

# Corporate Audit Committee

**Date: Thursday, 26th November, 2020**

**Time: 3.30 pm**

**Venue: Virtual Meeting - Zoom - Public Access via  
YouTube**

**<https://www.youtube.com/bathnescouncil>**

**To: All Members of the Corporate Audit Committee**

Councillors: Mark Elliott (Chair), Andrew Furse, Colin Blackburn, Lucy Hodge and Brian Simmons

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

The agenda is set out overleaf.



**Enfys Hughes**

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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>

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. **Broadcasting at Meetings:-**

The Council will broadcast the images and sounds live via the internet;  
<https://www.youtube.com/bathnescouncil>

The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Public Speaking at Meetings**

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

**Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.**

The Council now has a maximum time limit for this, so any requests to speak cannot be guaranteed if the list is full.

Further details of the scheme can be found at:

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

5. **Supplementary information for meetings**

Additional information and Protocols and procedures relating to meetings

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

**Corporate Audit Committee-Thursdays, 26th November, 2020**

**at 3.30 pm in the Virtual Meeting - Zoom - Public Access via YouTube  
<https://www.youtube.com/bathnescouncil>**

**A G E N D A**

1. WELCOME AND INTRODUCTIONS
2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS
3. 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.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR  
The Chair will announce any items of urgent business.
5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS
6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS
7. MINUTES: 30TH JULY 2020 (Pages 7 - 14)
8. GOVERNANCE REPORTS FOR COUNCIL AND AVON PENSION FUND AND AUDITED STATEMENT OF ACCOUNTS 2019/20 (Pages 15 - 238)
9. TREASURY MANAGEMENT PERFORMANCE REPORT TO 30TH SEPTEMBER 2020 (Pages 239 - 256)
10. INTERNAL AUDIT ANNUAL PLAN - SIX MONTH PERFORMANCE UPDATE (Pages 257 - 264)

The Committee Administrator for this meeting is Enfys Hughes who can be contacted on 01225 394410.



**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Thursday, 30th July, 2020, 4.30 pm

**Councillors:** Mark Elliott (Chair), Andrew Furse, Colin Blackburn, Bharat Pankhania and Brian Simmons

**Independent Member:** John Barker

**Officers in attendance:** Andy Rothery, Jeff Wring, Andy Cox, Gary Adams

**Guests in attendance:** Sophie Morgan-Bower, Peter Barber

**38 WELCOME & INTRODUCTIONS**

The Chair welcomed everyone to the meeting by explaining that this meeting is being held under The Local Authorities and Police and Crime Panels (Coronavirus)(Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020. The Council has agreed a protocol to cover virtual meetings and this meeting would operate in line with that protocol. The meeting has the same status and validity as a meeting held in the Guildhall.

**39 ELECTION OF VICE-CHAIR**

There was none required.

**40 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Councillor Lucy Hodge had sent her apologies for this meeting. Councillor Bharat Pankhania was her substitute for this meeting.

**41 DECLARATIONS OF INTEREST**

There were none.

**42 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

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

There were no items from the public.

**44 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were no items from Councillors, Co-opted and Added Members.

**45 MINUTES - 6TH FEBRUARY 2020**

On a motion from Councillor Andy Furse, seconded by the Chair (Councillor Mark Elliott) , it was **RESOLVED** to note the minutes of the last meeting as a true and correct record.

#### **46 COVID-19 FINANCIAL RECOVERY - VERBAL UPDATE BY S151 OFFICER**

The Chair invited Andy Rothery (Section 151 Officer) to introduce the report.

Andy Rothery gave a presentation (attached as Appendix 1 to these minutes) where he highlighted the following points:

- Covid-19 Financial Impact
- National Funding Position
- Financial Risk Identification
- Increased Governance
- How we are tackling in-year pressures
- Financial Planning Implications

The Chair thanked Andy Rothery on his presentation.

A Member of the Committee asked about grant fraud and on any fraudulent activity in audit (and how that would be mitigated), whether the £20.7m of cost savings would be deliverable and whether £10.3m of reserves could be used now (and how we compare with other Unitary Authorities).

Andy Rothery replied that one of the first steps from the Council was to be mindful of fraudulent claims and ensuring to put in place good control measures through the application process by identifying valid and operating businesses. This was done via identification checks for that business owner to make sure that they were the correct claimants.

Andy Cox (Head of Audit & Assurance) added that the Council did get involved very early on in the payment processing by liaising with the relevant officers in giving advice about the internal control framework and on a number of tools that were available, such as Cabinet Office Spotlight Tool, Bank Account Verification Tool (available through National Fraud Initiative). The audit, which would start soon, would look at the processes that have been used, and at the records management. Andy Cox also said that a post payment review had started, which initially was focused on the discretionary grants, and data matching has been done in liaison with other WECA Authorities.

Sophie Morgan-Bower (Grant Thornton External Audit) said that cost saving of £20.7m would be looked at as part of value for money work. In the report (later on the agenda) it was included within value for money arrangements review of the Council, and a review of the medium-term financial plan. The external audit reviewed the actions taken to identify savings and how these have been challenged and would consider the plans to identify further savings. It was worth noting that a number of these grants may not have been paid out and may not fall within the scope of the audit, at that point, But the 2020/21 savings would definitely be considered as part of the value for money work that was ongoing. The audit deadline has been extended to the end of November, so that work was ongoing now.

The Chair asked about difficulties with Leisure Services (as per presentation), in particular the current situation and likely implications.

Andy Rothery responded that Leisure Services were contracted services reliant on their income from memberships: the financial impact falls into the category of supplier relief if the provider requests support from the Council and this was a part of an ongoing discussion. The loss of income for externally contracted Leisure providers has been excluded from the income reimbursement scheme, Council operated leisure centres where there is income loss from membership bookings was included. There was a regular dialogue with our leisure providers to ensure that they can keep operating successfully.

The Chair also asked about Council reserves strategy of £10m which was agreed by the Cabinet, and asked how would support money coming from the Government be used when it comes in.

Andy Rothery responded that the Cabinet has agreed to use any amount of reserves needed to help mitigate the difficult financial position. That has been done in a balanced way to ensure that reserves were still retained. The first thing to be mindful of was to fully understand the long term impact on the Council's finances and how that financial transition and change was managed. That is where financial reserves can be very useful; for helping transition annual budgets and funding change, and to enable the Council to become more resilient. The announcement from governments about the income scheme would allow flexibility to revisit some of those plans and reconsider alongside the financial mitigations that have been put forward.

John Barker asked about the potential implication in the recovery risk assumptions, and particularly if there was a second wave of Covid-19 with the impact it would have on social care delivery.

Andy Rothery replied that the risk of social care delivery has been assessed and it was factored into the cost projections within the Council's recovery plan.

John Barker also asked what sort of dialogue about the continuing financial position and the projections of the Council's budget had been held, and on the implications around the pension fund cash flow.

Andy Rothery responded that he was conscious of the cash flow impact of the in year income and, through its treasury management activities, the Council were doing regular cash flow forecasting.

It was **RESOLVED** to note the presentation.

#### **47 TREASURY MANAGEMENT OUTTURN 2019/20**

The Chair invited Gary Adams to introduce the report.

Gary Adams took the Committee through the report by highlighting the key headlines: summary of returns and borrowings, strategic and tactical decisions, future strategic and tactical issues, PWLB borrowing rate increase, and budget implications.

A Member of the Committee commented that there was a £2.4m underspend, and overall capital borrowing was around £400m, yet the actual borrowing was only just over £200m and asked where the figure of £323m comes from.

Gary Adams replied that £232m was total borrowing, and the £323m figure was Council's capital financing requirement. That was the official balance sheet review figure showing how much borrowing need was estimated based on a historical capital spend. There was a gap between what was actually borrowed, and what the borrowing need was. The main reason for that was that the Council has used its internal cash to delay the borrowing to reduce the need to borrow which created an underspend.

A Member of the Committee commented that local property return did not like giving a 3.9% return and asked how that would affect future figures.

Gary Adams responded that there would be a reduction on Council's short term cash due to the Bank of England base rates. Some mitigation measures with higher cash balances were put in place in the first quarter. The good thing about CCLA property fund was that they did not heavily invested in retail market where there was strong rental income. The interest on that fund would reduce slightly due to inevitable situation, but that would not be significant reduction.

It was **RESOLVED** to note the report

## **48 EXTERNAL AUDIT UPDATE & PLANS**

The Chair invited Peter Barber (Grant Thornton Engagement Lead) to introduce the report.

Peter Barber took the Committee through the report by highlighting the following in each Appendix of the report:

Appendix 1 Council –

1. Introduction & headlines
2. Key matters impacting our audit
3. Group audit scope and risk assessment
4. Significant risks identified
5. Other risks identified
6. Other matters
7. Materiality
8. Value for Money arrangements
9. Audit logistics & team
10. Audit fees
11. Independence & non-audit services

Peter Barber confirmed that the figures in this appendix were pre Covid19 figures. Peter Barber also said that the Government has extended the audit deadline by month, which has welcomed by Grant Thornton, and that he was confident that the audit process would be delivered on time.

Appendix 2 Avon Pension Fund –

- 1.Introduction & headline
- 2.Key matters impacting our audit
- 3.Significant risks identified
- 4.Other matters
- 5.Materiality
- 7.Audit logistics & team
- 8.Audit fees
- 9.Independence & non-audit services

#### Appendix 3 Council (update)

1. Introduction and headlines
2. Significant risks identified (Covid-19 pandemic)

#### Appendix 4 Avon Pension Fund (update)

1. Introduction and headlines
2. Significant risks identified (Covid-19 pandemic)

A Member of the Committee asked if the change of some investments in the Avon Pension Fund ('green' investments) would have an impact on the Avon Pension Fund.

Peter Barber responded that this would be a decision for the pension fund. It was not for audit to comment on where the fund was invested; the audit would be looking at the figure of year end.

#### Appendix 5 - In-depth insight into the impact of Covid-19 on financial reporting in the local government sector

1. Introduction
2. Executive summary
3. Operational challenges and the related financial reporting/regulatory impact
4. Government support schemes – considering the accounting implications
5. Significant financial reporting issues to consider
6. Other sector issues and practicalities to consider
7. Impact on audit work/external scrutiny process
8. Engagement with experts
9. Further resources and guidance

Sophie Morgan-Bower commented that both audits were progressing well at this point in time, with good responses from the finance team and also to the Avon Pension Fund finance team. The accounts were received on a timely basis, even before the revised deadline. Sophie Morgan-Bower outlined the challenges in terms of both audits, in particular remote working due to Covid-19 pandemic. However, she was optimistic that despite these challenges both audits would be completed before the newly set deadline.

A Member of the Committee asked how people who have concerns or objections on Council's accounts would be able to put those forward, and also ask any questions (if they may have).

Andy Rothery commented that people can put their requests forward to inspect any documents related to accounts. Also, any issues that people may have, such as concerns or objections to account can be accommodated by the Council in compliance with the social distancing requirements.

It was **RESOLVED** to note the report.

#### **49 INTERNAL AUDIT ANNUAL REPORT 2019/20**

The Chair invited Andy Cox to introduce the report.

Andy Cox first informed the Committee that all the audits that were intended to be completed have now been finalised or are awaiting management comment to enable the report to be turned from draft to final version. Andy Cox took the Committee through the report, as printed.

Councillor Andy Furse, previous Chair of the Committee, asked to be put on record that an informal update had been provided in April 2020.

Following the introduction to the report the Chair asked about the Performance dashboard (recorded in the report) and how the position of the indicators compared with previous years.

Andy Cox responded that usually the speed dial would be in the green-amber segments for each performance indicator on the dashboard. There were two which recorded 'Red' and the reasons and current position was explained to the Committee.

A Member of the Committee asked whether the issue of non-implementation of recommendations was something for consideration as part of the governance review and whether it should feature in the Annual Governance Statement to put a little bit more pressure where there were unresolved deliveries of agreed recommendations.

Andy Cox replied that it wasn't significant enough to include in the Statement and where necessary non-implementation of recommendations was reported to the relevant Directors and if deemed necessary it could be escalated to Andy Rothery S151 Officer and the Council's Statutory Officers.

It was **RESOLVED** to note the report.

#### **50 INTERNAL AUDIT ANNUAL PLAN 2020/21**

The Chair invited Andy Cox to introduce the report.

Andy Cox reminded the Committee that the Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan. Andy Cox took the Committee through the report.

The Chair asked who would prioritise, and how would the decision be made, on which areas would be dropped from the planned audit due to the need to carry out unplanned work.

Andy Cox replied that the Audit Plan was prepared using a risk scoring methodology and that resulted in the creation of a long list of audits in risk order. Those audits included in the 20/21 Plan were decided based on resources available, i.e. a line was drawn on the list based on the resources available. Anything above that line (high risk) would be audited, i.e. included in the Plan presented to Committee for approval. If necessary, the lower risk items would be replaced by unplanned work.

A Member of the Committee asked if there were any areas where the Council could have a partnership, or initiative with North Somerset, and any other surrounding areas that may have a particular category of investigation arising from COVID-19, or anything connected with COVID-19.

Andy Cox responded that some work has been done, but not directly related to planned work. The Council has worked with Bristol City Council on data matching Covid19 business grants, B&NES discretionary grant data was compared to data from other WECA Councils (including Bristol CC Small Business Grants), and this identified a market trader receiving both a Small Business grant, and a discretionary grant.

The Chair asked if there was any work at looking at the practice and procedure around the allocation of provider relief.

Andy Cox replied that his team was involved in verifying the accuracy of the calculations made (passenger services) in terms of how much supply relief was to be paid based on Recovery Board deciding relief should be based on 50% of normal payments.

The Chair acknowledged that the review of the charter had been carried out, and that Andy Cox had made very minor changes to the charter, as per page 121 of the papers.

It was **RESOLVED** to:

- Approve the Audit & Assurance (Internal Audit) Plan 2020/21
- Approve the Internal Audit Charter (minor amendments to version presented to July 2019 Committee meeting).

## **51 ANNUAL REPORT OF AUDIT COMMITTEE 2019/20**

The Chair invited Jeff Wring (Service Director - One West) to introduce the report.

Jeff Wring reminded the Committee that the Corporate Audit Committee has specific delegated powers given to it from Full Council and as such is required to report back annually to Council under its Terms of Reference.

Jeff Wring took the Committee through the report.

Sophie Morgan-Bower proposed minor amendment on page 132 (section C - external audit around the completion of the housing benefit claim). The last line says, 'the claimant signed off on the 9th January 2020 prior to the deadline', which was not correct. There were two extensions due to technical issues with the claim. The claim was actually about six weeks after the deadline.

The Committee also noted that John Barker was not mentioned as a Member of the Committee on page 134 of the agenda.

It was **RESOLVED** to agree that:

1. The Annual Report can be delegated to the Chair of the Committee to endorse and agree before issue to full Council at its September or November 2020 meeting.
2. The current terms of reference of the Committee are appropriate and no changes are proposed.
3. The officers amend the report as per comments made at the meeting.

The meeting ended at 6.15 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>Corporate Audit Committee</b>
MEETING DATE:	<b>26<sup>th</sup> November 2020</b>
TITLE:	<b>Governance Reports for Council and Avon Pension Fund, and Audited Statement of Accounts 2019/20</b>
WARD:	All
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1</b> – Audit Findings Report for Bath &amp; North East Somerset Council  <b>Appendix 2</b> – Audit Findings Report for Avon Pension Fund  <b>Appendix 3</b> – Bath &amp; North East Somerset Council Audited Statement of Accounts 2019/20  <b>Appendix 4</b> – Bath &amp; North East Somerset Council Letter of Representation 2019/20  <b>Appendix 5</b> – Avon Pension Fund Letter of Representation 2019/20</p>	

## 1 THE ISSUE

- 1.1 The Audit Findings Report summarises the results of Grant Thornton’s audit of the 2019/20 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’.
- 1.2 The Annual Governance Statement (AGS) is required by the Accounts and Audit Regulations 2015 to be published with the Council’s Statement of Accounts and to be formally approved and signed by the Leader of the Council and the Chief Executive. The AGS for 2019/20 has been completed in accordance with the framework previously agreed by the Corporate Audit Committee. There is one significant issue identified this year and the Statement continues to reflect the current position at July 2020.

## 2 RECOMMENDATION

The Corporate Audit Committee is asked to agree 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 Letters of Representation for both Bath & North East Somerset Council and the Avon Pension Fund for 2019/20, are approved.

### 3 THE REPORT

#### Council's Accounts

- 3.1 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.
- 3.2 The work carried out by Grant Thornton as part of the audit of the financial statements has so far resulted in a number of minor amendments to the Disclosure Notes accompanying the Financial Statements, none of which adjusted the figures in the main financial statements.
- 3.3 With their work still ongoing, Grant Thornton are currently proposing to issue an audit report including an unqualified audit opinion on the Council's 2019/20 Financial Statements. In respect of the work undertaken on the Value for Money assessment, Grant Thornton concluded that: "The Council has proper arrangements in all significant respects to ensure it delivered value for money in its use of resources". The Value for Money assessment makes two recommendations that management continues to monitor the use of reserves and deliver sustainable budgets in the medium term.
- 3.4 Due to delays in the conclusion of external audit work, there is a risk that the Audit findings report will not be finalised prior to the Committee meeting. If the work is not completed by the date of the meeting, Grant Thornton will provide an update on the process for approval of the accounts at the meeting.
- 3.5 Due to the Covid-19 pandemic, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 extended the deadlines for the publication of the 2019/20 Draft and Final Statement of Accounts. There was a three month extension to the publication deadline for the Draft Statement of Accounts, and a four month extension to the deadline for the Final Statement of Accounts.
- 3.6 Details of these deadlines are given in the table below, and show that the Council were able to publish & provide Grant Thornton with the Draft 2019/20 Statement of Accounts almost eight weeks earlier than the revised statutory deadline of 31<sup>st</sup> August 2020.

	<b>Standard Timescales (previous years)</b>	<b>Revised 2019/20 Requirement Accounts &amp; Audit (Coronavirus) (Amendment) Regulations 2020</b>	<b>2019/20 Actual Date Achieved</b>
<b>Draft Statement of Accounts Certified &amp; Issued</b>	31 <sup>st</sup> May	31 <sup>st</sup> August 2020	9 <sup>th</sup> July 2020
<b>Final Audited Accounts Certified &amp; Issued</b>	31 <sup>st</sup> July	30 <sup>th</sup> November 2020	tbc

## **Avon Pension Fund's Accounts**

- 3.7 There have been some minor changes to the Avon Pension Fund accounts that were authorised for draft issue. This includes some small adjustments between investment assets categories, along with some presentational changes and additional narrative around COVID-19.
- 3.8 The Avon Pension Fund has adequate liquidity to meet all liabilities due in the 12 month period from signing of the accounts. The expected payments due to be paid in the period are £203.1m offset by expected contributions of £156.4m giving a net outflow of £46.7m. This shortfall will be met by investment income and divestment of assets. At 31 March 2020 the Fund has assets of £4.5bn of which £304m are in highly liquid assets that are held to provide liquidity to meet payments, with an additional £1.7bn in listed equity assets which are also highly liquid and can be sold for cash within a short timeframe. (Note: as at 30 June 2020 the Fund value had recovered to £4.9bn with £331m in highly liquid assets). These liquid assets are more than sufficient to meet the forecast shortfall and also any unexpected reduction in contributions. To date there has been no concerning trends regarding timely receipt of contributions. It is therefore concluded that based on this evidence the Avon Pension Fund is a going concern with no material uncertainties.
- 3.9 Grant Thornton are proposing to issue an audit report including an unqualified audit opinion on the Pension Fund's 2019/20 Financial Statements.

