the whole community at all times.

5.9 This challenge was recognised in the statement last year as a significant issue and despite achieving very high levels of savings the Council's financial outturn for 2016/17 detailed a £2.2M overall overspend at year end, primarily as a result of severe cost pressures in Social Care.

5.10 The Cabinet and Senior Management have been actively engaged in tackling this challenge and the mitigating actions lay out some of the key mechanisms we are using to help us do this. Whilst we are well placed to meet the challenge, we recognise its scale with difficult decisions needed to balance the budget and maintain service delivery. Therefore we will need the support of the whole of the governance framework to deliver on this effectively.

6 RATIONALE

6.1 The report is presented as part of the reporting of financial management and budgetary control required by the Council.

7 OTHER OPTIONS CONSIDERED

7.1 None

8 CONSULTATION

8.1 Consultation has been carried out with the Chief Finance Officer.

8.2 Consultation was carried out at meetings and via e-mail.

9 RISK MANAGEMENT

9.1 The Council's on-going financial position is an identified risk that is regularly monitored.

Contact person	*Andrew Pate - 01225 477300 ; Jamie Whittard - 01225 477213* *Andrew_Pate@bathnes.gov.uk Jamie_Whittard@bathnes.gov.uk*
Background papers	*None*
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The Audit Findings for Bath and North East Somerset Council

Year ended 31 March 2017

September 2017

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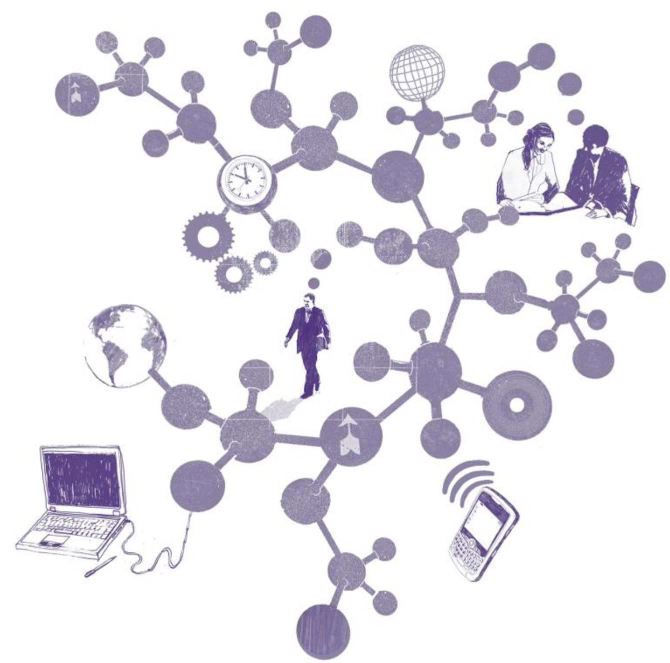

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12 September 2017

Dear Committee member

Audit Findings for Bath and North East Somerset Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Bath and North East Somerset Council, the Corporate Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Barrie Morris

Engagement lead

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Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Bath and North East Somerset Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2017.

Our audit is substantially complete although we are finalising our procedures in relation to:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts (work not yet started).

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We did not identify any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £163.1 million and this has not changed as a result of our audit.

We recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- No significant issues arising;
- Working papers were of a reasonable standard;
- Prompt responses to audit queries, with a couple of exceptions due to staff absence (cash flow) and the amount of work involved (lease disclosure); and
- A number of changes were required to the cash flow statement. Also, whilst not directly relating to a figure in the cash flow statement, a figure of £3.079 million has been entered in a cell in the CIPFA cash flow toolkit, where, per CIPFA "Practitioners must determine where the non cash transactions originate from and if they have any impact on the CFST. It would be rare to have any entries here so careful use is advised". The finance team were unable to identify what this figure related to.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

There are no issuesto bring to your attention.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress. As a result of the findings from our initial work, we have had to extend our testing in a number of areas.

The deadline for this work is 30 November 2017, but we expect to have completed our work by the end of September. We will report the outcome of this certification work through a separate report to the Corporate Audit Committee in December 2017.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Resources Strategic Director.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £8,207,000 (being 1.9% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and identified a reduction in gross expenditure, which led us to revise our overall materiality to £7,784,000 (again 1.9% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £389,200. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of senior officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£2,500
Members' allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to the occurrence of other fees and charges and the existence of the associated receivables.	• Documented our understanding of management's controls over revenue recognition • Reviewed and tested of revenue recognition policies • Tested material revenue streams	Our audit work has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	• Reviewed the journal entry process and selected unusual journal entries for testing back to supporting documentation • Reviewed accounting estimates, judgements and decisions made by management.	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements. **Valuation of investment property** The Code requires that the investment property owned by the Council are revalued annually and are measured at their highest and best use. This represents a significant estimate by management in the financial statements.	• Reviewed management's processes and assumptions for the calculation of the estimate • Reviewed the competence, expertise and objectivity of management experts used • Reviewed the instructions issued to valuation experts and the scope of their work • Reviewed the information used by the valuer to ensure it is robust and consistent with our understanding • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these were not materially different to current value.	We are satisfied that the Council's property, plant and equipment and investment property are reasonably stated. In previous years, as the valuation of land and buildings and investment property had an effective date of 1 April, values were indexed so that the carrying values were reasonably stated. This year, the valuation had an effective date of 29 September 2016. This, together with a review of movement in indices for the second half of the year, ensured that the values stated in the accounts as at 31 March 2017 were materially correct.
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet ,represents a significant estimate in the financial statements.	• Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: • Employee remuneration accruals understated (Remuneration expenses not correct)	• Documented our understanding of processes and key controls over the transaction cycle • Undertook a walkthrough of the key controls to assess whether those controls were in line with our documented understanding • Reviewed the reconciliation of payroll costs to the general ledger • Undertook an analytical review of monthly payroll trend	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: • Creditors understated or not recorded in the correct period (Operating expenses understated)	• Documented our understanding of processes and key controls over the transaction cycle • Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Searched for unrecorded liabilities • Assessed the Council's accruals methodology and the reliability of estimates used	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare benefit expenditure	Welfare benefit expenditure represents a significant percentage of the Council's gross expenditure. We identified welfare benefit expenditure as a risk requiring particular audit attention: • Welfare benefit expenditure improperly computed	• Documented our understanding of processes and key controls over the transaction cycle • Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Tested the calculation of housing benefits to ensure that they were correctly calculated.	Our audit work has not identified any significant issues in relation to the risk identified.
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	• Documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they were in line with the Council's internal reporting structure • Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. • There is a separate policy for NNDR and Council Tax as well as general revenue.	The various accounting policies are considered to be reasonable and in line with the CIPFA Code.	● Green
Judgements and estimates	• Key estimates and judgements include : – Revaluations – Impairments – Accruals – Valuation of pension fund net liability	Our conclusions on the valuation of property, plant and equipment, investment properties and the pension fund net liability are set out on page 11. Other estimates and judgements have been considered in the audit process, and no issues have been identified.	● Green
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	● Green

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Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Corporate Audit Committee We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	From the work we carried out, we identified a number of significant related party transactions which, whilst not material to the Council, were material to the other parties. As a result, additional disclosures have been added to Note 36.
3.	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	A standard letter of representation has been requested from the Council. No specific representations were required.
5.	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to NatWest and 24 other bodies . This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation. However, where responses were not received we undertook alternative procedures, including reviewing repayments and other evidence.
6.	**Disclosures**	A number of disclosure changes were identified through the audit process – most were not significant. The most significant relate to the fair value disclosures required for financial instruments and investment properties. This is set out in more detail on page 19.
7.	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading. We have not identified any issues we would be required to report by exception in those areas.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £350m, we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. The deadline for completion of this work is 29 September 2017.

Internal controls – review of issues raised in prior year

Assessment
✓ Action completed
X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	Management should: • review the number of administrative staff and ensure that segregation of duties principles are maintained **Management response -** all profiles including system administrators will be reviewed and amended by 31/10/2016 • continue to review password settings to improve password security in-line with the Council's own password policy of a nine character, complex password **Management response -** we are currently working with North Somerset Council to improve password security • ensure that security logs are subject to periodic review **Management response** - processes are currently being reviewed and this will be captured as part of that review by 30/09/2016.	The number of people with system access has been reduced. All of those users with System access are members of the Financial Systems team who administer the system, so no system access exists within operational teams. A roles based approach is being adopted to ensure segregation. The Profiles review is planned to be undertaken by 31st Oct 2017 We continue to work with North Somerset to improve password security – this is ongoing The leaver process is being reviewed in August and September 2017. As part of this review, a protocol is being set up to: • terminate access to all systems as part of single procedure (not just the i-Trent system) • monitor the process to ensure it is successfully undertaken
2.	✓	Ensure that all school bank reconciliations fully reconcile. **Management response -** We will contact schools staff to remind them of this requirement, in particular where Academy transfer may take place.	We did not identify any issues with reconciliations this year.
3.	✓	Ensure that: • all relevant staff are reminded of the need to provide robust working papers; • access to supporting information from schools is available: and • brought forward balances are reviewed to ensure that they remain valid. **Management response - f**inance and school staff will be reminded of requirements.	We did not experience any issues in any of these areas this year.

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Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
None			
Overall impact	**£nil**	**£nil**	**£nil**

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Corporate Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	Other revenues – no documentation was available to substantiate one of our sample. As this was part of a statistical sample, the projected error is £3,505,911.	Dr 8	Cr 8	The actual error is immaterial and is it is not considered to be evidence of a wider issue, the accounts have not been amended for the projected error.
	Overall impact	**£8**	**£8**	

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	1,257	Financial instruments and debtors	Financial instruments relating to debtors were overstated as they included housing benefit debtors and the associated bad debt provision. The debtors figure has reduced from £13.101 million to £11.844 million. This amendment also affected Note 19 – Debtors.
2	Misclassification	1,482	Financial instruments and creditors	Financial instruments relating to creditors were overstated as they included two community infrastructure levy items. The creditors figure has reduced by £1.482 million to £15.717 million. This amendment also affected Note 21 – Creditors.
3	Misclassification	2,500	Creditors	Housing benefit grant was overpaid during the year, but this should have been shown as central government creditor rather than income received in advance.
4	Disclosure	2,722	Provisions – NNDR appeals	Both the new provisions and utilised in year figures were overstated as they did not reflect just the Council's share. These figures have been amended, but the balance is unchanged.
5	Disclosure	9,004	Cash flow statement – opening balance of cash and cash equivalents (2015/16)	The opening balance (i.e. as at 1 April 2015) was amended to £20.089 million. There are a number of other changes within the cash flow statement and associated notes. These changes do not impact on the reported net decrease in cash and cash equivalents.
6	Disclosure	176,112	Leases (as lessor)	The disclosure was significantly understated as only one year's rental per lease was included in the disclosure rather than the total due per lease. This increased the value disclosed to £191.435 million.
7	Disclosure	7	Note 33 - Audit fees	Audit fees misstated as grant certification fee should be £14,000, rather than £21,000 and fees payable for other services during the year should be £16,000, rather than £2,000.

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies the single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in January 2017 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main consideration was the Council's financial position, including the medium term financial position.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on the following page.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

Although not directly impacting on our value for money conclusion, we recommend that the risk register is kept up to date and reported to the Corporate Audit Committee or Cabinet on a regular basis.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
Medium term financial plan Following the publication of the three directorate plans, there is a gap of £47m for the three years from 2017/18. The strategic review identified £29m of savings, but further review has identified that around £2m of these savings won't be delivered. EY have helped the Council to identify a further £7m - £9m and following portfolio challenge meetings the total now identified is around £40m. The financial year 2017/18 is now balanced. For 2018/19 there is a shortfall of around £5m and for 2019/20 £2m. Both of these figures are before any council tax increases.	We will review the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings. We will review monitoring arrangements and the action taken when plans are not being delivered.	The Council has a good record of delivering its financial plans, although for 2016/17 the Council reported an overspend of £2 million. This in part due to savings plans not fully delivering with 90% of the planned £12.6 million savings being delivered. The other key issue was the pressure on children's and adult social care budgets, the latter being affected by the impact having to re-provide placements for 130 people as a result of care homes closing down. In setting the 2017/18 budget, a number of assumptions were made for both income and expenditure. We have assessed the reasonableness of these assumptions, such as inflation, interest rates and grant funding, and consider that they are appropriate given the underlying information. Savings plans have been developed for 2017/18 and beyond. These plans have been subject to robust challenge and are regularly monitored and updated. We reviewed a number of the savings plans and consider them to be adequately supported by the underlying evidence. A new medium term financial strategy is being produced to update the assumptions and look further ahead. This is intended to be reported to Cabinet in October. Since setting the budget for 2017/18 significant pressures have been emerging and a revised predicted outturn will be reported in October. The 16/17 outturn report indicated an ongoing pressure of at least £4M and this is on top of the £14.8m of planned savings still to be delivered in 2017/18 and 2018/19. In the short term the Council has one off reserves that can be used to mitigate these pressures but the longer term implications are challenging. It is clear that the Council is considering the alternatives available to it to secure the financial position in the medium to long term. If the demand pressures continue to develop as they did in 2016/17 the Council will need significant corrective action. There are no other significant issues arising from the work that we have undertaken to address the risks identified in the risk assessment. It is clear that the Council has undertaken a significant amount of work to prepare a robust medium term financial plan but that this now needs to be updated. As noted in the Council's budget paper "Whilst the Council does face an increasing challenge to deliver the financial plans set out in the Budget Proposal, the Council has a prudent level of reserves and can use these to support and smooth the effects of policy changes and delivery of the financial savings particularly recognising the ongoing reductions in Council funding to 2019/2020 and beyond". We concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in place.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Final fee £
Council audit	123,832	123,832
Grant certification (indicative fee)	13,755	To be confirmed
Total audit fees (excluding VAT)	**137,565**	To be confirmed

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Reporting Accountant's report on Regional Growth Fund	3,390
• Certification of Teachers' Pension return	4,200
Non-audit services	
• Housing benefit training	1,895
• CFO Insights	10,000

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to	Fees	Threat?	Safeguard
Regional Growth Fund	Bath and North East Somerset Council (Note 1)	£3,390	Self-interest	This is a recurring fee and therefore represents a high self-interest threat. However, the level of this recurring fee, taken on its own, is not considered a significant threat to independence as the fee for this work is insignificant in comparison to the fee for the audit of £111,975 and, in particular, Grant Thornton UK's turnover overall. Further, the work is on audit related services, the fee is fixed and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Teachers' Pension	Bath and North East Somerset Council	£4,200	Self-interest	As above
Housing Benefit training	Bath and North East Somerset Council	£1,895	Self-interest	As above
CFO insights	Bath and North East Somerset Council	£10,000	Self-interest	As above, and, in addition, a separate engagement team provide the support for this service.
	TOTAL	£19,495		

The above non-audit services are consistent with the Council's policy on the allocation of non-audit work to your auditor.

Note 1 – the fee for our work on the Regional Growth Fund is not included as part of the Council's expenditure as the cost is charged to the Regional Growth Fund.

Section 5: Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Review the toolkit for the cashflow statement so that all entries in the calculations are fully understood. Specifically, ensure that non-cash movements in control accounts workings are understood.	Medium	Agreed – the toolkit will be fully reviewed.	February 2018 Corporate Finance Manager
2	Review the number of administrative staff and ensure that segregation of duty principles are maintained.	Medium	Agreed – whilst the number of people with system access has reduced, all profiles need to reviewed and amended.	November 2017 Systems and Development Manager
3	Continue to review password settings to improve password security in-line with the Council's own password policy of a nine character, complex password.	Medium	Agreed - we continue to working with North Somerset Council to improve password security.	Ongoing Systems and Development Manager
4	Ensure that security logs are subject to periodic review.	Medium	Agreed – the key element will be to review the leaver process in August and September 2017 and implement changes thereafter.	March 2018 Systems and Development Manager

Controls
- High
- Medium
- Low

B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

We have audited the financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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.

Respective responsibilities of the Resources Strategic Director and auditor

As explained more fully in the Statement of Responsibilities, the Resources Strategic Director 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Resources Strategic Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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.

We are required under Section 20(1)(c) of the Act 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether 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 criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2017. 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 Act and the Code of Audit Practice.

Further, we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

[Signature]

Barrie Morris CPFA
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55 – 61 Victoria Street
Bristol
BS1 6FT

[Date]

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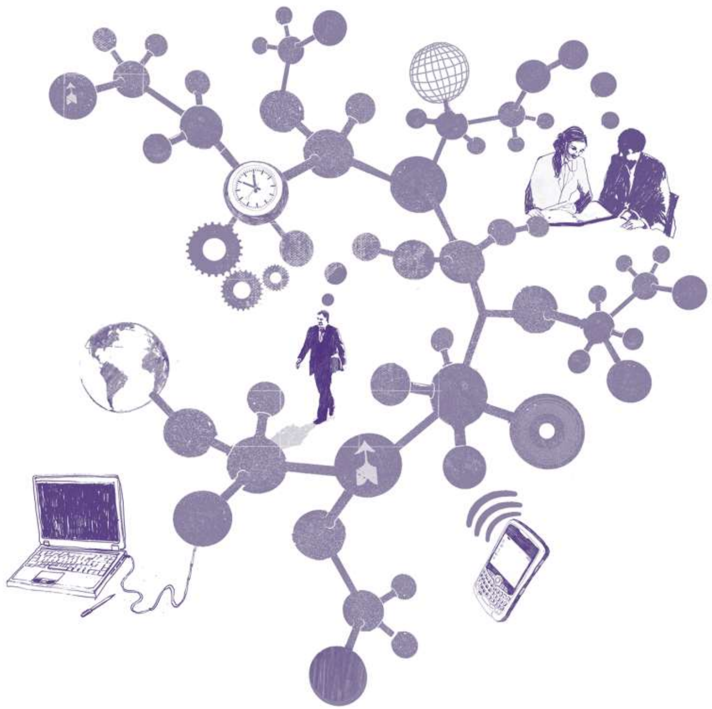
The Audit Findings for Avon Pension Fund

Year ended 31 March 2017

29 August 2017



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29 August 2017

Dear Members of the Audit Committee

Audit Findings for Avon Pension Fund for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Avon Pension Fund, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Julie Masci

Engagement Lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Avon Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 24 February 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements and Pension Fund Annual Report;
- review of cash confirmation letters from Bank of Scotland, Goldman Sachs and Handelsbanken;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net assets of £4.353bn which has not changed as a result of our work. We have recommended a number of adjustments to improve the presentation of the financial statements which management have either resolved in the final copy or we have concluded are not material.

The key messages arising from our audit of the Fund's financial statements are:

- management have made good progress in accelerating their closedown process and the draft accounts were provided before our audit commenced
- working papers were received on time and well presented and requests were handled promptly.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

We draw your attention in particular to control issues identified in relation to:

- employee contribution banding rates being incorrectly applied.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit of the Fund have been discussed with the finance team.

We have made a small number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £38.348m (being 1% of net assets at 31 March 2016). We have considered whether this level remained appropriate upon the receipt of the draft financial statements and identified that the value of net assets has increased. This led us to revise our overall materiality to £43.538m (being 1% of net assets at 31 March 2017).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £2.177m. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following item where we decided that a separate materiality level was appropriate. This remains the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Investment management expenses	Due to public interest in these disclosures	£2 million

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Avon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Bath and North East Somerset Council as the administering body, mean that all forms of fraud are seen as unacceptable. Therefore we concluded that we did not consider this to be a significant risk for Avon Pension Fund	Our audit work has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	• Review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions.	Our audit work has not identified any evidence of management over-ride of controls in the year. In particular the findings of our review and testing of journal controls and testing of journal entries has not identified any significant issues. We note that the two matters raised in previous years in relation to the segregation of the Avon Pension Fund journals from B&NES journals and the ability to post in to period 14 have been suitably resolved in the year.

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Level 3 Investments (Valuation is incorrect) Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	• We have updated our understanding of your process for valuing Level 3 investments through discussions with relevant personnel from the Pension Fund during the interim audit. • We have performed walkthrough tests of the controls identified in the process. • On a sample basis we have tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agree these to the fund manager reports at that date. In addition reconciling those values to the values at 31st March with reference to known movements in the intervening period. • Reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached. • Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. • Reviewed the competence, expertise and objectivity of management experts used. • Reviewed the service auditors reports for Fund Managers and the custodian to provide assurance over the control environment at the service organisation.	Our audit work has not identified any material issues in respect of the valuation of Level 3 investments: • Our walkthrough of controls and review of service auditor control reports did not identify any control weaknesses which required additional work. • Our work did not identify any significant differences between the valuations for investments in the financial statements, confirmations received directly from the Fund Managers, and confirmations received from the custodian. • Our independent price verification exercise for pooled investment vehicles did not note any significant differences between prices confirmed to audited financial statements; independent price sources for the investment funds and prices on which the financial statement valuations have been based.

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Tested a sample of level 2 investments to independent information from custodian/manager on units and on unit prices. • We have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. • Received direct confirmation from the custodian including obtaining a copy of their reconciliation to the respective segregated investment manager at the year end date. • Received direct confirmation from all non-segregated investment managers and reviewed the reconciliation of the units of unitised pooled investment vehicles.	Our audit work has not identified any material issues in respect of valuation of Level 2 investments.
Investments –All levels	Investment activity not valid (Valuation gross)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.	Our audit work has not identified any material issues in respect of the valuation of investments.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Member Data	Member data not correct. (Rights and Obligations)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over annual/monthly reconciliations and verifications with individual members. • Sample tested changes to member data made during the year to source documentation.	Our audit work has not identified any material issues in respect of member data.
Contributions	Recorded contributions not correct. (Occurrence)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.	Our audit work has not identified any material issues in respect of occurrence of contributions. Our work did identify a control recommendation in relation to employee contribution rates applied. Further details are included within the internal controls section of this report on page 17.
Benefits payable	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	We have undertaken the following work in relation to this risk: • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over, completeness, accuracy and occurrence of benefit payments. • Tested a sample of individual pensions in payment by reference to member files. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.	Our audit work has not identified any material issues in respect of benefits payable.

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Audit findings against other risks continued

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK&I) 570).

Management Assessment

Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Grant Thornton Assessment

Upon review of management's assessment of the going concern assumption and the disclosures in the financial statements we have concluded that the use of the going concern basis of accounting is reasonable and adequately disclosed.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams have therefore been audited. However, the procedures have not been as extensive as the procedures adopted for the risks identified in the previous sections.

Significant matters discussed with management

	Significant matter	Commentary	
1.	The future of the Avon Pension Fund under the Brunel Pension Partnership.	On 18 July 2017 the Brunel Pension Partnership Local Government Pension Scheme (LGPS) Funds formally created BPP Ltd, a £27.5 billion investment company. The company, a FCA regulated entity, will implement the asset allocation strategies for the 10 member LGPS Funds. Under these new arrangements, the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The company structure will be in place and operational by April 2018. The costs to the Pension Fund of setting up the partnership were trivial in 2016-17. £154k of fees were charged to the Net Assets Statement within Investment Manager Expenses.	**Auditor view** • We will continue to monitor key milestones of BPP Ltd to determine what specific audit procedures are required in the 2017-18 audit programme. • We will discuss with management how BPP Ltd will implement the Fund's investment strategy.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Pension Fund's policy for Contribution and Investment income is set out in Note 2.2-2.3 to the Statement of Accounts.	• The policy used is appropriate and in line with the accounting framework (CIPFA Code of Practice on Local Authority Accounting) • The accounting policy is adequately disclosed.	Green
Judgements and estimates	Key estimates and judgements disclosed in the notes to the accounts include: • the actuary's valuation of future promised benefits • Valuation of Level 3 investments	We have reviewed the independence, competency and objectivity of the actuary. We have reviewed the methodology and assumptions applied by the actuary in preparing the estimate and reviewed these against the results of an auditor expert. We have performed specific work on the valuation of Level 3 investments as outlined on page 10. We concluded: • The key estimates are appropriate. • The accounting policies are adequately disclosed. • From the work undertaken the judgements and estimates made are reasonable.	Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Fund's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice on Local Authority Accounting. The accounting policies are appropriate and consistent with previous years.	Green

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Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Fund, which is included in the Committee papers.
5.	**Confirmation requests from third parties**	• We obtained authorisation from management to send direct confirmation requests to the Fund's custodian, investment fund managers and for bank accounts held. • Most of these requests have been received with positive confirmation, however we are currently awaiting responses for bank balances held with Bank of Scotland, Goldman Sachs and Handelsbanken. In anticipation of receiving these confirmations, we have undertaken alternative procedures to verify these balances.
6.	**Disclosures**	• We reviewed disclosures against the CIPFA Local Government Pension Scheme disclosure checklist. Our review found no material omissions in the financial statements.
7.	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines, the Pension Fund Annual Report is not required to be published until the 1st December 2017. A draft report was produced and provided to us on 1 August 2017 which we have reviewed and we have not found any material inconsistencies between the Annual Report and the audited financial statements. • A review of the final version of the Annual Report remains outstanding at the time of writing. Whilst we are able to conclude our work on the pension fund financial statements opinion, we are unable to certify completion of the audit of the administering authority until this work has been finalised.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Income, Contributions, Benefits Payable, and Member Data as set out on page 9 to 13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1.	Amber	• From our testing of employee contributions we identified one individual where their contribution rate had remained unchanged since 2012. • In the LGPS in England and Wales, employees currently pay between 5.5% and 12%. The current pay bands and rates should have been applied from April 2014. • For one individual, a rate of 7.2% of pensionable pay had been applied, rather than 8.5% under the current LGPS Regulations.This issue arose at a small Community Admitted Body. The total contributions relating to this body was not material. • As a result, the Fund has been underfunded against its future obligation and will affect its funding level. • We carried out additional testing of contributions calculations across the largest employer contributors to the Fund. We identified no further occurrences of this issue and therefore do not consider there to be a systemic issue with employer contribution rates applied.	• We note that: ◦ under LGPS regulations it is the responsibility of the employing body to ensure that members are allocated to the correct banding based upon their pay and to deduct and pay over the appropriate contributions; and ◦ the employer will ultimately bare any additional cost since it will be recovered within their deficit and employer secondary rate contributions following future actuarial valuations. • The Fund play an important role in monitoring the actions of the employers to ensure that it is receiving the correct level of funding from members and employing bodies. • Whilst we are satisfied our finding does not have a material impact, we recommend the Fund should set up a process of identifying and communicating to employers any differences identified between the expected employee contribution rates and their actual contribution rate, so that employers can take appropriate action to address this. Please refer to Appendix A: Action plan on page 25 of this report.

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Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements.
Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	As part of our testing of journals it was not possible to extract a journals listing which contained only journals relating to the Pension Fund and did not include journals relating to B&NES Council. In order to compile a list which contains only pension fund journals, manual adjustment of the journals listing is required. This increases the risk of journals being omitted from the listing provided to audit, due to fraud or error. There was also one journal posted into period 14 in error.	• The Council has implemented a new process which includes the creation of two new pension only transaction types for processing pension journals. • Our review has concluded that only Pension fund journals have been posted using these transaction types and as such this matter is now resolved. • A review of the journals posted throughout the year has identified that there were no postings made into period 14, and therefore this one off issue has not continued in 2016-17.
2.	✓	The fund's bank reconciliation is being completed on a regular and accurate basis. However the presentation of the reconciliation is complex. A clearer presentation of the reconciliation would be of benefit to users and reduce the risk of any error or misunderstanding. This matter was also raised in the 2014-15 audit findings report.	• This process has since been improved and a clearer summary is prepared allowing for the reconciliation to be reviewed easier. • We note however that there is still a level of complexity to the reconciliation which could be simplified further.

Assessment
✓ Action completed
X Not yet addressed

Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There are no adjustments to the draft accounts have been identified during the audit process.

Unadjusted misstatements

There were no unadjusted misstatements identified during the audit.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	1,020	Note 7 Management Expenses - Investment Management Expenses	£1,020k of Investment Management Expenses were classified as base fees when they related to performance fees.
2	Misclassification	104,919	Note 10 – Investment Assets.	Note 10 listed all State Street investments as UK Equities. Although consistent with the custodian's assessment, the investment manager's confirmation listed all State Street investments as Overseas Equities. Through discussions with management and review of the substance of the investments we agreed with the investment manager's assessment. Amount to be reclassified is £104,919k.
3	Misclassification	92,157	Note 23 – Market Price Risk – Sensitivity Analysis.	Investment Manager had classified all TT investments as UK investments, although the custodian defines them as £137m UK and £92m overseas investments. Through discussions with management and review of the investments we agreed with the custodian's assessment. Overseas investments were therefore understated and UK overstated, both by £92,157k.
4	Misclassification	375,391	Note 24 – Fair Value Hierarchy	The Standard Life GARS Fund was classified as a Level 3 financial asset. From review of the inputs to valuation techniques used to measure fair value it was determined it should be disclosed as a Level 2 financial asset.
5	Disclosure	N/A	General	Other minor presentational changes including spelling, syntax and rounding.