## **Annual Governance Statement**

- 3.10 In accordance with the framework agreed by the Corporate Audit Committee, Audit West has led on the collation and co-ordination of information relating to the preparation of the draft Statement and gathering of evidence to support any statement made within the Statement. The Council's final Annual Governance Statement has been published within the Statement of Accounts and is a declaration of assurance, its aim is to report the extent to which the Council has in place reliable controls that will safeguard its resources and ensure that these are being used to meet priorities and service objectives agreed by Members.
- 3.11 No new significant governance failures or control issues have been identified during this year which satisfy the recommended criteria. However for very obvious reasons the impacts of the Covid-19 Pandemic are clearly of a highly significant nature and so this issue has been included along with some of our early actions to tackle the impacts on the Council. The Statement sets out in more detail the high level actions that the Council is taking to continue to tackle this significant issue.

## **Informing the Audit Risk Assessment**

- 3.12 As part of the Audit process the External Auditor asks the organisation a series of questions. These focus on the following areas:
- a) General Enquiries of Management
  - b) Fraud,
  - c) Laws and Regulations,
  - d) Going Concern,
  - e) Related Parties, and
  - f) Accounting Estimates.

The Audit Committee will consider the response to these questions at its Accounts Workshop and formally confirm they are acceptable as part of the meeting.

#### **4 STATUTORY CONSIDERATIONS**

- 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.
- 4.3 The preparation and publication of an Annual Governance Statement is in accordance with the “Delivering Good Governance in Local Government” framework introduced by CIPFA SOLACE during 2007, and updated in 2016. The Statement explains how Bath & North East Somerset Council has complied with the Local Code of Corporate Governance which arises from the CIPFA framework and also meets the requirements of the Accounts and Audit (England) Regulations 2015, specifically Regulation 4 (2) in respect of the annual review of the effectiveness of its system of internal control and Regulation 4 (3) in respect of the preparation and publication of an Annual Governance Statement.

These regulations require authorities to “conduct a review at least once a year of the effectiveness of its system of internal control” and to prepare a statement on internal control “in accordance with proper practices”. Regulation 4 requires the findings of the review of the system of internal control to be considered by a Committee of the relevant body, or by its members of the body meeting as a whole. At Bath & North East Somerset Council, this function is the responsibility of the Corporate Audit Committee.

#### **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

- 5.1 The Council’s Statement of Accounts sets out the Income and Expenditure for the 2019/20 financial year, together with the Balance Sheet and all related supporting information.

#### **6 RISK MANAGEMENT**

- 6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance. The Council's on-going financial position is an identified risk that is regularly monitored.

#### **7 CLIMATE CHANGE**

- 7.1 The Council’s Statement of Accounts is a statutory requirement. This is an information only report about the Council’s financial performance for 2019/20, it therefore does not include any decisions that have a direct impact on Climate Change.

## 8 OTHER OPTIONS CONSIDERED

8.1 None

## 9 CONSULTATION

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

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

<b>Contact person</b>	<i>Andy Rothery - 01225 477103 ; Jamie Whittard - 01225 477213</i> <a href="mailto:Andy_Rothery@bathnes.gov.uk">Andy_Rothery@bathnes.gov.uk</a> <a href="mailto:Jamie_Whittard@bathnes.gov.uk">Jamie_Whittard@bathnes.gov.uk</a>
<b>Background papers</b>	<i>None</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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# The Audit Findings for Bath and North East Somerset Council

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Year ended 31 March 2020

23 November 2020

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Your key Grant Thornton  
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## Section

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## Appendices

A. Action plan
B. Follow up of prior year recommendations
C. Audit adjustments
D. Fees
E. Audit Opinion

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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bath and North East Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance (the Corporate Audit Committee).

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The main area of financial impact for the Council has been reduced income, particularly in respect of the commercial estate and heritage and parking service, with the closure of iconic buildings such as the Roman Baths, Fashion Museum and Victoria Art Gallery all resulting in significant reductions to projected income for 2020/21.</p> <p>In response, the Council focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions could continue during 'lock down'. In response to the financial challenges it approved a Covid-19 financial recovery plan for 2020/21 and this, combined with further government support has eased some of the financial pressures for 2020/21.</p> <p>Our experience of working with the finance function has demonstrated that while functions continue to operate, these are inevitably taking more time to complete than in a normal year.</p> <p>In addition, the finance team have faced the challenge of compiling the financial statements with the team working remotely.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 17 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 8.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided has not been manipulated prior to being sent to the audit team.</p>
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bath and North East Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance (the Corporate Audit Committee).

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the group and Council and [the group and Council's income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>We commenced our post-statements remote audit in July and as at 23 November 2020 our audit is approximately 90% complete. Our work to date has focused on the significant risks thus minimising the risk of additional significant issues arising between now and audit sign off. Our findings to date are summarised on pages 5 to 24. Our work continues, but to date, we have identified no material errors or adjustments to the financial statements. We will provide a verbal update to the Corporate Audit Committee on our progress at the meeting on 26 November 2020.</p> <p>We have recommended a small number of other adjustments to improve the presentation of the financial statements as detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Subject to completing our remaining audit procedures set out on page 6, receiving responses to our outstanding queries and having regard to any further national guidance, we anticipate issuing an unqualified audit opinion by the 30 November 2020 deadline. Continued efforts from both us as your auditors and finance officers will be necessary to meet this challenging deadline.</p> <p>Our anticipated audit report opinion will be unqualified and will include an Emphasis of Matter paragraph highlighting the material uncertainties disclosed in the financial statements in respect of land and buildings and investment property valuations and also the Council's share of the property assets held by Avon Pension Fund.</p>
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bath and North East Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<b>Value for Money arrangements</b>	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Bath and North East Somerset Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 25 to 30.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

## Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Aequus Developments Ltd and Aequus Construction Ltd was required, which was completed by the component auditor; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 27 February 2020, to reflect our response to the Covid-19 pandemic. Further details are set out on page 3.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Audit Committee meeting on 26 November 2020, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter
- review of the final set of financial statements
- completion of revaluation testing on investment property, and property, plant and equipment; including review of the response from the Council's Valuer, and testing of a sample of source data
- testing for journals entries
- review of group entities; including receipt of response from third party auditor, and audit of consolidation schedule
- completion of work on borrowings, cash and investments (we are awaiting four third party confirmations in this area)
- review of pensions liability testing
- completion of six items of operating expenditure testing
- completion of grants testing
- completion of revenue and expenditure cut-off testing
- completion of financial instruments testing
- completion of disclosure notes review including pooled budgets and leases
- completion of one query for senior officer remuneration testing
- completion of payroll testing (for one starter).

# Audit approach

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality percentage following receipt of the draft financial statements, including the consolidation of the Group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	6,775	6,700	Equates to 1.9% of gross expenditure for the year
Performance materiality	5,000	5,000	Equates to 75% of headline materiality (subject to rounding)
Trivial matters	339	335	Equates to 5% of headline materiality
Materiality for senior officer remuneration	20	20	We design our procedures for specific accounts with a lower level of precision, which we have determined to be £20k for senior officer remuneration.

# Significant audit risks

## Risks identified in our Audit Plan

### Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. Changes were made to materiality levels previously reported following receipt of the draft financial statements to reflect actual spend in the year. The draft financial statements were provided on 9 July 2020 marginally behind the agreed timetable but ahead of the 31 August deadline (revised nationally).
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council/groups' property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.
- engaged the use of auditor experts where auditor has deemed it necessary for asset valuations.

Our audit work, to date, has not identified any significant issues in respect of Covid-19 specific risks. This is not to say that there has not been an impact. The Council have identified a material uncertainty in relation to land and building valuations and investment properties in the financial statements. Our review of the Pension Fund auditor's response has identified similar material uncertainties to those on land and buildings and investment properties due to the level of property investment funds that form part of the Pension Fund Assets. The Council intends to update its draft accounts to include a disclosure in respect of this material uncertainty.

The financial challenges into the medium term has also increased due to the lost income, additional costs and the uncertainty of future government funding in respect of Covid-19. This is discussed in more detail as part of our VFM work on pages 25-30.

# Significant audit risks

## Risks identified in our Audit Plan

### Income from Other Fees and Charges

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue 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 'Other Fees and Charges Income'. We have therefore identified the occurrence and accuracy of 'Other Fees and Charges' income as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We have rebutted this presumed risk for the other revenue streams of the group and Authority because:

- Other income streams are primarily derived from grants or formula based income from central government and tax payers; and
- Opportunities to manipulate revenue recognition are very limited.

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

For revenue streams where we have rebutted this risk, no changes to our assessment as reported in the audit plan has been noted.

For 'Other Fees and Charges Income' we have:

- evaluated the group's accounting policy for recognition of income from Other Fees and Charges for appropriateness;
- gained an understanding of the Authority's system for accounting for income from Other Fees and Charges and evaluated the design of the associated controls;
- agreed, on a sample basis, amounts recognised as income from Other Fees and Charges in the financial statements to supporting document.

Subject to completion in this area (receipt and testing of three outstanding samples), our work has not identified any issues in respect of Other Fees and Charges income.

We have:

- evaluated the design effectiveness of management controls over journals
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence

At the time of writing this report, our journals work remains in progress and we are yet to conclude the following work:

- analyse the journals listing and determine the criteria for selecting high risk unusual journals
- test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Subject to completion in this area, our audit work to date has not identified any significant issues with regards to management override of controls.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of investment property (Annual revaluation)

The group revalues its investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£311 million per the draft accounts) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.

We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

## Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out
- engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

At the time of writing this report, our work remains in progress and we are yet to conclude the following work:

- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding

As highlighted previously in this report, we are intending to include an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding investment property valuations at the year end. In line with RICS guidance, the valuers employed by the Council included a material uncertainty in their final valuation reports.

Officers reflected this in the financial statements in the section 'Assumptions made about the future and other major sources of estimation uncertainty' in relation to investment property, and property, plant and equipment values. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19. This is in line with other local councils.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of land and buildings (Rolling revaluation)

The group revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£227 million per the draft accounts) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

## Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- tested revaluations made during the year to see if they had been input correctly into the group's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

At the time of writing this report, our work remains in progress and we are yet to conclude the following work:

- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding

As highlighted previously in this report, we are intending to include an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding land and buildings valuations at the year end. In line with RICS guidance, the valuers employed by the Council included a material uncertainty in their final valuation reports.

Officers reflected this in the financial statements in the section 'Assumptions made about the future and other major sources of estimation uncertainty' in relation to investment property, and property, plant and equipment values. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19. This is in line with other local councils.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of the pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£306 million in the draft accounts) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

## Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures.
- obtained assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

At the time of writing this report, our work remains in progress and we are yet to conclude the following work:

- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability.

The Pension Fund's financial statements disclosed a material uncertainty regarding the valuations of property investments at the year end. Given the significant share of the Pension Fund assets that are attributable to Bath and North East Somerset Council, there is a similar material uncertainty associated with the Council's pension net liability and a new disclosure was included with the Council's accounts. Our audit opinion will refer to this disclosure as an 'emphasis of matter'.

Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities would be lower than was originally estimated in actuarial reports produced for 31 March 2020.

Bath and North East Somerset Council sought discussion with the actuary and it was confirmed that the consultation would not have a material impact on the pension liability of the Council as at 31 March 2020. We concur with this conclusion.

# Significant audit risks

## Risks identified in our Audit Plan

### Accounting for the creation of the subsidiary Aequus Developments Ltd

In 2016, the Authority created a wholly owned subsidiary company Aequus Developments Ltd with the aim of delivering property development services to the Authority through a more focussed and commercial approach, enabling the Authority itself to focus on the delivery of services.

In 2017/18 and 2018/19 the company was not consolidated due to the quantitative and qualitative aspects were not considered to be material by Bath and North East Somerset Council. Activity at ADL has increased significantly in 2018/19; the Council will need to consider whether Group Accounts will be produced in 2019/20.

The consolidation of the subsidiary may give rise to a number of material accounting transactions in the financial statements for which the economic substance of the transactions needs to be considered.

We therefore identified the accounting transactions associated with the consolidation of Aequus Developments Ltd as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We have:

- discussed with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements;
- reviewed the Group structure of the Council;
- reviewed the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.
- obtained an copy of the Group materiality document to be prepared by the Council;

At the time of writing this report, our work remains in progress and we are yet to conclude the following work:

- reviewed the key agreements to gain an understanding of the agreements put in place on the establishment of the company
- critically assessed the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance;

Subject to completion in this area, our audit work to date has not identified any significant issues with regards to accounting for the creation of the subsidiary Aequus Developments Ltd.

## Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
<b>Aequus Developments Ltd</b>	Monahans	Our work in this area is in progress as set out on page 6.	To date, none identified (subject to conclusion of our work in this area).
<b>Aequus Construction Ltd</b>	Monahans	Our work in this area is in progress as set out on page 6.	To date, none identified (subject to conclusion of our work in this area).
<b>Bath Tourism Plus Ltd</b>	N/a	Our work in this area is in progress as set out on page 6.	To date, none identified (subject to conclusion of our work in this area).
<b>Adoption West</b>	N/a	Our work in this area is in progress as set out on page 6.	To date, none identified (subject to conclusion of our work in this area).

## Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p><b>IFRS 16 implementation has been delayed by one year</b></p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases</p>	<p>Officers have included narrative around the implementation within the note entitled 'accounting standards that have been issued but have not yet been adopted'.</p>	<p>In our view, appropriate disclosure has been included within the Council's financial statements.</p>
<p><b>Dedicated Schools Grant</b></p> <p>The Council had a cumulative overspend of £17.25m as 31 March 2020 as its expenditure exceeded the funding provided.</p> <p>We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position."</p>	<p>The Council has offset the overspend on its Dedicated Schools Grant (DSG) against the other schools balances by setting up a deficit reserve.</p> <p>We are of the view that where overspends arise against Dedicated Schools Grant and are to be carried forward as a call against the schools budget in future years, these should form part of the un-earmarked general fund. The only exception to this would be where the schools forum has agreed to take on responsibility for the deficit.</p> <p>However, we are aware that discussions are in progress at a national level and that a public consultation is planned.</p> <p>It is possible that there may be new regulations issued that will be applicable to the 2019/20 financial year. Recognising that this is not material, we have not included it as an error within this report.</p> <p>The requirements state that authorities should provide additional disclosure to explain the DSG funding position and the impact of any deficit balance 'carried forward' within the general fund balance.</p>	<p>We are satisfied that Bath and North East Somerset Council has made appropriate disclosures and that the inclusion of this balance within schools balances is not material to the financial statements as a whole.</p>

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Land and Buildings – Other - £227.2m</b>  <b>Investment Property - £310.8m</b>	<p>Other land and buildings comprises £0.793m of specialised assets which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£226.4m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its own internal valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 77% of total value of Other Land and Buildings were revalued during 2019/20.</p> <p>Investment property comprises £310.8m of assets. The Council has engaged its own internal valuer to complete the valuation of investment properties as at 31 March 2020 on an annual cycle. The valuer's report identified a total valuation of £310.8m. 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.</p> <p>In line with RICS guidance, the Group's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings and investment properties at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £16m for Other Land and Buildings and a net decrease of £(9)m for Investment Properties. Management have considered the year end value of non-valued properties. To satisfy this requirement the Council's Property Services has undertaken a desktop re-valuation of the asset portfolio using national indices (Investment Property Database (IPD), Building and Construction Industry Standard (BCIS) and a residential land index) and also considered other local factors to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued for Other Land and Buildings has identified no material change to the properties value.</p> <p>The total year end valuation of Other land and buildings was £227.2m, a net increase of £26.3m from 2018/19 (£200.9m), and for Investment properties was £310.8m, a net increase of £8.6m.</p>	<p>For investment property and Other Land and Buildings we have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuations were carried out</li> <li>for Investment Property, engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation</li> <li>tested revaluations made during the year to ensure they have been input correctly into the group's asset register</li> <li>evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul> <p>At the time of writing this report, our work remains in progress and we are yet to conclude the following work:</p> <ul style="list-style-type: none"> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.</li> </ul> <p>In respect of investment properties, we concur with the Council's categorisation of these assets as investment properties, i.e. held for capital appreciation and/or revenue income generation.</p> <p>Our work in this area remains in progress, however work to date suggests that estimates and judgements in this area are reasonable. We have assessed this estimate to date as overall amber due to the material uncertainty on the valuation of Investment Property and Land and Buildings set out in note 4.</p>	<p><b>Amber</b></p>

#### Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Net pension liability – £326.2m</b>	<p>The Council's total net pension liability at 31 March 2020 is £326.2m (PY £309.8m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses the actuary Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £54.4m net actuarial loss during 2019/20.</p>	<p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures.</li> <li>• obtained assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p>As noted on page 12, we still need to carry out the following procedures:</p> <ul style="list-style-type: none"> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability.</li> </ul> <p>Avon Pension Fund's financial statements disclosed a material uncertainty regarding the valuations of property investments at the year end. Given the significant share of the Pension Fund assets that are attributable to Bath and North East Somerset Council, there is a similar material uncertainty associated with the Council's pension net liability and a new disclosure was included with the Council's accounts. Our audit opinion will refer to this disclosure as an 'emphasis of matter'.</p> <p>Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities would be lower than was originally estimated in actuarial reports produced for 31 March 2020.</p> <p>Bath and North East Somerset Council sought discussion with the actuary and it was confirmed that the consultation would not have a material impact on the pension liability of the Council as at 31 March 2020.</p>	TBC

# Significant findings – key estimates and judgements

**Accounting area**      **Summary of management's policy**      **Auditor commentary**      **Assessment**

## Net pension liability – £326.2m

The Council's total net pension liability at 31 March 2020 is £326.2m (PY £309.8m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses the actuary Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £54.4m net actuarial loss during 2019/20.

We also used PwC as auditors expert to assess actuary and assumptions made by actuary. The table below summarises where Bath and North East Somerset Council fall in the acceptable ranges set by PwC:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.3% - 2.4%	●
CPI inflation	2.1%	2.1%	
Pension increase rate	2.2%	2.1 – 2.2%	●
Salary growth	3.6%	Assumption at a margin above CPI (1.25 – 1.50%). Therefore 3.35 – 3.6% reasonable. No significant change from prior year (0.1%).	●
Life expectancy – Males at 65 (current pensioners)	23.2 yrs	20.9 – 23.2	●
Life expectancy – Females at 65 (current pensioners)	25.3 yrs	24.0 – 25.8	●
Life expectancy – Males at 65 (future pensioners)	24.7 yrs	22.5 – 24.7	●
Life expectancy – Females at 65 (future pensioners)	27.3 yrs	25.9 – 27.7	●
Duration of liabilities	16 yrs	15 – 22 yrs	●

TBC

## Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Provisions for NNDR appeals - £11.7m</b>	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	We have reviewed the Council's calculation of the estimate and concluded that is it reasonable in respect of the outstanding appeals. We have considered the assumptions made by the Council and reviewed the detail of appeals outstanding, and have assessed the Council's estimation of possible NNDR appeals is reasonable, subject to final review of this area.	 <b>Green</b>
<b>Fair value of Public Works Loan Board (PWLB) Loans</b>	The Council have assessed the fair value of PWLB Loans as based on observable inputs; therefore the loans have been assessed as Level 2 in the IFRS 13 hierarchy for Financial Instruments.	Our work on this area remains in progress.	<b>TBC</b>
<b>City Region Deal</b>	The Council has assessed that transactions occurring in respect of the City Region Deal arrangement arise from non-exchange transactions and so IPSAS 23 may be applied in accounting for them.	In our view this is not a critical judgement relating to the application of the Council's accounting policies. The Council should review its critical judgements in 2020/21 to ensure that they are appropriate and that they could have a material impact on the Council's accounts.	 <b>Amber</b>
<b>Proposed Budgets</b>	The Council has added this critical judgement to Note 3 in line with the requirements of the Code.	We are satisfied with the Council's assessment of this critical judgement.	 <b>Green</b>

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Group Accounts	The Council has assessed that the turnover and assets of ACL and ADL are now significant enough to produce Group Accounts.	<p>As set out on page 13, we have:</p> <ul style="list-style-type: none"> <li>• discussed with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements;</li> <li>• reviewed the Group structure of the Council;</li> <li>• reviewed the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.</li> <li>• obtained an copy of the Group materiality document to be prepared by the Council;</li> </ul> <p>At the time of writing this report, our work remains in progress and we are yet to conclude the following work:</p> <ul style="list-style-type: none"> <li>• reviewed the key agreements to gain an understanding of the agreements put in place on the establishment of the company;</li> <li>• critically assessed the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance;</li> </ul> <p>Subject to completion in this area, our audit work to date has not identified any significant issues with regards to accounting for the creation of the subsidiary Aequus Developments Ltd.</p>	TBC

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

# Significant findings – going concern

## Our responsibility

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) 570).

## Going concern disclosures

It has been a challenging year due to the Covid-19 pandemic and officers have had to respond quickly to the impact that this has had on the finances of the Council. During the early stages of the pandemic officers were predicting the full year impact of Covid-19 for 2020/21 to be a cost pressure of £42.1m. In response to this Cabinet approved in July 2020, £20.7m of cost saving measures. The financial impact of Covid-19 has continued to be refined as further announcements have been made by central government and more funding being made available. The most recent projections to Cabinet in November 2020 indicate that the forecast receipt of grant income from government for lost sales, fees and charges will now enable the Council to balance its budget for 2020/21. Specifically, loss of sales, fees and charges, a significant element of the Council's budget is now attracting approximately 2/3rds support funding from government providing some respite to the financial challenges in 2020/21. This was, however, based on the position prior to the announcement of the full lockdown for November 2020 and continued efforts will now be required to manage the budget and respond accordingly for the remainder of the year. While this is a challenging situation, we agree with managements' judgment that no additional disclosures are needed in relation to going concern, as there are in their judgement, no material uncertainties surrounding the Council's adoption of the going concern assumption.

## Going concern commentary

### Management's assessment process

The Director of Finance as s151 officer has a reasonable expectation that the Council will continue for the foreseeable future. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- they have taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.
- no material uncertainties related to events or conditions that cast significant doubt upon the Council's ability to continue as a going concern exist that require disclosure

## Auditor commentary

Going concern is defined as ‘the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations’

The Council's financial statements confirm that they are prepared on a going concern basis. Management set out their ‘going concern considerations’ as part of their response to our ‘informing the audit risk assessment’ shared with the Corporate Audit Committee in November 2020.

The adoption of the going concern assumption is on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due. The Council also references the Medium Term Financial Strategy that provides a clear funding strategy for discharging its responsibilities whilst remaining financially viable.

A detailed budget for the Council is approved on an annual basis. Regular management reporting is produced and then periodically reported to cabinet for consideration.

Given the impact of Covid-19 we asked the Council for a supplementary paper proving further evidence to support this judgement and in particular, confirming that no material uncertainties exist to the adoption of this assumption. Our review of this document, provided on 4 November 2020, supported the view that:

- The Council has sufficient access to cash to fund its projected liabilities as they arise for the 12 month period from the end of November 2020.
- The assessment includes an assessment of the level of balances and reserves held by the Council, which the previous Director of Finance considers to be sufficient,
- That the Council has robust financial management arrangements with a good track record of achieving its budget.

As such we concur with managements view that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

# Significant findings – going concern continued

## Going concern commentary

### Work performed

We have reviewed the:

- Supplementary written assessment provided by management in November 2020, including the supporting documentation provided, and
- The cash flow forecast which covers more than the 12 months from the date of approval of the financial statements.

## Auditor commentary

The supplementary written assessment provided by management recognises the normal budgetary setting and monitoring processes in the year, and how these have been updated over recent months to model the impact of Covid 19 on the financial position of the Council.

The Council has a strong track record of delivering it's budget, recording an underspend against revised budget of £0.12m in 2019/20. The general fund balance has remained in line with prior years. We note that current forecasts for 2020/21 are that the financial position has significantly improved following clarification from government on further Covid-19 funding. The Council has good levels of reserves and balances should any shortfall be recorded in year, however, reserves can only be used once and therefore the level of reserves needs to remain under review, particularly in the current climate.

Cash balances remain appropriate, and there is evidence that the Council has sufficient access to borrowing in the short term should this been needed.

Our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption.

## Concluding comments

We concur with the S151 Officer's view that there are no material uncertainties that would require disclosure under ISA570.

On the basis of our work we propose to issue an unmodified opinion for 2019/20 in relation to going concern.

## Other matters for communication

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	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Corporate Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	Based on the work completed to date, we are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A letter of representation has been requested from the Council which is included in the Corporate Audit Committee papers.
<b>Confirmation requests from third parties</b>	<p>We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Not all responses have yet been provided and we will complete alternative procedures in respect of these if necessary.</p> <p>We requested management to send letters to those solicitors who worked with the Council during the year. This permission was granted and the requests were sent and satisfactory responses have been received in all cases.</p> <p>We requested from management permission to send confirmation requests to the Pension Fund auditor. This permission was granted and the requests were sent. A response was received on 13 November 2020.</p>
<b>Disclosures</b>	Our work to date has found no material omissions in the financial statements other than the new disclosure regarding the material uncertainty associated with the Council's share of the property investments of the Pension Fund.
<b>Audit evidence and explanations/significant difficulties</b>	We have not encountered any difficulties obtaining information and explanations requested from management.

# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• 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 other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>Our conclusion on these matters is subject to finalisation of our work.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2019/20 audit of Bath and North East Somerset Council in the audit report, as detailed in Appendix E.</p>

# Value for Money

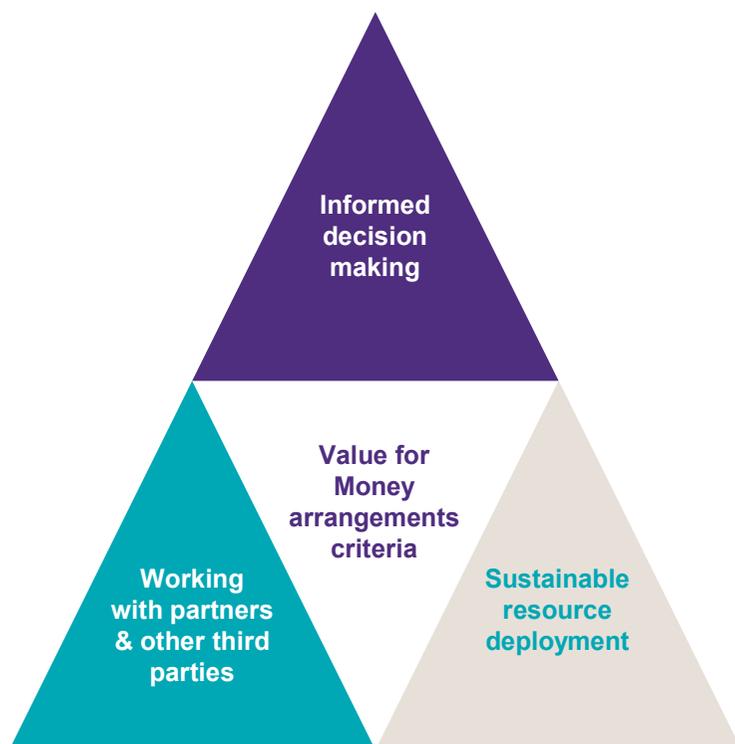
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one 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."*

This is supported by three sub-criteria, as set out below:



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## Risk assessment

We carried out an initial risk assessment in January 2020 and identified a number of significant risks 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 February 2020.

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.

Since issuing the Audit Plan, we have reassessed the need to undertake work in respect of the operations of ADL Ltd which was included as a VFM risk in the Audit Plan. Given the assurances obtained from a review of this area in 2018/19 combined with a significant opinion risk in relation to the consolidation of Aequus in 2019/20 we deem that this element of our VFM work is no longer required.

We have not identified any new VFM risks in relation to Covid-19.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk 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.

# Value for Money

## Our work

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Medium Term Financial Strategy

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 pages 27 to 31.

## Overall conclusion

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## 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.

# Value for Money

## Key findings

We set out below our key findings against the first significant risk we identified through our initial risk assessment.

### Significant risk set out in our audit plan in February 2020

#### Medium Term Financial Strategy

The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. Bath and North East Somerset Council currently has a balanced budget for 2020/21 and a projected budget gap for 2021/22 and beyond.

Over the two years to 2021/22, the budget gap is £13.63m before savings proposals. So far, £6.9m of savings have been identified but a further £6.73m savings will need to be found in 2021/22.

As at month 9, the expected 2019/20 year-end position at the end of December 2019 is in line with the budget set in February 2019 despite continued additional demand in Children's Services, and other pressures. 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. The continued pressure from Children's Services has resulted in overspends annually and further enforces the need to identify alternative methods of achieving the Council's financial position for the future.

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, including the robustness of the Council's Medium Term Financial Strategy, the delivery of the 2019/20 budget, and the action taken when plans are not being delivered.

#### 2019/20 Outturn

The Council set a net budget of £113.1 million for the 2019/20 financial year which was predicated on the delivery of £8.9 of savings and included an increase in council tax of 2.95% for the year and a 1% national adult social care precept. The budget included planned transfers to reserves of £1.9m. In response to previous year's pressures in its demand lead services, the 2019/20 budget included increased funding for both children's and adult's, with £6.6m of extra funding being provided across these two service lines when compared with 2018/19.

Historically the Council has a strong track record of meeting its financial targets, and despite a challenging year, the Council reported a small underspend of £0.12m against the revised 2019/20 budget of £107.8m after allowing for proposed carry forwards. This underspend was transferred to the revenue budget contingency reserve at year end.

The significant reduction in original budget to arrive at the revised budget against which performance was reported was due to the receipt of £4.6m of covid-19 government un-ringfenced support towards the end of the financial year and the transfer of £2.35m of a contingency budget held within Children's services relating to SEND pressures following confirmation from the DFE that these costs had to be ring-fenced against DGG and could not be funded from general fund.

Against revised budget the main financial pressures were in commercial estate and children's services. The commercial estate recorded a shortfall in budgeted income of £0.8m due to a slowing down of retail income and challenges in new acquisitions to generate additional income. Children's services reported a £2.24m overspend with key placement increases, particularly for those with highest need, being the main driver for the overspend. We note that adult services remained within budget for the year despite ongoing cost and demand pressures. The overspend in children's was offset by some additional funding received in year and large underspends in areas such as the resources directorate due to reduced capital financing costs resulting from delays in the delivery of a number of capital schemes.

# Value for Money

## Significant risk in our audit plan Medium Term Financial Strategy (cont'd)

### Findings

The original savings target included in the 2019/20 budget was £8.9m of which 35% were considered high risk. In recognition of this £2m of the revenue budget contingency was set aside to meet any shortfall. The 2019/20 outturn report recorded the achievement of £6.8m (76%) of the target savings. The main areas of slippage were in the areas of service improvement and contract management. A review of the savings indicated that some areas, such as the modern libraries and customer services review, were well managed and fully delivered through effective service redesign but others such as the centralization of training saving fell short after it was realized this would not provide sufficient funding to meet mandatory training across the Council. Continued efforts are required to ensure annual savings plans are realistic and achievable and actively managed to ensure the greatest chance of full delivery.

The Council has a good track record of delivering against its budget despite the continued reduction in central government funding and the need to identify and realise significant savings each year. There is regular review and challenge at a member and officer level and robust financial management arrangements in place. The Council has robust processes in place for monitoring and reporting the achievement of saving plans but recognise more is needed to ensure a greater percentage of savings are delivered going forward.

#### Reserves and balances at 31 March 2020

The then s151 officer, assessed the level of general fund balances and reserves as 'adequate and reasonable in meeting the Council's risks' at the most recent budget setting round in February 2020.

At 31 March 2020, the general fund balance sat at £12.7m an increase of £0.3m on the previous year and in line with the risk range of £12.3m - £13.5m approved as part of the 2020/21 budget setting round. Excluding this general fund balance the Council also has £49.8m in earmarked reserves an increase from the £40.3m at the end of the previous year.

This in our view is a healthy level of reserves and balances and provides some degree of contingency in the event of increased financial pressures into the medium term.

#### 2020/21

The net budget for 2020/21 totalling £118.3m was set in February 2020 and included a 3.98% increase in Council Tax which once again included a 1.99% adult social care precept. The budget process considered service demand pressures on expenditure as well as inflation, pay and pension costs. Although the 2019/20 outturn position was not fully known at the time of setting the 2020/21 budget, it was recognised that children's, once again, was struggling to contain spend within budget. In response the 2020/21 budget included increased funding for children's of £3.0m, an increase of over 10% on the previous year's budget. The 2020/21 budget was predicated on a much smaller level of savings totalling £4.85m, just over half the level required in 2019/20. Of these savings only 11% were categorised high risk compared with 35% in the previous year.

The Covid-19 pandemic has meant officers have had to respond quickly to the impact that this has had on the finances of the Council. Although of limited impact for 2019/20, it was clear from the outset that this would have a major impact on 2020/21 and possibly future years as well.

# Value for Money

## Significant risk in our audit plan Medium Term Financial Strategy (cont'd)

### Findings

During the early stages of the pandemic officers were predicting the full year impact of Covid-19 for 2020/21 to be a cost pressure of £42.1m before mitigations and government support. The financial recovery plan approved by Cabinet in July 2020 approved £20.7m of cost saving measures which combined with an estimated £10m (actual as at July £13.2m) of government support would result in a £11.4m deficit, if fully implement. This shortfall was to be funded from a combination of earmarked reserves and balances.

The implementation of some of these measures combined with the refinements to the 2020/21 forecast as further announcements have been made by central government has resulted in an improving picture. Most recent projections to Cabinet in November 2020 indicate that the forecast receipt of grant income from government for lost sales, fees and charges will now enable the Council to balance its budget for 2020/21. Specifically, loss of sales, fees and charges, a significant element of the Council's budget is now attracting approximately 2/3rds support funding from government providing some respite to the financial challenges in 2020/21. This was, however, based on the position prior to the announcement of the full lockdown for November 2020 and continued efforts will now be required to manage the budget and respond accordingly for the remainder of the year.

Inevitably deliverability of some of the original planned savings set out in the original budget will be at risk due to diverting resources to responding to the emergency.

Our review of a sample of the 2020/21 financial recovery plan indicates that some have been withdrawn due to the improving financial position. These included the £2.84m of salary savings to be achieved through vacancies and reduced hours. Whilst others such as the £2.5m from Heritage Services made up of a range of mitigations to take into account the material loss of income and need for lower operating costs to run the service whilst demand has fallen are broadly on track.

### Medium Term Financial Strategy

The Council's latest MTFS for 2021/22 through to 2025/26 was approved by Cabinet in October 2020. It reflects the impact that the continued uncertainty could have on the Council's income into the medium term and a recognition that the annual budgets would be in deficit for some time and may necessitate the use of reserves and balances to balance the books.

Due to the continued uncertainty, it predominantly focuses on 2021/22 and 2022/23 and there is less detail on savings and their deliverability and how income levels can be increased that there would be in any normal MTFS.

Savings over the 5 year period of the MTFS are estimated at £35.9m of which £2.8m (8%) have already been identified. Use of reserves provide some opportunities to reduce some of these savings. 2021/22 is seen as the year with the biggest challenges with a funding gap of £18.3m at the time of reporting falling to £8.0m in the following year.

# Value for Money

## Significant risk in our audit plan

## Medium Term Financial Strategy (cont'd)

### Findings

Although the Council has capacity in the short term to meet budget shortfalls through use of reserves and balances, this is not sustainable into the medium term. The continued uncertainty of Covid-19 means continued monitoring of the impact on the remainder of the MTFs remains key and that assumptions are revisited as further clarify emerges on funding, support and the likely level of income should some sense of normality return.

### Conclusion

While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.

We have concluded that you had good arrangements in place to set a realistic and achievable budget for 2019/20.

We do, however, recognise that not all savings were delivered in 2019/20 and although the initial 2020/21 budget was predicated on a lower level of savings, Covid-19 has made reliable financial planning into the medium term more challenging.

We have concluded that the Council has responded appropriately to the impact of Covid-19 on its Medium Term Financial Strategy. The Council recognises the inherent risk due to this and the combination of loss of income, increased demand for services, increased unit costs, greater expectations and continued austerity.

General Fund balances and earmarked reserves remain adequate.

Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.

Overall, we have concluded that the Council has proper arrangements in all significant respects to ensure it delivered value for money in its use of resources; we have made a recommendation that Management continue to monitor the use of reserves and deliver sustainable budgets in the medium term.

# Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

A member of our wider public sector assurance team is related to a member of staff within the Council's subsidiaries Aequus Developments Ltd and Aequus Construction Ltd. She does not work on this audit engagement so we consider that this fact has had no bearing on our audit judgement or independence. The member of staff is an audit trainee and we have safeguarded the perceived threat to independence by ensuring the member of staff is not involved with the audit, with IT controls around the audit file and other documentation to ensure the individual cannot access them.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

# Independence and ethics

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Teachers Pension	5,010	Self-Interest (because this is a recurring fee)	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 £5k in comparison to the total fee for the audit of £119k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit	30,690	Self-Interest (because this is a recurring fee)  Self-Review (because GT provides audit services)	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 £31k in comparison to the total fee for the audit of £119k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.  To mitigate against the self review threat, the certification work is done after the audit fieldwork has been completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Audit Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified a number of recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. 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
 <b>Medium</b>	<p><b>Medium Term Financial Strategy</b>                      Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.</p>	<p>We recommend that continued close in year monitoring and timely corrective action is undertaken for the Medium Term Financial Strategy.</p> <p><b>Management response</b></p> <p>The Council will continue to closely monitor the in-year financial position through its established budget monitoring processes with regular reporting to the Strategic Leadership Team, Corporate Management Team and Cabinet. As part of this process, financial recovery action plans will be regularly reviewed, and corrective actions taken as required.</p>

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

## Follow up of prior year recommendations

We identified the following issues in the audit of Bath and North East Somerset Council Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note two are in progress.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	The Council should continue to work towards closing the savings gap of £10.9m within the next twelve months.	Ongoing recommendation in relation to Medium Term Financial Strategy raised in Action Plan - Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.
X	We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.	Ongoing recommendation in relation to Medium Term Financial Strategy raised in Action Plan - Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.