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Section 3: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Pension fund audit	28,805	28,805
IAS 19 fee variation	1,311	1,309
Total audit fees (excluding VAT)	**30,116**	**30,114**

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. We have not provided any other services to the Fund during the year.

Fees for other services

Service	Fees £
Audit related services	**Nil**
Non-audit services	**Nil**

Section 4: Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1 Page 81	We recommend the Fund should set up a process of identifying and communicating to employers any differences identified between the expected employee contribution rates and their actual contribution rate.	●	We previously implemented a control to identify invalid contribution rates: • When the interface file is loaded to Altair the system has previously not allowed any invalid contribution rates to be loaded, therefore enabling us to identify and refer any error back to the employer. • The audit findings suggest this automated control may have been removed. We are currently investigating this with the system provider. We will review and further develop our procedures for monitoring and communicating with employers in this regard.	April 2018 – Pensions Manager

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Appendix B: Audit opinion

We anticipate we will provide the Fund with an unmodified audit report

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

We have audited the pension fund financial statements of Avon Pension Fund (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Resources Strategic Director and auditor
As explained more fully in the Statement of Responsibilities, the Resources Strategic Director is responsible for the preparation of the Authority's 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Resources Strategic Director; and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements
In our opinion:
• the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities, and
• the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters
In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Signature to be added

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

Hartwell House
55 – 61 Victoria Street
Bristol
BS1 6FT

Date to be added

Appendix C: Proposed audit opinion on the annual report

We anticipate we will provide the Fund with an unmodified audit report

Independent auditor's report to the members of Bath and North East Somerset Council on the consistency of the pension fund financial statements included in the pension fund annual report

Opinion
The pension fund financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Avon Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Pension fund annual report - Pension fund financial statements
The pension fund annual report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

Who we are reporting to
This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(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 work has been undertaken so that we might state to the members of the Authority 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.

The audited financial statements and our Report thereon
We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 12 September 2017.

Resources Strategic Director responsibilities for the pension fund financial statements in the pension fund annual report
Under the Local Government Pension Scheme Regulations 2013 the Resources Strategic Director of the Authority is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Auditor's responsibility
Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Signature to be added

Julie Masci
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House
55 – 61 Victoria Street
Bristol
BS1 6FT

Date to be added

grant-thornton.co.uk

BATH & NORTH EAST SOMERSET COUNCIL

STATEMENT OF ACCOUNTS 2016/17

CONTENTS

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

We have audited the financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Resources Strategic Director and auditor

As explained more fully in the Statement of Responsibilities, the Resources Strategic Director 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Audir General (the "Code of Audit Practice"), and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Resources Strategic Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

* present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
* have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

* in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: Framework (2016)’ published by CIPFA and SOLACE; or
* we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
* we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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.

We are required under Section 20(1)(c) of the Act 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether 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 criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2017. 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 Act and the Code of Audit Practice.

Further, we cannot formally conclude the audit and issue an audit certificate i accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Barrie Morris

Barrie Morris CPFA
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

12th September 2017

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

We have audited the pension fund financial statements of Avon Pension Fund (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Resources Strategic Director and auditor

As explained more fully in the Statement of Responsibilities, the Resources Strategic Director is responsible for the preparation of the Authority's 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Resources Strategic Director; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion:

* the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities, and
* • the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

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

Julie Masci

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

Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

12th September 2017

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 shall be 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 on Reserves Statement shows the movement in the year on different reserves held by the Authority.

Balance Sheet

The Balance Sheet shows the assets and liabilities of the Council as a whole at the 31 March 2017.

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 (NNDR) 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 2016/17, 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.

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.

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. A traditional market town with a population of 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, 90% of local residents define 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 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 project 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 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. Compared to the most affluent communities in the area, the most deprived communities:

- have 45% higher cancer rates,
- are three times as likely to smoke,
- are 22% more likely to think that anti-social behaviour is a problem in their area, and
- 16-17 year olds are nearly 4 times as likely to be not in education, training or employment.

The Local Economy

The local workforce is highly skilled, with 41.8% educated to NVQ4 level or above, compared to 34% regionally and 35% nationally.

House prices are very high; in September 2013 the average house price was £226,465 making the average price of a home over 8 times average earnings of the area.

B&NES has a lower percentage of the working age population claiming key Out of Work Benefits than the South West Region and nationally. In August 2013 there were 10,060 key benefits claimants, making up about 8.8% of the working age population, compared to 13.6% nationally.

Employment is based in 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 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. Alongside neighbouring authorities of North Somerset Council, South Gloucestershire Council and Bristol City Council, the area is part of the West of England 'Local Economic Partnership' which forms a focus for business growth and government support.

Summary of the Council's financial performance

The 2016/17 budget included the requirement for the delivery of £12.6m of savings of which over 90% were achieved. The Council overspent its revenue budget by £2.0m in 2016/17, after allowing for the proposed carry forwards of underspends totalling £0.2m, this gives an overall outturn position overspend of £2.2m.

The main areas contributing to the overspend relate to increasing demand pressures being experienced in both Adults and Children's Social Care budgets, these pressures were partially mitigated by underspends in corporate budgets, including additional income received from the Thermae Spa Profit Share arrangements and an underspend in Capital Financing costs owing to capital programme slippage delaying the need to borrow and Minimum Revenue Provision (MRP) savings against budget.

Following a review of the outturn position, it was agreed to fund the £2.2m overspend position through drawdowns from earmarked reserves, with £1.155m drawn from the Revenue Budget Contingency, mainly related to the release of Transitional grant contingency, and a further drawdown of £1.065m from the Adult Social Care Reserve.

The Next Twelve Months & Medium Term Outlook

The Budget for 2017/18 was the second 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 fundamentally have changed 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.

Since 2012/13 the reduction in Government grant funding has averaged over 11% per annum resulting in over £30 million of savings and additional income generation over the last three years alone.

During 2016, the Council had 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.

This additional clarity around future financial planning confirmed the further grant funding reductions that are to be expected which, together with anticipated cost and demographic pressures currently require up to £37 million in additional savings and income generation over the next three year period.

The Local Government Finance Settlement was therefore in line with expectations for reductions to core government grant funding with reductions of 15.8% in 2017/18, followed by further reductions of 10.4% and 11.3% in 2018/19 and 2019/20.

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

• The inclusion of the West of England Devolution Authorities as a pilot area for 100% Business Rate Retention from 2017/18. This provides a significant financial benefit to the Council estimated at some £2.5 million in 2017/18.

• Inclusion of a one-off Adult Social Care Grant for 2017/18 worth £733k to this Council.

• An increase in the Adult Social Care Council Tax increase threshold from 2% to 3% in 2017/18 and 2018/19, although this 1% per annum addition is then not available in 2019/20 if used.

• Significant changes to New Homes Bonus funding although these were better for the Council than assumed mainly because of a very positive position on new housing delivery.

• The general council tax referendum limit remains at 2% (this excludes the Adult Social Care Council Tax increase)

The Budget presented in February 2017 addresses the financial challenge facing the Council and included a balanced budget for 2017/18 together with proposals to reduce the budget gap in the following two years to 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 for covering the next three year period, the Cabinet examined a range of options as part of its review of Council spending. This included consideration of proposals provided by management, the Council's finance business partner EY, and from a portfolio holder challenge process to generate the additional savings or income to address the budget gap.

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 2017/18 included the following key proposals:

- In order to protect frontline adult social care services an additional 2% increase in the specific Adult Social Care council tax precept was included in the budget following Government recognition of the acute financial challenges facing Adult Care Services;

- Whilst significant savings and additional income generation proposals totalling £14.5m relating to 2017/18 were included in the budget, a Council Tax increase of 1.50% was agreed in order to help protect frontline services.

Given the scale of savings already achieved, and the £29 million proposals outlined in the 2017/18 Budget report covering the period to 2019/20, it is likely that future savings will require further prioritised changes to, and redesign of Council Services.

The Financial Planning work undertaken indicates the remaining future scale of the financial challenge, for the remainder of the Spending Review Period to 2019/20, requires the Council to identify and deliver further savings or additional income of around £7 million over this period.

Total Resources Available for the Capital Programme

The table below summarises the approved resources available for the 2017/18 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.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Total Schemes	**182,667**	**79,844**	**26,272**	**19,289**	**19,574**
Funding Sources					
Grant	40,742	16,269	5,357	5,906	5,758
Capital Receipts	9,993	6,590	590	635	605
Revenue	2,281	0	0	0	0
Borrowing	119,848	51,610	19,806	12,560	13,031
3rd Party (incl. s106 & CIL)	9,803	5,375	519	188	180
Total Funding	**182,667**	**79,844**	**26,272**	**19,289**	**19,574**

Revenue outturn and balances - 2016/17

The Council's net revenue budget was set at £115.73 million with an increase of 3.25% in its part of the 2016/17 Council Tax (split 2% for the Adult Social Care precept and a 1.25% general increase). Dedicated Schools Grant funding of £71.54m separately supports expenditure on schools.

Total net spending amounted to £125.30 million against a revised budget of £123.27m, with a year end deficit of £2.03 million on general fund spending.

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

The Council continues with its programme of budget management where overspends and underspends can be carried forward subject to policy approval. After allowing for transfers to earmarked reserves, carry forwards and excluding invest to save drawdowns, the General Fund balance stands at £13.5m, which is in accordance with the increased risk assessed target level approved by the Council.

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

Children's Services - overspend of £1.491m - The overspend mainly relates to pressures on children's social care operational costs resulting from increased costs associated with placements of children in high cost residential placements and the increased use of court directed parent and baby placements. There was also an overspend in Home to School transport due to pressures on Special Educational Needs (SEN) and Mainstream transport, following demand increases as a result of legislative change in recent years.

Adult Social Services - overspend of £1.970m - The overspend mainly relates to inflationary and demographic pressures in Adult Social Care as a result of a number of factors including: implementation of the National Living Wage; the costs associated with purchased care packages to support people with complex and acute care needs to remain in their own homes; the increasing demand for high dependency residential care and nursing care home placements, which have higher associated fees than lower dependency care home placements; and an increasingly challenged care market with some providers withdrawing from the market.

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

Place - underspend of £0.343m - mainly due to a combination of the return generated by the Heritage estate being greater than forecast, reflecting visitor trends remaining above the national average for visitor attractions, and underspends on Public & Passenger Transport.

Resources & Support Services (including Corporate & Agency Budgets) - underspend of £735k - The main favourable variances in this area related to additional income received from the Thermae Spa Profit Share arrangements and an underspend in Capital Financing costs owing to capital programme slippage delaying the need to borrow and Minimum Revenue Provision (MRP) savings against budget. The main unfavourable variance was an overspend in Traded Services relating to the Catering service due to lower than forecast income from school meals and inflationary pressures in the supply of food costs from the new Schools food contract.

The outturn position compared to the budget is as follows:

	Budgeted	Actual	(Under)/ Over
Service (based on Council Directorates)	Spend	Spend	Spend
	£'000	£'000	£'000
Place	24,361	24,018	(343)
Children's Services	27,810	29,301	1,491
Adult Social Services	59,252	61,222	1,970
Resources & Support Services (Including Corporate & Agency Budgets)	11,849	10,763	(1,086)
	123,272	**125,304**	**2,032**

The Place Directorate is made up of Environmental Services (including Waste, Highways, Parks, Parking, Transport Delivery & Leisure), Development (including Development Management and Building Control), and Community Regeneration (including Housing Delivery, Heritage Services, Regeneration and Economic Development).

Children's Services 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 Services 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).

The Resources Directorate is made up of Business Support (including Finance, Information Technology, Audit & Procurement), Customer Services (including Council Connect, Libraries & Council Tax & Business Rates), Strategy & Performance (including Human Resources, Sustainability and Performance Management), Property & Project Delivery (including Property Services, Traded Services and Commercial Management) and Legal & Democratic Services.

The outturn overspend position (including the agreed carry forward of underspends of £0.188m) has been funded through drawdowns from earmarked reserves, with £1.155m drawn from the Revenue Budget Contingency, mainly related to the release of Transitional grant contingency, and a further drawdown of £1.065m from the Adult Social Care Reserve.

The bottom line outturn position in relation to schools is a reduction in balances of £0.991m resulting in the balances held by schools reducing from £3.037m to £2.046m. The main reason for this reduction in balances is a result of schools converting to academies and therefore their balances transfer to the academy. The centrally held elements of the Dedicated Schools Grant (DSG) have overspent by £3.025m. The DSG overspend results in a balance to be carried forward through earmarked reserves of £2.014m down from £5.039m in 2016/17. The main reasons for the decrease in the DSG balance is a planned reduction in the DSG carry forward. The Schools Forum allocated £2.337m in one off resources to schools and central budgets as part of setting the DSG budget for 2016/17. Further Overspends have occurred as a result of increased Special Educational Needs expenditure.

Collection Fund

As part of the 2017/18 budget setting, an estimate was made on the position of the Collection Fund as at 31st March 2017. 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 Business Rates Collection Fund is mainly due to the increasing cost of settling appeals. The difference will be taken into consideration when estimating the closing 2017/18 Collection Fund as part of the 2018/19 budget process.

	Estimated surplus / (deficit)	Actual surplus / (deficit)	Difference
	£'000	£'000	£'000
Council Tax	755	709	(46)
Business Rates	(2,134)	(2,939)	(805)
Total	**(1,379)**	**(2,230)**	**(851)**

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 £163.1m. This reconciles to the General Fund spending reported above as follows:

	£m	£m
Total net spending by departments		125,304
Add:		
Charges related to capital assets:		
- depreciation and impairments	18,661	
- revenue expenditure funded from capital under statute	8,469	
- loss on revaluations	14,553	
		41,683
Offset by:		
Grant funded revenue expenditure funded from capital under statute	4,458	
Unapportioned pensions contributions	1,634	
Levy payments	235	
Interest received and paid	(4,661)	
Other movements on funds and balances	(11,205)	
Net transfers to reserves	13,426	
		3,887
Cost of services - continuing operations		**163,100**

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.

Capital Expenditure

Capital expenditure in 2016/17 totalled £53.9m. Overall capital spending was 69% of the revised capital budget, primarily reflecting the delivery time to complete projects moving into future financial periods. Details are:

Departments	Planned Spend	Actual Spend	Variation on planned spend
	£'000	£'000	£'000
Place	44,322	31,437	(12,885)
People & Communities	13,127	9,136	(3,991)
Resources & Support Services	19,142	13,336	(5,806)
Corporate Capital Contingency	2,000	-	(2,000)
	78,591	53,910	(24,682)

Capital expenditure was financed as: -

	£'000
Capital receipts	11,171
Capital grants and contributions	20,778
Revenue	470
Borrowing	21,490
	53,910

Capital spend of £10.m was incurred on the highways infrastructure along with £6.4m on improvement and repairs to Schools. Economic development scheme spend including Bath Quays Development, being on general delivery of £3.6m and Flood Mitigation £3.4m. Significant other spend was incurred on Leisure schemes, Bath Transport Package and Disabled Facilities Grants.

Property, Plant & Equipment

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

Transfers of £3.05m from Assets Under Construction reflecting projects becoming operational in the year:-

	£'000
Bishop Sutton Primary School	1,130
Castle Primary School	12
Oldfield Park Junior School	25
Paulton Infant School	15
Roundhill Primary School	274
St Saviour's	939
Liquid Logic Adult Social Care Database	653
Other projects	1
	3,049

Transfers of £0.4m 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
Wellington Gardens 9 & 10	400
Beacon Hall Play Area PSJ	4
	404

Net Revaluation Gain of £4.3m for Other Land and Buildings for the following classes of assets:-

	£'000
Schools' Valuations	(5,226)
Resource Centres	4,688
Leisure	296
Car Parks	1,395
Retail/Offices	1,487
Other	37
Gain from Heritage Services (Inc. Pump Room and Roman Baths)	1,592
	4,269

Other property assets Values

Investment Properties were subject to new valuations in 2016/17 and reflected a valuation basis of "highest and best use"
The valuer reported an £5.5 million increase in Investment Property values since the last full valuation was undertaken (1st April 2015), but the overall balance sheet value reduced by £8.3 million as previous indexed estimates were refined.

Non Financial Performance of the Council - 2016/17

The Corporate Strategy 2016-2020 highlights the following four priorities through which we are delivering our Cabinet's manifesto commitments. Below provides some high level points on Council performance in 2016-17.

A Strong Economy & Growth

• The West of England Combined Authority has come into existence, levering 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.

• Visitor numbers remain at a historically high level and are comparatively high. The Roman Baths had 1.12m visitors in 2017/17, compared with 1.04m visitors in 2015/16.

• Delivery of the Bath Quays site is looking positive, with key decisions expected over the next 12 months.

• ADL, the Council's property company has received consent for its first 96 developments.

• Housing completion figures are on target. In 2016/17 850 homes were provided and this is on target.

A Focus on Prevention

• Health and Social Care integration continues and the Your Care, Your Way contract began on 1 April 2017 with Virgin Care taking a new 'prime provider' role in the local area.

• Looked After Children and Child Protection rates remain higher than previous years, but this is in line with national trends. Rates are currently lower than or in line with similar authorities. In Q4 2016/17 there were 152 children on Child Protection Plans an increase on the past 3 years.

• Education outcomes are, on the whole, good. The new Progress 8 measures of education achievement have been challenging for a number of schools.

o Attainment and progress for Disadvantaged pupils, those with special education needs and disability (SEND) and lower ability pupils continues to be a challenge and remains an area of focus. Progress disadvantaged pupils made between the end of key stage 2 and the end of key stage 4 was -0.63, compared to -0.02 for all B&NES pupils, which is the target.

• Good progress has been made on implementing new leisure centre contracts with a focus on increasing physical activity in key target groups delivering Fit for Life outcomes.

• 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 200,00 by 2024, an increase of 11% from 2014.

A New Relationship with Customers and Communities

• All Council Departments have received accreditation 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.

An Efficient Business

• A root and branch review of council spending has been undertaken developing plans to save £37m by 2022.

• Movement of Bath Tourism Plus to a council owned company is agreed.

• Plans are in place to implement new waste collection arrangements in November 2017.

• Growth in demand for support to children with special education needs and disability (SEND) remains challenging. There were 1,062 SEND Statement/EHC plans in January 2017 compared to 692 in January 2013.

Corporate 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

Senior Management maintain a Corporate Risk Register which assesses 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 2016/17 has focussed on –

- How we plan for and meet the Financial Challenge facing the public sector
- Delivering on savings projects by reshaping the Council through its Strategic Review
- Supporting and stimulating Economic Growth and Regeneration such as the Bath Quay's projects
- Safeguarding Children and Vulnerable Adults in our community
- Delivering joined up commissioning of social care through the new Your care Your Way contract
- Working across the West of England to create a new combined Authority 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 2017/18 the Council will be heavily focussed on delivering its savings plans and managing the financial challenge but it will also have to consider in more depth emerging risks and opportunities around the West of England Combined Authority and its first year of operation along with the Council's ambitious digital and capital programmes and the first year of its major contract with Virgin Care on community health and care services. 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 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 £3,737 million. The Actuary estimated that the value of the Fund was sufficient to meet 86% of its expected future liabilities of £4,355 million 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.

Since the triennial valuation, the Actuary has estimated that the funding level as at 31 March 2017 has risen to 95% from 86% at 31 March 2016 based on the 2016 valuation financial assumptions. The improvement is due to strong investment returns offsetting a more modest rise in the value of the liabilities.

Pension Liabilities

The Council itself has a liability of £297.8m 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 increase in 2016/17 is mainly due to changes in the actuary's assumptions in valuing the liabilities, as detailed in Note 41.

The Actuary has estimated that the funding level as at 31 March 2017 has risen to 95% from 86% at 31 March 2016 based on the preliminary financial assumptions proposed for the 2016 valuation. The improvement is due to strong investment returns offsetting a more modest rise in the value of the liabilities.

In 2014/15, the Council made an up-front payment of the LGPS deficit contributions for the three years 2014/15 - 2016/17 totalling £14.042m. 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 rather than the normal approach of monthly payments in arrears over the three year period was £1.091m, reducing total payments from £15.133m to £14.042m. 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.

Minimum Revenue Provision

During 2016/17 the Council reviewed its policy for calculating the minimum revenue provision (MRP), which is the amount charged to the revenue budget for the repayment of debt where the Authority finances capital expenditure by debt. The review compared the policy against the options suggested in the department of Communities & Local Government guidance. As a result of the review some changes to the MRP policy were approved by Council in February 2017 with the changes coming into effect in 2016/17.

For supported borrowing the Council will make an MRP charge using an Annuity Rate of 2% over a 50 year period. The previous MRP charge for this borrowing was based on a 4% charge on a reducing balance basis meaning the borrowing is never entirely paid off. This has the effect of a lower MRP charge for the medium term (until around 2037/38) while beyond this it will be higher. However, it has the advantage over the previous 4% reducing balance method as the debt will be fully repaid over a 50 year period which is more prudent than the previous method which would leave £5.8 million of debt unfinanced at the end of the 50 year period.

MRP on unsupported borrowing was being charged over the life of the asset financed by the borrowing on a straight line basis. The revised policy is that the MRP charge will still be charged over the life of the asset but will be calculated on an annuity basis. The annuity method provides a fairer charge than the straight line basis as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden to the taxpayer than paying £100 now.

For expenditure financed by unsupported borrowing incurred before April 2016, an element of MRP has already been charged on the straight line method. By applying the straight line method rather than the annuity method an "overprovision" of £3.3m is able to be released over a 5 year period. This is viewed as a prudent approach in providing a benefit to the revenue budget over the medium term financial planning period taking into consideration the alternative service reductions that would have to be made if the benefits were released over a longer period.

The 2016/17 in year savings of £3million arising from the change in the MRP Policy have been transferred to unearmarked reserves to maintain these in line with the risk assessed level required set out in the 2017/18 Budget Report.

Further information on MRP is included in notes to the main financial statements.

West of England Combined Authority

Following the making of The West of England Combined Authority Order 2017 (“WoECA Order”), The West of England Combined Authority (“WoECA”) came in to force on 9th February 2017.

The WoECA met on the 15th March 2017 to consider and set the Mayoral and WECA Budget 2017/18.

The Council’s budget for 2017/18 included reasonable financial provisions related to the financial arrangements for the WECA in anticipation of this, in particular:-

• Capital Grant payments from the WECA to the Council in respect of Highways Maintenance and Transport Improvement funding (previously funded directly by the Department for Transport).

• Contributions to the WECA from the Council (from existing budgets) to meet the costs associated with transferring transport functions including concessionary fares and community transport.

• Appropriate commissioning payments from the WECA to the Council for delivery of transport activities to ensure continuity of service provision.

• Within the Business Rates Collection Fund to provide for an appropriate share of Business Rates to be allocated to the WECA in accordance with the 100% Business Rate Retention pilot to meet the costs of Highways Maintenance and Transport Improvement Grants

The net impact of the above transactions is anticipated to be neutral for the Council as these merely reflect the appropriate movement of funds in line with the devolution deal.

West of England Revolving Investment Fund

The Council, as accountable body to the West of England Partnership, is acting as agent for these regional central government grants. In 2016/17 £6.875m was distributed to specific projects as various criteria are satisfied, with the receiving body then treating these appropriately in their own accounts. The balance of funds not distributed is treated as a creditor in B&NES accounts as these sums will either be transferred to future recipients or will be returned back to government if not used.

Following the creation of the West of England Combined Authority (WoECA) by parliamentary order on 1st February 2017, as part of the devolution deal with government, the new authority will take over the accountable body role for these funds going forward and the balance of funds will be transferred from the Council to the WoECA during 2017/18.

No Change in Accounting Policy for Highways Network Asset in 2016/17

The proposed change in the Code of Practice on Local Authority Accounting for 2016/17 requiring measurement of Highways Networks at Depreciated Replacement Cost (DRC) was suspended by CIPFA and these assets remain reported at historical cost.

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. and Aequus Developments Ltd (ADL). The turnover and assets held by theses company is not considered significant enough to produce Group Accounts, with further details in Note 45

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 first year that the accounts have been prepared against 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.

Andrew Pate
Strategic Director - Resources (Section 151 Officer)

Date: 12th September 2017

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2016/17

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	2015/16 Gross Exp Restated £'000	2015/16 Gross Inc Restated £'000	2015/16 Net Exp Restated £'000	Expenditure on Services	2016/17 Gross Exp £'000	2016/17 Gross Inc £'000	**2016/17 Net Exp £'000**
49							
	37,326	(15,643)	21,683	Transport	28,483	(14,605)	**13,878**
	6,814	(710)	6,104	Leader	6,778	(985)	**5,793**
	9,211	(3,821)	5,390	Homes & Planning	9,048	(5,415)	**3,633**
	85,041	(66,095)	18,946	Finance & Efficiency	79,396	(62,024)	**17,372**
	114,724	(52,918)	61,806	Adult Social Services & Health	115,973	(53,726)	**62,247**
	134,120	(95,174)	38,946	Children's Services	123,722	(87,293)	**36,429**
	12,623	(14,235)	(1,612)	Economic Development	12,372	(16,363)	**(3,991)**
	32,113	(6,228)	25,885	Community Services	33,930	(6,191)	**27,739**
	431,972	(254,824)	177,148	**Cost of Services - continuing Operations**	**409,702**	**(246,602)**	**163,100**
9			167	Other Operating Expenditure			**22,104**
10			(24,186)	Financing and Investment Income & Expenditure			**4,636**
11			(135,981)	Taxation and Non-Specific Grant Income			**(132,398)**
			17,148	**(Surplus) or Deficit on Provision of Services**			**57,442**
12, 13 & 14			(54,409)	(Surplus) or Deficit on Upward Revaluation of Non-current Assets			**(43,308)**
12, 13 & 14			30,380	(Surplus) or Deficit on Downward Revaluation of Non-current Assets			**27,158**
41			(16,026)	Remeasurement of the net defined benefit liability			**70,229**
			(40,055)	**Other Comprehensive Income & Expenditure**			**54,079**
			(22,907)	**Total Comprehensive Income & Expenditure**			**111,521**

MOVEMENT IN RESERVES STATEMENT 2016/17

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.

Current Year	Unearmarked General Fund Balance £'000	Earmarked General Fund Balance £'000	**Total General Fund Balance £'000**	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	**Total Usable Reserves (Note 23) £'000**	Unusable Reserves (Note 24) £'000	**Total Authority Reserves £'000**
Balance at 31 March 2016	9,047	49,726	**58,774**	451	9,689	**68,915**	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	47,623		**47,623**	1,757	(6,952)	**42,428**	(42,428)	**-**
Increase / (Decrease) during year	(9,819)	-	**(9,819)**	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**

Comparative Year	Unearmarked General Fund Balance £'000	Earmarked General Fund Balance £'000	**Total General Fund Balance £'000**	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	**Total Usable Reserves (Note 23) £'000**	Unusable Reserves (Note 24) £'000	**Total Authority Reserves £'000**
Balance at 31 March 2015	8,900	53,635	**62,535**	250	8,472	**71,260**	183,813	**255,072**
Movements During 2015/16:								
Total Comprehensive Income & Expenditure	(17,148)		**(17,148)**	-	-	**(17,148)**	40,055	**22,907**
Adjustments between accounting basis and funding basis under statutory provisions	13,386		**13,386**	201	1,217	**14,804**	(14,804)	**-**
Increase / (Decrease) during year	**(3,762)**		**(3,762)**	**201**	**1,217**	**(2,345)**	**25,251**	**22,907**
Transfers to / (from) earmarked reserves	3,909	(3,909)	**-**					
Balance at 31 March 2016	**9,047**	**49,726**	**58,773**	**451**	**9,689**	**68,915**	**209,064**	**277,979**

BALANCE SHEET as at 31 MARCH 2017

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 2016 £'000		**31 March 2017 £'000**
12		Property, Plant & Equipment:	
	217,913	Land & Buildings	**206,928**
	564	Community Assets	**677**
	80,916	Infrastructure	**79,742**
	13,002	Vehicles, Plant & Equipment	**12,481**
	20,158	Assets under Construction	**25,922**
	2,556	Surplus assets	**2,560**
13	24,821	Heritage Assets	**31,301**
14	274,132	Investment Property	**268,616**
15	1,643	Intangible Assets	**1,082**
19	7,289	Long Term Debtors	**3,351**
	642,994	**Long Term Assets**	**632,660**
16	29,549	Short Term Investments	**44,031**
18	509	Inventories	**510**
19	36,741	Short Term Debtors	**38,495**
20	38,103	Cash and Cash Equivalents	**23,097**
	104,902	**Current Assets**	**106,133**
16	(28,067)	Short Term Borrowing	**(4,001)**
21	(95,265)	Short Term Creditors	**(100,146)**
35	(2,604)	Grants Receipts In Advance - Revenue	**(1,573)**
35	(2,107)	Grants Receipts In Advance - Capital	**(10,961)**
	(128,043)	**Current Liabilities**	**(116,681)**
22	(4,332)	Provisions	**(3,374)**
16	(91,833)	Long Term Borrowing	**(121,684)**
41&42	(236,314)	Other Long Term Liabilities	**(310,688)**
35	(9,396)	Grants Receipts In Advance - Capital	**(19,907)**
	(341,875)	**Long Term Liabilities**	**(455,653)**
	277,978	**Net Assets**	**166,459**
23	68,912	Usable reserves	**53,902**
24	209,064	Unusable Reserves	**112,556**
	277,977	**Total Reserves**	**166,459**

The accounts were authorised for issue on 12th September 2017.