### Assessment

✓ Action completed

X Not yet addressed

## Appendix C

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
To confirm on completion of audit.	TBC	TBC	TBC
<b>Overall impact</b>	<b>TBC</b>	<b>TBC</b>	<b>TBC</b>

## Misclassification 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.

Disclosure omission	Auditor recommendations	Adjusted?
Minor corrections to Senior Officer remuneration note	Correction required.	✓
Minor corrections to Note 41 Participation in Pension Schemes note	Correction required.	✓
Additional disclosure on material uncertainty	Correction required.	✓
Minor correction to DSG disclosure note	Correction required.	✓
Amendment to critical judgements note to comply with Code	Correction required.	✓
Amendment of Post Balance Sheet Events to include Covid-19 disclosure	Correction required.	✓
Correction to the Heritage Assets note to show revaluation on the correct line	Correction required.	✓
Correction of wording on Leases note	Correction required.	✓
Correction to Intangible Assets note to reflect correct wording under the Code.	Correction required.	✓
Changes to the Annual Governance Statement and Narrative Report; in particular to reflect the consolidation of the subsidiaries ACL and ADL and the governance arrangements that exist in respect of these subsidiaries.	Correction required.	✓
To conclude on completion of audit.	TBC	

# Audit adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 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	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
<p>As part of our testing of Property, Plant and Equipment, we identified an error in relation to non-enhancing expenditure, whereby of total non-enhancing expenditure of £2.675m in 2019/20, for a proportion of these assets, a property valuation was also undertaken.</p> <p>As a result of this error, revaluations are overstated by £0.888m and should have been reported as an "other adjustment", although Gross Book Value would remain unchanged.</p> <p>Further identified was £0.502m of written-back depreciation also resulting from this incorrect treatment.</p>	£1,390	£1,390	£1,390	The adjustment is not material to the statement of accounts.
<b>Overall impact</b>	<b>£TBC</b>	<b>£TBC</b>	<b>£TBC</b>	

## Impact of prior year unadjusted misstatements

There were no (£nil) adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

## Appendix D

# Fees

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

<b>Audit fees</b>	<b>Proposed fee per Audit Plan</b>	<b>Final fee</b>
Council Audit	£118,701	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£118,701</b>	<b>TBC</b>

The Audit Plan presented in January 2020 included £23,350 in addition to the scale fee set by Public Sector Audit Appointments Ltd (PSAA) to take account of the additional scepticism required on the audit, the raising of the bar by our regulator and accounting for the Energy from Waste scheme. This is reflected in the proposed fee above. Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid 19. We are discussing with PSAA and Finance officers the impact that this may have on the final fee and will update the Corporate Audit Committee once this is known.

The fees reconcile to Note 33 in the financial statements as follows:

Fees per financial statements £119,000

Fees payable for the certification of grant claims and returns £36,000

Total fees £155,000 reconciled (with minor difference due to rounding).

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services – Certification of Teachers’ Pension Return	5,010	TBC
Audit Related Services – Certification of Housing Benefit	30,690	TBC
<b>Total non- audit fees (excluding VAT)</b>	<b>£35,700</b>	<b>£TBC</b>

# Draft Audit Opinion

## Independent auditor's report to the members of Bath and North East Somerset Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Bath and North East Somerset Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

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

#### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

## Appendix E

**Conclusions relating to going concern**

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

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

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

**Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, investment properties, and property investments**

We draw attention to Note X of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings, and investment properties, and the Authority's share of the pension fund's UK property investments as at 31 March 2020. As disclosed in note x to the financial statements, the outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, the valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they were faced with an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. A material valuation uncertainty was therefore disclosed in [both] the Authority's property valuer's report [and the pension fund's property valuation reports]]. Our opinion is not modified in respect of this matter.

**Other information**

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

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

We have nothing to report in this regard.

## Appendix E

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

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

We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice**

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

**Matters on which we are required to report by exception**

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities for the Accounts [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Corporate Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Bath and North East Somerset Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### [OR] Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

## Appendix E

**Use of our report**

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

[Signature]

Peter A Barber, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

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[Date]



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# The Audit Findings for Avon Pension Fund

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Year ended 31 March 2020

18 November 2020

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## Appendices

A. Action plan
B. Audit adjustments
C. Fees
D. Audit Opinion

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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Avon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had an impact on the normal operations of the Pension Fund. The Pension Fund experienced a number of challenges as a result of Covid-19, including key staff members working from home, and delays from counter party working arrangements.</p> <p>Authorities and Pension Funds are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 4 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances with the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team.</p> <p>We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working but, inevitably, the remote working has impacted on delivery and additional resources have been necessary on both sides to in order to complete the work in accordance with the new extended reporting timetable.</p> <p>The financial statements were provided to the audit team on 26 June 2020, in advance of the deadline. The accounts were supported by good quality working papers and we generally received prompt responses to our queries.</p>
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Avon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul>	<p>We commenced our post-statements remote audit in July 2020 and as at 18 November our audit is substantially complete. Our findings are summarised on pages 5 to 13.</p> <p>We have identified no material errors or adjustments to the financial statements.</p> <p>Audit adjustments are detailed in Appendix B.</p> <p>The draft financial statements were presented for audit in accordance with the agreed timetable. The accounts were supported by good quality working papers and we generally received prompt responses to our queries. Our enhanced audit procedures this year, particularly in the area of derivatives, resulted in delays in completing the audit due to the need to involve our own valuations team and challenges around receiving valuation reports from the various fund managers.</p> <p>Subject to completing our remaining audit procedures set out on page 5, we anticipate issuing an unqualified audit opinion following the Corporate Audit Committee meeting on 26 November 2020, as detailed in Appendix D.</p> <p>We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the asset valuation material uncertainties with the Pension Fund's property funds that are disclosed within its financial statements. Further information can be found on page 11.</p>
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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times. The delivery of this audit has been achieved through good cooperation from both sides.

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

## Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Audit approach (continued)

We have had to alter our audit plan, as communicated to you on 19 February 2020, to reflect our response to the Covid-19 pandemic including the identification of a new significant risk in relation to Covid-19.

## Conclusion

As noted on page 4, we have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Audit Committee meeting on 26 November 2020, as detailed in Appendix D.

The following matters are still outstanding:

- receipt of management representation letter and
- review of the final set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been revised, to reflect the fall in net assets at year end. We have kept the benchmarks used consistent with that at planning, as we believe these remain appropriate at the year end.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements (figures in brackets are the values at planning)	44.0m (48.0m)	We considered the proportion of the net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1% of your net assets for the year ended 31 March 2020.
Performance materiality	33.0m (36.0m)	We have determined this using 75% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. The management and finance team remain stable.
Trivial matters	2.2m (2.5m)	This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Corporate Audit Committee as 'Those Charged with Governance'.

# Significant audit risks

## Risks identified in our Audit Plan

### Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification if the instruments of trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.
- evaluated whether sufficient audit evidence could be obtained using alternative approaches for the purposes of our audit while working remotely;
- evaluated whether sufficient audit evidence could be obtained to corroborate management's fair value hierarchy disclosure
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as level 3 asset valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report if we have been unable to obtain sufficient audit evidence.

The Fund responded well to the challenge of remote working and were able to produce draft financial statements in accordance with the agreed timetable, albeit this was a month later than in previous years.

Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management were required to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen.

As explained on page 11, the Pension Fund has disclosed that a material uncertainty exists in respect of property assets held by the Fund and will refer to this in our audit opinion as an 'emphasis of matter'. Our opinion is not qualified in this respect.

# Significant audit risks

## Risks identified in our Audit Plan

### The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable 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 the 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
- the culture and ethical frameworks of local authorities, including Avon Pension Fund mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Avon Pension Fund

### Management over-ride of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Avon Pension Fund.

Our audit work has not identified any issues in respect of improper revenue recognition.

There is no change to our assessment as reported to you in our Audit Plan dated 19 February 2020.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our testing of estimates, judgements and journals have not identified any evidenced of management override of controls.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of Level 3 investments

The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£793 million) and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant non-routine transactions and judgmental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We have:

- evaluated management's processes for valuing Level 3 investments
- 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; to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and custodians.
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period
- in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

Our audit work focuses on looking at external confirmations from both investment managers and the custodian, and as a result there will always be differences, which are largely as a result of timing differences in when information is received compared to the information available when management are estimating the values for the accounts.

From the work performed, where we have independently requested year-end confirmations from investment managers and custodians, the following difference were noted, whereby, management and the custodian have used the fund manager valuation as at 28 February 2020 to provide their year-end fair value. This is because the fund manager does not produce the report until after the accounts deadline. For this year, the following differences were identified:

- Level 3 – JP Morgan Valuation: The figure included in the accounts is £257.9m, this is derived by the custodian taking the actual figure at December 2019 and then adjusting this for drawdowns and distributions. The audit team received the valuation of £251.1m from the Fund Manager. The difference between the figure included in the accounts and the figure received as the actual value of the investment is different by £6.8m.

This £6.8m difference is above our triviality levels and is therefore included within our audit adjustments section (Appendix C), but management have chosen not to adjust the accounts for the value, given that the difference is not material. Given that our headline materiality is £44.7m, we are comfortable that this difference does not present of a risk of material misstatement of the fair value of your investments. The difference referenced below does not indicate any weakness in management's arrangements for estimating investment values at year end.

Our audit work has not identified any other issues in respect of the valuation of Level 3 investments.

# Significant findings – going concern

## Our responsibility

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) 570).

## Going concern commentary

### Management's assessment process

Management set out their 'going concern considerations' as part of their response to our 'informing the audit risk assessment' in July 2020.

Management and the s151 officer has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- no decision has been made to wind up the Pension Fund and no events have occurred that would trigger a wind-up;
- they have taken into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue; and
- no material uncertainties related to events or conditions that cast significant doubt upon the Pension Fund's ability to continue as a going concern exist that require disclosure.

Management have assessed that there are no material uncertainties in relation to Going Concern as they hold £4bn of assets which the actuary assesses will be sufficient to meet approximately 84% of future liabilities.

The Fund's current overall aim is to recover the deficit in 13 years. The vast majority of the Fund's liabilities and deficit relate to local Authorities who hold tax raising powers. The Fund monitors employers, their financial performance and their assets in order to work with them in the management of their individual deficits. New employers to the Fund are required to provide guarantors or bonds where appropriate

For this reason, management continue to adopt the Going Concern assumption in preparing the financial statements.

### Concluding comments

## Auditor work and commentary

Chapter 6, Annex 6.5 of the CIPFA Code on the “Presentation of Financial Statements for Pension Funds” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2019/20 Code para 3.4.2.23 states “Local authorities that can only be discontinued under statutory prescription shall prepare their financial statement on a going concern basis of accounting; that is, the financial statement shall be prepared on the assumption that the function of the authority will continue in operational existence for the foreseeable future”.

For defined benefit schemes the Pension SORP gives further guidance in that even where a defined benefit scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme.

The LGPS is a statutory scheme which can only be wound up by government and the presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the administering authority.

We note that the total value of the Fund's promised retirement benefits as at 31 March 2020 is £7.1bn. There are clearly sufficient assets to cover liabilities to November 2021.

The assessment by the actuary is that the funding level as at 31 March 2020 is sufficient to meet 84% of its expected future liabilities in respect of service completed to 31 March 2020.

Given the long term nature of the pension scheme there is little risk of material uncertainty in respect of the going concern assumption. Future funding contributions have been set by an independent actuary which mitigates the risk of material uncertainty.

The future funding valuation covers a period of 3 years and assume a period of 13 years for deficit recovery. The 2019 triennial valuation was completed during 2019/20 setting employer contributions rates for future service and deficit recovery payments with effect from 1 April 2020.

Management's view is that the use of the going concern assumption is appropriate with no material uncertainty that would require disclosure. We concur with this view.

We consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty. Our audit opinion is unmodified in respect of going concern.

## Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<b>Control deficiency</b>	<p>From the work performed it was noted that the controls report for Jupiter Asset Management offered a qualified opinion. All other opinions were unqualified. We have reviewed the exceptions and considered their impact.</p> <p>The first qualification related to a control over segregated mandate investment management fee invoicing which did not operate effectively over the period. The second relates to a control over non-standard client reporting which was not designed suitably. In both cases, the controls failed to achieve their respective control objectives.</p>	<p>Jupiter have re-performed both controls for the period and can confirm that no errors were found in the investment management fee invoices issued or in the non-standard reports provided to clients. As a result, we are satisfied that there is no material impact to our audit, however, we report this to you for information as Those Charged With Governance.</p>
<b>Benefit payments</b>	<p>From the work performed it was noted that one member's pension records had not been transferred to Avon Pension Fund and therefore their benefits payable could not be recalculated. This was identified as an isolated incident in relation to any pensioners transferred from one employer in one specific transfer. The total number of pensioners where Avon Pension Fund do not have access to their records is 140 and the total annual benefits payable is £344k which is below triviality. Therefore there is no material impact on the benefits payable figure.</p>	<p>We are satisfied that there is no impact to our audit, however we report this to you for information as Those Charged With Governance.</p>

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
<p><b>Impact of Covid-19 on asset valuations at year end</b></p> <p>Given the timing of Covid-19 in relation to the year end of the 31 March 2020, we identified that there would be volatility in both financial and property markets that would increase the uncertainty of assumptions applied by management to asset valuation and the reliability of the evidence we can obtain to corroborate management estimates.</p>	<p>The fund holds £229.2m of UK Property funds at 31 March 2020 with a variety of fund managers.</p> <p>The fund manager of the UK property portfolio included in their report a material uncertainty over the valuation provided at year end, which totalled £229.2m. The fund manager noted that the indicative effect of the Covid-19 pandemic on these valuations could result in a reduction of 10-15% in the reported value which is between £23m and £34m.</p> <p>Officers have concluded that given the nature of these assets and their relative size that a material uncertainty exists in relation to their valuation at the year end.</p> <p>This material uncertainty has been disclosed in the Pension Fund's financial statements.</p>	<p>Officers have used 31 March 2020 valuations within the financial statements which can therefore take into account the impact of Covid-19 or reflect the uncertainty caused by the pandemic.</p> <p>Given the material nature of this amount, we have reviewed the basis of this disclosure and concur with officers that there is a material uncertainty in relation to property funds within the asset valuations at year end as a result of Covid-19.</p>
<p><b>McCloud</b></p> <p>The pension liability disclosed in the draft financial statements included an allowance for the implications of the McCloud ruling.</p>	<p>Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities will be lower than was originally estimated in actuarial reports produced for 31 March 2020.</p> <p>In 2018/19 the Fund obtained a revised IAS 26 calculation from its actuary which resulted in an adjustment of £40 million which the Pension Fund adjusted for in the 2018/19 accounts.</p> <p>For 2019/20, Avon Pension Fund sought the actuary's view, and management have concluded that the actuarial estimates remain materially accurate, and include a reasonable and appropriate allowance for the McCloud remedy.</p> <p>Further, management do not consider the impact of the Goodwin case to be material.</p>	<p>We are satisfied with management's assessment that the actuarial estimates remain materially accurate.</p>
<p><b>Derivatives</b></p> <p>The Fund hold £118m of derivative contracts which required further discussion with BlackRock and the use of an auditor's expert for valuation purposes.</p>	<p>We have used our own independent valuers for derivative contracts due to the complex nature of these investments which are held at Level 2 in the accounts. Our valuation experts did not identify a material difference in the valuation of these investments.</p>	<p>We are satisfied with management's assessment that the valuation of Level 2 Derivatives remains materially accurate.</p>

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	<p>The Pension Fund holds Level 3 investments that in total are valued on the net asset statement as at 31 March 2020 at £881m. These include hedge funds, property, and infrastructure pooled investments.</p> <p>These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.</p>	<p>As outlined in our testing of the valuation of level 3 investments (see page 8) we have:</p> <ul style="list-style-type: none"> <li>assessed management's experts, reviewing their competence, expertise and objectivity where appropriate;</li> <li>considered the valuation techniques used against industry practice; and</li> <li>reviewed the adequacy of disclosure of the estimate in the financial statements.</li> </ul>	
Level 2 investment	<p>The Pension Fund investments in Level 2 investments totalled on the balance sheet as at 31 March 2020 at £3,282m. These include quoted equities, quoted bonds, and other pooled investments.</p> <p>The investments are not directly traded on an open exchange / market and the valuation of the investment is subjective, although is often derived from investments in underlying quoted equities and so is not as subjective as a Level 3 investment. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.</p>	<p>Similar to our approach for level 3 investments outlined above, we have:</p> <ul style="list-style-type: none"> <li>assessed management's experts, reviewing their competence, expertise and objectivity where appropriate;</li> <li>considered the valuation techniques used against industry practice; and</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul>	

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## Other matters for communication

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	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Corporate Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	The Fund has informed us that a breach has been reported to the Pensions Regulator for the late issue of Pensions Savings Statements relating to the 2019/2020 financial year. The Fund was statutorily required to issue Pensions Savings Statements annually to affected members by 6 October 2020, however there was a delay until 19 October 2020 due to COVID related matters. The Pensions Regulator have replied advising that no further action has been taken. We have concluded that this does not impact the audit opinion however we bring it to the attention of Those Charged with Governance for completeness. Except for this matter, you have not made us aware of any other significant incidences of non-compliance with relevant laws and regulations and we have not identified any other incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the Pension Fund, which is included in the Corporate Audit Committee papers.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to custodians, Fund Managers and the bank. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
<b>Disclosures</b>	Our review found no material omissions in the financial statements.
<b>Audit evidence and explanations/significant difficulties</b>	<p>All information and explanations requested from management was provided.</p> <p>We experienced a number of delays and difficulties which included the following:</p> <ul style="list-style-type: none"> <li>• Additional derivatives testing including the use of our own Valuations expert</li> <li>• Delays in receipt of third party bank confirmations</li> <li>• Delays in receipt of evidence from Fund Managers</li> <li>• Delays and inefficiencies resulting from remote working</li> <li>• Difficulties obtaining GMP uplift calculations</li> <li>• Increased focus on certain areas as a result of Covid-19 including review of the material uncertainty on property investments.</li> </ul> <p>Obtaining suitable external confirmation from fund managers remains a time consuming process, with it rare that information requested is returned in full at the first request. Officers have been proactive in assisting the audit team in gaining this information, but this has been a slow process.</p>
<b>Matters on which we report by exception</b>	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. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report on 26 November 2020.

# 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 Financial Reporting Pension Fund's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Pension Fund's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	<p>We do not consider the audit of BPP as a threat to our independence as Avon Pension fund cannot exercise control over BPP.</p> <p>The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority.</p> <p>The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.</p> <p>Please note this fee is not included in the financial statement of Avon Pension Fund as is payable by BPP.</p>
Provision of IAS 19 Assurances to Scheme Employer auditors	6,000 (estimated)	<p>Self review</p> <p>Management</p> <p>Self interest</p>	<p>This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requested auditors to form an opinion on as part of their opinion on the financial statements of the admitted body.</p> <p>This is not considered a significant threat as the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.</p> <p>This is not considered a significant threat as the fee is recurring but not significant to the audit of the financial statements; further, it is fixed based on the number of admitted bodies.</p>

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Audit Related Services Fees

In addition to the audit fees we set out in Appendix B our final proposed fees for audit related services provided during the course of our audit are described below.

Audit related	£	Description
<b>IAS 19 assurance letters to other auditors</b>	Estimated fee	The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.
	£6,000	
	Final fee	Historically the majority of the cost of this work has been absorbed within the audit fee of the administering and admitted bodies. Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Avon Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2019/20 IAS 19 letters of assurance were provided to the following admitted bodies of Avon Pension Fund.:
	£7,000	
<p>In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the auditors of eight other entities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p>		<ul style="list-style-type: none"> <li>• Bristol City Council</li> <li>• Avon Fire Authority</li> <li>• North Somerset Council</li> <li>• South Gloucestershire Council</li> <li>• Bath and North East Somerset Council</li> <li>• Shaw Healthcare</li> <li>• National Audit Office (CQC)</li> <li>• West of England Combined Authority</li> </ul>
<p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. The Chief Financial Officer has given his consent for us to respond directly to the auditors of these admitted bodies in relation to these requests.</p>		<p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each body which requests a letter of assurance.</p>

# Action plan

We have identified 2 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on the recommendations during the course of the 2020/21 audit. 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
<p> <b>Medium</b></p> <p>Page 78</p>	<p>From the work performed it was noted that the controls report for Jupiter Asset Management offered a qualified opinion. All other opinions were unqualified. We have reviewed the exceptions and considered their impact.</p> <p>The first qualification related to a control over segregated mandate investment management fee invoicing which did not operate effectively over the period. The second relates to a control over non-standard client reporting which was not designed suitably. In both cases, the controls failed to achieve their respective control objectives.</p>	<p>Jupiter have re-performed both controls for the period and can confirm that no errors were found in the investment management fee invoices issued or in the non-standard reports provided to clients. As a result, we are satisfied that there is no impact to our audit, however, we report this to you for information as Those Charged With Governance.</p> <p><b>Management response</b></p> <p>Management annually review the internal control reports for external providers where available and follow up any qualified opinions to ensure corrective action is taken. The outcome of the review is reported to the Pensions Committee.</p>
<p> <b>Low</b></p>	<p>From the work performed on Benefits Payable it was noted that one member's pension records had not been transferred to Avon Pension Fund and therefore their benefits payable could not be recalculated. This was identified as an isolated incident in relation to any pensioners transferred from one employer in one specific transfer. The total number of pensioners where Avon Pension Fund do not have access to their records is 140 and the total annual benefits payable is £344k which is below triviality. Therefore there is no material impact on the benefits payable figure</p>	<p>We are satisfied that there is no impact to our audit, however, we report this to you for information as Those Charged With Governance.</p> <p><b>Management response</b></p> <p>This is an isolated incident for a single LG employer transferring member administration. The member data transfer was carried out by the software provider Heywood, through an automated interface process. Reconciliation of member data was undertaken by the ceding scheme administrator prior to transfer taking place and further consistency checks were undertaken by the receiving scheme following receipt of the data upload.</p>

## Controls

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

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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 ending 31 March 2020.

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000
No amendments have been made to the Pension Fund's primary statements.	£nil	£nil	£nil
<b>Overall impact</b>	<b>£nil</b>	<b>£nil</b>	<b>£nil</b>

## Misclassification 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.

Disclosure omission or misclassification	Detail	Adjusted?
<b>Management Expenses</b>	Management expenses stated as 31,103 in Note 7 - Fund Account	✓
<b>Non-Property Pooled Investment Vehicles</b>	In the prior year accounts, non-property pooled investment vehicles are stated as 77.1% of total assets - Fund Account. Correction is required.	✓
<b>Investment Transaction costs</b>	In the prior year accounts, Investment Transactions Costs - Commission is stated as £601k per Note 9. Correction is required.	✓
<b>Inflation</b>	In the prior year accounts, inflation is stated as 2.2% per Note 15. Correction is required.	✓
<b>Rate of Pay Increases</b>	In the prior year accounts the rate of pay increases is stated as 3.7% per Note 15. Correction is required.	✓
<b>Rate of Payment Increases</b>	In the prior year accounts the rate of payment increases in pensions is stated as 2.3% per Note 15. Correction is required.	✓
<b>CASTING error</b>	There is a casting error in Note 23 and the figure £574,078 casts to £517,748, the figure requires amendment.	✓
<b>Reclassification of NAS</b>	Being the reclassification of the Net Asset Statement in order to agree back to the supporting notes (which formerly didn't reconcile back to the NAS) – for non property pooled investment vehicles and cash.	✓
<b>Other minor disclosure errors</b>	A number of minor clarifications to the accounting policies were added by management to comply with the Code; a number of minor changes to the Related Parties note were required, to correct a transposition error and a date error; and a minor change to the Audit Fee was also required to correct this. Other minor Prior Year errors were noted in Note 22. Minor changes to the Annual Report were required. Clarification to the Post Balance Sheets Event note was required.	✓

# Audit adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 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	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000	Reason for not adjusting
From the work performed where we have independently requested year-end confirmations from investment managers and custodians, it was noted that for non-property pooled investment vehicles, management and the custodian have used the fund manager valuation as at 28 February 2020 to provide their year-end valuation leaving a difference of £6.8m between the accounts and value as at 31 March 2020. This is because the fund manager does not produce the report until after the accounts deadline.	£6,793	£(6,793)	£(6,793)	£6.8m is above our triviality levels and is therefore reportable in the audit findings report, but management have chosen not to adjust the accounts for the value, given that the difference is not material.
<b>Overall impact</b>	<b>£6,793</b>	<b>£(6,793)</b>	<b>£(6,793)</b>	

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Our testing of level three investments identified one difference of £2.4m between the fund manager valuation and valuation included in the accounts and custodian records. The difference has arisen due to the year end fund manager valuation not being received until after the accounts closedown process.	£2,430	£2,430	£2,430	Immaterial nature
<b>Overall impact</b>	<b>£2,430</b>	<b>£2,430</b>	<b>£2,430</b>	

## Appendix C

# Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Pension Fund scale fee	22,180	£TBC
Additional proposed audit fee	4,250	
<b>Total audit fees (excluding VAT)</b>	<b>£26,430</b>	<b>£TBC</b>

The Audit Plan presented in March included £4,250 in addition to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the proposed fee above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid-19 and engaged our own auditors valuation expert to provide further assurance over your derivative disclosures. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £6,000 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £32,430. Further details are provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

As always these additional fees are subject to approval by PSAA in line with the Terms of Appointment.

The total proposed fees at the planning stage reconcile to the financial statements, with the financial statements showing the audit fee as £26k.

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
<b>Audit Related Services</b>		
Provision of IAS 19 Assurance Letters to other auditors (estimated fee)	6,000	TBC
<b>Total non- audit fees (excluding VAT)</b>	<b>£6,000</b>	<b>£6,000</b>

# Additional fees proposed

In addition to the proposed audit fees communicated at the planning stage of £26,430, we set out below the final additional fees proposed for the audit.

Audit related	£	Description
<p><b>Auditor's expert - Valuation</b></p> <p>As part of our audit work on investments we used, for the first time this year, our internal valuations team to provide assurance over the fair value of your derivatives.</p>	<p>Estimated fee £2,000</p>	<p>Our estimate is that the fee for this will be £2,000.</p>
<p><b>Covid-19</b></p> <p>Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:</p> <ul style="list-style-type: none"> <li>Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.</li> <li>Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.</li> <li>Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.. These are understandable and arise from the availability of the relevant information. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.</li> </ul>	<p>Estimated fee £4,000</p>	<p>We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <a href="https://www.frc.org.uk/covid-19-guidance-and-advice">https://www.frc.org.uk/covid-19-guidance-and-advice</a> (see guidance for auditors) sets out the expectations of the FRC.</p> <p>Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.</p> <p>Our estimate is that the fee for this will be £4,000.</p>

# Audit opinion

**We anticipate we will provide the Pension Fund with an unqualified audit report with an Emphasis of Matter in relation to the effects of Covid-19 on the valuation of property investments.**

## Independent auditor's report to the members of Bath and North East Somerset Council on the pension fund financial statements of Avon Pension Fund

### Opinion

We have audited the financial statements of Avon Pension Fund (the 'pension fund') administered by Bath and North East Somerset Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

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

### The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

# Audit opinion

## Conclusions relating to going concern

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

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

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

## Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 1.31 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in Note 1.31 to the financial statements, for the pooled UK property funds held in the UK Property and Secured Income portfolios (valued at £229.2m), the independent valuers consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and as a result have reported the values on the basis of "Material Valuation Uncertainty" as per VPGA 10 of the RICS Red Book-Global Standards. Consequently, for these assets, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case. Our opinion is not modified in respect of this matter.

## Other information

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

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

We have nothing to report in this regard.

# Audit opinion

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

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

## Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities for the Accounts [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Corporate Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

# Audit opinion

## Auditor's responsibilities for the audit of the financial statements

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

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

## Use of our report

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

[Signature]

Peter A Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date]



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**BATH & NORTH EAST SOMERSET COUNCIL  
STATEMENT OF ACCOUNTS 2019/20**

**It should be noted that this is not the final version of accounts as Grant Thornton's audit work is still ongoing.**

**Some adjustments since the draft version of accounts (published on 9th July 2020) are now included, which are listed in Grant Thornton's draft Audit Findings Report.**

**There may be further changes required pending the conclusion of Grant Thornton's audit work, as well as the inclusion of the Auditor's report for the Council and Pension Fund, to be added to pages 2-6.**

**An update will be provided at the Corporate Audit Committee meeting.**

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TO FOLLOW

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

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TO FOLLOW

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

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TO FOLLOW

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

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TO FOLLOW

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

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TO FOLLOW

# NARRATIVE REPORT

## Introduction

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

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

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

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

The main financial statements are:

### Comprehensive Income and Expenditure Statement

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

### Movement in Reserves Statement

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

### Balance Sheet

The Balance Sheet shows the assets and liabilities of the Council as a whole as at the 31 March 2020.

### 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 2019/20, which is recognised by statute as representing proper accounting practices. The Code of Practice incorporates Best Value Accounting principles with which the Council has also complied.

# NARRATIVE REPORT

## Bath & North East Somerset in Context

As a local authority area Bath and North East Somerset (B&NES) was formed in 1996 and covers approximately 135.2 square miles. In mid-2018 there were 192,106 residents.

### Topography and features

Bath is the largest urban settlement in the area and forms the main urban centre, acting as the commercial and recreational centre of the district. It is home to just over 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 just over 9% of the total population of B&NES. 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.

### Population and Demography

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 areas notable student population. Between 2001 and 2017, the growth in the 20-24 age range accounted for nearly 50% of the area's population growth.

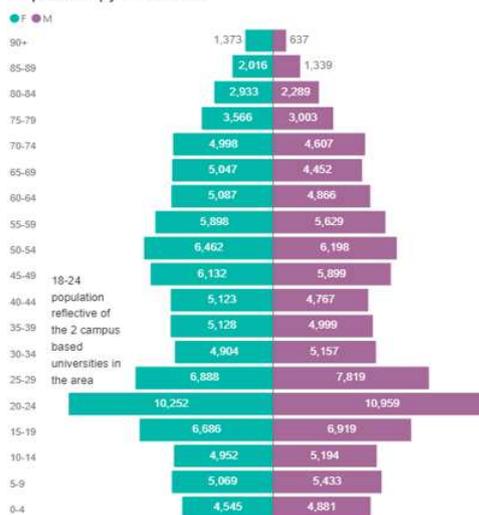
The claimant count (those claiming Jobseekers Allowance (JSA), NI credits and Universal Credit (UC) who are out of work) was 2,145 (1.7%) in B&NES in March 2020, lower than the South West and England figures (2.2% and 3.1% respectively). Rates locally have been fairly static since 2016, while national and regional figures show a general upward trend. It should be noted that B&NES is a pilot area for UC.

B&NES 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.

In 2019, 84% of the population were either very or fairly satisfied with their local area as a place to live, which is a 1% increase from 2018.

The Office for National Statistics (ONS) project that the Bath and North East Somerset population will increase to 210,848 by 2030, an increase of nearly 8% from 2020.

Population pyramid 2018



### Economy

Workplace wages are higher in B&NES at £613 median weekly gross pay compared to £560 for the South West region and £587 for England. The same pattern is true when looking at wages for residents only.

Economic activity in B&NES remains just higher than the national average, at 80% compared to 79% nationally.

There are an estimated 6,100 workless households in B&NES (10.5%) compared to 14.3% nationally.

Overall levels of resident qualifications are also high in B&NES with 46% educated to NVQ4 and above compared to 39% regionally and 40% nationally.

### Wellbeing

In the 2011 Census, 16% of 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.

Health outcomes for B&NES are generally good. However, inequalities in outcomes do exist, as well as some concerning emerging trends that possibly point to an overall worsening level of health and wellbeing across the population.

Previous improvements in male life expectancy in B&NES appears to have stalled, and since 2012-2014 has levelled out (81 years during the period 2016-2018). Although female life expectancy in B&NES during the period 2016-2018 stood at 85 years, healthy female life expectancy has fallen during the period 2012-2014 to 2016-2018 from 68 years to 64 years. At the time of writing this summary, the world, including B&NES, was experiencing its first significant pandemic since the 1918 flu pandemic. Increases in mortality, both direct and indirect, have the potential to cause further stagnations or declines in life expectancy.

### Summary of the Council's financial performance

The 2019/20 budget included the requirement for the delivery of £8.9m of savings of which 76% were achieved. The Council delivered a net underspend of £0.1m on its revised revenue budget after allowing for carry forwards. The net underspend will be transferred to the Revenue Budget Contingency earmarked reserve which is held to fund any future unmitigated revenue pressures.

The main areas contributing to the underspend were in the Resources portfolio mainly relating to lower capital financing costs due to re-profiling the delivery of capital schemes into future years leading to lower than forecast borrowing interest and repayment costs. The favourable position was partially offset by spend pressure in Children's Services due to an increase in support packages to keep children safe and for complex care packages for the children with highest needs.

# NARRATIVE REPORT

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## The Next Twelve Months & Medium Term Outlook

The Budget for 2020/21 represents the first year of the Council's new Medium Term Financial Strategy (MTFS). The MTFS was approved in September 2019 and updated as part of the February 2020 Budget Report, outlining how the budget would be delivered over the medium to long-term. The MTFS spans two years with a further three added to show the likely longer-term picture.

The Council needs to deliver a balanced budget over the term of the plan. A balanced budget means that balances or reserves are not used to meet on-going expenditure commitments. The MTFS estimates that savings and income generation of £14m will be required over the next two years, with the budget report approved in February 2020 including savings proposals of £7.3m, leaving a savings gap of £6.7m in 2021/22 for which savings plans will need to be developed by February 2021. The MTFS also currently estimates further savings requirements of £14m covering the three year period from 2022/23 to 2024/25.

An updated Efficiency Strategy was approved in February 2020, which outlined the use of Government's capital receipts flexibility. This enables the utilisation of capital receipts for revenue spend which results in ongoing savings. This is a key part of the strategy for funding the one-off costs, such as severance, in reducing on-going salary and other service costs. The Council utilised £1.3m of capital receipts to fund one-off costs of delivering savings in 2019/20 and has budgeted to utilise £3m in 2020/21.

The Local Government Finance Settlement for 2020/21 provided updates on future funding changes and further funding provisions including:-

- The continuation of the West of England Devolution Authorities 100% Business Rate Retention pilot in 2020/21. This provides a significant financial benefit to the Council with estimated benefits of c.£3.8 million factored into the Council's budget in 2020/21.
- A delay in the Fairer Funding Review and Business Rate Retention changes until 2021/22.
- Confirmation of a further £1bn Social Care grant funding equation to £2.68m for the Council which will be combined with the continuation of the existing Social Care Support grant (£1.25m). It was also confirmed that this will be paid in each year of the new Parliament.
- Confirmation that the existing £1.837bn improved Better Care Fund social grant will continue and incorporate the £240m Winter Pressures Grant with the same distribution as 2019/20. For the Council this will mean continuation of £4.76m funding protecting the Better Care Fund schemes that have committed this funding on an annual basis.
- In recognising the continued pressures facing Adult Social Care (ASC) authorities, a further 2% allowance for the Adult Social Care Council Tax increase was announced for 2020/21.
- A general council tax increase cap of 2% for 2020/21 (this excludes the Adult Social Care Council Tax increase).

The budget for 2020/21 was developed along with the Corporate Strategy to ensure that it aligns to the Council's key principles and commitments. For 2020/21 a total of £2.25m was allocated to meet new priorities as well as savings and income generation plans totalling £4.85m. Of these savings 11% were considered high risk (an improvement compared to 2019/20 of 35%).

The budget focusses on delivery of the new Corporate Strategy which is set within the following framework:

(1) We have one overriding purpose – to improve people's lives. This brings together everything we do, from cleaning the streets to caring for our older people. It is the foundation for our strategy, and we will ensure that it drives our commitments, spending and service delivery.

(2) We have two core policies – tackling the climate and nature emergency and giving people a bigger say. These will shape our work.

(3) To translate our purpose into commitments, we have identified three principles. We want to prepare for the future, deliver for local residents and focus on prevention.

The Budget agreed for 2020/21 included the following key proposals:

- An increase of 1.99% to Council Tax for the Adult Social Care Precept in recognition of the current demands and financial pressures on this service.
- An increase in general Council Tax of 1.99% in 2020/21.
- £4.6m added to reserves within the budget to add additional resilience in 2020/21.
- A General Fund net revenue budget of £118.25m for 2020/21 and an approved Capital Programme for 2020/21 of £109.51m.

# NARRATIVE REPORT

## The Covid 19 Pandemic Impacts on the Revenue Budget 2020/21

The Council's 2020/21 budget was set prior to the emergence of the Covid-19 pandemic in the United Kingdom. It is now clear that the Council has an unprecedented financial challenge due to the Covid-19 impacts on Council services and the revenue budget. This is a fast moving and dynamic situation which requires immediate action to manage the 2020/21 associated financial pressures arising from income reductions and spend pressures. This has resulted in a high degree of uncertainty on the longer-term financial impact that Covid-19 will have on Council finances. It is important to acknowledge that the impact has been caused by events outside the Councils control. A report was taken to the Council's Cabinet Meeting on 2nd July 2020 setting out the first step to be taken, which is addressing the in-year budget impact and financial recovery measures.

The report sets out the financial impacts of Covid-19 on the Council's revenue budgets. The Council is anticipating a £42m pressure on its revenue budget and £7.5m on the Collection Fund before government grant and the proposed financial recovery measures.