Andrew Pate **Strategic Director - Resources (s.151 officer)**

Date: 12th September 2017

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.

	2015/16	**See Note 25 for further details**	**2016/17**
	£'000		**£'000**
	(17,148)	Net surplus or (deficit) on the provision of services	**(57,442)**
A	40,767	Adjustment to surplus or deficit on the provision of services for non cash movements	**82,000**
A	(25,901)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**(17,724)**
	(2,282)	Operating Activities	**6,834**
C	7,561	Investing Activities	**(26,043)**
D	12,735	Financing Activities	**4,203**
	18,014	**Net Increase/(decrease) in cash equivalents**	**(15,006)**
E	**20,089**	**Cash & cash equivalents at the beginning of the reporting period**	**38,103**
E	**38,103**	**Cash & cash equivalents at the end of the reporting period**	**23,097**

1 ACCOUNTING POLICIES

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end 31 March 2017. 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 2016/17 (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.

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 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 that 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.

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 by 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 contributions 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.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits 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 projections of 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
  - unitised 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 what 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 2014/15, the Council made an up-front payment of the LGPS deficit contributions for the three years 2014/15 - 2016/17 totalling £14.042m. 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 rather than the normal approach of monthly payments in arrears over the three year period was £1.091m, reducing total payments from £15.133m to £14.042m. 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.

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 Manual 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 of 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.

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 or 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.

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 museums, 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 museums 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.

1.18 Revenue expenditure funded from capital by 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 leases 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.

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.

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.

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 two controlled companies - Bath Tourism Plus Ltd and Aequus Development Limited
The turnover and assets held by the companies are not considered significant and therefore no Group Accounts have been produced. If they were material they would be treated as an investment.

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 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

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 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.

1.29 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 by 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.

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 2017/18 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2017. If these had been adopted for the financial year 2018/17 there would be no material changes. These changes are:

- Amendment to the reporting of Pension Fund Scheme transaction costs, and

- Amendment to the reporting of investment concentration.

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, 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 if 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.

West Of England Revolving Investment Fund

Bath and North East Somerset Council is the accountable body for the West of England in 2016/17. The reporting approach is that total expenditure is not shown in the Financial Statements; rather the following accounting treatment is adopted:-

i) West of England expenditure is incurred as an Agent, acting as an intermediary on behalf of the 4 Unitary Authorities. Each Authority’s accounts will reflect its own contribution towards expenditure.

ii) Where the Partnership office does act as principal, such as where it has received grant funding directly, this is on behalf of all authorities but the share for any individual Authority is not considered material to show.

Property Valuations

Our Valuers confirmed the value for Other Land and Buildings to be £206.9m as at the 31st March 2017, and confirmed no specific properties with no material impairments as at the 31st March 2017. The Authority is satisfied that its balance sheet figure of £213.1m 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 £268.6m as at 31st March 2017.

Fair Value of 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.

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 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pensions Liability
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 2017 is £297.828m.

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 (IPD, 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 2016/17 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 2017. The estimate has been calculated using the latest Valuation Office Agency (VOA) list of appeals and analysis of successful appeals to date. The Council’s share of the balance of business rate appeals provisions held at 31st March 2017 amounted to £2.9m, this has decreased by £817K from the previous year. If appeals were to increase by 10% then this could require an increase in the Council’s share of its appeals provision by £291k.

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 Strategic Director- Resources (Section 151 Officer) on 12th September 2017. Events taking place after this date are not reflected in the draft financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, 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 2016/17 financial year. The following schools are expected to convert to academy during the financial year 2017/18, although the timeframe for conversion is not fixed:

Chandag Juniors	Abbot Alphege Academy
Chandag Infants	Somerdale Educate Together Primary
Midsomer Norton Primary	Chew Valley Secondary
Farrington Gurney Primary	St Stephens Primary
Farmborough Primary	Batheaston Primary
Marksbury Primary	Bathford Primary
St Saviour Infant	Bathampton Primary
St Saviour Junior	Bathwick St Marys Primary

Bath Tourism Plus
In April 2017, the Council gain sole ownership of the Company is made to ensure the ongoing viability and the successful delivery of Destination Management services.

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
2016/17	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Transport	4,788	159	4,947	8,931	13,878
Children's Services	29,301	-	29,301	7,128	36,429
Adult Social Care & Health	61,222	-	61,222	1,025	62,247
Leader	5,834	-	5,834	(41)	5,793
Community Services	22,091	133	22,224	5,515	27,739
Economic Development	(4,206)	320	(3,886)	(105)	(3,991)
Finance & Efficiency	2,939	9,148	12,087	5,285	17,372
Homes & Planning	3,335	-	3,335	298	3,633
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**		

	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
2015/16	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Transport	5,719	(1,446)	4,273	17,410	21,683
Children's Services	25,246	(749)	24,497	14,449	38,946
Adult Social Care & Health	59,328	(10)	59,318	2,488	61,806
Leader	6,063	-	6,063	41	6,104
Community Services	21,696	(1,205)	20,491	5,394	25,885
Economic Development	(3,277)	(570)	(3,847)	2,235	(1,612)
Finance & Efficiency	7,317	5,215	12,532	6,414	18,946
Homes & Planning	3,609	(9)	3,600	1,790	5,390
Net Cost Of Services	**125,701**	**1,226**	**126,927**	**50,221**	**177,148**
Other Income & Expenditure	(120,005)	(10,684)	(130,689)	(29,311)	(160,000)
(Surplus) or Deficit on Provision of Services	**5,696**	**(9,458)**	**(3,762)**	**20,910**	**17,148**
Opening General Fund Balance at 31 March 2015			62,535		
Closing General Fund Balance at 31 March 2016			**58,773**		

7a NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2016/17	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**
Transport				159	159
Children's Services					-
Adult Social Care & Health					-
Leader					-
Community Services				133	133
Economic Development				320	320
Finance & Efficiency	16,554	2,704	(9,490)	(620)	9,148
Homes & Planning					-
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**
Transport	8,952	(21)		8,931
Children's Services	7,349	(221)		7,128
Adult Social Care & Health	1,072	(47)		1,025
Leader	(41)			(41)
Community Services	5,577	(62)		5,515
Economic Development	(73)	(32)		(105)
Finance & Efficiency	5,856		(571)	5,285
Homes & Planning	329	(31)		298
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

2015/16	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**
Transport			(1,218)	(228)	(1,446)
Children's Services			(749)		(749)
Adult Social Care & Health			(10)		(10)
Leader					-
Community Services			(1,205)		(1,205)
Economic Development			(570)		(570)
Finance & Efficiency	15,853	1,027	(7,787)	(3,878)	5,215
Homes & Planning			(9)		(9)
Net Cost of Services	15,853	1,027	(11,548)	(4,106)	1,226
Other Income & Expenditure	(15,853)	(1,027)	4,555	1,641	(10,684)
Surplus or Deficit	-	-	(6,993)	(2,465)	(9,458)

	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**
Transport	17,373	37		17,410
Children's Services	14,053	396		14,449
Adult Social Care & Health	2,465	23		2,488
Leader	16	25		41
Community Services	5,324	70		5,394
Economic Development	2,202	33		2,235
Finance & Efficiency	5,922	120	372	6,414
Homes & Planning	1,760	30		1,790
Net Cost of Services	49,115	734	372	50,221
Other Income & Expenditure	(39,344)	7,033	3,000	(29,311)
Surplus or Deficit	9,771	7,767	3,372	20,910

(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.

8 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2016/17	Usable Reserves General Fund Balance £'000's	Capital Receipts Reserve £'000's	Capital Grants Unapplied £'000's	Movement in Unusable Reserves £'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)**

2015/16	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£'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 and Impairment of Non-Current Assets	19,335			(19,335)
Revaluation gains on Property Plant & Equipment	30,599			(30,599)
Movements in the Market Value of Investment Properties	(21,309)			21,309
Amortisation of Intangible Assets	281			(281)
Capital Grants & Contributions Applied	(3,902)			3,902
Revenue expenditure funded from Capital under Statute	6,602			(6,602)
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	947			(947)
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	(6,095)			6,095
Principal repayment of Avon Loan	(558)			558
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(16,957)		16,957	
Application of grants to capital financing transferred to the Capital Adjustment Account			(15,740)	15,740
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	(5,086)	5,086		
Use of the Capital Receipts Reserve to finance new capital expenditure		(8,000)		8,000
Capital expenditure financed from revenue	(1,101)			1,101
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		3,115		(3,115)
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	23,579			(23,579)
Employer's pensions contribution and direct payments to pensioners payable in the year	(15,718)			15,718
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	2,822			(2,822)
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	372			(372)
Other movements	(255)			255
Total Adjustments	**13,386**	**201**	**1,217**	**(14,804)**

9 OTHER OPERATING EXPENDITURE

	2016/17	2015/16
	£'000	£'000
(Gain)/Loss on disposal of non-current assets	19,560	(2,295)
Parish Precepts	2,309	2,230
Levy payments to joint bodies	235	232
Contribution to Housing Pooled Receipts	-	-
	22,104	167

10 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2016/17	2015/16
	£'000	£'000
Interest Payable & Premiums	5,001	4,725
Interest & Investment Income	(340)	(199)
Net Deficit/(Surplus) on Trading Services	31	516
Income & expenditure in relation to Investment properties and changes in fair value	(7,531)	(36,261)
Net Interest on the Net Defined Benefit Liability (Asset)	7,475	7,033
	4,636	(24,186)

11 TAXATION AND NON-SPECIFIC GRANT INCOME

	2016/17	2015/16
	£'000	£'000
Council Tax Income	(80,897)	(78,448)
Non -Domestic Rates Income & Expenditure	(20,764)	(20,317)
Non ring fenced government grants	(14,433)	(21,476)
Capital grants and contributions	(16,304)	(15,740)
	(132,398)	(135,981)

12 PROPERTY, PLANT & EQUIPMENT

Movement 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**
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	0	**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**
Revaluations (GBV)								
Carried at Historic Cost	5,839	688	142,290	27,976	25,922	-		**202,715**
Heritage Valuations (Insurance or Curatorial)							31,301	**31,301**
Surplus Properties at Fair Value						2,584		**2,584**
Valued at Current value as at:								
31/03/2017	6,843							**6,843**
29/09/2016	108,822							**108,822**
01/04/2015	66,668							**66,668**
01/04/2014	18,299							**18,299**
01/04/2013	555							**555**
01/04/2012	2,849							**2,849**
Total Cost or Valuation	**209,875**	**688**	**142,290**	**27,976**	**25,922**	**2,584**	**31,301**	**440,636**

Comparative Movements in 2015/16:

	Other Land & Buildings £'000	Community Assets £'000	Infrastructure Assets £'000	Veh'cls,Plant & Equipment £'000	Assets Under Construction £'000	Surplus Assets £'000	Heritage Assets £'000	**Total Property Plant & Equipment £'000**
Cost or valuation as at 1 April 2015	234,602	2,230	116,777	30,161	19,470	3,030	16,719	**422,989**
Adjustment to opening balance	-	-	-	-	-	-	-	**-**
Additions	5,461	647	12,974	2,460	9,269	1	0	**30,812**
Revaluations increases/decreases recognised in the Revaluation Reserve	7,350	(404)	3			882	8,102	**15,933**
Revaluations increases/decreases recognised in the Surplus/Deficit on Provision of Services	(30,913)	(1,946)	293	(223)	(2,587)	(1,135)		**(36,511)**
De-recognition - Disposals	(538)	-		(3)	-	-		**(541)**
Assets reclassified to/from Held for sale	-				-			**-**
Reclassifications - other	7,150	37	4,602	110	(5,994)	(222)	-	**5,683**
Valuation as at 31 March 2016	**223,112**	**564**	**134,649**	**32,505**	**20,158**	**2,556**	**24,821**	**438,365**
Accumulated Depreciation and Impairment								
Accumulated depreciation as at 1 April 2015	(12,537)	(835)	(43,622)	(16,253)	-	(119)	-	**(73,366)**
Adjustment to opening balance	(11)	-				-		**(11)**
Depreciation charge in year	(5,804)	(148)	(10,111)	(3,253)	-	(19)		**(19,335)**
Depreciation written out to the Revaluation Reserve	7,781	302				13		**8,096**
Depreciation written out to the Surplus/Deficit on Provision of Services	5,369	417				125		**5,911**
Impairment losses/(reversals) recognised in the Revaluation Reserve	-							**-**
Impairment losses/(reversals) recognised in the Surplus/deficit on Provision of Services	-					-		**-**
De-recognition - disposals				3				**3**
Other Movements in Depreciation & Impairment	3	264						**267**
Accumulated depreciation at 31 March 2016	**(5,199)**	**-**	**(53,733)**	**(19,503)**	**-**	**-**	**-**	**(78,435)**
Balance sheet amount 31 March 2016	**217,913**	**564**	**80,916**	**13,002**	**20,158**	**2,556**	**24,821**	**359,930**

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

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 2016/17 were carried out to the value of £124.320m. Along with existing valid valuations, acquisitions and disposals this gives a total valuation of £206.870m. 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 2017 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 £13.446m.

The major commitments are:

	2016/17	2015/16
	£'000	£'000
Leisure Centres	**5,000**	
Waste and Cleaning Vehicles	**3,773**	
Bath Quays	**2,022**	4,116
Education & Children's Services	**1,621**	1,778
Bath Transport Package	**-**	1,063
Resources (Property) Schemes	**1,003**	795
Adult Services	**-**	598
River Corridor	**-**	124
NRR Infrastructure	**-**	87
Neighbourhoods projects	**-**	73
London Road Regeneration	**-**	59
Other	**27**	48
Total	**13,446**	8,741

13 HERITAGE ASSETS

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							**-**
Disposals							**-**
Revaluations		6,006	107		367		**6,480**
Impairment Losses/(reversals)							**-**
recognised in the Reval Reserve							**-**
Impairment Losses/(reversals)							**-**
recognised in the Surplus or							**-**
Deficit on Provision of Service							**-**
31st March	**14,856**	**9,084**	**1,635**	**1,800**	**1,303**	**2,623**	**31,301**

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

2015/16	Victoria Art Gallery	Roman Baths	Fashion Museum	Chandeliers	Records Office	Library	**Total**
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
1st April	10,558	1,458	1,528	1,000	936	1,239	16,719
Additions							-
Revaluations	4,298	1,620		800		1,384	8,102
31st March	**14,856**	**3,078**	**1,528**	**1,800**	**936**	**2,623**	**24,821**

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.

	2016/17	2015/16
	£'000	£'000
Rental Income from Investment Property	16,554	15,853
Direct operating expenses arising from Investment Property	(699)	(901)
Net gain/(loss)	15,855	14,952

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.

	2016/17	2015/16
	£'000	£'000
Balance at start of year	274,132	257,725
Adjustment to opening balance		
Additions of expenditure	8,205	1,246
Disposals	(4,993)	(409)
Net gains/losses from fair value adjustments	(8,324)	21,309
Transfer to/from Property, Plant & Equipment	(404)	(5,739)
Balance at end of the year	268,616	274,132

The Council carries out recurring annual valuations of all investment properties. Within the valuation instruction there is a requirement to review that these properties are held "solely of the purpose for income generation or capital gain." Properties valued at £0.4m were identified as held for other purposes from this and transferred to Other Land & Buildings. The valuer's report identified a total valuation of £268.5m, being all level 2 in the hierarchy outlined in policy 1.17 before in year capital expenditure was applied. 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.

	2016/17	2015/16
	£'000	£'000
Cost or valuation as at 1 April	3,757	3,136
Purchases	67	565
Transfers	-	56
Disposals	(2,279)	
Net gains/losses from fair value adjustments	(2)	
Cost or valuation as at 31 March	1,544	3,757
Accumulated depreciation as at 1 April	2,114	1,833
Depreciation for the period	457	281
Depreciation Write Back (Disposals)	(2,109)	
Accumulated depreciation at 31 March	462	2,114
Net Carrying amount at 31 March	1,082	1,643

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 2016 £'000	**31 March 2017 £'000**	31 March 2016 £'000	**31 March 2017 £'000**
Financial liabilities at amortised cost - loans	90,768	**120,468**	28,000	**4,000**
Accrued Interest (1)			1,132	**1,217**
Financial liabilities at amortised cost trade creditors			15,104	**15,717**
Total borrowings	90,768	**120,468**	44,236	**20,934**

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

	31 March 2016 £'000	**31 March 2017 £'000**	31 March 2016 £'000	**31 March 2017 £'000**
Loans & receivables	-	**-**	68,203	**67,807**
Accrued Interest (1)			64	**138**
Cash			(615)	**(817)**
Loans & receivables - trade debtors			14,718	**11,844**
Total Investments	-	**-**	82,370	**78,972**

(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 2016 Liabilities measured at amortised cost £'000	Financial Assets 31 March 2016 Loans & Receivables £'000	Total £'000	**Financial Liabilities 31 March 2017** Liabilities measured at amortised cost **£'000**	**Financial Assets 31 March 2017** Loans & Receivables **£'000**	**Total £'000**
Interest Expense *	(3,994)	-	(3,994)	**(4,298)**	**-**	**(4,298)**
Premium on Early Repayment of Debt	-		-			**-**
Interest payable & similar charges	(3,994)	-	(3,994)	**(4,298)**	**-**	**(4,298)**
Interest Income	-	199	199	**-**	**340**	**340**
Interest & investment Income	-	199	199	**-**	**340**	**340**
Net gain/(loss) for the Year	(3,994)	199	(3,795)	**(4,298)**	**340**	**(3,958)**

*The Authority also paid £1.24m (of which £0.54m related to principal), in respect of its share of debt relating to the former Avon County Council which is managed by Bristol City Council.

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 2016		**31 March 2017**	
	Carrying Amount £'000	Fair Value £'000	**Carrying Amount £'000**	**Fair Value £'000**
Financial Liabilities - PWLB Loans (Long Term Borrowing)	60,892	78,499	**90,748**	**120,884**
Financial Liabilities - Local & Police Authority Loans (Long Term Borrowing)	10,065	10,508	**10,065**	**10,398**
Financial Liabilities - Market Loans (Long Term Borrowing)	20,876	30,980	**20,871**	**34,475**
Total Long Term Borrowing	91,833	119,987	**121,684**	**165,757**
Financial Liabilities - Local & Police Authority Loans (Short Term Borrowing)	28,067	28,176	**4,001**	**3,997**
Financial Liabilities - trade creditors (see Note 21)	15,104	15,104	**15,717**	**15,717**
	135,004	163,267	**141,402**	**185,471**

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 2017 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 2016		**31 March 2017**	
	Carrying Amount £'000	Fair Value £'000	**Carrying Amount £'000**	**Fair Value £'000**
Loans & Receivables - investments*	68,267	68,378	**67,945**	**67,949**
Cash	(615)	(615)	**(817)**	**(817)**
Loans & Receivables - trade debtors (see Note 19)	14,718	14,718	**11,844**	**11,844**

* The "Loans & Receivables - investments" figures above include those short-term investments classed as Cash Equivalents, as detailed in Note 20. This equated to **£23.914m** as at 31st March 2017, with the remaining **£44.031m** being short term investments. (£38.718m Cash Equivalents as at 31st March 2016, with £29.549m being short term investments).

The fair value of loans and receivables is slightly higher than the carrying amount as at 31st March 2017 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.

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 for 2016/17 set 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 2016/17 permitted the overnight use of the Council's current bank account provider (NatWest), subject to maintaining a credit rating of not lower then 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 five years, adjusted to reflect current market conditions.

	Amount at 31 March 2017	Historical Experience of default	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	**49,023**	0.24	**119**
Banks/Financial Institutions with lowest equivalent rating of AAA	**9,310**	0.37	**34**
Banks/Financial Institutions with lowest equivalent rating of AA	**4,500**	0.24	**11**
Banks/Financial Institutions with lowest equivalent rating of A	**5,012**	0.68	**34**
Banks/Financial Institutions with lowest equivalent rating of BBB	**100**	1.79	**2**
Total deposits with Banks & Financial Institutions	**67,945**	**-**	**201**

	2017	2016
	£'000	£'000
Trade Debtors	**11,844**	14,718
Total debtors at 31st March including trade debtors	**38,495**	36,741

The historical experience of default for deposits is based on a simple tri-agency average of historic default rates over the past 5 years 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 £13.1m outstanding at 31st March 2017 is all past its due date for payment.
The past due but not impaired amount can be analysed by age as follows:

	2016/17	2015/16
	£'000's	£'000's
Less than three months	**8,052**	10,396
Three to six months	**361**	712
Six months to one year	**555**	1,041
More than one year	**2,876**	2,569
	11,844	14,718

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 2017 £'000's	**%**	Amount at 31 March 2016 £'000's	%
Loans & Receivables (Cash on Deposit) by Country Analysis				
UK Debt Management Office	**-**	**0.0%**	6,403	9.4%
UK Local Authorities	**49,023**	**72.2%**	39,955	58.5%
UK - Other Financial Institutions	**14,422**	**21.2%**	5,001	7.3%
Singapore	**-**	**0.0%**	10,007	14.7%
Sweden	**4,500**	**6.6%**	6,901	10.1%
Total	**67,945**	**100%**	68,267	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 2016 £'000	**31 March 2017 £'000**
Borrowing due for repayment:		
Under 1 year *	48,468	**24,464**
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**
Between 40 and 45 years	25,000	**25,000**
Between 45 and 50 years		
	118,768	**124,468**

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.

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 2016, 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	(182)
Impact on Income and Expenditure Statement	**(182)**
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)	**155**
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)	**22,937**

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

There are currently no assets held for sale.

18 INVENTORIES

	Balance 2015/16	Purchases	Recognised as expense in year	Written off Balances	**Balance 2016/17**
	£'000	£'000	£'000	£'000	**£'000**
Consumable Stores	509	67	(66)		**510**
Total Inventories	**509**	**67**	**(66)**	**-**	**510**

19 DEBTORS

Amounts falling due in one year:	2016/17 £'000	2015/16 £'000
Central Government bodies	**6,344**	7,327
Other local authorities	**5,742**	4,245
NHS bodies	**1,594**	1,267
Other entities and individuals (Trade Debtors)	**11,844**	14,718
Other entities and individuals (Non-Trade Debtors)	**9,313**	5,647
Prepayments	**3,658**	3,537
Total - Current Assets	**38,495**	36,741

Amounts falling after one year:	£'000	£'000
Other entities and individuals	**3,351**	7,289
Total - Long Term Assets	**3,351**	7,289

20 CASH AND CASH EQUIVALENTS

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

	2016/17 £'000	2015/16 £'000
Cash held by the Authority	**98**	100
Bank current accounts	**(915)**	(715)
Short-term deposits	**23,914**	38,718
Total cash and cash equivalents	**23,097**	38,103

21 CREDITORS

	2016/17 £'000	2015/16 £'000
Central government bodies	**35,223**	41,193
Other local authorities	**11,821**	8,533
NHS bodies	**420**	265
Public corporations and trading funds	**-**	316
Other entities and individuals (Trade Creditors)	**15,717**	15,104
Other entities and individuals (Non-Trade Creditors)	**22,767**	17,207
Income Received in Advance	**7,815**	6,326
Pensions Fund	**6,383**	6,321
	100,146	95,265

Included in Central Government Bodies is £27m held on behalf of West of England's Revolving Investment Fund which will provide for future infrastructure works, and is described further in Note 46 (£32m in 2015/16).

22 PROVISIONS FOR LIABILITIES

Provisions comprise:	31 March 2016 £'000	New Provisions £'000	Utilised in Year £'000	Written Back £'000	31 March 2017 £'000
Spa Right of Lights Provision	30		(30)		**-**
Provision for Child Care Costs	11				**11**
Children's Services Provision	32				**32**
Social Services Pension Provision	327				**327**
Planning Provision	154		(80)		**74**
NNDR Appeals Provision	3,728	1,799	(2,616)		**2,911**
Land Charge Fee Provision	50		(31)		**19**
	4,332	1,799	(2,757)	-	**3,374**

* The Spa right of lights provision is in relation to a possible claim arising from the Spa project.

* 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.

23 GENERAL FUND BALANCES AND RESERVES

This note sets out the amounts se 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 2016/17.

Unearmarked Reserves	31 March 2016 £'000	transfers to £'000	transfers from £'000	**31 March 2017 £'000**
General Fund Balances unearmarked	9,047	20,390	(16,781)	**12,656**

Earmarked Reserves	31 March 2016 £'000	transfers to £'000	transfers from £'000	**31 March 2017 £'000**
LMS Schools Balances	3,038		(991)	**2,047**
Corporate Earmarked Reserves	39,193	9,298	(19,088)	**29,403**
Service Specific Reserves	658	197	(294)	**561**
General Service Earmarked Reserves	6,838	171	(2,719)	**4,290**
	49,727	9,666	(23,092)	**36,301**
Total General Fund Balances and Reserves	**58,774**	**30,056**	**(39,873)**	**48,957**
Other Usable Reserves				
Capital Receipts Reserve	451	12,928	(11,171)	**2,208**
Capital Grants Unapplied Reserve	9,689	22,043	(28,995)	**2,737**
Total Usable Reserves	**68,916**	**65,027**	**(80,039)**	**53,902**

LMS Schools balances will be used by individual schools

Corporate Earmarked Reserves	31 March 2016 £'000	transfers to £'000	transfers from £'000	**31 March 2017 £'000**
Insurance Fund	1,778	391	(395)	**1,774**
Capital Financing Reserve	7,767	959	(205)	**8,521**
Revenue Funding of capital	993	716	(1,277)	**432**
Financial Planning Reserve	6,017	81	(2,489)	**3,609**
Affordable Housing & Capital Development	3,000			**3,000**
Revenue Budget Contingency Reserve	1,514	2,277	(1,372)	**2,419**
Revenue Grants Unapplied	1,652	143	(762)	**1,033**
Transformation Investment Reserve	2,403	1,270	(1,078)	**2,595**
Restructuring & Severance Reserve	4,913		(4,837)	**76**
Dedicated Schools Grant Reserve	5,039	2,014	(5,039)	**2,014**
Business Rates Reserve	2,181	1,052	(1,600)	**1,633**
Other	1,936	395	(34)	**2,297**
	39,193	9,298	(19,088)	**29,403**

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 reserve has been established to support the future medium term financial planning of the Council. It will be allocated as part of the Budget each year to support the specific medium term financial proposals and priorities of the Council.

The Affordable Housing & Capital Development reserve will be used to fund affordable housing and capital development.

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

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 Service & Resource 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.

General Service Earmarked Reserves	31 March 2016 £'000	transfers to £'000	transfers from £'000	**31 March 2017 £'000**
Information Technology Reserve	1,870		(138)	**1,732**
Finance VAT Advice Reserve	371	71	(50)	**392**
Leisure Reserves	498			**498**
CDSM Interpretation Centre Reserve	172		(16)	**156**
Care & Health Reserve	2,159		(2,021)	**138**
Care Act Reserve	1,705		(494)	**1,211**
Other Service Reserves	63	100		**163**
	6,838	171	(2,719)	**4,290**

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 is a retained reserve to enable the protection of social care in meeting demographic demand and transformation projects

The Care Act Reserve retained reserve to enable the protection of social care in meeting demographic demand and transformation projects.