The adverse impact on the Council's revenue budget has arisen from the urgent actions required to comply with the government lockdown measures which included the closure of the Roman Baths. To give context, the income from our Heritage and Parking Services for April and May was £0.259m compared to £5.866m for the same period last year, a reduction of £5.607m; this equates to a loss of £91,918 a day which is required to fund Council Services. This alongside expenditure pressures which include supplier relief such as supporting the social care market and new unplanned expenditure, for example the sourcing of Personal Protective Equipment (PPE), has resulted in a forecast £42m budget pressure, the Council is required to seek compensating savings to try and bring budgets back to balance.

The most significant forecast pressures on service income and expenditure are as follows:-

- Heritage Income - £16.6m - due to the closure of the Roman Baths, Fashion Museum and Victoria Art Gallery which under normal circumstances would generate a net annual profit of £9.7m. There is now a forecast deficit in turnover ranging between £14.5m to £18.7m with the mid-point used in the forecast. Reopening of the service will need to take into account social distancing measures and anticipated reductions in demand from international visitors.
- Parking Income - £7.2m - adversely impacted from the Covid-19 restrictions with a period of non-charging during the lockdown and ongoing reduced demand. This is due to the material usage drop from the impacts on the visitor economy alongside fewer regular users as people are working from home or not able to work.
- Commercial Estate Rental Income - £6.1m - The deficit is projected to the end of the year and built on the assumption that there will be new voids in the Commercial Estate due to the impact on business viability following the Covid-19 restrictions and changes in consumer behaviour.
- Adults Social Care Expenditure - £5.2m - Due to the Covid-19 impact on the health and care sector there will be additional financial pressure on the adult social care budgets as a result of supporting the care market in responding to the changes in care delivery from social distancing.

Due to the early assessment of annual income loss in 2020/21, which in March was forecast to have an annual impact of over £30m early work started on the Council's in year financial recovery plans.

With a Government Covid-19 Grant allocation of £10m and in year revenue pressures of over £40m it was apparent the grant would contribute to the new cost pressures but not mitigate the loss of income. As a result, the following scenarios were developed to identify recovery measures:

<b>Red scenario</b> = Maximum Govt support: 25% of projected additional pressures (£12.5m Grant) reducing the projected in year deficit to <b>£30m</b>
<b>Amber scenario</b> = Maximum Govt support: 50% of projected additional pressures (£25m Grant) reducing the projected in year deficit to <b>£17.8m</b>
<b>Green scenario</b> = Maximum Govt support: 75% of projected additional pressures (£37.5m Grant) reducing the projected in year deficit to <b>£5.3m</b>
<i>*Note: the scenarios are based on a £42m revenue deficit (c£10m expenditure &amp; c£32m income loss) and Council tax and Business Rates collection deficit of c£7m</i>

At the time of developing the above scenarios the confirmed government revenue grant allocation to B&NES was £10m from the national funding of £3.2bn to local government for dealing with Covid-19 related pressures. Based on this the current working assumption is the adoption of the red scenario and this has guided the creation of the recovery plan.

A set of financial measures required to manage the Council's financial recovery through recognising the impact of Covid-19 on the revenue budget have been agreed. This includes a range of service-based Director mitigations within Cabinet Portfolios alongside Corporate mitigations to deliver a fully funded 2020/21 revenue outturn. Early decisive action and delivery at pace will enable the Council to implement the in-year recovery measures that will help mitigate the loss of income minimise further exposure to financial risk.

The financial recovery measures totalling £20.7m together with applying the £10m government Covid-19 local government support grant, leaves a balance of just over £11m against which reserves have been earmarked.

Government announced on the 2nd July a new support package to help councils respond to coronavirus announced as part of comprehensive plan to ensure councils' financial sustainability for the future. This includes the recognition of lost income which is a welcome addition to the government support scheme for B&NES due to our reliance on external income generation.

The announcement included:

- Further £500 million brings funding given to support local councils with pressures to £4.3 billion, part of a package of over £27 billion to help councils, businesses and communities.
- New scheme will also reimburse Councils for lost income and allow council and business rates tax deficits to be repaid over 3 years instead of one.

A full assessment will be made of the additional support to B&NES following the publication of detailed guidance for the income reimbursement scheme and grant allocation. At a minimum this will enable to Council to move away from the red scenario above and reduce its reliance on reserve funding for the projected deficit in 2020/21 which will help enable a more resilient approach to managing the future years budget risks from 2021/22.

## NARRATIVE REPORT

### Total Resources Available for the Capital Programme

The table below summarises the approved resources available for the 2020/21 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.

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
<b>Total Schemes</b>	<b>236,286</b>	<b>44,756</b>	<b>15,602</b>	<b>9,921</b>	<b>3,904</b>
<b>Funding Sources</b>					
Grant	86,605	20,437	6,899	6,469	1,158
Capital Receipts	9,593	141	1,685	200	0
Revenue	114	0	0	0	0
Borrowing	130,266	20,763	6,055	2,156	2,632
3rd Party (incl. s106 & CIL)	9,707	2,146	963	1,096	0
<b>Total Funding</b>	<b>236,285</b>	<b>43,487</b>	<b>15,602</b>	<b>9,921</b>	<b>3,790</b>

### Revenue outturn and balances 2019/20

The Council's net revenue budget was set at £113.101m with an increase of 3.95% in its part of the 2019/20 Council Tax (split 1% for the Adult Social Care precept and a 2.95% general increase). Dedicated Schools Grant funding of £47.059m separately supports expenditure on schools.

Total net spending amounted to £107.492m against a revised budget of £107.841m, giving a year end underspend of £0.349m on the general fund. After allowing for carry forwards of £0.229m, the net underspend position was £0.120m. The net underspend will be transferred to the Revenue Budget Contingency earmarked reserve which is held to fund any future unmitigated revenue pressures. The General Fund balance (unearmarked reserves) stands at £12.7m as at 31st March 2020, which is in accordance with the current risk assessed target range approved by the Council in February 2020.

Schools balances have increased by £0.197m to £0.585m at the year-end, this is partly due to schools with deficits converting to academies and taking their deficit out of the Local Authority held schools balances.

The Council followed well established procedures for monitoring its finances and reporting the position to Senior Management and the Cabinet throughout the year. The final outturn represents an improved position over the forecast based on the period covering April to December which was for a balanced outturn position after drawing on £0.61m from the Financial Planning & Smoothing Reserve, and reflects the actions taken to implement recovery plans to mitigate budget pressures.

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

Children's Services - over budget by £2.247m - Key placement budgets were overspent by £1.6m as a result of increases in support packages to keep children safe and for complex packages for the children with highest need. The portfolio was further over budget by £0.6m relating to respite and care packages for disabled children, reflecting a national and regional trend for numbers of children coming into care. Staffing overspends on Special Educational Needs and Disability (SEND) were offset by staffing underspends in Integrated Commissioning and Safeguarding.

Leader - over budget by £0.434m - The over budget position is due to revisions to the Aequus company business plan projections which have resulted in the timing of the dividend payment to the Council being reprofiled into 2020/21, causing a pressure of £0.26m and delays in achieving destination management savings targets amounting to £0.17m.

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

Resources - under budget by £1.266m - The under-budget position has resulted mainly due to underspends on capital financing corporate budgets of £2.8m due to re-profiling the delivery of capital schemes such as the Waste Relocation strategy into future years. In addition, the Council has had the benefit of lower borrowing rates, both factors have contributed to a reduction in the revenue budget required to repay capital borrowing costs. Other favourable variances arose from contract management savings in ICT of £0.2m, Housing Benefits (£0.2m) due to the improved controls on claimant eligibility resulting in a reduction in overpayments, as well as vacancy management savings from across other services. These are partially offset by adverse variances of £1.5m as a result of the phased implementation of schemes within the Improving How We Work and Contract Management savings programmes, as well as a shortfall in budgeted income of £0.8m within the Commercial Estate due to a slowing down of retail income and challenges in new acquisitions that will generate additional income.

Community Services - under budget by £0.765m - Heritage's most profitable year to date contributed £0.8m to the under-budget position, which was offset slightly by a reduction in cremation and burial income. The favourable outturn position for Heritage Services was impacted by the early closure of the service due to the Covid-19 outbreak, however most of the impact of this will be felt in 2020/21.

Housing, Planning & Economic Development - under budget by £0.601m - All four services within the portfolio (Housing, Regeneration, Planning, Business and Skills) ended the year in an under budget position, with salary savings and over-achieved income being the core reasons.

## NARRATIVE REPORT

The outturn position compared to the budget is as follows:

Service (based on Cabinet Portfolios)	Budget	Actual	(Under)/ Over
	£'000	£'000	Budget £'000
Leader	(363)	71	434
Resources	1,330	64	(1,266)
Adult Services	61,951	61,555	(396)
Children's Services	28,148	30,396	2,247
Climate Emergency & Neighbourhood Services	16,229	16,426	197
Housing, Planning & Economic Development	3,286	2,685	(601)
Community Services	(2,718)	(3,483)	(765)
Transport Services	(22)	(220)	(198)
<b>Overall Total</b>	<b>107,841</b>	<b>107,492</b>	<b>(349)</b>

The Leader Portfolio is made up of Visit Bath and the Council's Housing Delivery Company.

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

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

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, Safeguarding, Early Years, Assessment & Intervention and Youth Services).

The Climate Emergency & Neighbourhoods Portfolio is made up of Waste & Fleet Services, Environmental Monitoring & Sustainability.

Housing, Planning & Economic Development Portfolio is made up Housing, Regeneration, Development Management and Business & Skills

The Community Services Portfolio is made up of Building Control & Public Protection, Parks & Open Spaces, Customer Services & Libraries, Community Safety, World Heritage, Heritage Services, Registrars, Leisure and Events & Active Lifestyles.

Transport Services is made up of Highways, Parking and Public & Passenger Transport and Emergency Planning.

### Collection Fund

As part of the 2020/21 budget setting, an estimate was made on the position of the Collection Fund as at 31st March 2020. 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. At an overall level, the outturn position on the Collection Fund position improved by £0.143m over the estimated position. The difference will be taken into consideration when estimating the closing 2020/21 Collection Fund as part of the 2021/22 budget process.

	Estimated surplus / deficit	Actual surplus / deficit	Difference
	£'000	£'000	£'000
Council Tax	707	1,168	461
Business Rates	1,517	1,199	(318)
<b>Total</b>	<b>2,224</b>	<b>2,367</b>	<b>143</b>

### Comprehensive Income and Expenditure Statement

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

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

	£'000	£'000
Total net spending by departments		107,492
Add:		
Charges related to capital assets:		
- depreciation and impairments	23,982	
- revenue expenditure funded from capital under statute	8,681	
- loss on revaluations	3,483	
		36,146
Offset by:		
Grant funded revenue expenditure funded from capital under statute	5,634	
Unapportioned pensions contributions	1,399	
Levy payments	4,349	
Interest received and paid	(6,975)	
Other movements on funds and balances	3,158	
Net transfers to reserves	(8,233)	
		(668)
Cost of services - continuing operations		<b>144,306</b>

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

## NARRATIVE REPORT

### Capital Expenditure

Capital expenditure in 2019/20 totalled £63m. Overall capital spending was 70% of the revised capital budget, primarily reflecting the delivery time to complete projects moving into future financial periods. Details are:

Cabinet Portfolios	Planned Spend	Actual Spend	Variation on planned spend
	£'000	£'000	£'000
Adult Services	293	295	2
Children's Services	12,523	8,563	(3,960)
Climate Emergency & N'Hood Services	6,324	3,838	(2,486)
Community Services	10,620	8,364	(2,256)
Housing, Planning & Economic Development	28,614	21,474	(7,140)
Resources & Deputy Leader	20,764	11,950	(8,814)
Transport Services	11,025	8,607	(2,418)
	<u>90,163</u>	<u>63,091</u>	<u>(27,072)</u>

Capital expenditure was financed by:

	£'000
Capital Receipts	1,680
Grants	24,904
Borrowing	31,120
3rd Party Contributions	199
Revenue	24
S.106 / CIL contributions	5,164
	<u>63,091</u>

Capital spend on developments for the Bath Quays North Site, South Site and Bridge was £10.1m, and £9.1m on the Bath Western Riverside (mainly land). Capital spend of £8.2m was on Highways infrastructure, £4.5m of spend was incurred on improvement and repairs to schools, and £4.4m on upgrading Keynsham Leisure Centre.

### Property, Plant & Equipment

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

Transfers of £875K from Assets Under Construction reflecting projects becoming operational in the year:-

	£'000
Whitchurch Primary	464
Twerton Infant	288
Bath Quays North: Children's Centre Relocation	312
Other	24
Keynsham High Street (reclassified)	(213)
	<u>875</u>

Transfers of £856K to Investment Properties to reflect that their purpose is now income generation or capital gain

	£'000
62 Walcot Street (Cornmarket)	590
Dartmouth Avenue	266
	<u>856</u>

Net Revaluation loss of 20.771m for Other Land and Buildings for the following classes of assets:-

	£'000
Secondary Schools	11,840
Heritage	4,901
Leisure Centres	4,321
Car Parks	3,820
Land	744
Adult Services (Community Resource Centres / Homes)	(2,723)
Public Rooms	(727)
Offices	(551)
Refuse / Recycling Centres	(456)
Other	(398)
	<u>20,771</u>

### Other Property Assets Values

Investment Properties were subject to new valuations in 2019/20 and reflected a valuation basis of market value.

The valuer reported an £9.0m reduction in Investment Property values since the last full valuation was undertaken (31st March 2019), arising from movements in yields.

### Impact of Covid-19 On Valuations

Our valuation(s) reported on the basis of 'material valuation uncertainty' arising from Brexit and COVID-19 impacts. Consequently a higher degree of caution should be attached to valuations than would normally be the case. Further details are provided in Note 4.

# NARRATIVE REPORT

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## Non Financial Performance of the Council

### New Priorities

A new council framework was developed during 2020. The core purpose of this new framework is to improve people's lives and it is based on three principles:

- Delivering for local residents
- Focusing on prevention
- Preparing for the future

The following is a brief narrative overview of metrics associated with the three principles. This is for the financial year 19/20 with available data. Please note that the Covid-19 pandemic created significant disruption to both service delivery and availability of data.

### 'Delivering for local residents'

#### Education

- The large majority of pupils in Bath and North East Somerset are taught in Good or Outstanding schools and educational outcomes are broadly in line with or above the national average at most key stages. In some cases attainment in B&NES is the best or amongst the best in the South West, for example the proportion of pupils reaching both the expected and higher standards at the end of Key Stage 2 is the highest in the South West. Attainment at Key Stage 5 remains high.
- However, the achievement of pupils eligible for Free School Meals is much lower than similar pupils nationally at all key stages, and reducing this gap remains a priority.

#### People who might experience barriers to employment

- In 2018/19 10.1% of adults with Learning Disabilities who are known to the Council were in paid employment. This has decreased slightly from 10.4% in 2017/18. The figure for England as a whole is 5.9%, and for the South West it is 6%.
- In 2018/19 10% of adults in contact with secondary mental health services were in paid employment, a decrease from 12% in 2017/18. The figure for England is 8%, and for the South West it is 10%

#### Housing benefit and Council tax

- As of March 2020, the total caseload for Housing Benefit locally was at 5,486, it's lowest level over the past 8 years. The reduction (seen mainly in the working age population) is likely to be largely down to the ongoing rollout of Universal Credit.
- The total Council Tax Support caseload is more variable, reaching its lowest level in recent years in June 2019 and showing a rising trend to 9,831 recipients in March 2020.

#### Homelessness

- The number of households in temporary accommodation has decreased to 24 in December 2019, compared to 30 in December 2018.
- There were 17 rough sleepers in the Autumn 2019 single night snapshot, down from 20 in Autumn 2018.

### 'Focusing on prevention'

#### Child Protection

- The volume and rates of children in care has stabilised following a period of increase, with 182 children in care by March 2020.
- Alongside this, the number of children on a child protection plan has increased to 135 in December 2019, from 100 in December 2018.
- There has been a decline in the number of contacts over the financial year from around 2,000 per quarter at the start of the year, to 1,768 for the quarter ending March 2020.

#### Adult Social Care

- National reporting of delayed transfers of care (DTC) for Q4 ceased after February's return, in response to the COVID pandemic. For the two months' data available for Q4, the daily rate of occupied beds per 100,000 population (18+) was 19.1 against a target of 11.7. Significant pressure across the health and social care system has impacted DTC rates throughout the year, despite the mitigation of Better Care Fund schemes.
- Emergency hospital admissions improved significantly in Q4, with 4,923 admissions against the target of 5,507. This was the first quarter in 19/20 that performance was better than the planned level, which continues the general reduction in the rate seen since Q1. While each month in Q4 returned better-than-planned performance, the overall Q4 improvement will include the effect of COVID-19 in the last two weeks of March, which contributed to a significant drop in admissions.

#### Wellbeing and Health inequalities

- As with many outcomes, there is an inequality gap in life expectancy at birth, especially for men - with those living in the least deprived areas of B&NES living 7 years longer than men in the most deprived areas of B&NES (2016-2018).
- Around 1,600 people normally resident in B&NES die every year, with 1 in 4 being classified as a premature death, i.e. under the age of 75. Just under half of all premature deaths in B&NES have an underlying cause of cancer, with the next leading underlying cause of premature death being circulatory diseases such as heart disease and stroke.
- Although B&NES has a relatively low rate of childhood obesity compare to other areas in England (among County Council and Upper Tier Local Authorities) for Year 6 pupils, 1 in 4 Year 6 pupils in B&NES schools are classified as overweight (12.1%) or obese (13.5%) [2018/19]. Significant age and socio-economic gradients exist for childhood obesity, i.e. levels of childhood obesity increase with increasing age and worsening levels of deprivation.

#### Special Education Needs

- As at January 2020 there were 1,363 B&NES Council maintained Statements / Education, Health and Care (EHC) Plans for children and young people with Special Educational Needs and/or Disabilities (SEND). There were also a further 3,162 lower need SEND Support pupils in local state-funded mainstream primary and secondary schools.

#### Waste & Recycling

- In 2019-20 58.97% of domestic waste was reused, recycled or composted, against a 60% target. Overall rates have remained consistent over time but this is a slight decline on the previous year (59.24%).

# NARRATIVE REPORT

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## Non Financial Performance of the Council (cont.)

### 'Preparing for the future'

#### Local Renewable Energy

- By the end of 2018, 3.2% of homes in B&NES had Solar PV Installed (Department of Business Energy and Industrial Strategy, Renewable electricity by local authority, 26 September 2019).

#### Carbon neutral development and energy efficiency retrofitting

- 3,635 ECO measures (retrofitting) have been installed in B&NES up to the end March 2020 (Department of Business Energy and Industrial Strategy, Household energy efficiency Statistics, 18 June 2020).

#### Local Travel Options

- According to the Travel West March 2020 Travel to Work Survey (1,364 respondents), the main modes of travel to work in B&NES were as follows: 53% car, 8% car share (drivers with other passengers), 7% cycle, 11% walk, 12% bus, 7% train, 3% other.