24 UNUSABLE RESERVES

	2016/17 £'000	2015/16 £'000
Revaluation Reserve	**115,302**	112,415
Capital Adjustment Account	**304,389**	330,038
Deferred Capital Receipts Reserve	**429**	4,043
Financial Instruments Adjustment Account	**(6,340)**	(6,510)
Accumulated Absences Account	**(1,188)**	(1,426)
Pensions Reserve	**(297,828)**	(227,653)
Collection Fund Adjustment Account	**(2,208)**	(1,843)
Total Unusable Reserves	**112,556**	209,064

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.

	2016/17 £'000	2015/16 £'000
Balance at 1 April	**112,415**	89,701
Adjustment to opening balance		(521)
Upwards revaluation of assets	**43,308**	54,409
Downwards revaluation of assets not charged to the Surplus/Deficit on the Provision of Services	**(27,158)**	(30,380)
Impairment losses not charged to the Surplus/Deficit on on the Provision of Services	**-**	-
Transfer of depreciation on re-valued assets	**(1,490)**	(592)
Written Back on asset disposal and transfer	**(11,772)**	(201)
Impairment of fixed assets - transfer		
Balance at 31 March	**115,302**	112,415

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 a side 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.

		2016/17 £'000	**2016/17 £'000**	2015/16 £'000
Balance at 1 April			330,038	329,527
Adjustment to opening balance				510
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		(18,204)		(19,335)
Revaluation losses on Property, Plant & Equipment		(14,553)		(30,599)
Amortisation of intangible assets		(457)		(281)
Revenue expenditure funded from capital under statute		(8,469)		(6,602)
Grant funding of revenue expenditure funded from capital under statute		4,458		3,902
			(37,225)	(52,915)
Adjusting amounts written out of the Revaluation Reserve				
Transfer of depreciation on re-valued assets			1,490	592
Transfer of revaluation reserve balance on asset disposal			11,772	201
Net written out amount of the cost of non-current assets consumed in the year			(23,963)	(52,122)
Capital financing applied in the year:				
Use of capital receipts reserve to finance new capital expenditure	11,171	11,171		8,000
Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing		16,321		15,740
Capital expenditure financed from revenue	470	470		1,101
Minimum Revenue Provision	3,783	3,783		6,095
			31,745	30,936
Movements in the market value of investment properties debited or credited to the Comprehensive Income & Expenditure Statement			(8,324)	21,309
Deferred liability - Repayment of Avon Loan Debt			536	558
Carrying value of fixed assets disposed of			(24,993)	(947)
Other movements			(650)	267
Balance at 31 March			304,389	330,038

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.

	2016/17 £'000	**2016/17 £'000**	2015/16 £'000
Balance at 1 April		(6,510)	(6,680)
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	170		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.		170	170
Balance at 31 March		(6,340)	(6,510)

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.

	2016/17	2015/16
	£'000	£'000
Balance at 1 April	**(227,653)**	(235,818)
Remeasurements of the net defined benefit liability / (asset)	**(70,229)**	16,026
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	**(16,916)**	(23,579)
Employer's pensions contributions and direct payments to pensioners payable in the year	**16,970**	15,718
Balance at 31 March	**(297,828)**	(227,653)

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.

	2016/17	2015/16
	£'000	£'000
Balance at 1 April	**4,043**	7,158
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	**(3,614)**	(3,115)
Balance at 31 March	**429**	4,043

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.

	2016/17	2015/16
	£'000	£'000
Balance at 1 April	**(1,843)**	979
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)**	(2,822)
Balance at 31 March	**(2,208)**	(1,843)

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.

	2016/17	**2016/17**	2015/16
	£'000	**£'000**	£'000
Balance at 1 April		(1,426)	(1,054)
Settlement or cancellation of accrual made at the end of the preceding year	1,426		1,054
Amounts accrued at the end of the current year	(1,188)		(1,426)
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	(372)
Balance at 31 March		**(1,188)**	(1,426)

25 CASH FLOW STATEMENT

Note A to the cashflow statement	**2016/17**	2015/16
	£'000	£'000
Net Surplus or (Deficit) on the Provision of Services	**(57,442)**	(17,148)
Adjust net surplus or deficit on the provision of services for non cash movements		
Depreciation	**18,203**	19,335
Impairment and downward valuations	**14,553**	30,599
Amortisation	**457**	281
Adjustment for internal interest charged	**-**	-
Adjustments for effective interest rates	**(1)**	(5)
Increase/Decrease in Interest Creditors	**85**	90
Increase/Decrease in Creditors	**13,525**	276
Increase/Decrease in Interest and Dividend Debtors	**(180)**	(3)
Increase/Decrease in Debtors	**1,446**	(6,827)
Increase/Decrease in Inventories	**(1)**	(73)
Pension Liability	**(54)**	16,026
Pension Fund Gains on Past Service Costs		
Contributions to/(from) Provisions	**(958)**	1,536
Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	**24,993**	947
Movement in investment property values	**8,324**	(21,309)
Other movements	**1,608**	(106)
Total adjustments on the provision of services for non cash movements	**82,000**	40,767
Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
Capital Grants credited to surplus or deficit on the provision of services	**(8,352)**	(20,859)
Net adjustment from the sale of short and long term investments	**(50)**	54
Proceeds from the sale of property plant and equipment, investment property and	**-**	-
intangible assets	**(9,322)**	(5,096)
Total adjustments on the provision of services that are investing or financing activities	**(17,724)**	(25,901)
Net Cash Flows from Operating Activities	**6,834**	(2,282)

Note B to the Cash Flow Statement - Operating Activities (Interest)	**2016/17**	2015/16
	£'000	£'000
Operating activities within the cashflow statement include the following cash flows relating to interest		
Ordinary interest received	**340**	199
Other adjustments for differences between Effective Interest Rates and actual interest receivable-Long Terı	**3**	(1)
Opening Debtor	**15**	12
Closing Debtor	**(195)**	(15)
Interest Received	**163**	195
Interest charge for year	**(5,001)**	(4,725)
Adjustment for difference between effective interest rates and actual interest payable	**(4)**	(4)
Adjustment for internal interest charged to balance sheet funds		
Opening Creditor	**-**	-
Closing Creditor	**85**	90
Interest Paid	**(4,920)**	(4,639)

Note C to the Cash Flow Statement - Cash Flows from Investing Activities

	2016/17	2015/16
	£'000	£'000
Property, Plant and Equipment Purchased	(35,779)	(30,812)
Purchase of Investment Properties	(8,205)	(1,246)
Other Capital Payments	-	(565)
Opening Capital Creditors	(6,163)	(7,913)
Closing Capital Creditors	6,349	6,163
Purchase of Property, Plant and Equipment, investment property and intangible assets	(43,798)	(34,373)
Purchase of short term investments	(96,031)	(124,692)
Long term loans granted	(1,496)	(124)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	8,932	7,149
Proceeds from short term investments	81,549	136,632
Proceeds from long term investments	50	(50)
Other capital cash receipts	2,634	1,388
Capital Grants Received	22,117	21,631
Other Receipts from Investing Activities	24,751	23,019
Total Cash Flows from Investing Activities	(26,043)	7,561

Note D to the Cash Flow Statement - Cash Flows from Financing Activities

	2016/17	2015/16
	£'000	£'000
Cash receipts of long term borrowing	34,000	28,000
Billing Authorities - Council Tax and NNDR adjustments	(965)	471
Precepting Authorities Only - Appropriation to/from Collection Fund Adjustment Account	-	2,822
Repayment of Short-Term and Long-Term Borrowing	(28,832)	(18,558)
Payments for the reduction of a finance lease liability	-	-
Total Cash Flows from Financing Activities	4,203	12,735

Note E - Makeup of Cash and Cash Equivalents

	2016/17	2015/16
	£'000	£'000
Cash and Bank Balances	(817)	(615)
Cash Investments - regarded as cash equivalents	23,914	38,718
Bank Overdraft	-	-
	23,097	38,103

26 EXPENDITURE & INCOME ANALYSED BY NATURE

	2016/17 £'000	2015/16 £'000
Expenditure		
Employee benefits expenses	**118,053**	125,785
Other service expenses	**258,434**	257,783
Depreciation amortisation & impairment	**33,214**	48,404
Loss on disposal of non-current assets	**19,560**	-
Net Loss on Trading Operations	**31**	516
Interest payments (Inc. Net Interest on Net Defined Benefit Liability)	**12,476**	11,758
Precepts and levies	**2,544**	2,462
	444,312	**446,708**
Income		
Fees and charges and other service income	**(103,191)**	(98,253)
Income from Council Tax & Business Rates	**(101,661)**	(98,765)
Gain on disposal of non-current assets	**-**	(2,295)
Income from Investment Estate & Changes in fair value	**(7,531)**	(36,261)
Government Grants & Contributions	**(174,146)**	(193,787)
Interest & Investment Income	**(340)**	(199)
	(386,869)	**(429,560)**
Deficit on provision of services	**57,442**	**17,148**

26a SEGMENT REPORTING

	2016/17 £'000	2015/16 £'000
Depreciation amortisation & impairment		
Transport	**11,413**	20,276
Children's Services	**7,552**	12,572
Adult Social Care & Health	**678**	2,170
Leader	**-**	-
Community Services	**3,576**	5,219
Economic Development	**580**	1,635
Finance & Efficiency	**9,320**	6,156
Homes & Planning	**95**	376
Total	**33,214**	48,404
Revenues from external customers / Contributions		
Transport	**(13,919)**	(14,688)
Children's Services	**(10,559)**	(10,477)
Adult Social Care & Health	**(43,756)**	(42,921)
Leader	**(559)**	(214)
Community Services	**(5,985)**	(5,795)
Economic Development	**(16,243)**	(13,971)
Finance & Efficiency	**(6,820)**	(6,535)
Homes & Planning	**(5,350)**	(3,652)
Total	**(103,191)**	(98,253)

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.

	2016/17 Income £'000	2016/17 Expenditure £'000	Deficit/ (Surplus) £'000	2015/16 £'000
School and Other Catering	(1,358)	2,018	**660**	199
Cleaning Services	(185)	156	**(29)**	117
Fleet Management	(222)	63	**(159)**	228
Passenger Transport Services	(471)	474	**3**	376
Trade Refuse Collection	(816)	683	**(133)**	(81)
Print Services	(26)	35	**9**	(1)
Bath Museum Shops	(2,256)	1,936	**(320)**	(322)
Surplus for Year	(5,334)	5,365	**31**	516

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.

	2016/17 £'000	2015/16 £'000
Net surplus on trading operations	31	516
Services to the public included in Expenditure of Continuing Operations	(450)	(27)
Support services recharged to Expenditure of Continuing Operations	481	543
Net Surplus credited to Other Operating Expenditure	31	516

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

	2016/17 £'000	2015/16 £'000
Gross Funding		
Bath & North East Somerset Council	**20,044**	21,249
Bath & North East Somerset Clinical Commissioning Group	**5,663**	3,554
Income from Client Contributions	**1,825**	1,746
Interest on External Funding Balances		20
Total Funding	**27,532**	26,569
Total Expenditure	**28,881**	26,372
Net (Underspend) / Overspend	**1,349**	(197)
Overspend Recharged		
Bath & North East Somerset Council	**1,034**	
Bath & North East Somerset Clinical Commissioning Group	**315**	

Community Equipment

	2016/17 £'000	2015/16 £'000
Gross Funding		
Bath & North East Somerset Council	**203**	203
Bath & North East Somerset Clinical Commissioning Group	**473**	473
Total Funding	**676**	676
Total Expenditure	**849**	676
Net (Underspend) / Overspend	**173**	0
Overspend Recharged		
Bath & North East Somerset Council	**52**	
Bath & North East Somerset Clinical Commissioning Group	**121**	

Better Care Fund

	2016/17 £'000	2015/16 £'000
Gross Funding		
Bath & North East Somerset Council	**1,500**	1,148
Bath & North East Somerset Clinical Commissioning Group	**8,545**	8,475
Total Funding	**10,045**	9,623
Spend on Better Care Fund schemes	10,045	9,623
Total Expenditure	**10,045**	9,623

Mental Health

	2016/17 £'000	2015/16 £'000
Gross Funding		
Bath & North East Somerset Council		3,527
Bath & North East Somerset Clinical Commissioning Group		2,898
Total Funding	**-**	6,425
Spend on community equipment		6,425
Total Expenditure	**-**	6,425

Children and Young People with Multiple and Complex Needs

	2016/17 £'000	2015/16 £'000
Gross Funding		
Bath & North East Somerset Council	**2,515**	2,571
Bath & North East Somerset Primary Care Trust	**392**	392
Total Funding	**2,907**	2,963
Total Expenditure	**3,889**	2,832
Net (Underspend) / Overspend	**982**	(131)
Overspend Recharged		
Bath & North East Somerset Council	**848**	
Bath & North East Somerset Clinical Commissioning Group	**134**	

29 MEMBERS' ALLOWANCES

The total cost of Members Allowances for 2016/17 including employers national insurance, pensions contributions and expenses was £885,029 (£861,549 in 2015/16).

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	26,788	-	**26,788**
APPLEYARD	R	11,394	197	**11,591**
BALL	TM	8,060	-	**8,060**
BARRETT	CV	8,060	112	**8,172**
BEATH	CE	13,786	348	**14,134**
BECKER	J	8,060	-	**8,060**
BEVAN	SF	16,775	393	**17,167**
BLACKBURN	C	8,060	-	**8,060**
BRETT	LJ	13,789	903	**14,692**
BULL	JA	15,705	38	**15,742**
BUTTERS	TN	8,060	-	**8,060**
CARR	J	4,458	-	**4,458**
CLARKE	AK	26,788	-	**26,788**
COCHRANE	M	10,322	-	**10,322**
CROSSLEY	PN	8,060	91	**8,151**
DANDO	C	8,060	-	**8,060**
DAREY	F	8,060	-	**8,060**
DAVIES	M	8,060	-	**8,060**
DAVIS	S	21,819	-	**21,819**
DEACON	DE	8,060	97	**8,157**
DIXON	E	10,322	643	**10,965**
EVANS	M	26,788	1,028	**27,816**
FURSE	AJ	8,060	8	**8,068**
GERRISH	CD	26,788	90	**26,877**
GILCHRIST	IA	9,145	-	**9,145**
GLADWYN	E	2,978	-	**2,978**
GOODMAN	R	10,322	163	**10,485**
HAEBERLING	F	15,705	-	**15,705**
HALE	AD	16,441	874	**17,316**
HARDMAN	EJ	8,060	345	**8,404**
HASSETT	D	8,060	-	**8,060**
HEDGES	SP	8,610	-	**8,610**
HORSTMANN	D	8,060	113	**8,173**
JACKSON	EM	8,060	411	**8,471**
JEFFRIES	S	8,060	-	**8,060**
KEW	LJ	12,355	1,211	**13,565**
LONGSTAFF	M	8,060	-	**8,060**
MACRAE	BJ	8,060	-	**8,060**
MAY	P	10,322	1,540	**11,862**
McGALL	S	11,730	347	**12,076**
MILLAR	A	8,060	1,073	**9,133**
MOSS	R	13,014	1,236	**14,249**
MYERS	P	28,854	-	**28,854**
NORTON	M	8,060	-	**8,060**
O'BRIEN	B	10,322	636	**10,957**
ORGAN	BS	8,060	-	**8,060**
PATTERSON	L	8,060	-	**8,060**
PEARCE	C	13,992	106	**14,098**
PLAYER	J	8,060	-	**8,060**
PRITCHARD	VL	26,788	2,842	**29,630**
RAYMENT	J	8,060	-	**8,060**
RICHARDSON	EA	26,788	1,483	**28,271**
ROBERTS	CM	8,060	138	**8,198**
ROBERTS	N	8,060	-	**8,060**
ROMERO	UM	14,480	-	**14,480**
SANDRY	WA	12,392	-	**12,392**
SHELFORD	M	10,322	37	**10,359**
SIMMONS	B	8,060	-	**8,060**
TURNER	P	8,060	-	**8,060**
VEAL	M	26,788	4,174	**30,962**
VEALE	DJ	12,916	636	**13,552**
WALKER	K	8,060	414	**8,474**
WARD	G	8,060	143	**8,203**
WARREN	T	39,246	2,315	**41,560**
WARRINGTON	K	8,060	-	**8,060**
WATT	C	8,060	-	**8,060**
Total		**816,946**	**24,185**	**841,131**

30 OFFICER REMUNERATION

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 - Jo 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	Compensation for Loss of Office	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.

Senior Officers emoluments - annualised salary of £150,000 or more for the year ending **31 March 2016**

Post Holder	Salary	Expenses	Benefits in Kind e.g. Relocation, Subscriptions	Employer Pension Contrib'ns	Total
	£	£	£	£	£
Chief Executive - Jo Farrar	150,000	995		31,500	182,495

Senior Officers emoluments - annualised salary between £50,000 and £150,000 for the year ending **31 March 2016**

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	130,000	2,186	-	-	27,300	159,486
Strategic Director - Resources	120,000	1,660	345	-	25,200	147,205
Strategic Director - Place	120,000	446	-	-	25,200	145,646
Director of Public Health	122,654	1,176	-	-	17,478	141,308
Head of Legal & Democratic Services (to 31/05/15)	23,386	14	-	49,611	7,591	80,602
Head of Legal & Democratic Services (from 01/06/15)	71,197	726	-	-	14,952	86,875
Divisional Director - Business Support	111,999	8	211	-	23,520	135,738

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	**2016/17 Teachers**	**2016/17 Others**	**2016/17 Total**	2015/16 Teachers	2015/16 Others	2015/16 Total
£50,000 - £54,999	19	28	**47**	21	18	39
£55,000 - £59,999	9	24	**33**	12	21	33
£60,000 - £64,999	6	4	**10**	4	7	11
£65,000 - £69,999	2	4	**6**	6	4	10
£70,000 - £74,999	3	5	**8**	2	7	9
£75,000 - £79,999	1	11	**12**	-	11	11
£80,000 - £84,999	-	4	**4**	1	8	9
£85,000 - £89,999	-	4	**4**	-	1	1
£90,000 - £94,999	-	1	**1**	5	2	7
£95,000 - £99,999	-	6	**6**	1	3	4
£100,000 - £104,999	-	1	**1**	-	-	-
£105,000 - £109,999	-	1	**1**	-	-	-
£110,000 - £114,999	-	2	**2**	-	2	2
£115,000 - £119,999	-	-	**-**	-	-	-
£120,000 - £124,999	-	3	**3**	-	3	3
£125,000 - £129,999	-	-	**-**	-	1	1
£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	-	-	**-**	-	-	-
	40	**99**	**139**	52	89	141

The above totals include 18 staff who would not have been included in the note if it were not for one-off severance payments (15 staff in 2015/16). This included 1 in the Teacher category (nil in 2015/16) and 17 in the Others category (15 in 2015/16).

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 2016/17, incurring liabilities of £2.900m (£1.235m in 2015/16). 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)	**2016/17 Number of Compulsory Redund'cies**	**2016/17 Number of Other Exits Agreed**	**2016/17 Total Cost £**	2015/16 Number of Compulsory Redund'cies	2015/16 Number of Other Exits Agreed	2015/16 Total Cost £
£0 - £20,000	**7**	**39**	**331,394**	4	39	208,011
£20,001 - £40,000	**3**	**25**	**827,319**	1	12	344,167
£40,001 - £60,000	**4**	**13**	**837,602**	2	8	472,243
£60,001 - £80,000	**-**	**4**	**291,793**	-	2	125,447
£80,001 - £100,000	**-**	**4**	**359,112**	1	-	85,299
£100,001 - £150,000	**-**	**2**	**252,765**	-	-	0
£150,001 - £200,000	**-**	**-**	**0**	-	-	0
	14	**87**	**2,899,985**	8	61	1,235,167

33 EXTERNAL AUDIT COSTS

The Council has incurred the following fees payable to its auditors, Grant Thornton UK LLP	**2016/17 £'000**	2015/16 £'000
Fees payable with regard to external audit services	**124**	124
Fees payable for the certification of grant claims and returns	**14**	17
Fees payable for other services during the year	**16**	5
	154	146

In addition, fees in relation to the West of England Partership 2016/17 audit totalled £6k (£9k in 2015/16)

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 ringfenced 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 2016/17 are as follows:

	2016/17 Central Expenditure **£'000**	**2016/17** Individual Schools Budget **£'000**	**2016/17 Total £'000**	2015/16 Total £'000
Final DSG for before Academy recoupment			**123,430**	120,310
Academy figure recouped			**56,927**	46,540
Total DSG after Academy recoupment			**66,503**	73,770
plus Brought forward from previous year			**5,039**	5,924
less Carry forward into future year agreed in advance				
Final budget distribution	28,344	43,198	**71,542**	79,694
less Actual central expenditure	26,485		**26,485**	24,409
less Actual ISB deployed to schools	-	43,043	**43,043**	50,246
plus Local Authority contribution for year			**-**	-
Carry forward	1,859	155	**2,014**	5,039

35 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17:

Credited to Taxation and Non Specific Grant Income	**2016/17 £'000**	2015/16 £'000
Council Tax Income	**80,897**	78,448
Revenue Support grant	**14,433**	20,504
Contribution from the Non-Domestic Rate Pool / Non-Domestic Rate Income	**20,764**	20,317
Local Services Support Grant	**-**	159
Council Tax Freeze Grant	**-**	813
Department for Education	**4,330**	4,229
Department of Transport	**5,228**	5,576
Department of Health	**127**	644
Other	**4,247**	4,300
Third party contributions	**8**	322
Section 106 Developer Contributions	**2,364**	669
	132,398	135,981

Credited to Services		
Education Services Grant	**1,269**	1,570
Education Funding Agency (incl. Universal Infant Free School Meals)	**3,614**	4,025
Pupil Premium Grant	**2,686**	3,198
Mandatory rent allowances	**46,821**	51,318
Public Health Grant	**9,398**	8,246
Department of Health	**588**	1,836
Department of Transport	**318**	1,406
DCLG	**4,350**	3,289
New Homes Bonus Grant	**5,199**	3,709
Other	**6,122**	7,403
Third party contributions	**298**	597
Section 106 Developer Contributions	**702**	116
	81,365	86,713

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

	2016/17	2015/16
	£'000	£'000
Grants Receipts In Advance (Capital Grants)		
Section 106 Developer Contributions	**5,488**	2,107
Various Capital Grants	**5,473**	-
Total	**10,961**	2,107
Grants Receipts In Advance (Revenue Grants)		
Various Service Grants	**1,573**	2,604
Total	**1,573**	2,604

Long-Term Liabilities

	2016/17	2015/16
	£'000	£'000
Grants Receipts In Advance (Capital Grants)		
Section 106 Developer Contributions	**12,349**	9,396
Various Capital Grants	**7,558**	-
Total	**19,907**	9,396

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 £1,656,209 (£1,422,911 15/16) and support services costs of £379,828 (£402,248 15/16). Five B&NES Councillors are voting members on the Pensions Committee.

West of England Partnership

The Council, as accountable body to the West of England Partnership in 2016/17, acts as agent for regional central government grants.

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 and Initiative have equal rights to appoint directors. 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 commencing 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.

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

The Council made payments of £738,220 (£377,546 in 15/16) to voluntary bodies and organisations where members have an interest (either due to a Council nomination or in an independent capacity).

	2016/17 £
Bath Festivals Trust	122,000
Bath Royal Literary & Scientific Association	5,035
Friends of Field Firs	150
Keynsham & District Dial-A-Ride	109,212
Theatre Royal Bath Ltd	1,847
B&NES Citizens Advice	285,986
Bristol Airport Consutative Committee	2,000
Buro Happold	12,000
Community@67 Association	1,633
Developing Health & Independence	173,300
MHA Care Group	2,947
Radstock Museum Society	1,042
South West Councils	20,485
The Guild Co-Working Hub	583
	738,220

The Council is in partnership with the NHS B&NES Clinical Commissioning Group (CCG) to commission adult social care, health and housing 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, transferred to Sirona care & health CIC (Community Interest Company) in October 2011 under a “tri-partite” contract between the Council, PCT and Sirona, with the Council acting as lead commissioner for this contract. This arrangement will transfer to Virgin Health Care Ltd with effect from April 2017 under a “tri-partite” contract between the Council, CCG and Virgin, with the Council continuing to act as lead commissioner. Relevant elements of the Council's budget are reported to the Health & Wellbeing Board. The Board is Chaired by the Cabinet Member for Adult Social Care & Health, and the Council Chief Executive and Councillors are on the Board.

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:	**2016/17**	2015/16
	£'000	£'000
Highways / Road Safety & Bridge Strengthening	**10,008**	11,079
Property Acquisitions - 30-35 Westgate Street	**7,773**	-
School Improvements	**6,361**	4,547
Bath Quays Delivery	**3,591**	-
Bath Quays Flood Mitigation	**3,381**	968
Keynsham Leisure Centre	**2,273**	-
Capitalised Buildings Maintenance	**1,521**	2,252
Bath Transport Package - Main Scheme	**1,314**	2,759
Keynsham Redevelopment Project	**1,218**	1,817
Other	**6,543**	9,201
	43,983	32,623

(excludes Revenue expenditure funded from capital under statute)

Capital Expenditure was categorised as follows:

	2016/17	2015/16
	£'000	£'000
Property, plant and equipment	**20,510**	21,543
Investment properties	**8,205**	1,246
Intangible assets	**67**	565
Heritage Assets	**-**	-
Assets under construction	**15,201**	9,269
Non Current Assets held for sale	**-**	-
Capital Loans	**1,458**	774
Revenue expenditure funded from capital under statute	**8,469**	6,602
Total expenditure	**53,910**	39,999

Sources of finance:

	2016/17	2015/16
	£'000	£'000
Capital Receipts	**11,171**	8,000
Grants	**17,407**	17,937
Borrowing	**21,490**	11,256
3rd Party Contributions	**306**	919
Revenue	**470**	1,101
S.106 contributions	**3,065**	786
Total financing	**53,910**	39,999

Capital Financing Requirement

	2016/17	2015/16
	£'000	£'000
Opening Capital Financing Requirement	182,475	177,334
Capital Investment	53,910	39,999
Sources of Finance:		
Capital Receipts	(11,205)	(8,020)
Government grants & other contributions	(20,778)	(19,642)
Sums set aside from revenue (including MRP)	(4,253)	(7,196)
Closing Capital Financing Requirement	200,147	182,475
Increase in underlying need to borrow unsupported by Government financial assistance	21,490	11,256
Repayments received in respect of Capital Expenditure Loans	(34)	(20)
Less minimum revenue provision repayment	(3,783)	(6,095)
Increase / (decrease) in Capital Financing Requirement	17,673	5,141

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:

	2016/17	2015/16
	£'000	£'000
Other Land & Buildings	2,627	2,380
Vehicles, Plant & Equipment	-	-
	2,627	2,380

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 2016/17 were £3,401,317 (£3,897,232 in 2015/16).

The future payments required under these leases are £2,781,664, comprising the following elements:

	2016/17	2015/16
	£'000	£'000
Not later than one year	1,830	3,423
Later than one year and not later than five years	952	3,220
Later than five years	-	116
	2,782	6,759

The Council holds property leases which are operating leases. The amount paid in rent for 2016/17 was £51,000 (2015/16 was £344,804)

The future commitments required under these leases in 2016/17 are £38,250, comprising the following elements:

	2016/17	2015/16
	£'000	£'000
Not later than one year	38	51
Later than one year and not later than five years	-	38
Later than five years	-	-
	38	89

In practice, although some leases are due for renewal, the Council expects to continue using many of its leased buildings beyond the renewal dates.

Authority as Lessor

Finance Leases
The Authority has leased out a number of commercial properties on finance leases.

Operating Leases
The Authority leases out a large number of investment properties.

Rental income receivable from operating property leases totalled £16,554,137 (£15,698,210 in 2015/16).
The net book value of these properties is £268,616,000 (£274,132,000 in 2015/16).

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

	2016/17	2015/16
	£'000	£'000
Not later than one year	**13,653**	13,529
Later than one year and not later than five years	**40,029**	42,067
Later than five years	**184,508**	188,183
	238,190	243,779

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

	2016/17	2015/16
	£'000	£'000
Not later than one year	**791**	715
Later than one year and not later than five years	**2,700**	2,424
Later than five years	**6,927**	7,170
	10,418	10,309

39 EXCEPTIONAL ITEMS

There were no exceptional items in 2016/17.