#### Housing Growth and Development

- There were 1,163 net additional homes built in 2019/20, well above the trajectory target of 648.
- Statutory planning development targets all remain significantly above target for 2019/20, with 94% of major planning decisions made within timescale, compared to a target of 60%.

#### Heritage Visitor Numbers

- For the first time in eight years Heritage Services saw a fall in visitor numbers, which dropped 3%. This is entirely due to the impact of COVID-19, which affected visitor numbers from February 2020. Prior to this point visitor numbers had been strong at the Roman Baths, Fashion Museum and Victoria Art Gallery, with the Roman Baths having its busiest ever calendar year in 2019.

## Corporate Risk Management

The Council's Risk Management Strategy was reviewed and updated during 2019 and sets out the framework to manage risk. Subsequent to the local elections in May 2019 a new Corporate Strategy and priorities have also been developed for the organisation and approved in early 2020.

Senior Management assess key risks at a strategic level against these priorities and actively manage risk on a daily basis to respond to the challenges of delivering services in a complex environment.

The Covid-19 pandemic has changed much of our focus from March 2020 but subsequent to this 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 2019/20 has focussed on –

- How we plan for and meet the ongoing Financial Challenge facing the public sector
- Supporting and stimulating Economic Growth and Regeneration
- Safeguarding children and vulnerable adults in our community
- Delivering joined up commissioning of social care with the CCG and partners
- Working across the West of England to stimulate housing needs, skills and employment and support major transport projects
- Managing and investing in the key infrastructure and assets of the area and tackling major transport issues

As we move into 2020/21 the Council will be heavily focussed on meeting the challenges posed by the Covid-19 pandemic and the risks it poses both in terms of supporting those directly affected in our community and the severe financial challenges it poses to the Council and the wider local economy.

Beyond this the Council will be focussed on delivering its new Corporate Strategy and how it tackles the Climate Emergency at a local level. All of these issues feature regularly at Cabinet and Senior Management team level and the Council continues to strive to meet the financial challenges ahead.

# NARRATIVE REPORT

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## Pension Fund

As required by the Local Government Pension Scheme (LGPS) Regulations 2013, an actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2019. The market value of the Fund's assets at the valuation date was £4,818m. The Actuary estimated that the value of the Fund was sufficient to meet 94% of its expected future liabilities of £5,102m in respect of service completed to 31 March 2019, with a deficit of £284m. This triennial valuation set the employer contribution rates from 1 April 2020. The next triennial valuation will be as at 31st March 2022.

The Actuary has estimated that the funding level has fallen over the year to 84% based on the 2019 valuation financial assumptions.

## Pension Liabilities

The Council itself has a liability of £326.2m 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 2019/20 is mainly due to gains from changes in the Actuary's assumptions in valuing the liabilities as detailed in Note 41 below. The Actuary has estimated that the funding level has fallen over the year to 84% based on the 2019 valuation financial assumptions.

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

## 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 Visit Bath (Tourism Information & Marketing Services), Aequus Developments Ltd (ADL) (develop, deliver, own & manage property) and Aequus Construction Ltd. (ACL) (building construction & development). All three entities are ultimately 100% subsidiaries of the Council, with ACL being a 100% subsidiary of ADL. The 2019/20 increased turnover and assets held by Aequus Developments Ltd (ADL) and Aequus Construction Ltd. (ACL), as detailed in Note 45, is considered significant enough to produce Group Accounts for the first time. These Group Financial Statements are included in these Statement of Accounts.

## 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.

Once again the accounts have been produced promptly and to a high standard. This year has been particularly challenging given the need for all members of the finance team to work from home as a result of the national lockdown which coincided with the main period of the accounts preparation and finalisation, as well as delivering the requirement to produce group accounts for the first time. The publication of the draft set of accounts ahead of the revised deadline reflects the exceptional commitment and hard work undertaken by Finance staff and other service teams 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.



**Andy Rothery**

Director of Finance (Section 151 Officer)

**Date: 26th November 2020**

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2019/20

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	2018/19 Gross Exp	2018/19 Gross Inc	2018/19 Net Exp		2019/20 Gross Exp	2019/20 Gross Inc	2019/20 Net Exp
49	Restated £'000	Restated £'000	Restated £'000		£'000	£'000	£'000
				<b>Expenditure on Services</b>			
	738	(329)	409	Leader	663	(528)	135
	69,498	(53,360)	16,138	Resources	69,421	(57,868)	11,553
	117,575	(55,037)	62,538	Adult Services	106,301	(41,253)	65,048
	98,586	(64,081)	34,505	Children's Services	93,597	(60,931)	32,666
	18,479	(2,694)	15,785	Climate Emergency & Neighb'hood Serv.	19,328	(2,568)	16,760
	8,797	(7,670)	1,127	Housing, Planning & Economic Developm't	9,371	(5,651)	3,720
	25,040	(24,239)	801	Community Services	24,466	(25,116)	(650)
	30,819	(15,396)	15,423	Transport Services	30,159	(15,085)	15,074
	369,532	(222,806)	146,726	<b>Cost of Services - continuing Operations</b>	<b>353,306</b>	<b>(209,000)</b>	<b>144,306</b>
9			12,060	Other Operating Expenditure			12,969
10			26,394	Financing and Investment Income & Expenditure			5,228
11			(138,417)	Taxation and Non-Specific Grant Income			(143,298)
			46,763	<b>(Surplus) or Deficit on Provision of Services</b>			<b>19,205</b>
12, 13 & 14			(29,510)	(Surplus) or Deficit on Upward Revaluation of Non-current Assets			(43,600)
12, 13 & 14			17,095	(Surplus) or Deficit on Downward Revaluation of Non-current Assets			13,573
41			28,798	Remeasurement of the net defined benefit liability			(2,253)
			16,383	<b>Other Comprehensive Income &amp; Expenditure</b>			<b>(32,280)</b>
			63,146	<b>Total Comprehensive Income &amp; Expenditure</b>			<b>(13,075)</b>

## MOVEMENT IN RESERVES STATEMENT 2019/20

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
<b>Balance at 31 March 2019</b>	12,318	36,568	<b>48,886</b>	3,474	222	<b>52,582</b>	80,576	<b>133,158</b>
Movements During 2019/20:								
Total Comprehensive Income & Expenditure	(19,205)		<b>(19,205)</b>	-	-	<b>(19,205)</b>	32,280	<b>13,075</b>
Adjustments between accounting basis and funding basis under statutory provisions	27,786		<b>27,786</b>	1,523	(208)	<b>29,101</b>	(29,101)	-
<b>Increase / (Decrease) during year</b>	8,581	-	<b>8,581</b>	1,523	(208)	<b>9,896</b>	3,179	<b>13,075</b>
Transfers to / (from) earmarked reserves	(8,233)	8,233	-					
<b>Balance at 31 March 2020</b>	<b>12,667</b>	<b>44,801</b>	<b>57,468</b>	<b>4,997</b>	<b>14</b>	<b>62,479</b>	<b>83,754</b>	<b>146,233</b>

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
<b>Balance at 31 March 2018</b>	12,473	33,487	<b>45,960</b>	2,770	1,375	<b>50,105</b>	146,199	<b>196,304</b>
Movements During 2018/19:								
Total Comprehensive Income & Expenditure	(46,763)		<b>(46,763)</b>	-	-	<b>(46,763)</b>	(16,383)	<b>(63,146)</b>
Adjustments between accounting basis and funding basis under statutory provisions	49,689		<b>49,690</b>	704	(1,153)	<b>49,241</b>	(49,241)	-
<b>Increase / (Decrease) during year</b>	<b>2,926</b>		<b>2,927</b>	<b>704</b>	<b>(1,153)</b>	<b>2,478</b>	<b>(65,624)</b>	<b>(63,146)</b>
Transfers to / (from) earmarked reserves	(3,081)	3,081	-					
<b>Balance at 31 March 2019</b>	<b>12,318</b>	<b>36,568</b>	<b>48,886</b>	<b>3,474</b>	<b>222</b>	<b>52,582</b>	<b>80,576</b>	<b>133,158</b>

## BALANCE SHEET as at 31 MARCH 2020

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 2019 £'000		31 March 2020 £'000
12	200,896	Property, Plant & Equipment:	
	917	Land & Buildings	227,185
	100,463	Community Assets	1,337
	18,473	Infrastructure	93,504
	22,193	Vehicles, Plant & Equipment	18,893
	2,378	Assets under Construction	40,000
13	34,096	Surplus assets	2,138
14	319,322	Heritage Assets	38,997
15	497	Investment Property	310,762
19	13,298	Intangible Assets	823
	<u>712,533</u>	Long Term Debtors	<u>16,994</u>
		<b>Long Term Assets</b>	<b>750,633</b>
16	15,054	Short Term Investments	29,634
18	498	Inventories	615
19	31,937	Short Term Debtors	34,620
20	25,482	Cash and Cash Equivalents	27,419
17	1,725	Assets Held for Sale	<u>98</u>
	74,696	<b>Current Assets</b>	<b>92,386</b>
16	(10,065)	Short Term Borrowing	-
21	(49,589)	Short Term Creditors	(46,412)
35	(3,554)	Grants Receipts In Advance - Revenue	(9,544)
35	(11,129)	Grants Receipts In Advance - Capital	<u>(26,766)</u>
	(74,337)	<b>Current Liabilities</b>	<b>(82,723)</b>
22	(9,087)	Provisions	(12,214)
16	(218,488)	Long Term Borrowing	(234,867)
41&42	(321,691)	Other Long Term Liabilities	(337,531)
35	(30,468)	Grants Receipts In Advance - Capital	<u>(29,451)</u>
	(579,734)	<b>Long Term Liabilities</b>	<b>(614,063)</b>
	<u>133,158</u>	<b>Net Assets</b>	<b>146,233</b>
23	52,582	Usable reserves	62,479
24	80,576	Unusable Reserves	83,754
	<u>133,158</u>	<b>Total Reserves</b>	<b>146,233</b>

The accounts were authorised for issue on 26th November 2020.

**Andy Rothery**      **Director of Finance (s.151 Officer)**

**Date: 26th November 2020**

## 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.

	2018/19	See Note 25 for further details	2019/20
	£'000		£'000
	(46,763)	Net surplus or (deficit) on the provision of services	(19,205)
		Adjustment to surplus or deficit on the provision of services	
A	85,717	for non cash movements	52,147
		Adjust for items included in the net surplus or deficit on the provision	
A	<u>(28,446)</u>	of services that are investing and financing activities	<u>(33,206)</u>
	10,508	Operating Activities	(264)
C	(57,531)	Investing Activities	(4,085)
D	33,860	Financing Activities	6,285
	<u>(13,163)</u>	<b>Net Increase/(decrease) in cash equivalents</b>	<u>1,936</u>
E	<b>38,645</b>	<b>Cash &amp; cash equivalents at the beginning of the reporting period</b>	<b>25,482</b>
E	<b>25,482</b>	<b>Cash &amp; cash equivalents at the end of the reporting period</b>	<b>27,419</b>

# NOTES TO MAIN FINANCIAL STATEMENTS

## 1 ACCOUNTING POLICIES

### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end 31 March 2020. 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 2019/20 (the Code), supported by International Financial Reporting Standards (IFRS).

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

### 1.2 Qualitative Characteristics of Financial Statements

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

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

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

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

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

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

### 1.3 Underlying Assumptions

#### Accruals Basis

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

#### Going Concern

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

#### Primacy of Legislation Requirements

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

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

### 1.4 Accruals of Income and Expenditure

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

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

## NOTES TO MAIN FINANCIAL STATEMENTS

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### 1.5 Revenue Recognition

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

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

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

In order to comply with IFRS 15, a review of the Council's sources of revenue from contracts with external customers has been completed, with the conclusion that there was no material income streams that require a change in disclosure.

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

Non Domestic Rates (NDR)

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

Council Tax

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

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

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

### 1.7 Provisions

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

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

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

### 1.8 Reserves

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

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

## NOTES TO MAIN FINANCIAL STATEMENTS

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### 1.9 Government Grants and Contributions

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

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

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

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

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

### 1.10 Employee Benefits

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

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

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

#### Post-Employment Benefits

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

- \* The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- \* The Local Government Pension Scheme (Avon Pension Fund). The Fund itself is administered entirely by Bath & North East Somerset Council under arrangements made following the abolition of the former Avon County Council on 31 March 1996. Bath & North East Somerset Council is one of over 200 contributing employers into the Avon Pension Fund.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the Council.

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

## NOTES TO MAIN FINANCIAL STATEMENTS

### The Local Government Pension Scheme

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

- \* The liabilities of the Avon Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the Projected Unit Method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.
- \* Liabilities are discounted to their value at current prices, using a discount rate of 2.4% (based on the indicative rate of return on high quality corporate bonds).
- \* The assets of the Avon Pension Fund attributable to the Council are included in the balance sheet at their fair value:
  - Quoted Securities - bid price
  - Unquoted Securities - professional estimate
  - Unlisted Securities - average of the bid and offer rates
  - Property - market value.

The change in the net pensions liability is analysed into the following components:

#### Service Costs:

- Current service cost - the increase in the present value of the liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- Past service cost - the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the Authority in the number of employees covered by a plan) - debited to the Surplus or Deficit on The Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- Any gain or loss on settlement - arising when an Authority enters into a transaction which eliminates all further legal or constructive obligations for part or all of the benefits provided under a Defined Benefit Plan.

Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income & Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

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

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

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

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

**Benefits Paid** - payments to discharge liabilities directly to pensioners.

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

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

#### Discretionary Benefits

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

## NOTES TO MAIN FINANCIAL STATEMENTS

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### 1.11 VAT

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

### 1.12 Overheads and Support Services

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

### 1.13 Property, Plant & Equipment

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

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

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

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

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

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

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

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

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

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

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

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

## NOTES TO MAIN FINANCIAL STATEMENTS

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

Depreciation is calculated on the following bases:

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

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

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

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

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

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

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

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

### Charges to Revenue for Property, Plant & Equipment

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

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

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

### 1.14 Intangible Assets

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

## NOTES TO MAIN FINANCIAL STATEMENTS

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### 1.15 Investment Property

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

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

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

### 1.16 Heritage Assets

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

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

#### Museum Collections

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

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

#### Chandeliers

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

#### Statues and Monuments

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

#### Historical Buildings

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

### 1.17 Fair Value Measurement

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

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

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

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

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

Level 3 - unobservable inputs for the asset or liability.

## NOTES TO MAIN FINANCIAL STATEMENTS

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### 1.18 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

### 1.19 Cash & Cash Equivalents

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

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

### 1.20 Leases

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

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

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

#### The Authority as Lessee

##### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease inception. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset.

Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the period in which they are incurred.

Lease payments are apportioned between:

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

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

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

##### Operating Leases

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

# NOTES TO MAIN FINANCIAL STATEMENTS

## The Authority as Lessor

### Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

### Operating Leases

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

## 1.21 Financial Instruments

### Financial Liabilities

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

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

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets, measured at:

- \* amortised cost
- \* fair value through profit or loss (FVPL), and
- \* fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified as amortised costs, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Costs

Financial assets measured at amortised costs are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income & Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

### Expected Credit Loss Model

The Council recognises material expected credit losses on its financial assets held at amortised costs, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing these losses. Where risk has increased significantly since the instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis on 12-month expected losses.

## NOTES TO MAIN FINANCIAL STATEMENTS

### Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurement of the financial assets are based on the following techniques:

- \* instruments with quoted market prices
- \* other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the accounting policy set out in section 1.17 Fair Value Measurement.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

IFRS9 Financial Instruments sets out that investments in equity should be classified at fair value through profit and loss unless there is an irrevocable election to recognise changes in fair value through other comprehensive income. The Council will assess each investment on an individual basis and assign an IFRS9 category. The assessment will be based on the underlying purpose for holding the financial instrument.

Any changes in the fair value of the instruments held at fair value through profit or loss will be recognised in the net cost of services in the CIES and will have a General Fund impact.

### 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 1.24.

### 1.22 Inventories and Work in Progress

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

### 1.23 Controlled Companies

The Authority has three controlled companies - Aequus Construction Limited, Aequus Developments Limited and Visit Bath. The turnover and assets held by Aequus Developments Ltd (ADL) and Aequus Construction Ltd. (ACL) is considered significant enough to produce Group Accounts, with further details in Note 45 below.

### 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 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.

## NOTES TO MAIN FINANCIAL STATEMENTS

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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 the turnover and assets held by Aequus Developments Ltd (ADL) and Aequus Construction Ltd. (ACL) is considered significant enough to produce Group Accounts, and have therefore been consolidated with the accounts of Bath & North East Somerset Council in the group accounts section of the Statement of 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 is the West of England Partnership.

### 1.28 Pooled Budget Arrangements

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

### 1.29 Events After the Reporting Period

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

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

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

### 1.30 City Region Deal

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

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

#### Income

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

#### Expenditure

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

## NOTES TO MAIN FINANCIAL STATEMENTS

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2020. If these had been adopted for the financial year 2019/20 there would be no material changes. These changes are:

**Amendments to IAS28 Investments In Associates & Joint Ventures** - Long-term Interests in Associates and Joint Ventures.

**Amendments to IAS19 Employment Benefits** - Plan Amendment, Curtailment or Settlement.

Annual Improvements to **IFRS Standards 2015-17 Cycle**.

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

CIPFA/LASAAC have deferred implementation of **IFRS16 Leases** for local government to 1 April 2021. This standard will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). The estimated impact of this standard is not yet known.

### 3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

#### Fair Value of Public Works Loan Board (PWLB) Loans

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

#### Pooled Budgets

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

#### Group Accounts

The Council has reviewed its group activities for the 2019/20 financial year and based on the following estimates of group financials for our 100% owned companies, the turnover and assets held by Aequis Developments Ltd (ADL) and Aequis Construction Ltd. (ACL) is now considered significant enough to produce Group Accounts, with further details in Note 45 below.

### 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 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

#### Pensions Liability

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

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in Note 41. The liability as at 31st March 2020 is £326.2m.

## NOTES TO MAIN FINANCIAL STATEMENTS

### Local Government Pension Scheme Asset Values - Impact of COVID-19

In respect of the pooled UK property funds held in the UK Property and Secured Income portfolios (valued at £229.2m), the independent valuers consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and as a result have reported the values on the basis of 'Material Valuation Uncertainty' as per VPGA 10 of the RICS Red Book-Global Standards. Consequently, for these assets, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

Having taken advice from the fund manager of the UK Property Portfolio, the indicative effect of COVID-19 pandemic on these valuations could result in a reduction of 10-15% in the reported value which is between £23m and £34m.

### Investment Property / Property, Plant and Equipment Values

The Council has a large number of properties which are valued in accordance with the RICS valuation standards. Individual valuations are undertaken to reflect material changes in circumstances affecting individual properties and properties are valued on a minimum five year basis to comply with the Code of Practice on Local Authority Accounting. As a consequence the balance of properties valued differs from year to year.

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

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

Brexit negotiations have moved on and the UK has left the EU on 31st January 2020. There is still a transition period and uncertainty whether a trade deal will be agreed by 31st December 2020

In addition, the outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, the valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they were faced with an unprecedented set of circumstances on which to base a judgement.

Valuations are therefore reported on the basis of '*material valuation uncertainty*' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuations than would normally be the case.