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 2016/17 the council paid £3.804m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay. The figures for 2015/16 were £4.212m and 15.5%. 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.

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.

2015/16 & 2016/17 Up-Front Payment of Local Government Pension Scheme Deficit Contributions

In 2014/15, the Council made an up-front payment of the LGPS deficit contributions for the three years 2014/15 - 2016/17 totalling £14.042m. 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 rather than the normal approach of monthly payments in arrears over the three year period was £1.091m, reducing total payments from £15.133m to £14.042m. 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 2014/15 was £14.042m, and the actuary calculated the Equivalent Discounted annual Lump Sums Certified across the 3 years as follows:
£4.633m relating to 2014/15,
£4.674m relating to 2015/16, and
£4.735m relating to 2016/17.

The Pension Liability as at 31st March 2015 was reduced by the total £14.042m payment, and the full amount was reflected in the actuarial valuation as at 31st March 2015. The £4.633m relating to 2014/15 was charged to the General Fund in the 2014/15 Statement of Accounts, the £4.674m was charged in 2015/16, with the £4.735m credited to the Pension Reserve and charged to the General Fund in 2016/17 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.

	Local Government Pension Scheme 2016/17	2015/16	Unfunded Liabilities (Teachers) Discretionary Benefits 2016/17	2015/16
Comprehensive Income and Expenditure Statement	**£'000**	£'000	**£'000**	£'000
Cost of Services:				
Current Service Costs	**14,704**	16,305		
Past Service Cost	**-**	-	**-**	-
Settlement and Curtailment (Gain) / Loss	**(5,571)**	(1)	**-**	-
Administration Expenses	**308**	242		
Financing and Investment Income & Expenditure:				
Net Interest Expense	**6,726**	6,302	**749**	731
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**16,167**	22,848	**749**	731
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement				
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)**	-	**(275)**	-
Actuarial (gains) and losses arising on changes in financial assumptions	**149,671**	(35,923)	**2,890**	(724)
Total Remeasurements	**132,307**	(35,923)	**1,977**	(724)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**148,474**	(13,075)	**2,726**	7
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	**16,167**	22,848	**749**	731
Actual amount charged against General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	**10,692**	9,447		
less upfront deficit payment for 2015/16 & 2016/17				
add upfront deficit payment recognised in year	**4,735**	4,674		
	(7,620)	734	**-**	-
Retirement benefits payable to pensioners			**23,976**	22,793

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 Local Government Pension Scheme		Unfunded Liabilities (Teachers) Discretionary Benefits	
	2016/17	2015/16	**2016/17**	2015/16
	£'000	£'000	**£'000**	£'000
Present value of defined benefit obligation	**809,137**	664,807	**23,976**	22,793
Fair value of plan assets	**(535,285)**	**(464,682)**	**-**	-
Net liability arising from defined benefits obligation	**273,852**	**200,125**	**23,976**	**22,793**

Reconciliation of present value of the scheme liabilities:

	Funded Liabilities Local Government Pension Scheme		Unfunded Liabilities (Teachers) Discretionary Benefits	
	2016/17	2015/16	**2016/17**	2015/16
	£'000	£'000	**£'000**	£'000
Opening Balance at 1 April	**664,807**	683,245	**22,793**	24,383
Current service cost	**14,704**	16,305		
Interest cost	**22,832**	21,499	**749**	731
Contributions from scheme participants	**4,081**	4,089		
Actuarial gains and losses	**132,307**	(35,923)	**1,977**	(724)
Benefits paid	**(23,081)**	(22,287)	**(1,543)**	(1,597)
Past service costs	**1,562**	405	**-**	-
Past service gain	(8,075)	(2,526)	**-**	-
Closing Balance at 31 March	**809,137**	664,807	**23,976**	22,793

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

	Local Government Pension Scheme	
	2016/17	2015/16
	£'000	£'000
Opening Fair Value of scheme assets at 1 April	**464,682**	481,219
Interest on Plan Assets	**16,106**	15,197
Remeasurement Gain (Loss)	**64,055**	(20,621)
Administration Expenses	**(308)**	(242)
Settlements	**(942)**	(2,120)
Contributions from employer	**10,692**	9,447
Contributions from employees into the scheme	**4,081**	4,089
Benefits paid	**(23,081)**	(22,287)
Closing Balance at 31 March	**535,285**	464,682

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 £80.064m (2015/16 £5.424m).

Scheme History

	2011/12	2012/13	2013/14	2014/15	2015/16	**2016/17**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Present value of liabilities:						
Local Government Pension Scheme	(524,107)	(600,996)	(573,606)	(683,245)	(664,807)	**(809,137)**
Discretionary Benefits	(23,625)	(25,922)	(23,075)	(24,383)	(22,793)	**(23,976)**
Fair value of assets in the Local Government Pension Scheme	362,458	406,443	417,686	481,219	464,682	**535,285**
Surplus/(deficit) in the scheme:						
Local Government Pension Scheme	(161,649)	(194,553)	(155,920)	(202,026)	(200,125)	**(273,852)**
Discretionary Benefits	(23,625)	(25,922)	(23,075)	(24,383)	(22,793)	**(23,976)**
Long Term Liability in Balance Sheet	(185,274)	(220,475)	(178,995)	(226,409)	(222,918)	**(297,828)**

The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £298m 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 2016/17 are estimated to be £25.5m. Estimated contributions to the Discretionary Benefits scheme are £1.6m.

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 2017.

The principal assumptions used by the actuary have been:

	Avon Pension Fund		Discretionary Benefits (Teachers) Scheme	
	2016/17	2015/16	**2016/17**	2015/16
Mortality assumptions :				
Longevity for current pensioners:	at 65		at 75	
Men	**23.5**	23.5	**14.4**	14.5
Women	**26.0**	26.0	**16.5**	16.6
Longevity for future pensioners:				
Men	**26.0**	25.9		
Women	**28.7**	28.9		
Rate of inflation	**2.3%**	2.0%	**2.3%**	2.0%
Rate of increase in salaries	**3.8%**	3.5%		
Rate of increase in pensions	**2.3%**	2.0%	**2.3%**	2.0%
Rate for discounting scheme liabilities	**2.5%**	3.5%	**2.5%**	3.4%

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)	15,737	(15,737)
Rate of Inflation (increase or decrease by 1%)	13,827	(13,827)
Rate of increase in salaries (increase or decrease by 1%)	2,326	(2,326)
Rate of discounting scheme liabilities (increase or decrease by 1%)	(13,594)	13,594

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 2017**		Assets at 31 March 2016	
	£'000	**%**	£'000	%
Equity investments	**278,349**	**52.0%**	250,000	53.8%
Government Bonds	**64,234**	**12.0%**	51,579	11.1%
Other Bonds	**42,288**	**7.9%**	43,215	9.3%
Other	**150,414**	**28.1%**	119,888	25.8%
Total	**535,285**	**100%**	464,682	100.0%

History of experience gains and losses

Actuarial losses identified as movements on the Pensions Reserve in 2016/17 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2017.

	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
Difference between the expected and actual return on scheme assets:						
amount (£'000)	**64,055**	(20,621)	39,638	(2,697)	30,725	(13,953)
percentage	**12.0**	4.4	8.2	0.6	7.6	3.8
Experience gains and losses on liabilities						
amount (£'000)	**-**	-	-	-	-	-
percentage	**0.0**	0.0	0.0	0.0	0.0	3.4
	64,055	**(20,621)**	**39,638**	**(2,697)**	**30,725**	**(13,953)**
Cumulative gains / losses recognised	**97,147**	**33,092**	**53,713**	**14,075**	**16,772**	**(13,953)**

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 2017 apportioned to this Council is £12.86m (£13.40m in 2015/16). 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 2016	Principal Repaid	**31 March 2017**
	£000	£000	**£000**
Ex- Avon loan debt principal repayment	13,396	(536)	**12,860**

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 has 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. This is a change from original 2016/17 MRP Policy where the CFR was being financed on a 4% reducing balance methodology and whilst the change will generate savings it is also considered to be more prudent as it finances the CFR over a shorter period.

• 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 £3.783m calculated as follows:

	2016/17	2015/16
	£000	£000
Provision for capital expenditure incurred before 1st April 2008	**531**	1,874
Provision based on estimated useful life of new assets since 2008	**3,252**	4,221
Total Minimum Revenue Provision (MRP)	**3,783**	6,095

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.

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:	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

	2015/16 Exp. £'s	2015/16 Income £'s	2015/16 Assets £'s	2015/16 Liabilities £'s
Alice Park Trust	51,603	(63,828)	154,091 *	
Total	**51,603**	**(63,828)**	**154,091**	**0**

* Includes external investments valued at £6,453.

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:

	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**

	2015/16 Exp. £'s	2015/16 Income £'s	2015/16 Assets £'s	2015/16 Liabilities £'s
Educational Funds	300	(523)	46,621	
Graves/memorial maintenance	2,737	(69)	12,407	
Client accounts	0	0	94,000	
Twinning Fund	130	(130)	26,130	
Bequests	2,400	(182)	35,500	
Total	**5,567**	**(904)**	**214,658**	**0**

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. In 2016/17 the Council and Initiative had equal rights to appoint directors. The directors have day to day control over the management of the company.

The Company's un-audited accounts to 31st March 2017 show a turnover of £2,659,415, a net profit of £11,708 and net current assets of £306,093 (turnover of £2,750,673, a net profit of £16,101 and net current assets of £264,813 in 2015/16). The turnover and assets 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 at Abbey Chambers, Abbey Churchyard, Bath.

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

The Company's un-audited accounts from 14th March 2016 to 31st March 2017 show a turnover of £82,605, a net loss of £126,210 and net current liabilities of £151,001, which includes £214,688 owed to the Council. (As a new company, there is no previous year comparator). The turnover and assets held by this company are not considered significant enough to produce Group Accounts.

A copy of the accounts can be obtained from Bath and North East Somerset Council, The Guildhall, High Street, Bath. BA1 5AW

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.

The Partnership is not a partnership in law, nor a formal decision making body, and does not have the power to bind the four unitaries. The Partnership's activity is integrated into the West of England Local Enterprise Partnership (LEP) and is fully aligned to promoting economic growth and prosperity through the key themes of Place, People and Business and the Accountable Body for Place is Bath and Northeast Somerset Council.

The Place theme creates the conditions for economic growth by taking an integrated approach to infrastructure and development; prioritising investment in infrastructure, overcoming barriers to development, coordinating strategic housing delivery and enabling growth in homes and jobs. Funding has been provided by Central Government including from DCLG for Core LEP Activity and Strategic Economic Plan Development, BIS for Regional Growth Funds 2 & 3 (Revolving Infrastructure Fund and Growth Fund) and the Department of Transport. The local authorities remain the primary local contributors and each provide equal shares of funding.

The table below reflects the revenue expenditure incurred by Bath and North East Somerset on behalf of the West of England Authorities in 2016/17:

West of England Pooled Revenue Expenditure 2016-17

Expenditure	**£'000**	**Acting As**
LEP Management & Co-ordination	489	
LEP Places & Infrastructure	1,053	
LEP Skills & Economy	415	
LEP Funds Management	332	
Growth Hub	298	
Other Spend	0	
Total Expenditure	2,587	
Funding		
Local Authority Contributions Core	599	Agent
Local Authority Contributions Projects	714	Agent
Higher/Further Education Contributions	76	Agent
Govt. Grant - Core & Strategic Economic Plan	500	Principal
Govt. Grant - RIF Admin	48	Principal
Govt. Grant - Growth Fund Admin	164	Principal
Govt. Grant - Growth Hub	298	Principal
Govt. Grant - Other	188	Principal
Total Income	2,587	

The reporting approach is that total expenditure is not shown in the Financial Statements; rather the following accounting treatment is adopted:-

i) West of England expenditure is incurred as an Agent, acting as an intermediary on behalf of the 4 Unitary Authorities. Each Authority's accounts will reflect its own contribution towards expenditure.

ii) Where the Partnership office does act as principal, such as where it has received grant funding directly, this is on behalf of all authorities but the share for any individual Authority is not considered material to show.

In addition, B&NES is the accountable body for central government grants and acts as Agent. Sums are distributed to specific projects, as various criteria are satisfied, with the receiving body or Authority treating as grant in their own accounts. The balance of funds not distributed is therefore treated as a creditor in B&NES accounts; these sums will either be paid to future grant recipients or returned to government if not used or where they are recovered.

Grant Award	Fund b/f	Grant Received/ returned	Interest applied to fund	Grant Distributed/ recovered	Funds c/f
	£'000	£'000	£'000	£'000	£'000
Department of Communities and Local Government (DCLG) - Growth Points Fund	134	0	0	134	0
Department of Communities and Local Government (DCLG) - Growing Places Fund for “revolving investment fund”	5,796	0	31	-188	6,015
Department of Business, Innovation and Skills (BIS) - Regional Growth Fund 2 for “revolving investment fund”	25,578	0	126	7,236	18,468
"Revolving investment fund” - returned Funds from Completed schemes	903	1,900	8	0	2,811
Department of Business, Innovation and Skills (BIS) - Regional Growth Fund 3 – “Growth Fund ”	1,695	-1,794	0	-99	0
Department of Communities and Local Government (DCLG) - Local Growth Fund	0	42,407	0	37,879	4,528
Department for Education (DfE) - Apprenticeship Grant for Employers	0	1,036	0	640	396
	34,106	43,549	165	45,602	32,218

Following the creation of the West of England Combined Authority (WoECA) as part of the devolution deal with government, the new authority will take over the accountable body role for these funds going forward and the balance of funds will be transferred from the Council to the WoECA during 2017/18.

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 museums 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 museums curator, where this is not possible advice is sought from a commercial source.

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.

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 2016/17 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. This is a change from the previous requirement to present expenditure & income in accordance with the Service Expenditure Code of Practice (SerCOP). This note shows how the net expenditure and income has been restated.

	As originally reported in the CIES 2015/16 £'000	Adjustments between SERCOP classifications and Cabinet reporting £'000	As Restated 2015/16 £'000
NET EXPENDITURE			
SERCOP Service Line			
Central Services to the Public	3,315	(3,315)	-
Cultural & Related Services	2,662	(2,662)	-
Environmental & Regulatory Services	25,866	(25,866)	-
Planning Services	4,401	(4,401)	-
Children's & Education Services	42,905	(42,905)	-
Highways & Transportation Services	24,237	(24,237)	-
Housing Services	6,518	(6,518)	-
Adult Social Care	59,265	(59,265)	-
Public Health	268	(268)	-
Corporate & Democratic Core	7,703	(7,703)	-
Non Distributed Pension Costs	8	(8)	-
	177,148	(177,148)	-
Cabinet Portfolio			
Transport	-	21,683	21,683
Leader	-	6,104	6,104
Homes & Planning	-	5,390	5,390
Finance & Efficiency	-	18,946	18,946
Adult Social Care & Health	-	61,806	61,806
Children's Services	-	38,946	38,946
Economic Development	-	(1,612)	(1,612)
Community Services	-	25,885	25,885
	-	177,148	177,148
Cost of Services	**177,148**	**-**	**177,148**
GROSS EXPENDITURE			
SERCOP Service Line			
Central Services to the Public	3,829	(3,829)	-
Cultural & Related Services	18,443	(18,443)	-
Environmental & Regulatory Services	31,242	(31,242)	-
Planning Services	7,686	(7,686)	-
Children's & Education Services	138,083	(138,083)	-
Highways & Transportation Services	39,911	(39,911)	-
Housing Services	61,953	(61,953)	-
Adult Social Care	103,334	(103,334)	-
Public Health	8,600	(8,600)	-
Corporate & Democratic Core	18,883	(18,883)	-
Non Distributed Pension Costs	8	(8)	-
	431,972	(431,972)	-
Cabinet Portfolio			
Transport	-	37,326	37,326
Leader	-	6,814	6,814
Homes & Planning	-	9,211	9,211
Finance & Efficiency	-	85,041	85,041
Adult Social Care & Health	-	114,724	114,724
Children's Services	-	134,120	134,120
Economic Development	-	12,623	12,623
Community Services	-	32,113	32,113
	-	431,972	431,972
Cost of Services	**431,972**	**-**	**431,972**

	As originally reported in the CIES 2015/16 £'000	Adjustments between SERCOP classifications and Cabinet reporting £'000	As Restated 2015/16 £'000
GROSS INCOME			
SERCOP Service Line			
Central Services to the Public	(514)	514	-
Cultural & Related Services	(15,781)	15,781	-
Environmental & Regulatory Services	(5,376)	5,376	-
Planning Services	(3,285)	3,285	-
Children's & Education Services	(95,178)	95,178	-
Highways & Transportation Services	(15,674)	15,674	-
Housing Services	(55,435)	55,435	-
Adult Social Care	(44,069)	44,069	-
Public Health	(8,332)	8,332	-
Corporate & Democratic Core	(11,180)	11,180	-
Non Distributed Pension Costs	-	-	-
	(254,824)	254,824	-
Cabinet Portfolio			
Transport	-	(15,643)	(15,643)
Leader	-	(710)	(710)
Homes & Planning	-	(3,821)	(3,821)
Finance & Efficiency	-	(66,095)	(66,095)
Adult Social Care & Health	-	(52,918)	(52,918)
Children's Services	-	(95,174)	(95,174)
Economic Development	-	(14,235)	(14,235)
Community Services	-	(6,228)	(6,228)
	-	(254,824)	(254,824)
Cost of Services	**(254,824)**	**-**	**(254,824)**

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 2016	(9,453)	(599)	0	0
Receipts into the Pool in-year:				
- Growth sums payable by Councils to BRP in-year	(12,717)	(595)	595	0
Distributions out of the Pool BRP in-year:				
- Tier 1 no worse off	5,126	206	0	(206)
- BRP Management Fee	44	11	0	0
- EDF Management Fee	55	14	0	(55)
- Tier 2 EDF funding	2,144	113	0	0
- Tier 3 Demographic and service pressures	1,177	58	0	(164)
Funds held by the BRP at 31 March 2017	**(13,624)**	**(792)**		
Analysed between:				
Uncommitted cash (Tier 2 incl. Contingency)	(10,325)	(601)	(193)	n/a
Committed cash (Tier 3)	(3,299)	(191)	n/a	n/a
	(13,624)	**(792)**		
Expenditure / (Revenue) recognised			**402**	**(425)**

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 (£792,000) 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 £2.144m on behalf of the EDF in 2016/17.

The council itself has recognised revenue income of £425,000 (2015/16: £326,000) from the BRP and expenditure of £402,000 (2015/16: £254,000) to the BRP for the year.

51 SOMERSET BUSINESS RATES POOL

As part of the Business Rates Retention system the Government introduced a system of Levies and Safety Nets. Growth is limited by a Levy, which pays for a national Safety Net for authorities whose Business Rates base declines by more than 7.5%.

The Levy rate can be reduced by being part of a Business Rates Pool. The Somerset Business Rates Pool was established with effect from 1st April 2015 with B&NES operating as the lead Authority. The Pool consists of five other Districts and Somerset County Council and has resulted in a Pool Levy rate of 7.5% (opposed to 31.4%) enabling the council to retain more of the proceeds from growth.

The retained levy is allocated across the pool members in accordance with the Pooling Agreement. The allocations of the retained levy for 2016/17 are shown below.

Somerset Business Rates Pool	**2016/17 £'000**
Pooling Distribution of Retained Levy	
North Somerset Council	220
Somerset County Council	438
Mendip District Council	369
Sedgemoor District Council	515
South Somerset District Council	316
Taunton Deane Borough Council	326
Bath & North East Somerset Council	211
Bath & North East Somerset Council – Lead Authority Role	30
Total	**2,425**

COLLECTION FUND 2016/17

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	2016/17 £'000	2015/16 £'000
INCOME				
Council Tax	2	**(96,726)**		(92,148)
Income collectable from business ratepayers	3	**(68,161)**		(67,057)
			(164,887)	(159,205)
EXPENDITURE				
Council Tax - Precepts and demands				
Bath & North East Somerset		**80,156**		76,685
Avon & Somerset Police	1	**11,183**		10,828
Avon Fire	1	**4,262**		4,126
			95,601	91,639
National Non-Domestic Rates (NNDR)				
Central share payment to Government		**33,090**		32,226
Local share payment to Bath & North East Somerset		**32,428**		31,581
Local share payment to Avon Fire Authority		**662**		645
Transfer of City Deal Growth Disregard to General Fund	6	**595**		534
Transfer of Renewable Energy Growth Disregard to General Fund		**46**		1
Cost of Collection Allowance		**260**		260
			67,081	65,247
Impairments of debts	4			
Write off of uncollectable amounts			**1,405**	967
Increases / (decreases) in allowance for impairment			**(194)**	271
Provision for NNDR Appeals	5		**3,671**	3,680
Contributions				
Contribution towards previous year's estimated Collection Fund (Surplus)/Deficit			**(1,422)**	1,723
			166,142	163,527
(Surplus)/Deficit for the Year			**1,255**	4,322
(Surplus)/Deficit Brought Forward as at 1 April			**3,897**	(425)
(Surplus)/Deficit as at 31 March	7		**5,152**	3,897
Council Tax Surplus to be refunded to Police & Fire Authorities			**137**	141
NNDR Deficit to be charged to Government & Fire Authority			**(3,059)**	(2,427)
Bath & North East Somerset (Surplus)/Deficit			**2,230**	1,611

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 (NNDR). 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 2016/17 £'000	**Surplus 2016/17 £'000**	Precept 2015/16 £'000	Surplus 2015/16 £'000
The Avon & Somerset Police Authority	**11,183**	**106**	10,828	244
The Avon Fire Authority	**4,262**	**41**	4,126	93

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 62,734.6 (61,950.6 for 2015/16). This amount of Council Tax for a Band D property £1,523.89 (£1,479.22 - 2015/16) 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	10	5/9	6
Band A	6,253	6/9	4,169
Band B	16,062	7/9	12,493
Band C	16,899	8/9	15,021
Band D	11,989	9/9	11,989
Band E	8,313	11/9	10,161
Band F	4,827	13/9	6,972
Band G	4,269	15/9	7,115
Band H	347	18/9	694
			68,620
Overall Adjustment for Council Tax Support and Technical Changes			(5,885)
Council Tax Base			**62,735**

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 2016/17 is receivable from the following sources:-

	2016/17 £'000	2015/16 £'000
Billed to Council Tax payers	**(96,744)**	(92,142)
Localism Act Discounts funded from General Fund	**(2)**	(6)
Prior Year DWP Benefits funded from General Fund	**20**	-
	(96,726)	(92,148)

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 2016/17 were 48.4 pence for qualifying small businesses and 49.7 pence for all other businesses, subject to transitional arrangements. The NNDR income after reliefs of £68.161 million for 2016/17 (£67.057 million in 2015/16) resulted from a total rateable value at 31 March 2017 of £168.793 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% is paid to Central Government and redistributed to local authorities as Revenue Support Grant. The new scheme aims to give the Council a greater incentive to encourage economic growth in the district but also increases the risk of non-collection of rates.

In its fourth year of operation, the business rates retention scheme has resulted in a deficit of £5.998m against the amounts allocated to the Council, Central Government and the Fire Authority throughout 2016/17 (£4.759m deficit in 2015/16). This is due to the level of provision required to meet the probable costs of appeals, which have increased significantly in 2015/16.

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:

	2016/17	2015/16
	£'000	£'000
Council Tax		
Balance at 1 April 2016	**461**	417
Write-offs during the year	**(166)**	(153)
Contributions to provisions during the year	**241**	197
Net Increase/(Decrease) in Provision	**75**	44
Balance at 31 March 2017	**536**	461
NNDR		
Balance at 1 April 2016	**734**	507
Write-offs during the year	**(1,239)**	(814)
Contributions to provisions during the year	**970**	1,041
Net Increase/(Decrease) in Provision	**(269)**	227
Balance at 31 March 2017	**465**	734
Total		
Balance at 1 April 2016	**1,195**	924
Write-offs during the year	**(1,405)**	(967)
Contributions to provisions during the year	**1,211**	1,238
Net Increase/(Decrease) in Provision	**(194)**	271
Balance at 31 March 2017	**1,001**	1,195

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 2016.

	2016/17	2015/16
	£'000	£'000
Balance at 1 April 2016	**7,607**	4,503
Cost of Appeals settled during the year	**(5,338)**	(576)
Contributions to provisions during the year	**3,671**	3,680
Net Increase/(Decrease) in Provision	**(1,667)**	3,104
Balance at 31 March 2016	**5,940**	7,607

The movements in the provision for appeals reflect a significant number of appeals being settled in 2016/17, including for several supermarket, retail, MoD and GP surgery properties.

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 2017, the balance on the Collection Fund stood at an overall deficit of £5.152m.

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	-	2,999	**2,999**
Bath & North East Somerset	(709)	2,939	**2,230**
Avon & Somerset Police	(99)	-	**(99)**
Avon Fire Authority	(38)	60	**22**
	(846)	**5,998**	**5,152**

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.

Statement of Accounts

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (the Fund). The accounts cover the financial year from 1 April 2016 to 31 March 2017.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2016/17 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.

1.3 The accounts are set out in the following order:

Statement of Accounting Policies which explains the basis of the figures in the accounts.

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which give supporting details and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

1.4 In compliance with CIPFA guidance the presentation of the accounts includes the following changes from previous years:-

In note 8 Income from pooled investments has been analysed between Property and non-property investments.

In note 22 Financial Instruments for pooled investments are split between property and non-property investments.

Note 24 includes an analysis of the sensitivity of the valuations of Level Three assets in the Fair Value Hierarchy and a reconciliation of the change in value measurements within level three over the year. Some of the previous year figures in note 24 have been re-worked to be on a consistent basis with the 31 March 2017 figures. The previous figure for Pooled Investment Vehicles of £1,617,764m in Level 2 has instead been analysed between quoted equities and quoted bonds in Level 2. In the Currency Risk sensitivity analysis assets that are fully hedged are not shown because they have zero sensitivity.

1.5 **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 £3,737 million. The Actuary estimated that the value of the Fund was sufficient to meet 86% of its expected future liabilities of £4,355 million in respect of service completed to 31 March 2016.

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

1.7 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

1.8 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.

1.9 The Actuary has estimated that the funding level as at 31 March 2017 has risen to 95% from 86% at 31 March 2016 based on the 2016 valuation financial assumptions. The improvement is due to strong investment returns offsetting a more modest rise in the value of the liabilities.

1.10 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.

1.11 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk (search Funding Strategy Statement).

Investment Strategy Statement

1.12 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). 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.

Statement of Accounting Policies

Basis of Preparation

2.1 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

2.2 Investments are shown in the accounts at market value, which has been determined as follows:

i) Quoted Securities have been valued at 31 March 2017 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. 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 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 2017.

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 2017.

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) Overseas properties are valued as at 31 December 2016 with adjustments made for any reduction or addition to the level of investment.

vii) 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.

viii) Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.

ix) 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.

x) 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

2.3 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 2017.

2.4 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

2.5 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 uprated annually in line with the Consumer Prices Index.

2.6 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.

2.7 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.

2.8 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

2.9 Dividends and interest have been accounted for on an accruals basis. 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

2.10 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 actual time spent on Pension Fund business.

2.11 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

2.12 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.

Use of Accounting Estimates

2.13 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

2.14 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

2.15 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.

Fund Account

For the Year Ended 31 March 2017

	Notes	2016/17 £'000	2015/16 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions Receivable	4	**146,347**	143,578
Transfers In	16	**2,911**	4,170
		149,258	147,748
Benefits Payable	5	**159,775**	155,310
Payments to and on account of Leavers	6	**4,717**	7,861
		164,492	163,171
Net additions / (withdrawals) from dealings with member		**(15,234)**	(15,423)
Management Expenses	7	**24,498**	21,334
		(39,732)	(36,757)
Net (withdrawals) / additions from dealings with members			
Returns on Investments			
Investment Income	8	**29,425**	24,399
Profits and losses on disposal of investments and change in value of investments	9	**627,155**	(85,504)
Net Returns on Investments		**656,580**	(61,105)
Net Increase in the net assets available for benefits during the year		**616,848**	(97,862)
Opening Net Assets of the Fund		**3,736,930**	3,834,792
Closing Net Assets of the Fund		**4,353,778**	3,736,930

Net Assets Statement at 31 March 2017

	Notes	31 March 2017 £'000	%	31 March 2016 £'000	%
INVESTMENT ASSETS					
Equities		**750,053**	**17.2**	598,343	16.0
Diversified Growth Funds		**375,391**	**8.6**	360,928	9.7
Infrastructure		**256,003**	**5.9**	0	-
Index Linked securities : Public Sector		**509,172**	**11.7**	433,798	11.6
Pooled Investment vehicles:					
- Property : Unit Trusts		**135,309**	**3.1**	132,549	3.6
: Unitised Insurance Policies		**52,677**	**1.2**	62,554	1.7
: Other Managed Funds		**192,923**	**4.4**	171,811	4.6
Property Pooled Investment vehicles		**380,909**		366,914	
- Non Property : Unitised Insurance		**769,043**	**17.7**	710,765	19.0
: Other Managed Funds		**1,238,965**	**28.5**	1,099,271	29.4
Non Property Pooled Investment Vehicles		**2,008,008**		1,810,036	
Cash Deposits		**67,712**	**1.6**	209,518	5.6
Other Investment balances		**6,103**	**0.1**	3,748	0.1
INVESTMENT LIABILITIES					
Derivative Contracts (Foreign Exchange hedge)		**5,075**	**0.1**	(40,415)	(1.1)
Derivative Contracts: FTSE Futures		**(53)**	**-**	(44)	-
Other Investment balances		**(598)**	**-**	(394)	-
TOTAL INVESTMENT ASSETS	10	**4,357,775**		3,742,432	
Net Current Assets					
Current Assets	12	**11,255**	**0.3**	7,679	0.2
Current Liabilities	12	**(15,252)**	**(0.4)**	(13,181)	(0.4)
Net assets of the scheme available to fund benefits at the period end		**4,353,778**	**100.0**	3,736,930	100.0

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2017.

Notes to Accounts - Year Ended 31 March 2017

1 GENERAL

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.

2 MEMBERSHIP

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

	31 March 2017	31 March 2016
Employed Members	**36,213**	37,899
Pensioners	**29,464**	28,079
Members entitled to Deferred Benefits	**41,279**	40,711
TOTAL	**106,956**	106,689

A further 491 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.

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:-

		2016/17 £'000		2015/16 £'000
Employers' normal contributions				
Scheduled Bodies	**69,518**		63,792	
Administering Authority	**8,610**		8,008	
Admission Bodies	**7,520**	**85,648**	7,508	79,308
Employers' deficit Funding				
Scheduled Bodies	**14,022**		12,336	
Administering Authority	**0**		0	
Admission Bodies	**710**	**14,732**	11,406	23,742
Total Employer's normal & deficit funding		**100,380**		103,050
Employers' contributions - Augmentation				
Scheduled Bodies	**6,265**		2,071	
Administering Authority	**1,007**		319	
Admission Bodies	**155**	**7,427**	178	2,568
Members' normal contributions				
Scheduled Bodies	**31,126**		30,374	
Administering Authority	**4,008**		3,981	
Admission Bodies	**2,792**	**37,926**	2,984	37,339
Members' contributions toward additional benefits				
Scheduled Bodies	**484**		463	
Administering Authority	**104**		82	
Admission Bodies	**26**	**614**	76	621
Total		**146,347**		143,578

The 2015/16 Employer's Deficit Funding for Admission Bodies includes a £10.7m termination payment from an employer exiting the Fund.

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.

5 BENEFITS PAYABLE

Analysis of Gross Benefits Payable by Type:-

	2016/17 £'000	2015/16 £'000
Retirement Pensions	**129,796**	126,126
Commutation of Pensions and Lump Sum Retirement Benefits	**27,443**	26,158
Lump Sum Death Benefits	**2,536**	3,026
	159,775	155,310

Analysis of Gross Benefits Payable by Employing Body:-

	2016/17 £'000	2015/16 £'000
Scheduled & Designating Bodies	**131,452**	127,949
Administering Authority	**16,496**	15,026
Admission Bodies	**11,827**	12,335
	159,775	155,310

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

Leavers	2016/17 £'000	2015/16 £'000
Refunds to members leaving service	**1,165**	672
Individual Cash Transfer Values to other schemes	**2,890**	4,628
Group Transfers	**662**	2,561
	4,717	7,861

7 MANAGEMENT EXPENSES

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

	2016/17 £'000	2015/16 £'000
Administrative Costs	**1,774**	1,540
Investment Management Expenses	**21,409**	18,779
Oversight & Governance Costs	**1,315**	1,015
	24,498	21,334

Further Analysis of Management Expenses:-

	2016/17	2015/16
Administrative Costs		
Management Costs	**1,167**	959
Administration and Processing	**459**	502
Service from Administrating Body	**346**	352
Fees and Income	**(198)**	(273)
	1,774	1,540
Investment Management Expenses		
Fund Manager Base Fees	**15,490**	15,017
Fund Manager Performance Fees	**4,032**	1,964
Investment Transaction Costs	**1,760**	1,690
Global custody	**127**	108
	21,409	18,779
Oversight & Governance Costs		
Management costs	**550**	469
Specialist advice and Governance	**1,062**	713
Actuarial recharges	**(334)**	(204)
Audit Fees	**37**	37
	1,315	1,015
	24,498	21,334

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.

Investment transaction costs do not include the underlying transaction costs within pooled funds.

Management costs in Oversight & Governance Costs include actuarial and accounting staff.

8 INVESTMENT INCOME

	2016/17 £'000	2015/16 £'000
Interest from fixed interest securities	-	1,754
Dividends from equities	19,815	15,890
Income from Index Linked securities	4,143	2,461
Income from pooled Property Investments	5,067	3,767
Income from other pooled investment vehicles	63	55
Interest on cash deposits	265	330
Other - stock lending	72	142
TOTAL	**29,425**	24,399

The Fund has an arrangement with its custodian (BNY Mellon) 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. This stock lending programme was introduced with effect from July 2004. 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 2017 was £10.3 million (31 March 2016 £7.3m), comprising of equities and sovereign debt. This was secured by collateral worth £11.0 million 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 31/03/16 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/17 £'000**
Equities	598,344	326,609	(300,194)	125,294	**750,053**
Index Linked Securities	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 **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.

Change in Total Net Assets 2015/16

Change in Market Value of Investments	Value at 31/03/15 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/16 £'000**
Fixed Interest Securities	111,675	10,408	(120,275)	(1,808)	**-**
Equities	603,222	360,901	(353,625)	(12,154)	**598,344**
Index Linked Securities	238,961	222,236	(29,813)	2,414	**433,798**
Pooled Investments-					
- Property	315,668	100,975	(83,810)	34,081	**366,914**
- Non Property	2,474,380	421,380	(682,111)	(42,686)	**2,170,963**
Derivatives	2,026	188,758	(157,550)	(73,693)	**(40,459)**
Sub Total	3,745,932	1,304,658	(1,427,184)	(93,846)	**3,529,560**
Cash Deposits	94,416	559,331	(441,664)	(2,565)	**209,518**
Net Purchases & Sales		1,863,989	(1,868,848)	(4,859)	
Investment Debtors & Creditors	(476)			3,830	**3,354**
Total Investment Assets	3,839,872				**3,742,432**
Current Assets	(5,080)			(422)	**(5,502)**
Less Net Revenue of Fund				12,358	
Total Net Assets	**3,834,792**			**(85,504)**	**3,736,930**

The Net Revenue of Fund figures in the above tables include the investment transaction costs as specified below:

Investment Transaction Costs

	2016/17				2015/16			
	Purchases	**Sales**	**Other**	Total	Purchases	Sales	Other	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	**£'000**
Fees and Taxes	**1,044**	**10**	**-**	**1,054**	1,020	5	-	**1,025**
Commission	**359**	**340**	**7**	**706**	328	329	8	**665**
Total	**1,403**	**350**	**7**	**1,760**	1,348	334	8	**1,690**

10 INVESTMENT ASSETS

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

		31 March 2017 £'000		31 March 2016 £'000
UK Equities				
Quoted	**331,898**		313,922	
Pooled Investments	**202,152**		171,812	
FTSE Futures	**(53)**	**533,997**	(44)	485,690
Diversified Growth Funds				
Pooled Investments	**375,391**	**375,391**	360,928	360,928
Infrastructure				
Pooled Investments	**256,003**	**256,003**		-
Overseas Equities				
Quoted	**418,155**		284,421	
Pooled Investments	**1,234,900**	**1,653,055**	1,087,924	1,372,345
UK Index Linked Gilts				
Quoted	**509,172**	**509,172**	433,798	433,798
Sterling Bonds (excluding Gilts)				
Pooled Investments	**342,728**	**342,728**	358,029	358,029
Hedge Funds				
Pooled Investments	**228,228**	**228,228**	192,271	192,271
Property				
Pooled Investments	**380,909**	**380,909**	366,914	366,914
Cash Deposits				
Sterling	**55,506**		66,961	
Foreign Currencies	**12,206**	**67,712**	142,557	209,518
Investment Debtors/Creditors				
Investment Income	**4,937**		3,558	
Sales of Investments	**1,166**		190	
Foreign Exchange Hedge	**5,075**		(40,415)	
Purchases of Investments	**(598)**	**10,580**	(394)	(37,061)
TOTAL INVESTMENT ASSETS		**4,357,775**		3,742,432

DERIVATIVES ANALYSIS

Open Forward Currency Contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £'000	Liability Value £'000
Up to one month	EUR	48,148	GBP	(55,564)	598	
Up to one month	GBP	55,564	EUR	(47,638)		(88)
Up to one month	GBP	1,790,800	JPY	(12,898)		(40)
Up to one month	GBP	158,785	USD	(127,273)		(463)
Up to one month	JPY	13,634	GBP	(1,790,800)	776	
Up to one month	USD	122,750	GBP	(158,785)		(4,160)
One to six months	EUR	238,938	GBP	(275,028)	3,050	
One to six months	GBP	9,748	EUR	(8,485)		(129)
One to six months	GBP	178,900	JPY	(1,323)		(38)
One to six months	GBP	38,885	USD	(31,166)		(135)
One to six months	JPY	59,119	GBP	(8,158,900)	450	
One to six months	USD	608,944	GBP	(757,670)	4,794	
Six to twelve months	EUR	44,249	GBP	(51,428)	34	
Six to twelve months	JPY	11,493	GBP	(1,596,000)	(6)	
Six to twelve months	USD	114,758	GBP	(143,757)	432	
Total					**10,128**	**(5,053)**
	Net forward currency contracts at 31st March 2017					**5,075**
	Open forward currency contracts at 31 March 2016				(94,338)	53,923
	Net forward currency contracts at 31st March 2016					**(40,415)**

Exchange Traded Derivatives held at 31 March 2017:-			
Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	June 2017	5,602	(53)
Exchange Traded Derivatives held at 31 March 2016:-			
FTSE equity futures	June 2016	11,309	(44)

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.

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 2017 £'000	**%**	31 March 2016 £'000	%
Blackrock	**1,060,113**	**24.3**	1,024,650	27.4
Standard Life	**236,903**	**5.4**	233,981	6.4
Record	**10,624**	**0.2**	(29,095)	(0.8)
Jupiter Asset Management	**199,834**	**4.6**	173,863	4.6
Genesis Investment Management	**196,601**	**4.5**	149,257	4.0
Invesco Perpetual	**388,073**	**8.9**	289,696	7.7
State Street Global Advisors	**160,461**	**3.7**	119,803	3.2
Partners Group	**201,487**	**4.6**	175,511	4.7
Royal London Asset Management	**262,242**	**6.0**	291,222	7.8
TT International	**236,626**	**5.4**	201,993	5.4
Gottex Asset Management	**971**	**0.0**	3,483	0.1
Signet Capital Management	**1,162**	**0.0**	1,057	0.0
IFM Investors	**256,003**	**5.9**	135,671	3.6
Pyrford International	**138,487**	**3.2**	126,947	3.4
Unigestion (UK) Ltd	**223,160**	**5.1**	178,118	4.8
Schroder Investment Management	**539,380**	**12.4**	449,901	12.0
JP Morgan	**226,096**	**5.2**	187,732	5.0
Bank of New York Mellon	**7,497**	**0.2**	17,603	0.5
Treasury Management	**12,055**	**0.3**	11,039	0.3
TOTAL INVESTMENT ASSETS	**4,357,775**	**100.0**	3,742,432	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	**Value at 31st March 2017 £'000**	**% of Net Asset**	**Value at 31st March 2016** £'000	**% of Net Asset**
Invesco Perpetual Global ex UK Enhanced Index Fund	**388,073**	**8.91%**	289,696	7.74%
RLPPC UK Corporate Bond Fund (Royal London)	**262,242**	**6.02%**	291,222	7.78%
IMF Global Infrastructure (UK)	**256,003**	**5.87%**		0.00%
Standard Life Global Absolute	**236,903**	**5.44%**	233,980	6.25%
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	**223,160**	**5.12%**	178,118	4.76%

12 CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2017.

Debtors and creditors included in the accounts are analysed below:-

		31 March 2017 £'000		31 March 2016 £'000
CURRENT ASSETS				
Contributions Receivable				
- Employers	6,784		4,636	
- Members	2,877		2,010	
Transfer Values Receivable	-		-	
Discretionary Early Retirement Costs	526		308	
Other Debtors	1,068	11,255	725	7,679
CURRENT LIABILITIES				
Management Fees	(1,638)		(1,249)	
Provision for Performance Fees	(10,567)		(8,422)	
Transfer Values Payable	-		-	
Lump Sum Retirement Benefits	(1,068)		(1,692)	
Other Creditors	(1,979)	(15,252)	(1,818)	(13,181)
NET CURRENT ASSETS		(3,997)		(5,502)

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.

At 31 March 2016 Debtors were unusually low due to Bristol City Council having paid their March 2016 contributions (due in April 2016) before 31 March 2016.

Analysis of Debtors and Creditors by Public Sector Bodies:-

CURRENT ASSETS	31 March 2017 £'000	£'000	31 March 2016 £'000	£'000
Local Authorities	5,034		3,007	
NHS Bodies			1	
Other Public Bodies	2,313		2,117	
Non Public Sector	3,908		2,554	
		11,255		7,679
CURRENT LIABILITIES				
Local Authorities	(21)		(10)	
Other Public Bodies	(1,569)		(1,569)	
Non Public Sector	(13,662)	(15,252)	(11,602)	(13,181)
NET CURRENT ASSETS		(3,997)		(5,502)

13 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2017. (March 2016 = NIL)

14 EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2017 that require any adjustment to these accounts.

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 2017 (the 31 March 2016 assumptions are included for comparison):

	31st March 2017	31st March 2016
Rate of return on investments (discount rate)	**2.5% per annum**	3.6% per annum
Rate of pay increases*	**3.8% per annum**	3.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	**2.3% per annum**	2.0% per annum

* includes a corresponding allowance to that made in the 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 fell, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year-end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £5,159 million. Interest over the year increased the liabilities by c£186 million, and allowing for net benefits accrued/paid over the period also increased them by c£22 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,092 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as 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 2017 is therefore £6,459 million.

16 TRANSFERS IN

During the year ending 31 March 2017 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.

	31 March 2017	31 March 2016
	£'000	£'000
Benefits Paid and Recharged	**6,024**	6,193

The Fund also administers £25.7m (£23.4m in 2015/16) pension payments on behalf of the Fire Service and the Teachers' pension schemes. 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 2016/17 were £55 (2015/16 - £131). Additional Voluntary Contributions received from employees and paid to Friends Life during 2016/17 were £272,810 (2015/16 - £308,237).

The total value of the assets invested, on a money purchase basis, with these AVC providers was:-

	31 March 2017 £'000	31 March 2016 £'000
Equitable Life		
With Profits Retirement Benefits	**369**	384
Unit Linked Retirement Benefits	**362**	171
Building Society Benefits	**-**	171
	731	726
Death in Service Benefit	**53**	82
Friends Life		
With Profits Retirement Benefits	**84**	115
Unit Linked Retirement Benefits	**4,094**	4,349
Cash Fund	**309**	385
	4,487	4,849

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.

19 RELATED PARTIES

Committee Member Related:-

In 2016/17 £37,780 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£34,176 in 2015/16). Five voting members and one non- voting member of the Avon Pension Fund Committee (including two B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2016/2017. (Four voting members and one non-voting member in 2015/2016, including two B&NES Councillor Members)

Independent Member Related:-

Two Independent Members were paid allowances of £13,025 and £15,852 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. 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 2016/17 the Fund paid B&NES Council £265,428 for administrative services (£287,848 in 2015/16) and B&NES Council paid the Fund £35,269 for administrative services (£28,266 in 2015/16). Various Employers paid the fund a total of £224,272 for pension related services including pension's payroll and compiling data for submission to the actuary (£222,662 in 2015/16).

Pension Board Related:-

The Pension Board came in to operation in July 2015. In 2016/17 £7,067 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board (£5,446 for the nine months of 2015/16). Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2016/2017. (Five members in 2015/2016).

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.

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 (2015/16 £50,167) and their employer's pension contributions £9,498 (2015/16 £9,498).
- part of the Divisional Director Business Support's salary, fees and allowances £9,763 (2015/16 £9,763) and their employer's pension contributions £1,835 (2015/16 £1,835).

21 OUTSTANDING COMMITMENTS

As at the 31 March 2017 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £145,154,473 (31 March 2016 £149,355,935).

At 31st March 2017 there was no outstanding commitment relating to investments in a pooled fund of underlying infrastructure assets (31 March 2016 $US105,000,000).

22 FINANCIAL INSTRUMENTS

The net assets of the Fund are made up of the following categories of Financial Instruments:

2016/17	Fair Value through Profit and Loss	Loans & receivables	Financial liabilities at amortised cost
	£'000	£'000	£'000
Financial Assets			
Index Linked securities	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)**

2015/16	Fair Value through Profit and Loss	Loans & receivables	Financial liabilities at amortised cost
	£'000	£'000	£'000
Financial Assets			
Index Linked securities	433,799		
Equities	598,344		
Pooled Investments (Non-Property)	2,170,963		
Pooled Property Investments	366,914		
Derivative Contracts	-		
Cash		209,518	
Other investment balances	3,748		
Debtors		7,679	
Total Financial Assets	3,573,768	217,197	-
Financial Liabilities			
Derivative contracts	(40,460)		
Other investment balances	(394)		
Creditors			(13,181)
Total Financial Liabilities	(40,854)	-	(13,181)
Total Net Assets	**3,532,914**	**217,197**	**(13,181)**

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 BNY Mellon Asset Servicing, 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 has a high allocation 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.

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 2017. These movements in market prices are considered reasonable for the 2016/17 reporting period. 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 analysis for the year ending 31 March 2017:

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**

The analysis for the year ending 31 March 2016 is shown below (restated to be consistent with 2016/17):

Asset Type	Value £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	485,690	10.3%	535,716	435,664
Overseas Equities	1,372,345	9.8%	1,506,972	1,237,718
UK Bonds	358,029	7.2%	383,807	332,251
Index Linked Gilts	433,798	9.3%	474,142	393,455
Pooled Multi Assets	360,928	4.2%	376,087	345,769
Property	366,914	1.6%	372,785	361,043
Fund of Hedge Funds	192,271	3.4%	198,808	185,734
Infrastructure	-	0.0%	-	-
Cash & Equivalents	172,455	0.0%	172,455	172,455
Total Investment Assets	**3,742,430**	**7.4%**	**4,020,772**	**3,464,089**

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.

The Fund's exposure to interest rate movements on these investments is provided below. Cash includes the cash deposits held against futures contracts.

	31/03/2017 £'000	31/03/2016 £'000
Cash and Cash Equivalents	**78,292**	172,455
Fixed Interest Assets	**851,900**	791,827
Total	**930,192**	964,282

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 fixed income securities as at 31 March 2017 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

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.

As at 31 March 2017		**Change in net assets**	
	Value £'000	**+100 BPS £'000**	**-100 BPS £'000**
Cash and Cash Equivalents	78,292	-	-
Fixed Interest Assets	851,900	(132,619)	132,619
Total	**930,192**	**(132,619)**	**132,619**

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 2016 is shown below (restated for consistency with 2016.17):

As at 31 March 2016		**Change in net assets**	
	Value £'000	**+100 BPS £'000**	**-100 BPS £'000**
Cash and Cash Equivalents	172,455	-	-
Fixed Interest Assets	791,827	(114,472)	114,472
Total	**964,282**	**(114,472)**	**114,472**

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 2017	Asset value as at 31st March 2016
	£'000	£'000
Overseas Equities	**1,653,055**	1,372,345
Overseas Property	**192,923**	171,811
Fund of Hedge Funds	**228,228**	192,271
Infrastructure	**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 2017 and these movements in currencies are considered reasonable for the 2016/17 reporting period. 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 2017 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	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
Overseas Equities	1,653,055	7.0%	1,768,769	1,537,341

The same analysis for the year ending 31 March 2016 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£)	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
Overseas Equities	1,372,345	5.3%	1,445,080	1,299,611

(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 2017 was £19.5m. This was held with the following institutions:

	31st March 2017		31st March 2016	
	Rating	**Balance £'000**	**Rating**	**Balance £'000**
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	7,495	AAA	17,591
Bank Call Accounts				
Handelsbanken	AA	5,200	AA-	5,090
Bank of Scotland Corporate Deposit Account	A+	3,210	A+	500
Goldman Sachs Global Treasury Fund	AAA	2,720	AAA	4,710
NatWest Special Interest Bearing Account	BBB+	910	BBB+	710
Bank Current Account				
NatWest	BBB+	10	BBB+	8

A securities lending programme is managed by the Fund's custodian BNY Mellon 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. Securities lending is capped by investment regulations and statutory limits ensure no more than 25% of eligible assets can be on loan at any time.

(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 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 2017 the value of the illiquid assets was £1,102m, that represented 25.3% of the total Fund assets (31 March 2016: £793.2m which represented 21% of the total Fund assets).

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. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.

• 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 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Funds that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset 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. Level 3 includes pooled funds such as the property and infrastructure funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 31 March 2017.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	750,053	1,437,052		**2,187,105**
Bonds - Quoted	509,172	342,728		**851,900**
Fund of Hedge Funds			228,228	**228,228**
Diversified Growth Funds		375,391	-	**375,391**
Property			380,909	**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	**2,155,171**	**865,140**	**4,357,775**

The fair value hierarchy as at 31 March 2016 was:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	598,344	1,259,735		**1,858,079**
Bonds - Quoted	433,798	358,029		**791,827**
Fund of Hedge Funds			192,271	**192,271**
Diversified Growth Funds		126,947	233,981	**360,928**
Property			366,914	**366,914**
Cash	209,518			**209,518**
Derivatives: Forward FX	(40,415)			**(40,415)**
Derivatives: Futures	(44)			**(44)**
Investment Debtors/Creditors	3,354			**3,354**
	1,204,555	**1,744,711**	**793,166**	**3,742,432**

There has been one re-classification of assets between levels of the hierarchy between 31March 2016 and 31 March 2017 transferring Diversified Growth Funds from level 3 to Level 2 following a review of the inputs to valuation techniques used to measure the fair value. Level 1 assets were sold to fund the investment in Infrastructure (Level 3). The fair value hierarchy as at 31 March 2016 has been restated, replacing the figure for Pooled Investment Vehicles of £1,617,764m in Level 2 with an analysis of the figure between quoted equities and quoted bonds in Level 2.

Reconciliation of Fair Value measurements within Level 3

Level 3	Market Value 01 April 2016	Transfer into Level 2	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains / losses	Realised gains / losses	**Market value 31 March 2017**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fund of Hedge Funds	192,271		6,996	(10,651)	39,040	572	**228,228**
Diversified Growth Funds	233,981	(233,981)	-	-	-	-	**-**
Property	366,914		39,243	(51,767)	17,643	8,876	**380,909**
Infrastructure			359,365	(137,435)	34,073	-	**256,003**
	793,166	**(233,981)**	**405,604**	**(199,853)**	**90,756**	**9,448**	**865,140**

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 2017:

	Assessed valuation range +/-	Value at 31 March 2017	Value on increase	Value on decrease
		£'000	£'000	£'000
Property	10%	380,909	419,000	342,818
Fund of Hedge Funds	10%	228,228	251,051	205,405
Infrastructure	15%	256,003	294,403	217,603
Total		**865,140**	**964,454**	**765,826**

The same analysis for 31 March 2016:

	Assessed valuation range +/-	Value at 31 March 2016	Value on increase	Value on decrease
		£'000	£'000	£'000
Property	10%	366,914	403,605	330,223
Fund of Hedge Funds	10%	192,271	211,498	173,044
Infrastructure	15%	-	-	-
Diversified Growth Funds	10%	233,931	257,379	210,583
Total		**793,116**	**872,482**	**713,850**

25 EMPLOYING BODIES

As at 31 March 2017 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers

Avon Fire and Rescue Service
Bath & North East Somerset Council
Bristol City Council
North Somerset Council
South Gloucestershire Council

Further & Higher Education Establishments

Bath Spa University
Bath College
City of Bristol College
South Gloucestershire & Stroud College
St. Brendan's Sixth Form College
University of the West of England
Weston College

Education Establishments

Abbeywood Community School Academy
Academy of Trinity CofE
Aspire Academy
Backwell School Academy
Bannerman Road Community Academy
Barton Hill Academy
Bath Community Academy
Bedminster Down School Academy
Beechen Cliff Academy
Begbrook Primary School Academy
Birdwell Primary School Academy
Bradley Stoke Community School
Bridge Learning Campus
Bristol Cathedral School Trust
Bristol Free School
Bristol Futures Academy
Bristol Technology & Engineering Academy
Broadlands Academy
Broadoak Mathematics & Computing College
Cabot Learning Federation
Callicroft Primary School
The Castle School
Charlborough Road Primary School
Charfield Primary School
Chew Stoke Church School
Christ Church C of E Primary School
Churchill Academy
City Academy
Clevedon School Academy
Clutton Primary School
Colston's Girls' School
Colston’s Primary School
Combe Down CofE Primary School
Cotham School Academy
Court de Wyck Church School
Crockerne CofE Primary School
Digitech Studio School
Diocese of Bristol Academy Trust
Downend School Academy
Dundrey C of E Primary
Easton C of E Academy
Elmlea Junior School Academy
Fairfield High School
Fairlawn School
Filton Avenue Primary School
Filton Hill Primary School
Fishponds Church of England Academy
Four Acres Primary School
Fosseway School
Frome Vale Academy
Gordano School Academy
Greenfield Primary School Academy
Hanham Woods School
Hans Price Academy
Hareclive Academy
Hayesfield Girl’s School Academy
Haywood Village Academy
Henbury Court Primary School
Henbury School
Henleaze Junior School Academy
Heron’s Moor Community School
High Down Infant School
High Down Junior School
High Littleton C of E Primary School
Hotwells Primary School
IKB Academy
Illminster Avenue Academy
Inspirational Futures Trust
Kingshill Church School
Kings Oak Academy
Little Mead Primary School
Longvernal Primary School
Lyde Green Primary School
Mangotsfield School
Marlwood School
Meadowbrook Primary School
Merchant's Academy
Midsomer Norton Schools Partnership
Minerva Primary Academy
Moorlands Infant School
Moorlands Junior School
Nailsea School Academy
North Somerset Enterprise & Technology College
Oasis Academy Bank Leaze
Oasis Academy Brightstowe
Oasis Academy Brislington
Oasis Academy Connaught
Oasis Academy John Williams
Oasis Academy Longcross
Oasis Academy Marksbury Road
Oasis Academy New Oak
Oldfield School
Oldfield Park Infant School
Oldfield Park Junior School
Orchard Academy
Parson Street Primary School
Patchway Community College
Peasedown St. John Primary School
Portishead Primary School
Priory Community School
Ralph Allen School
Redland Green School
Redfield Educate Together Primary Academy
Saltford CofE Primary School
Severn Beach Primary Academy
Sir Bernard Lovell School
Steiner Academy Bristol
St Bede’s Catholic College

St. Georges Church School
St. John's CEVC Primary Academy (Keynsham)
St. John's the Evangelist Church School
St. John's CofE Primary School (Midsomer Norton)
St. Katherine's School
St. Nicholas of Tolentine Catholic Primary School
St. Mark's Primary School
St. Martin's Garden Primary School
St. Mary's CEVA Primary School
St Nicholas of Tolentine RC 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. Teresa's Catholic Primary School
St Ursula's Academy
Stoke Bishop C of E Primary School
Stoke Lodge Primary School
Summerhill Academy
The Bath Studio School
The Dolphin Academy
The Kingfisher School
Three Ways School
Tickenham CofE Primary School
Trinity Church School
Trust in Learning
Venturers' Academy
Wallscourt Farm Academy
Waycroft Academy
Wellsway School
Welton Primary School
West Town Lane Academy
Westbury Park Primary School
Westbury-on-Trym CofE Academy
Weston All Saints CofE Primary School
Wicklea Academy
Widcombe CofE Infant School
Widcombe CofE Junior School
Winterbourne International Academy
Woodlands Academy
Worle Community School
Writhlington Academy
Yate International Academy
Yeo Moor Primary School

Designating Bodies

Almondsbury Parish Council
Backwell Parish Council
Bath Tourism Plus
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

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. (South Glos. Council)
Merlin Housing Society Ltd.
Sirona Care & Health CIC (B&NES)
Sirona Care & Health CIC
Southwest Grid for Learning Trust
The Care Quality Commission
The Park Community Trust
University Of Bath
Vision North Somerset CIO
West of England Sport Trust
Writhlington Trust

Transferees Admitted Bodies

Action For Children
Active Community Engagement Ltd
Agilisys Limited
Agilisys Limited 2015
Alliance Living Care Limited
Aspens Services Limited - Abbeywood Community School
Aspens Services Ltd. - Bannerman Road Community Academy
Aspens Services Limited - Beacons Rise Primary School
Aspens Services Limited - Begbrook Primary Academy
Aspens Services Limited - Blackhorse Primary School
Aspens Services Limited - Bradley Stoke Community School
Aspens Services Limited - Castle School
Aspens Services Limited - Charborough Primary School
Aspens Services Limited - Charfield School
Aspens Services Limited - Downend School
Aspens Services Limited - Frampton Cottrell School
Aspens Services Limited - Frome Vale Academy
Aspens Services Limited - Hanham Woods Academy
Aspens Services Limited - Kings' Forest Primary School
Aspens Services Limited - King's Oak Academy
Aspens Services Limited - Longwell Green Primary School
Aspens Services Limited - Mangotsfield School
Aspens Services Limited - Marlwood School
Aspens Services Limited - Meadowbrook Primary School
Aspens Services Limited - Minerva Academy
Aspens Services Limited - Patchway Community College
Aspens Services Limited - Shirehampton Primary School
Aspens Services Limited - Summerhill Academy
Aspens Services Limited - Warmley Park Primary School
BAM Construction UK Ltd
Bespoke Cleaning Services Ltd - Filton Hill Primary School
Bespoke Cleaning Services Ltd - Stoke Lodge Primary School
Brunelcare CIC
Caterlink Ltd.
Churchill Contract Services Ltd - Bristol City Council
Churchill Contract Services Ltd - Golden Valley Primary School
Churchill Contract Services Ltd - Milton Park Primary School
Churchill Contract Services Ltd - South Gloucestershire & Stroud College
Churchill Contract Services - Westhaven School
Circadian Trust
Circadian Trust No. 2
Compass Contract Services (UK) Ltd - Ashton Park School
Compass Contract Services (UK) Ltd - Bristol Cathedral Choir School
Compass Contract Services (UK) Ltd - St Bernard's Catholic Primary School
Compass Contract Services (UK) Ltd - Compass Point South Street School
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
Creative Youth Network (East) - Hillfields Youth Centre
Dolce Ltd - Filton Hill Primary School
Dolce Ltd - Mangotsfield School
Edwards and Ward Ltd
Fit For Sport - Trinity Anglican Methodist Primary School
Fit For Sport - St Peter's C of E Primary School
Glen Cleaning Company
Greenwich Leisure Ltd - Bath & North East Somerset Council
Greenwich Leisure Ltd - North Somerset Council
HCT Group (CT Plus CIC)
Interserve Catering Services Ltd - Bristol City Council
Interserve Catering Services Ltd - Henleaze Junior School
Interserve Catering Services Ltd - Little Mead Academy
Interserve Catering Services Ltd - St Patrick's School
ISS Mediclean Limited - Bristol City Council
ISS Mediclean Limited - Cabot Learning Federation
KBC Cleaning (South West) Ltd. - Backwell Academy
Learning Partnership West (Lot 1) - Brentry Youth Centre
Learning Partnership West (Lot 2) - Lockleaze Youth & Play Space
Learning Partnership West (Lot 3) - The Mill
Learning Partnership West (Lot 7) - Hareclive Youth Centre
Liberata UK Ltd
Prestige Cleaning & Maintenance Limited
Reylon Cleaning Services
Ridge Crest Cleaning Ltd. - Sir Bernard Lovell School
Ridge Crest Cleaning Ltd. - Bristol City Council
Shaw Healthcare - Petersfield
Shaw Healthcare - The Granary
SITA Holdings UK Ltd.
Skanska Rashleigh Westerfoil Ltd.
SLM Community Leisure Trust
SLM Fitness and Health Ltd.
Sodexo Ltd.
The Brandon Trust

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 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. CIPFA/SOLACE guidance was updated during the year and a refreshed code of corporate governance will be presented for approval to Council in 2017.

This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

Our definition of Corporate Governance is:

'Ensuring the organisation is doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner'

This definition is underpinned by values of Integrity, Making a Difference and Innovation. The purpose of the governance framework is to allow the Authority to -

* Focus on the outcomes for the area and its community and create a vision for the local area which it can play a leadership role in helping to implement;
* Engage with local people and its other stakeholders to ensure robust public accountability;
* Foster a leadership community that sees Members and Officers working together to achieve a common purpose with clearly defined roles and responsibilities;
* Promote values and behaviours for the Authority that will demonstrate how it will uphold good governance and high standards of conduct;
* Take informed and transparent decisions which manage risk and opportunity and are subject to effective scrutiny
* Develop the capacity and capability of its Members and Officers to be effective and innovative

The governance framework has been in place at B&NES Council for the year ended 31 March 2017 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.

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.

Each agenda for a Council or business meeting contains an item requiring members at the outset of the meeting to declare any relevant interests. The agendas and minutes of all the public meetings of the Council and its Committees are available on our website and all follow a standard process as set out by the Constitution.

Updates and revisions to the Constitution along with nominations are carried out normally at its May meeting of Council.

b) Council Structure & Leadership

The Council operates under a Leader and Cabinet structure with Cabinet Members responsible for individual portfolios. The cabinet portfolios (recorded below) were agreed at full Council on 21st May 2015 and this was amended at the next Annual and Ordinary Meeting of Full Council on 21st May 2016 when the leader announced that he was appointing a new Cabinet portfolio of Policy, Localism & Partnerships.

Leader of the Council
Finance & Efficiency
Adult Social Care & Health
Children's Services
Homes & Planning
Economic Development
Community Services
Transport
Policy, Localism & Partnerships (new w.e.f. 24th May 2016)

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 2008 the Council approved a 'local' Code of Corporate Governance. The 'local' Code sets out the Council's definition of corporate governance, the Values it stands for and the Key Principles of Corporate Governance that it has adopted. A refreshed version to take account of latest guidance is currently being drafted.

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 18th May 2017 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. 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

* **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, and representatives from the Clinical Commissioning Group, Healthwatch B&NES & NHS England.
* **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 Local Enterprise Partnership Joint Scrutiny Committee** – Each of the 4 Councils making up the LEP have nominated representatives. This Committee has not convened during 2016/17.

In addition to the above Partnership Boards 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 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 and oversee the delivery of External and Internal Audit plans.

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.

Pension Fund – The 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.

d) 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.

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 2016 was led by a Chief Executive and three Strategic Directors with each Director having their own management structure to deliver their functions.

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.

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 Chief Finance Officer was then seconded to the West of England Combined Authority and Council then approved the S151 role moving to the Strategic Director of Resources from this date forward.

During 2016/17 and up to 13th July 2017 the Chief Finance Officer had direct access to the Chief Executive and is free to attend meetings of the leadership team. The Strategic Director of Resources also continued to take an overview, especially in relation to strategic resource allocation.

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. The Council has put in place a Financial 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. A Quality Assurance and Improvement Programme is required which will need to be self-assessed internally and externally at least every 5 years and a review is due during 2017/18.

The Head of Audit West has given a satisfactory formal opinion on the state of risk and internal control to the Audit Committee as well as reporting on progress with the delivery of their Audit Plan during 2016/17. External Audit also confirmed in their Audit Plan that their review of internal audit work had not identified any weaknesses which impact on their audit approach.

f) 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

The Council's Whistleblowing Policy is a component of the Anti-Fraud & Corruption Policy.

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) Strategic Review

The strategic review process is being used to identify a range of options to deliver savings and generate additional income covering over the full spending review period. These pick up on the four key priorities of the Corporate Strategy.

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 is in the process of reviewing its performance management process to ensure integration with an holistic understanding of population need and a forward looking plan of research designed to understand more about the challenges faced by the organisation.

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
* 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;
* 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 inbuilt into it sufficient controls to reduce or remove the risk of fraud and corruption, for example –
  a) authorisation limits for individual officers; (i.e. journals)
  b) controlled access to only authorised parts of 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 training 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

Senior Management maintain a Corporate Risk Register which assesses 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. Strategic and Divisional Directors review Service risk management processes periodically e.g. the maintenance of Service or Project risk registers.

Internal Audit provides an overview of the risk management framework and advises services on the operation of the relevant systems. The Corporate Audit Committee monitors the Council's risk management arrangements.

c) 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 which was delivered following the elections in May 2015.

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

The Health & Social Care Act 2012 led to the abolition of Primary Care Trusts (PCT's) with responsibilities being transferred to Local Clinical Commissioning Groups. Much of the Clinical Commissioning Group's work is carried out by a Governing Body made up of representatives elected by 26 practices in Bath and North East Somerset.

The Health & Wellbeing Board is now responsible for preparing a Joint Health and Wellbeing Strategy and reviewing and reporting on health and social care commissioning. Membership of the Board includes Council Officers & Members, CCG and Healthwatch representatives.

The Health & Wellbeing Board adopted a refreshed Joint Health & Wellbeing Strategy on the 25th March 2015 with three themes linked to eleven priorities. These 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.

On 23rd March 2016 a Joint Health and Wellbeing Strategy update was presented which was linked to Priority 4 - Creating healthy and sustainable places. The report provided an update on developments for the Foxhill Housing Zone.

c) Economic Regeneration - West of England Local Enterprise Partnership & West of England Combined Authority

The Local Enterprise Partnership (LEP) built on the existing 'West of England Partnership' of the four local unitary councils and businesses in the sub-region. Significant funding is being made available to invest in economic regeneration of the sub-region through various means including the 'City Deal'.

Bath and North East Somerset Council was the Accountable Body for the central administration of the LEP and there are specific governance mechanisms in place to control each of the funding streams and delivery of the LEP's objectives.

The key actions of the LEP Business Plan are:

1. Improving Transport Infrastructure
2. Tackling Skill mismatches and/or gaps in the workforce
3. Putting the West of England on the map: Inward Investment
4. Create a clear case for investment from the LEP to national government
5. Growing the green economy
6. Creating a successful Enterprise Zone/Enterprise Areas

Functions carried out by B&NES Council as the Accountable Body were transferred to the West of England Combined Mayoral Authority (MCA) on 1st February 2017.

The new Combined Authority represents the three unitary councils of Bath and North East Somerset Council, Bristol City Council and South Gloucestershire Council and a new West of England Combined Authority Mayor was elected on the 4th May 2017. New governance is being created and approved in 2017 to reflect this changed environment.

7) Stakeholder Governance - Feedback & Review

a) Corporate Feedback/Complaints

The Council has a Corporate Feedback Policy and Procedure which describes how feedback will be handled and responded to whether it is suggestions or complaints. It details how the Council will monitor and track complaints through its Customer Relationship Management system and ensure that feedback is proactively used to improve services and identify training needs.

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.

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.
* C**orporate Audit Committee** – A report was presented to the Committee on 9th February 2017 to update them on the process of the review.
* **Leader of the Council & Chief Executive** – The Annual Governance Statement 2016/17 is signed by the Leader of the Council and the Chief Executive.

6. SIGNIFICANT GOVERNANCE ISSUES 2016/17

Summary of Significant Issue for 2015/16	Commentary & Mitigating actions for 2016/17	Update Position through 2016/17
Financial Challenge The unprecedented financial challenge continued into its sixth year, with public sector austerity likely to last up to and beyond 2020. The Council has responded positively with over £30M of savings already delivered, however at least £43M of additional savings still need to be identified over the remaining period. Therefore the Council has been actively planning to meet this challenge with over £28M of new savings initiatives already being worked on for future years. Whilst no significant governance failures have occurred, the Council acknowledge that the level of grant reductions from central government are a significant issue and represent a real challenge in being able to continue to deliver excellent services to the whole community at all times. Whilst all areas of the Council are under scrutiny this is especially important in the area of Health and Social Care where we are not only dealing with our most vulnerable members of the community but we are reliant on working with partners across different sectors, some of whom are also facing severe financial pressures. This puts additional strain on being able to meet the challenge and we therefore need robust governance and sensible plans to enable services to deliver these plans.	Council has already set out many of its plans to deliver services into the future against the backdrop of significant financial reductions. Robust governance and sound risk management will continue to be required to ensure that all aspects of delivery are supported and scrutinised to enable the challenge to be met. Actions included – - Using the Corporate Plan to help focus services on doing the right things for the Bath & North East Somerset Community; - Using the Medium Term Financial Plan to enable sensible prioritisation of resources in the right areas and transparency on savings to be achieved; - 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 and enabling its key governance mechanisms to both support key change projects and monitor delivery of significant savings programmes; 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 and controlled.	The Council recognised the scale of the challenge facing it very early in the year and a number of actions as outlined were made to mitigate the significant issue. This included delivery of £12.644M of savings within the 2016/17 budget. Despite this the Council's end of year position resulted in a £2.2M overall overspend. Primarily the overspend was incurred through additional costs in Social Care and Children's Services and the reasons for this can be summarised as follows – - Costs associated with implementing the National Living Wage; - Costs associated with the move of 32 council funded clients following the closure of four care homes; - Increased costs associated with care packages for those with complex needs; - Increasing demand for high dependency residential and nursing care; - Placements of children in high cost residential placements; - Increased use of court directed parent and baby placements; - Court Action and Child sexual exploitation awareness work; - Additional costs to ensure staffing is at levels to protect vulnerable children; - Additional costs related to special educational needs transport.

7. SIGNIFICANT GOVERNANCE ISSUES 2016/17

Issue in 2016/17	Commentary & Mitigating actions for 17/18
Financial Challenge	
As detailed last year the significant issue identified around the financial challenge continues to be ever more severe, with public sector austerity likely to last up to 2025.	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. Robust governance and sound risk management will continue to be required to ensure that all aspects of delivery are supported and scrutinised to enable the challenge to be met. Actions will again include –
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. Therefore the Council has been actively planning to meet this challenge with new savings initiatives already being worked on for future years.	- Using the Corporate Plan to help focus services on doing the right things for the Bath & North East Somerset Community;
Despite this 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 the sectors of Adult Social Care and Children's Services.	- 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;
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.	- 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, more commercialisation, increases in digital provision, asset rationalisation, shared and devolved services and invest to save initiatives;
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 service transformation continues to be necessary.	- 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;
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 all of these challenges.	- Instituting a range of new stringent cost control mechanisms on staff costs, goods, works and services;
	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 and controlled to ensure that the Council is able to meet these future challenges

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:

Leader of the Council **Tim Warren**
DATE: 12th September 2017

SIGNED:

Chief Executive **Ashley Ayre**
DATE: 12th September 2017

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 Strategic Director - Resources 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.

Strategic Director - Resources responsibilities:

The Strategic Director - Resources 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 Strategic Director - Resources 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 Strategic Director - Resources 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 Strategic Director - Resources

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 2017.

SIGNED:

Strategic Director - Resources (s.151 officer) **Andrew Pate**
DATE: 12th September 2017

SIGNED:

Chair, Corporate Audit Committee **Councillor Brian Simmons**
DATE: 12th September 2017

The Statement of Accounts were Authorised for Issue on 12th September 2017.

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.

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.

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.

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Bath & North East Somerset Council

Strategic Director of Resources
Lewis House
Manvers Street
Bath BA1 1JG
Telephone: 01225 477468
E mail: andrew_pate@bathnes.gov.uk
www.bathnes.gov.uk

Date: 12 September 2017
Our ref:
Your ref:

Grant Thornton UK LLP
Hartwell House
55 – 61 Victoria Street
Bristol
BS1 6FT

Dear Sirs

Bath and North East Somerset Council
Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of Bath and North East Somerset Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of 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 2016/17 ("the Code") which give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii Except as disclosed in the financial statements:

a) there are no unrecorded liabilities, actual or contingent
b) none of the assets of the Council has been assigned, pledged or mortgaged
c) there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xii We have considered the misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misclassifications and disclosure changes.

xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.

The financial statements are free of material misstatements, including omissions.

xiv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

Xvi We have provided you with:

a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b) additional information that you have requested from us for the purpose of your audit; and
c) unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xvii We have communicated to you all deficiencies in internal control of which management is aware.

xviii All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:

a) management;
b) employees who have significant roles in internal control; or
c) others where the fraud could have a material effect on the financial statements.

xxi We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xxii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Corporate Audit Committee at its meeting on 12 September 2017.

Yours faithfully

Name …………………..
Position …………………..
Date . …………………..

Name …………………..
Position …………………..
Date . …………………..

Signed on behalf of the Council

Avon Pension Fund
Local Government Pension Scheme

Post: Avon Pension Fund, Bath & North East Somerset Council,
Lewis House, Manvers Street, Bath, BA1 1JG

Web: www.avonpensionfund.org.uk **Tel:** 01225 477000
Email: avonpensionfund@bathnes.gov.uk **Fax:** 01225 395259

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

12 September 2017

Dear Sirs

Avon Pension Fund
Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with your audit of the financial statements of Avon Pension Fund ('the Fund') for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2017, and of the amount and disposition at that date of its assets and liabilities other than liabilities to pay pensions and benefits after the end of the Fund year, in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code') and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1 We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

2 We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

3 The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

4 We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect error and fraud.

5 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6 We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the

estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

7 We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

8 Except as disclosed in the financial statements:
  a there are no unrecorded liabilities, actual or contingent
  b none of the assets of the Fund have been assigned, pledged or mortgaged
  c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

9 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

10 Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

11 All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

12 The financial statements are free of material misstatements, including omissions.

13 We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

14 We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

15 We have provided you with:
  a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  b additional information that you have requested from us for the purpose of your audit; and
  c unrestricted access to persons from whom you determined it necessary to obtain audit evidence.

16 We have communicated to you all deficiencies in internal control of which management is aware.

17 We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

18 All transactions have been recorded in the accounting records and are reflected in the financial statements.

19 We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Fund involving:
  a management;
  b employees who have significant roles in internal control; or
  c others where the fraud could have a material effect on the financial statements.

20 We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

21 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

22 There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

23 We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

24 We have disclosed to you the identity of all the Fund's related parties and all the related party relationships and transactions of which we are aware.

25 We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Corporate Audit Committee at its meeting on 12 September 2017.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of Bath and North East Somerset Council as administering body of the Avon Pension Fund.

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Bath & North East Somerset Council		
MEETING:	**Corporate Audit Committee**	
MEETING DATE:	**12th September 2017**	
TITLE:	**Treasury Management Outturn Report 2016/17**	AGENDA ITEM NUMBER: E 2869
WARD:	All	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Performance Against Prudential Indicators
Appendix 2 – The Council's Investment Position at 31st March 2017
Appendix 3 – Average monthly rate of return for 2016/17
Appendix 4 – The Council's External Borrowing Position at 31st March 2017
Appendix 5 – Counterparty Update
Appendix 6 – Arlingclose's Economic & Market Review of 2016/17
Appendix 7 – Interest & Capital Financing Budget Monitoring 2016/17
Appendix 8 – Summary Guide to Credit Ratings

1 THE ISSUE

1.1 In February 2012 the Council adopted the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year.

1.2 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan for 2016/17.

2 RECOMMENDATION

The Corporate Audit Committee agrees that:

2.1 the 2016/17 Treasury Management Report to 31st March 2017, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 the 2016/17 Treasury Management Indicators are noted.

3 RESOURCE IMPLICATIONS

3.1 The financial implications are contained within the body of the report.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 This report is for information only.

5 THE REPORT

Summary

5.1 The average rate of investment return for the 2016/17 financial year is 0.47%, which is 0.14% above the benchmark rate.

5.2 Performance against the Treasury Management & Prudential Indicators agreed as part of the annual Treasury Management Strategy is provided in Appendix 1. The outturn position and all treasury activity undertaken during the financial year is within the limits agreed by Council in February 2016 as shown in **Appendix 1**, as well as the CIPFA Code of Practice and the relevant legislative provisions.

Summary of Returns

5.3 The Council's investment position as at 31st March 2017 is given in **Appendix 2**. In line with the Annual Investment Strategy, investments were mainly temporary short term investments made with reference to the core balance and cash flow requirements.

5.4 The Council is the accountable body for the West of England Revolving Investment Fund (RIF) and received grant funding of £57 million at the end of the 2011/12 financial year. The Council acts as an agent and holds these funds on behalf of the West of England Local Enterprise Partnership until they are allocated in the form of repayable grants to the constituent Local Authorities to meet approved infrastructure costs. Since these funds are invested separately from the Council's cash balances and have been placed short term with the Debt Management Office and other Local Authorities, they are excluded from all figures given in this report. The value of the fund at the end of 2017/18 was £29.0 million.

5.5 Gross interest earned for 2016/17 totalled £367k. Net interest, after deduction of amounts due to Schools, the West of England Growth Points, CHC and other internal balances, is £340k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.47%, which was 0.14% above the benchmark rate of average 7 day LIBID + 0.05% (0.33%).

Summary of Borrowings

5.6 The Council's external borrowing as at 31st March 2017 totalled £124.0 million and is detailed in Appendix 4. £12m of short-term borrowing matured during the final quarter of 2016/17 and £10m of PWLB borrowing was arranged to the fund acquisition of investment property as outlined in the budget. Further funds of £4.0m were borrowed for 12 months at beneficial rates of 0.5%.

5.7 The Council's Capital Financing Requirement (CFR) as at 31st March 2017 was £200.1 million. This represents the Council's underlying need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.

5.8 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

5.9 The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

5.10 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, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as at 31st March 2017 apportioned to Bath & North East Somerset Council is £12.860m. Since this borrowing is managed by Bristol City Council and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 5.6.

Strategic & Tactical Decisions

5.11 **Appendix 5** provides further information on issues impacting on investment counterparties.

5.12 To increase diversification, throughout 2016/17 the Council invested in AAA rated Money Market funds, Local Authorities, UK Banks and very highly rated Foreign Bank counterparties (AA-).

5.13 The Council continues to not hold any direct investments with banks in countries within the Eurozone reflecting both on the underlying debt issues in some Eurozone countries and the low levels of interest rates. The Council's investment counterparty list does not currently include any banks from Portugal, Ireland, Greece, Spain and Italy.

Future Strategic & Tactical Issues

5.14 Our treasury management advisors economic and market review for 2016/17 is included in **Appendix 6**.

5.15 The Bank of England base rate was reduced to 0.25% on 4th August 2016. In the opinion of the Council's treasury advisors there is unlikely to be a rate rise until Q3 2020, with the risks to this forecast remain weighted to the downside. In their June "Economic and Interest Rate Forecast Report" their view is the UK is heading for a soft patch or recession, but the likely depth of this should be more limited than the last as the global backdrop, whilst moribund, is not as desperate as at the end of the last decade.

5.16 The benefits of the Council's current policy of internal borrowing are monitored regularly against the likelihood that long term borrowing rates are forecast to rise in future years. The focus is now on the rate of increase and the medium-term peak.

5.17 The borrowing that has taken place in 2016/17 is therefore driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

Budget Implications

5.18 A breakdown of the revenue budget for interest and capital financing and the actual year end position is included in **Appendix 7**. This shows an overall underspend of £778k in 2016/17, reflecting savings from capital programme slippage delaying the need to borrow and a lower Minimum Revenue Provision (MRP) requirement.

This position will be kept under review during the new financial year, taking into account the Council's cash-flow position and the timing of any new borrowing required.

6 RATIONALE

6.1 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

7 OTHER OPTIONS CONSIDERED

7.1 None.

8 CONSULTATION

8.1 Consultation has been carried out with the Cabinet Member for Finance and Efficiency, Section 151 Finance Officer and Monitoring Officer.

9 RISK MANAGEMENT

9.1 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and borrowing advice is provided by our Treasury Management consultants Arlingclose.

9.2 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.

9.3 In addition, the Council maintains a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

Contact person	*Tim Richens - 01225 477468 ; Giles Oliver - 01225 477022 Tim_Richens@bathnes.gov.uk Giles_oliver@bathnes.gov.uk*
Background papers	*2016/17 Treasury Management & Investment Strategy* *1st & 3rd Quarter Treasury Performance Reports (Cabinet)* *Half yearly Treasury Performance Report (Cabinet & Council)*
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1
Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Authorised limit for external debt
These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	2016/17 Prudential Indicator	**2016/17 Actual as at 31st Mar. 2017**
	£’000	£’000
Borrowing	266,000	124,004
Other long term liabilities	2,000	0
Cumulative Total	**268,000**	**124,004**

2. Operational limit for external debt
The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	2016/17 Prudential Indicator	**2016/17 Actual as at 31st Mar. 2017**
	£’000	£’000
Borrowing	229,000	124,004
Other long term liabilities	2,000	0
Cumulative Total	**231,000**	**124,004**

3. Upper limit for fixed interest rate exposure
This is the maximum amount of total borrowing which can be at fixed interest rate, less any investments for a period greater than 12 months which has a fixed interest rate.

	2016/17 Prudential Indicator	**2016/17 Actual as at 31st Mar. 2017**
	£’000	£’000
Fixed interest rate exposure	**229,000**	**100,004**

4. Upper limit for variable interest rate exposure
While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping flexibility through the use of variable interest rates. This is the maximum amount of total borrowing which can be at variable interest rates.

	2016/17 Prudential Indicator	**2016/17 Actual as at 31st Mar. 2017**
	£’000	£’000
Variable interest rate exposure	**141,000**	**20,000***

* The £20m of LOBO’s are quoted as variable rate in this analysis as the Lender has the option to change the rate at 6 monthly intervals (the Council has the option to repay the loan should the rate increase).

5. Upper limit for total principal sums invested for over 364 days

This is the maximum amount of total investments which can be over 364 days. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

	2016/17 Prudential Indicator	2016/17 Actual as at 31st Mar. 2017
	£'000	£'000
Investments over 364 days	**50,000**	**0**

6. Maturity Structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	2016/17 Actual as at 31st Mar. 2016
	%	%	%
Under 12 months	50	Nil	24*
12 months and within 24 months	50	Nil	0
24 months and within 5 years	75	Nil	10
5 years and within 10 years	100	Nil	0
10 years and above	100	Nil	90

* The CIPFA Treasury management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date (which are at 6 monthly intervals for the £20m of LOBO's). However, the Council would only consider repaying these loans if the Lenders exercised their options to alter the interest rate.

7. Average Credit Rating

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**.

	2016/17 Prudential Indicator	2016/17 Actual as at 31st Mar. 2017
	Rating	Rating
Minimum Portfolio Average Credit Rating	**A-**	**AA+**

8. Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	2016/17 Prudential Indicator	2016/17 Actual as at 31st Mar. 2017
Total cash available within 3 months	**£15m**	**£17.9m**

APPENDIX 2

The Council's Investment position at 31st March 2017
The term of investments, from the original date of the deal, are as follows:

	Balance at 31st Mar. 2017
	£'000's
Notice (instant access funds)	12,856
Up to 1 month	0
1 month to 3 months	5,000
Over 3 months	21,000
Total	**38,856**

The investment figure of £38.86 million is made up as follows:

	Balance at 31st Mar. 2017
	£'000's
B&NES Council	8,826
LGF	24,856
West Of England Growth Points	134
Schools	5,039
Total	**38,856**

The following fixed term investments were undertaken during 2016/17 with a maturity date in the following financial year:

Institution	**Amount**	**Rate**	**Start Date**	**Maturity Date**	**Long Term Credit Rating**
LLOYDS	5,000	0.60%	11-Apr-16	11-May-17	A
ROTHERHAM MBC	5,000	0.32%	17-Feb-17	30-Apr-17	-
WEST DUNBARTONSHIRE COUNCIL	5,000	0.60%	28-Apr-16	28-Apr-17	-
LANCASHIRE COUNTY COUNCIL	3,000	0.60%	03-May-16	28-Apr-17	-
LANCASHIRE COUNTY COUNCIL	3,000	0.30%	11-Nov-17	11-May-17	-
LEEDS CITY COUNCIL	5,000	0.35%	13-Jul-16	12-Jul-17	-
Total	**£26.0m**				

The balance of £12.9m and was held in call accounts and money market funds as at 31st March 2017.

Chart 1: Council Investments as at 31st March 2017 (£38.9m)

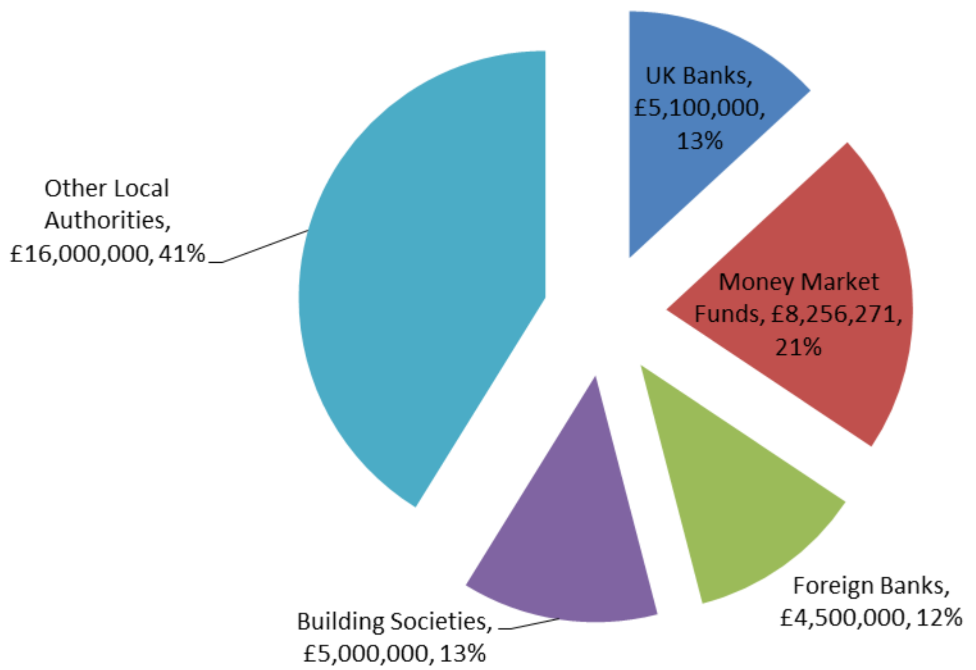
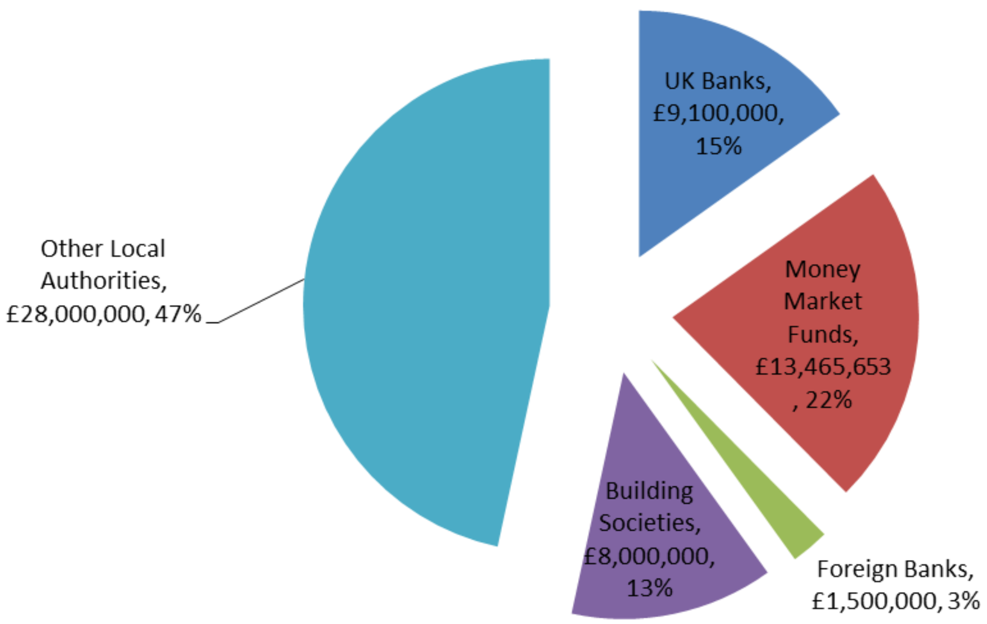


Chart 2: Council Investments as at 31st December 2016 (£60.1m)



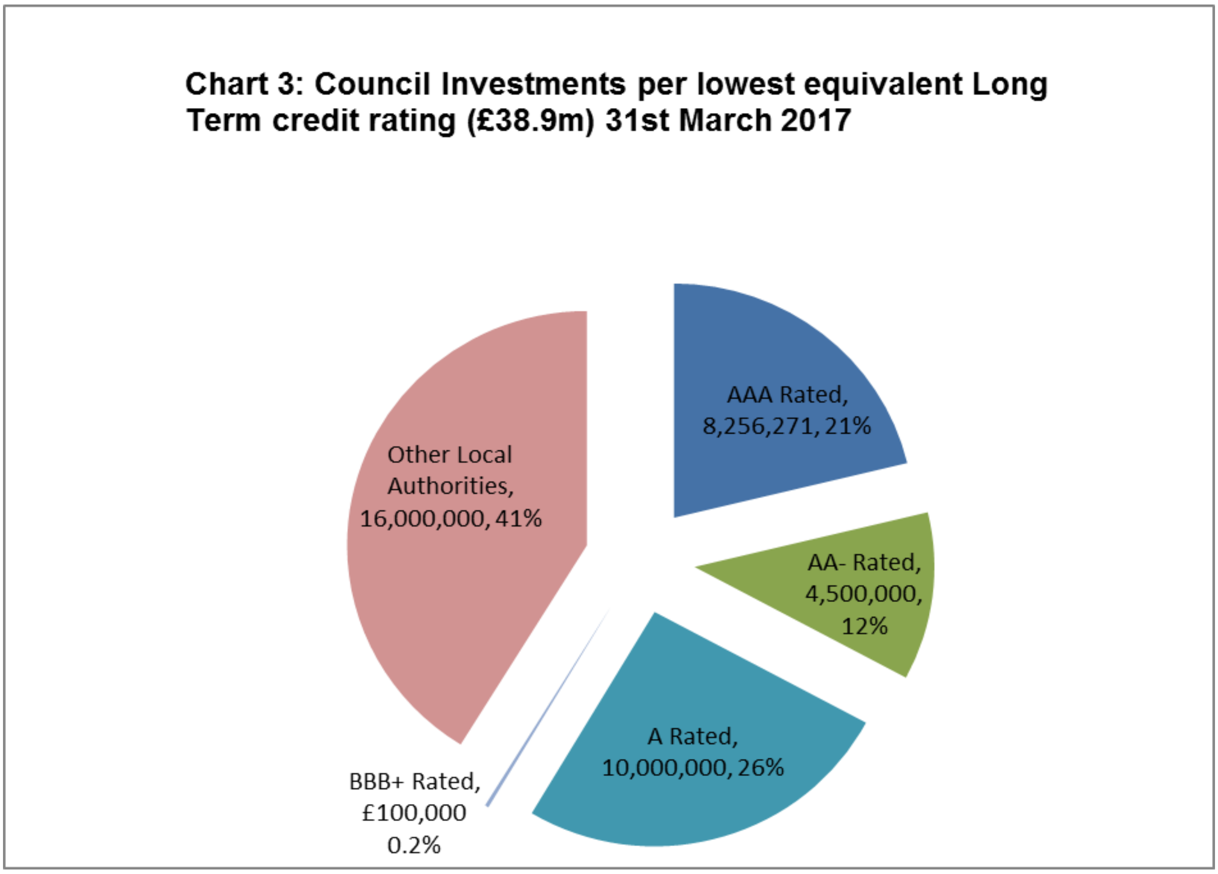


Chart 3: Council Investments per lowest equivalent Long Term credit rating (£38.9m) 31st March 2017
AAA Rated, 8,256,271, 21%
Other Local Authorities, 16,000,000, 41%
AA- Rated, 4,500,000, 12%
A Rated, 10,000,000, 26%
BBB+ Rated, £100,000 0.2%

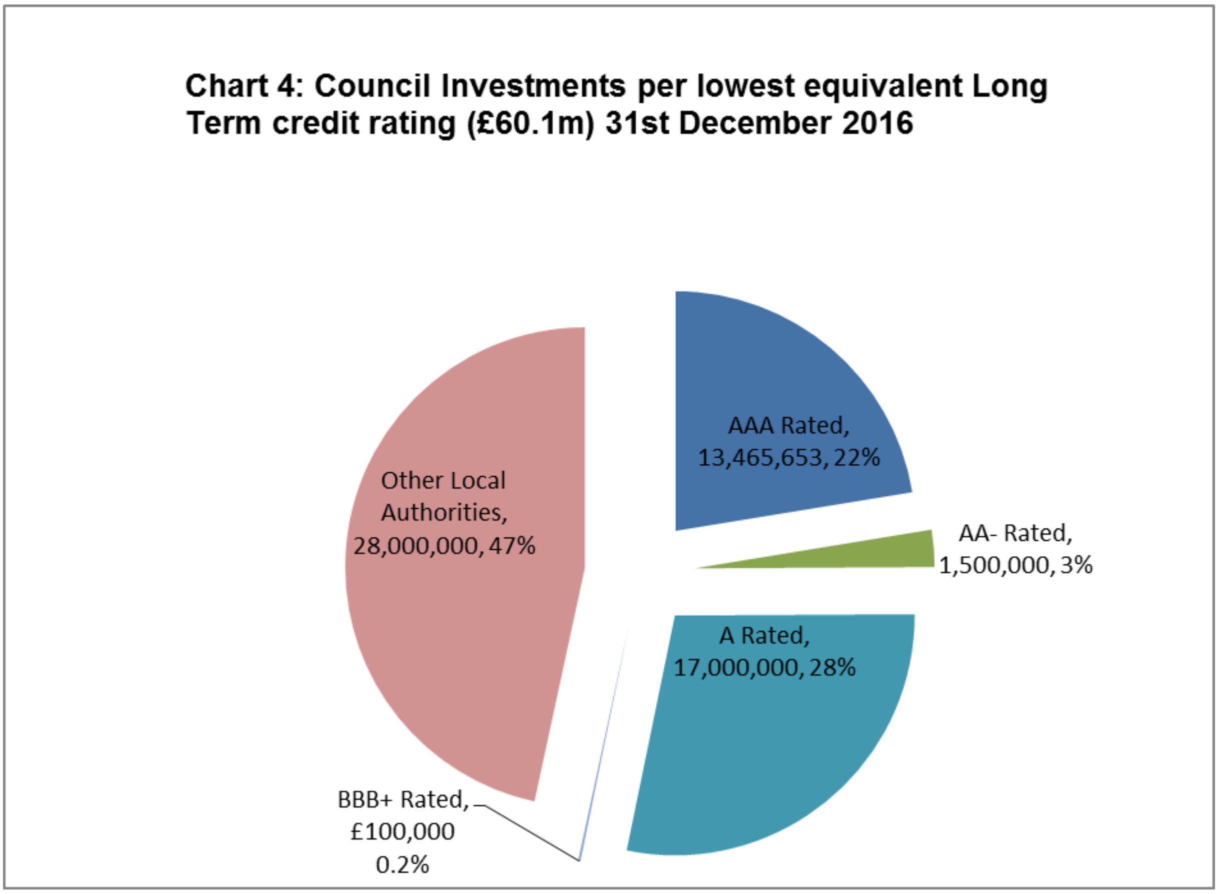


Chart 4: Council Investments per lowest equivalent Long Term credit rating (£60.1m) 31st December 2016
AAA Rated, 13,465,653, 22%
Other Local Authorities, 28,000,000, 47%
AA- Rated, 1,500,000, 3%
A Rated, 17,000,000, 28%
BBB+ Rated, £100,000 0.2%

APPENDIX 3

Average rate of return on investments for 2016/17

	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Ave. for Period
Average rate of interest earned	0.45%	0.52%	0.52%	0.52%	0.51%	0.49%	0.48%	0.48%	0.45%	0.40%	0.39%	0.37%	0.47%
Benchmark = 7 Day LIBID + 0.05% (LIBID Source - Arlingclose)	0.41%	0.42%	0.41%	0.41%	0.36%	0.33%	0.31%	0.29%	0.28%	0.27%	0.26%	0.25%	0.33%
Performance against Benchmark %	0.04%	0.10%	0.11%	0.11%	0.15%	0.16%	0.17%	0.19%	0.17%	0.13%	0.13%	0.12%	0.14%

APPENDIX 4

Councils External Borrowing at 31st March 2017

Lender	Amount	Start Date	Maturity Date	Interest Rate
PWLB	10,000,000	15/10/04	15/10/34	4.75%
PWLB	5,000,000	12/05/10	15/08/35	4.55%
PWLB	5,000,000	12/05/10	15/08/60	4.53%
PWLB	5,000,000	05/08/11	15/02/31	4.86%
PWLB	10,000,000	05/08/11	15/08/29	4.80%
PWLB	15,000,000	05/08/11	15/02/61	4.96%
PWLB	5,300,000	29/01/15	08/04/34	2.62%
PWLB	5,000,000	29/01/15	08/10/64	2.92%
PWLB	19,704,175	20/06/16	20/06/41	2.36%
PWLB	10,000,000	24/02/17	15/02/42	2.38%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
Eurohypo Bank*	10,000,000	27/04/05	27/04/55	4.50%
Gloucestershire County Council	5,000,000	25/11/14	25/11/19	2.05%
Gloucestershire County Council	5,000,000	19/12/14	19/12/19	2.05%
East Dorset District Council	2,000,000	20/03/17	20/03/2018	0.50%
Christchurch Borough Council	2,000,000	20/03/17	20/03/2018	0.50%
TOTAL	**124,004,175**			**3.64%**

*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower also has the option to repay the loan without penalty.

APPENDIX 5

Counterparty Update (Provided by Arlingclose)

Credit background: Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Authority's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario

APPENDIX 6

Annual Economic Review 2016/17 (Provided by Arlingclose)

Economic background: Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.
In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.
Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.
Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets: Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.
After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.
Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

APPENDIX 7

Interest & Capital Financing Costs – Budget Monitoring 2016/17 (Outturn)

April 2016 to March 2017	**YEAR END POSITION** **Budgeted Spend or (Income) £'000**	**Actual Spend or (Income) £'000**	**Actual over or (under) spend £'000**	**ADV/FAV**
Interest & Capital Financing				
- Debt Costs	5,403	4,468	(935)	FAV
- Internal Repayment of Loan Charges	(6,200)	(5,564)	636	ADV
- Ex Avon Debt Costs	1,240	1,239	(1)	FAV
- Minimum Revenue Provision (MRP)	4,115	3,783	(332)	FAV
- Interest on Balances	(194)	(340)	(146)	FAV
Sub Total - Capital Financing	**4,365**	**3,587**	**(778)**	**FAV**

APPENDIX 8

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Bath & North East Somerset Council		
MEETING:	**Corporate Audit Committee**	
MEETING DATE:	**12th September 2017**	**AGENDA ITEM NUMBER**
TITLE:	**Local Code of Corporate Governance**	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Draft Local Code of Corporate Governance**		

1 THE ISSUE

1.1 The Audit Committee has specific terms of reference given to it from Full Council and as such is required to consider the Annual Governance Statement and the framework which supports it which includes primarily the local code of corporate governance. Following revised guidance by CIPFA/SOLACE a refreshed code is attached at Appendix 1 for recommendation on to full Council.

2 RECOMMENDATION

2.1 That the Audit Committee recommends the revised local code of corporate governance for adoption by full Council at its next formal review of the Constitution.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications from this report.

4 THE REPORT

4.1 The Annual Governance Statement is based on a ‘Local Code of Corporate Governance’ which forms part of the Council’s Constitution.

4.2 As the Annual Governance Statement is statutory we are required to take account of any revised guidance and during the year CIPFA/SOLACE have updated and refreshed their guidance and the requirements of a local code.

4.3 This guidance is used by the External Auditor in their audit of the accounts and we are therefore required to take account of these changes.

4.4 *Delivering Good Governance in Local Government; Framework*, published by CIPFA in association with SOLACE, sets the standard for local authority governance in the UK. The concept underpinning the framework is to support local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The purpose of the Framework is to assist authorities individually in reviewing and accounting for their own unique approach, with the overall aim to ensure that:

- Resources are directed in accordance with agreed policy and according to priorities
- There is sound and inclusive decision making
- There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities

4.5 Governance is a term used to describe the arrangements (including political, economic, social, environmental, administrative, legal, and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

4.6 Good governance enables the Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times.

4.7 The new code is based on the following key principles of good governance –

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable, economic, social and environmental benefits
- Determining the interventions necessary to optimize the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting and audit, to deliver accountability

4.8 The supporting table provides further detail for each of the key principles to describe expectations and will be used as part of the Annual Governance Review each year. It is expected therefore to present a more concise Annual Governance Statement in future with supporting evidence presented separately.

4.9 The Committee is asked to endorse the revised Code and recommend on to full Council for adoption at the next review of the constitution.

5 RISK MANAGEMENT

5.1 An effective Corporate Governance framework demonstrates good governance to the public and stakeholders at large. This helps to ensure that the Council is transparent about the delivery of its functions and how it attempts to deliver good value to its residents from its services

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

7.1 Initial Consultation has been carried out and will continue with Statutory Officers.

Contact person	Jeff Wring (01225 47323)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Draft Local Code of Corporate Governance 2017

1 Delivering Good Governance

1.1 *Delivering Good Governance in Local Government; Framework*, published by CIPFA in association with SOLACE, sets the standard for local authority governance in the UK. The concept underpinning the framework is to support local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The purpose of the Framework is to assist authorities individually in reviewing and accounting for their own unique approach, with the overall aim to ensure that :

- Resources are directed in accordance with agreed policy and according to priorities
- There is sound and inclusive decision making
- There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities

1.2 Governance is a term used to describe the arrangements (including political, economic, social, environmental, administrative, legal, and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

1.3 Good governance enables the Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times.

1.4 The *Delivering Good Governance in Local Government; Framework*, sets out seven core principles of governance as detailed in the diagram below. Bath and North East Somerset Council is committed to these principles of good governance and confirms this through the adoption, monitoring and development of this document - the Council's Local Code of Corporate Governance.

1.5 Our Local Code is underpinned by the Delivering Good Governance in Local Government; Framework and is comprised of policies, procedures, behaviours and values by which the Council is controlled and governed. These key governance areas and how the Council provides assurance that it is complying with these are set out in more detail within its Governance Assurance Framework.

1.6 The Council recognises that establishing and maintaining a culture of good governance is as important as putting in place a framework of policies and procedures. The Council expects members and officers to uphold the highest standards of conduct and behaviour and to act with openness, integrity and accountability in carrying out their duties.

2. Principles of Good Governance

2.1 This diagram illustrates how good governance is integral to supporting the delivery of the organisations priorities.

2.2 The principles of good governance therefore describe the outcomes this code is attempting to deliver. The guidance prescribes these as follows –

- **Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law**
- **Ensuring openness and comprehensive stakeholder engagement**
- **Defining outcomes in terms of sustainable, economic, social and environmental benefits**
- **Determining the interventions necessary to optimize the achievement of the intended outcomes**
- **Developing the entity's capacity, including the capability of its leadership and the individuals within it**
- **Managing risks and performance through robust internal control and strong public financial management**
- **Implementing good practices in transparency, reporting and audit, to deliver accountability**

2.3 Further information regarding each of the above principles and the behaviours and actions that demonstrate good governance in practice are detailed at Appendix A

3 Status

3.1 Regulation 6(1)(a) of the Accounts and Audit regulations 2015 require an authority to conduct a review at least once in a year of the effectiveness of its systems of internal control and include a statement reporting on the review with any published statement of Accounts. This is known as an Annual Governance Statement.

3.2 The Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be prepared in accordance with proper practices in relation to accounts. Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government Framework (2016) and this section of the Code.

4 Monitoring and review

4.1 The Council will monitor its governance arrangements for their effectiveness in practice and will review them on a continuing basis to ensure that they are up to date. This process of review to produce the Annual Governance Statement sets out in more detail how the Council will seek assurance on its adherence to the adopted principles of governance detailed in this code.

4.2 On an annual basis, the Chief Executive and Leader of the Council will therefore publish an Annual Governance Statement which will:

- assess how the Council has complied with this Code of Corporate Governance
- provide an opinion on the effectiveness of the Council's arrangements
- Provide details of how continual improvement in the systems of governance will be achieved.

5 Certification

5.1 We hereby certify our commitment to this Code of Corporate Governance and will ensure that the Council continues to review, evaluate and develop the Council's Governance arrangements to ensure continuous improvement of the Council's systems.

Leader of the Council	**Chief Executive**
Date:	Date:

Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	Behaving with integrity	• Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation • Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) • Leading by example and using the above standard operating principles or values as a framework for decision making and other actions • Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively
	Demonstrating strong commitment to ethical values	• Seeking to establish, monitor and maintain the organisation's ethical standards and performance • Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation • Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values • Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation
	Respecting the rule of law	• Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations • Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements • Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders • Dealing with breaches of legal and regulatory provisions effectively • Ensuring corruption and misuse of power are dealt with effectively

Core Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
B. Ensuring openness and comprehensive stakeholder engagement	Openness	• Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness • Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided • Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear • Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action
	Engaging comprehensively with institutional stakeholders	• Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably • Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively – Ensuring that partnerships are based on: trust – a shared commitment to change – a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit
	Engaging with individual citizens and service users effectively	• Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes • Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement • Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs • Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account • Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity • Taking account of the impact of decisions on future generations of tax payers and service users

Core Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits	**Defining outcomes**	• Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions • Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer • Delivering defined outcomes on a sustainable basis within the resources that will be available • Identifying and managing risks to the achievement of outcomes • Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available
	Sustainable economic, social and environmental benefits	• Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision • Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints • Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs • Ensuring fair access to services

Core Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	**Determining interventions**	• Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided • Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts
	Planning interventions	• Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets • Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered • Considering and monitoring risks facing each partner when working collaboratively, including shared risks • Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances • Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured • Ensuring capacity exists to generate the information required to review service quality regularly • Preparing budgets in accordance with objectives, strategies and the medium term financial plan • Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy
	Optimising achievement of intended outcomes	• Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints • Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term • Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage • Ensuring the achievement of 'social value' through service planning and commissioning

Core Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	Developing the entity's capacity	• Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness • Improving resource use through application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved Recognising the benefits of partnership working where added value can be achieved • Developing & maintaining an effective workforce plan to enhance the strategic allocation of resources
	Developing the capability of the entity's leadership and other individuals	• Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained • Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body • Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority • Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged – ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis – ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external – Ensuring that there are structures in place to encourage public participation – Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections – Holding staff to account through regular performance reviews which take account of training – Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

Core Principles	Sub-principles	Behaviour and actions that demonstrate good governance in practice:
F. Managing risks and performance through robust internal control and strong public financial management	**Managing risk**	• Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making • Implementing robust and integrated risk management arrangements and ensuring that they are working effectively • Ensuring that responsibilities for managing individual risks are clearly allocated
	Managing performance	• Monitoring service delivery effectively including planning, specification, execution and independent post implementation review • Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook • Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible (Or, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making • Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement • Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements)
	Robust internal control	• Aligning the risk management strategy and policies on internal control with achieving objectives • Evaluating and monitoring risk management and internal control on a regular basis • Ensuring effective counter fraud and anti-corruption arrangements are in place • Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor – Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment – that its recommendations are listened to and acted upon

	Managing data	• Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data • Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies • Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring
	Strong public financial management	• Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance • Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and control

Core Principles	Sub-Principles	Behaviour and actions that demonstrate good governance in practice:
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability	Implementing good practice in transparency	• Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate • Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand
	Implementing good practices in reporting	• Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way • Ensuring members and senior management own the results reported • Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement) • Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate • Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations
	Assurance and effective accountability	• Ensuring that recommendations for corrective action made by external audit are acted upon • Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon • Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations • Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement • Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

Bath & North East Somerset Council		
MEETING:	**Corporate Audit Committee**	
MEETING DATE:	**12th September 2017**	**AGENDA ITEM NUMBER**
TITLE:	**Procurement Update – External Audit**	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: None		

1 THE ISSUE

1.1 The report sets out the latest position with regard to the outcome of the procurement process for the future provision of External Auditors to the Council.

2 RECOMMENDATION

2.1 That the Audit Committee supports the recommended option for the future procurement of External Auditors to the Council by PSAA Ltd.

3 FINANCIAL IMPLICATIONS

3.1 The detailed financial implications are not yet fully available as PSAA are still assessing the scale of the outcome of the exercise however they have indicated that a further saving on fees of 18% is likely.

4 THE REPORT

4.1 **Background –**

4.2 The Local Audit & Accountability Act 2014 put in place the framework which will allow local authorities to appoint their own external auditors. Prior to 2010, the Audit Commission was responsible for appointments with the work either being undertaken by their in-house auditors or by a limited number of private firms. The Audit Commission was also responsible for standard setting and overseeing the National Fraud Initiative.

4.3 In August 2010, the then Secretary of State for Communities and Local Government announced that the Audit Commission would be abolished. His stated aims were to reduce costs and improve local democratic accountability by allowing local authorities to appoint their own external auditors from a more competitive market.

4.4 As part of the transitional arrangements, the Audit Commission undertook a competitive exercise which resulted in a series of regional contracts being awarded to Grant Thornton, KPMG, Ernst & Young and Mazars. The new contracts commenced in 2012 and saved over £25M nationally in audit fees each year.

4.5 The Audit Commission itself closed in March 2015 with responsibility for the existing appointments transferring to Public Sector Audit Appointments Limited (PSAA) an independent company established by the Local Government Association.

4.6 Following substantial lobbying from the LGA and other bodies the government announced that the transitional arrangements for principal authorities would be extended for a further year until April 2018.

4.7 The one year extension has been welcomed by the LGA along with the government's decision to allow councils to come together to continue to procure audit services through a sector led organisation (PSAA).

4.8 Last year the Audit Committee reviewed the procurement options and recommended that we join with the vast majority of Councils in a sector led procurement exercise from PSAA and this was endorsed by full Council.

About the proposed appointment

4.9 PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment.

4.10 As Bath & North East Somerset Council has opted into PSAA's auditor appointment arrangements we have received regular updates about this process, and PSAA wrote to the Council recently to advise us that they had completed a procurement to let audit contracts from 2018/19. Grant Thornton (UK) LLP was successful in winning a contract in the procurement, and PSAA propose appointing this firm as the auditor of Bath & North East Somerset Council for a period of five years from April 2018.

4.11 In developing this appointment proposal, PSAA have applied the following principles, balancing competing demands as much as we can, based on the information provided to us by audited bodies and audit firms:

- ensuring auditor independence, as we are required to do by the Regulations;
- meeting our commitments to the firms under the audit contracts;
- accommodating joint/shared working arrangements where these are relevant to the auditor's responsibilities;
- ensuring a balanced mix of authority types for each firm;
- taking account of each firm's principal locations; and
- providing continuity of audit firm if possible, but avoiding long appointments.

4.12 Further information on the auditor appointment process is available on the PSAA website.

4.13 The S151 Officer is now being asked to confirm the appointment by 22nd September 2017 and the Committee are asked to support the proposal so the S151 Officer can confirm the decision. PSAA will then confirm the process nationally by 21 December 2017.

4.14 Further to this PSAA will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for 2018/19 for opted-in bodies on their website in March 2018. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent should be possible for 2018/19, based on the individual scale fees applicable for 2016/17.

5 RISK MANAGEMENT

5.1 An effective External Auditor demonstrates one aspect of good governance on behalf of the Council and the wider Community. This helps to ensure that the Council is delivering good value to its residents from its services and is managing its key risks appropriately.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

Contact person	Jeff Wring (01225 47323)
Background papers	Report to Corporate Audit Committee – Procurement Options for External Audit – 27th September 2016
Please contact the report author if you need to access this report in an alternative format	

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