The effect of 1% change in valuations would represent £3.1m change for Investment Properties (Note 14), and £2.3m change for Surplus Properties and Other Land and Buildings (Note 12).

### 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 2019/20 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 2020. For 2010 rating list the estimate has been calculated using the latest Valuation Office Agency (VOA) list of appeals and analysis of successful appeals to date. For 2017 rating list the process of lodging an appeal has been changed to a three stage process of Check, Challenge & Appeal. Provision for appeals on the 2017 rating list has been estimated at 4.7% of net business rates payable, which is Central Government's forecasted cost of appeals nationally. The Council's share of the balance of business rate appeals provisions held at 31st March 2020 amounted to £11.7m, this has increased by £3.1m from the previous year. The variance is mainly due to making a further year's provision for 2017 rating list appeals, against which, no appeals have been settled as at 31st March 2020. If appeals were to increase by 10% then this could require an increase in the Council's share of its appeals provision by £1.171m.

## 5 MATERIAL ITEMS OF INCOME AND EXPENSE

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

## 6 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Director of Finance (Section 151 Officer) on 26th November 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this situation.

### COVID-19

The Councils' business response to COVID-19 has been summarised in the Narrative Report, and the Annual Governance Statement sets out how the associated risks are being identified and managed. Due to the evolving nature of the pandemic, it is not currently possible to estimate the financial impact of the pandemic. It is anticipated that the financial impact will be reflected in the 2020/21 financial statements, and is expected to be most significant in terms of:

- valuation of Investment Estate assets
- loss of fees & charges & Investment Estate rental income
- increased demand for public services
- increased cost of business continuity and disaster planning activities
- collectability of trade debtors and local taxation
- carrying values of non-current assets and investments
- the impact of reductions to LGPS investment portfolios on pension liabilities in the Balance Sheet.

Best estimates of the impact of COVID-19 are being monitored against the Council's budget and are being reflected in the Council's financial planning and budget setting processes for 2021/22.

### Academy Schools

These accounts reflect the transfer of assets and liabilities in respect of those schools which became Academies during the 2019/20 financial year. The following schools have converted to Academy status, or are due to convert, during the financial year 2020/21.

Whitchurch Primary - 01/04/20	Paulton Infants - due 01/08/20
St Marks Secondary - 01/05/20	St Mary's Primary Writhlington due 01/08/20
St Mary's Primary Timsbury 01/05/20	

## NOTES TO MAIN FINANCIAL STATEMENTS

### 7 EXPENDITURE AND FUNDING ANALYSIS

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

	As reported for Resource Management	Adjustment to arrive at the new amount chargeable to the General Fund Balance (Note 7a)	Net Expenditure charged to the General Fund Balance	Adjustments Between Accounting & Funding Basis	Net Expenditure in the Comprehensive Income & Expenditure Statement
<b>2019/20</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Leader	71	(2)	69	66	135
Resources	64	10,487	10,551	1,003	11,554
Adult Services	61,555	-	61,555	3,494	65,049
Children's Services	30,396	(64)	30,332	2,334	32,666
Climate Emergency & Neighbourhood Services	16,426	(1,750)	14,676	2,084	16,760
Housing, Planning & Economic Development	2,685	-	2,685	1,035	3,720
Community Services	(3,483)	(1,380)	(4,863)	4,213	(650)
Transport Services	(220)	(432)	(652)	15,726	15,074
<b>Net Cost Of Services</b>	<b>107,492</b>	<b>6,859</b>	<b>114,351</b>	<b>29,955</b>	<b>144,306</b>
Other Income & Expenditure	(115,023)	(7,909)	(122,932)	(2,169)	(125,101)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(7,531)</b>	<b>(1,050)</b>	<b>(8,581)</b>	<b>27,786</b>	<b>19,205</b>
Opening General Fund Balance at 31 March 2019			48,886		
<b>Closing General Fund Balance at 31 March 2020</b>			<b>57,467</b>		

	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
<b>2018/19 (Restated)</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Leader	359	-	359	50	409
Resources	4,239	6,858	11,097	5,041	16,138
Adult Services	60,738	-	60,738	1,799	62,538
Children's Services	30,798	-	30,798	3,707	34,505
Climate Emergency & Neighbourhood Services	15,084	213	15,297	488	15,785
Housing, Planning & Economic Development	2,754	-	2,754	(1,627)	1,127
Community Services	(1,363)	185	(1,178)	1,980	801
Transport Services	(154)	(265)	(419)	15,842	15,423
<b>Net Cost Of Services</b>	<b>112,456</b>	<b>6,991</b>	<b>119,447</b>	<b>27,280</b>	<b>146,727</b>
Other Income & Expenditure	(118,227)	(4,145)	(122,372)	22,409	(99,963)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(5,771)</b>	<b>2,846</b>	<b>(2,925)</b>	<b>49,689</b>	<b>46,764</b>
Opening General Fund Balance at 31 March 2018			45,960		
<b>Closing General Fund Balance at 31 March 2019</b>			<b>48,886</b>		

## NOTES TO MAIN FINANCIAL STATEMENTS

### 7a NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2019/20	Rental Income reported at Portfolio Level (a) £'000	Other Income reported at Portfolio Level (a) £'000	Interest Payments reported at Portfolio Level (a) £'000	Other Payments reported at Portfolio Level (a) £'000	Adjustments to the net amount chargeable to the General Fund £'000
Leader				(2)	(2)
Resources	19,580	771	(8,220)	(1,644)	10,487
Adult Services					-
Children's Services				(64)	(64)
Climate Emergency & Neighbourhood Services				(1,750)	(1,750)
Housing, Planning & Economic Development					-
Community Services				(1,380)	(1,380)
Transport Services				(432)	(432)
<b>Net Cost of Services</b>	19,580	771	(8,220)	(5,272)	6,859
Other Income & Expenditure	(19,580)	(771)	7,746	4,696	(7,909)
<b>Surplus or Deficit</b>	-	-	(474)	(576)	(1,050)

	Adjustment for capital purposes (b) £'000	Net charges for Pension Fund adjustment (c) £'000	Other Adjustments (d) £'000	Total Adjustments Between Funding & Accounting Basis £'000
Leader	66			66
Resources	(438)	2,319	(878)	1,003
Adult Services	2,983	511		3,494
Children's Services	1,454	969	(89)	2,334
Climate Emergency & Neighbourhood Services	1,504	580		2,084
Housing, Planning & Economic Development	30	905	100	1,035
Community Services	3,455	698	60	4,213
Transport Services	15,258	468		15,726
<b>Net Cost of Services</b>	24,312	6,450	(807)	29,955
Other Income & Expenditure	(9,653)	7,293	191	(2,169)
<b>Surplus or Deficit</b>	14,659	13,743	(616)	27,786

## NOTES TO MAIN FINANCIAL STATEMENTS

2018/19 (Restated)	Rental Income reported at Portfolio Level (a) £'000	Other Income reported at Portfolio Level (a) £'000	Interest Payments reported at Portfolio Level (a) £'000	Other Payments reported at Portfolio Level (a) £'000	Adjustments to the net amount chargeable to the General Fund £'000
Leader					-
Resources	18,957	375	(7,034)	(5,440)	6,858
Adult Services					-
Children's Services					-
Climate Emergency & Neighbourhood Services				213	213
Housing, Planning & Economic Development					-
Community Services				185	185
Transport Services				(265)	(265)
<b>Net Cost of Services</b>	<b>18,957</b>	<b>375</b>	<b>(7,034)</b>	<b>(5,307)</b>	<b>6,991</b>
Other Income & Expenditure	(18,957)	(375)	6,819	8,368	(4,145)
<b>Surplus or Deficit</b>	<b>-</b>	<b>-</b>	<b>(215)</b>	<b>3,061</b>	<b>2,846</b>

	Adjustment for capital purposes (b) £'000	Net charges for Pension Fund adjustment (c) £'000	Other Adjustments (d) £'000	Total Adjustments Between Funding & Accounting Basis £'000
Leader	50	-		50
Resources	4,972	4,115	(4,046)	5,041
Adult Services	1,815	(12)	(4)	1,799
Children's Services	3,760	(121)	68	3,707
Climate Emergency & Neighbourhood Services	549	(54)	(6)	488
Housing, Planning & Economic Development	(1,619)	(8)		(1,627)
Community Services	2,002	(22)		1,980
Transport Services	15,865	(22)		15,842
<b>Net Cost of Services</b>	<b>27,393</b>	<b>3,875</b>	<b>(3,988)</b>	<b>27,280</b>
Other Income & Expenditure	15,448	6,690	271	22,409
<b>Surplus or Deficit</b>	<b>42,841</b>	<b>10,565</b>	<b>(3,717)</b>	<b>49,689</b>

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

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

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

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

## NOTES TO MAIN FINANCIAL STATEMENTS

### 8 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2019/20	Usable Reserves			Movement in Unusable Reserves £'000's
	General Fund Balance £'000's	Capital Receipts Reserve £'000's	Capital Grants Unapplied £'000's	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>				
Charges for depreciation of Non-Current Assets	23,718			(23,718)
Revaluation gains / Impairments on Property Plant & Equipment	3,483			(3,483)
Movements in the Market Value of Investment Properties	9,024			(9,024)
Amortisation of Intangible Assets	264			(264)
Capital Grants & contributions applied	(5,634)			5,634
Revenue expenditure funded from Capital under Statute	8,681			(8,681)
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	8,944			(8,944)
Impairment allowance for capital expenditure loans	44			(44)
<b>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>				
Statutory provision for the financing of capital investment expenditure charged against the General Fund	(6,145)			6,145
Principal repayment of Avon Loan	(474)			474
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(24,425)		24,425	
Application of grants to capital financing transferred to the Capital Adjustment Account			(24,633)	24,633
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,196)	3,196		
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,631)		1,631
Capital expenditure financed from revenue	(24)			24
Contributions from the capital receipts reserve to finance payments to the Government capital receipts pool	-	-		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		7		(7)
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-			-
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>				
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
<b>Adjustments primarily involving the Pooled Fund Adjustment Account:</b>				
Amount by which the change in fair value of pooled funds charged to the Comprehensive Income & Expenditure Statement is different from that calculated for the year in accordance with statutory requirements.	545			(545)
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	30,571			(30,571)
Employer's pensions contribution and direct payments to pensioners payable in the year	(16,828)			16,828
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which income credited to the Comprehensive Income & Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(852)			852
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
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	(139)			139
Other movements	399	(49)		(350)
<b>Total Adjustments</b>	<b>27,786</b>	<b>1,523</b>	<b>(208)</b>	<b>(29,101)</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

2018/19	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£'000's	£'000's	£'000's	£'000's
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>				
Charges for depreciation of Non-Current Assets	21,067			(21,067)
Revaluation gains / Impairments on Property Plant & Equipment	4,792			(4,792)
Movements in the Market Value of Investment Properties	30,482			(30,482)
Amortisation of Intangible Assets	296			(296)
Capital Grants & Contributions Applied	(4,336)			4,336
Revenue expenditure funded from Capital under Statute	11,349			(11,349)
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	9,076			(9,076)
Impairment allowance for capital expenditure loans	118			(118)
<b>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>				
Statutory provision for the financing of capital investment expenditure charged against the General Fund	(5,267)			5,267
Principal repayment of Avon Loan	(494)			494
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(19,388)		19,388	
Application of grants to capital financing transferred to the Capital Adjustment Account			(20,541)	20,541
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,855)	4,855		
Use of the Capital Receipts Reserve to finance new capital expenditure		(4,025)		4,025
Capital expenditure financed from revenue	(134)			134
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		8		(8)
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-			-
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	(169)			169
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	28,569			(28,569)
Employer's pensions contribution and direct payments to pensioners payable in the year	(18,004)			18,004
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which income credited to the Comprehensive Income & Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(3,597)			3,597
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
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	51			(51)
Other movements	133	(134)		1
<b>Total Adjustments</b>	<b>49,689</b>	<b>704</b>	<b>(1,153)</b>	<b>(49,240)</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 9 OTHER OPERATING EXPENDITURE

	2019/20	2018/19
	£'000	£'000
(Gain)/Loss on disposal of non-current assets	5,893	5,299
Parish Precepts	2,727	2,510
Levy payments to joint bodies	4,349	4,251
	<u>12,969</u>	<u>12,060</u>

### 10 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2019/20	2018/19
	£'000	£'000
Interest Payable & Premiums	7,746	6,819
Interest & Investment Income	(771)	(375)
Net Deficit/(Surplus) on Trading Services	(42)	354
Income & expenditure in relation to Investment properties and changes in fair value	(9,591)	12,778
Impairment of Financial Instruments	48	128
Loss / (Gain) on Financial Instruments carried at Fair Value through Profit or Loss	545	-
Net Interest on the Net Defined Benefit Liability (Asset)	7,293	6,690
	<u>5,228</u>	<u>26,394</u>

### 11 TAXATION AND NON-SPECIFIC GRANT INCOME

	2019/20	2018/19
	£'000	£'000
Council Tax Income	(95,953)	(90,045)
Non -Domestic Rates Income & Expenditure	(22,712)	(28,182)
Capital grants and contributions	(24,633)	(20,190)
	<u>(143,298)</u>	<u>(138,417)</u>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 12 PROPERTY, PLANT & EQUIPMENT

Movement in 2019/20:

	Other Land & Buildings	Community Assets	Infrastructure Assets	Veh'cls,Plant & Equipment	Assets Under Construction	Surplus Assets	Heritage Assets	Total Property Plant & Equipment £'000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation as at 1 April 2019</b>	201,612	917	185,449	33,212	22,193	2,381	34,096	<b>479,860</b>
Additions	15,759	433	7,176	4,394	18,837	180	-	<b>46,779</b>
Revaluations increases/decreases recognised in the Revaluation Reserve	20,456	-	-	-	-	(293)	4,901	<b>25,064</b>
Revaluations increases/decreases recognised in the Surplus/Deficit on Provision of Services	(3,965)	(13)	-	(139)	(148)	(21)	-	<b>(4,286)</b>
De-recognition - Disposals	(6,180)	-	(27,488)	(2,062)	(7)	(45)	-	<b>(35,782)</b>
Assets reclassified to/from Held for sale	590	-	-	-	-	(61)	-	<b>529</b>
Reclassifications - other	46	-	(254)	227	(875)	-	-	<b>(856)</b>
<b>Valuation as at 31 March 2020</b>	<b>228,318</b>	<b>1,337</b>	<b>164,883</b>	<b>35,632</b>	<b>40,000</b>	<b>2,141</b>	<b>38,997</b>	<b>511,308</b>
<b>Accumulated Depreciation and Impairment</b>								
Accumulated depreciation as at 1 April 2019	(716)	-	(84,986)	(14,739)	-	(3)	-	<b>(100,444)</b>
Depreciation charge in year	(5,974)	-	(13,899)	(3,820)	-	(25)	-	<b>(23,718)</b>
Depreciation written out to the Revaluation Reserve	4,969	-	-	-	-	-	-	<b>4,969</b>
Depreciation written out to the Surplus/Deficit on Provision of Services	749	-	36	104	-	25	-	<b>914</b>
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/deficit on Provision of Services*	-	-	-	-	-	-	-	-
De-recognition - disposals	(51)	-	27,488	1,699	-	-	-	<b>29,136</b>
Other Movements in Depreciation & Impairment	(110)	-	(18)	17	-	-	-	<b>(111)</b>
<b>Accumulated depreciation at 31 March 2020</b>	<b>(1,133)</b>	<b>-</b>	<b>(71,379)</b>	<b>(16,739)</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>(89,254)</b>
<b>Balance sheet amount 31 March 2020</b>	<b>227,185</b>	<b>1,337</b>	<b>93,504</b>	<b>18,893</b>	<b>40,000</b>	<b>2,138</b>	<b>38,997</b>	<b>422,054</b>
<b>Revaluations (GBV)</b>								
Carried at Historic Cost	1,926	1,337	164,883	35,632	40,000	-	-	<b>243,778</b>
Heritage Valuations (Insurance or Curatorial)	-	-	-	-	-	-	38,997	<b>38,997</b>
Surplus Properties at Fair Value	-	-	-	-	-	-	-	-
Valued at Current value as at:								
Y/E 31/03/2020	175,383	-	-	-	-	1,304	-	<b>176,687</b>
Y/E 31/03/2019	30,370	-	-	-	-	337	-	<b>30,707</b>
Y/E 31/03/2018	12,720	-	-	-	-	125	-	<b>12,845</b>
Y/E 31/03/2017	3,094	-	-	-	-	5	-	<b>3,099</b>
Y/E 31/03/2016	4,825	-	-	-	-	370	-	<b>5,195</b>
Y/E 31/03/2015	-	-	-	-	-	-	-	-
Y/E 31/03/2014	-	-	-	-	-	-	-	-
Y/E 31/03/2013	-	-	-	-	-	-	-	-
<b>Total Cost or Valuation</b>	<b>228,318</b>	<b>1,337</b>	<b>164,883</b>	<b>35,632</b>	<b>40,000</b>	<b>2,141</b>	<b>38,997</b>	<b>511,308</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

Comparative Movements in 2018/19:

	Other Land & Buildings	Community Assets	Infrastructure Assets	Veh'cls, Plant & Equipment	Assets Under Construction	Surplus Assets	Heritage Assets	Total Property Plant & Equipment £'000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation as at 1 April 2018</b>	199,286	583	170,490	30,602	13,006	2,286	33,467	449,720
Adjustment to opening balance	-	-	-	-	-	-	-	-
Additions	6,957	318	12,912	3,159	14,732	57	-	38,135
Revaluations increases/decreases recognised in the Revaluation Reserve	6,517	-	-	-	-	-	629	7,146
Revaluations increases/decreases recognised in the Surplus/Deficit on Provision of Services	(4,627)	-	-	-	(1,230)	16	-	(5,841)
De-recognition - Disposals	(6,287)	-	(359)	(2,230)	-	(248)	-	(9,124)
Assets reclassified to/from Held for sale	(1,691)	-	-	-	-	-	-	(1,691)
Reclassifications - other	1,457	16	2,406	1,681	(4,315)	270	-	1,515
<b>Valuation as at 31 March 2019</b>	<b>201,612</b>	<b>917</b>	<b>185,449</b>	<b>33,212</b>	<b>22,193</b>	<b>2,381</b>	<b>34,096</b>	<b>479,860</b>
<b>Accumulated Depreciation and Impairment</b>								
Accumulated depreciation as at 1 April 2018	(1,907)	-	(73,221)	(13,772)	-	(14)	-	(88,914)
Adjustment to opening balance	-	-	-	-	-	-	-	-
Depreciation charge in year	(5,748)	-	(12,137)	(3,156)	-	(26)	-	(21,067)
Depreciation written out to the Revaluation Reserve	5,283	-	-	-	-	9	-	5,292
Depreciation written out to the Surplus/Deficit on Provision of Services	1,049	-	-	-	-	17	-	1,066
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/deficit on Provision of Services	-	-	-	-	-	-	-	-
De-recognition - disposals	610	-	372	2,189	-	8	-	3,179
Other Movements in Depreciation & Impairment	(3)	-	-	-	-	3	-	-
<b>Accumulated depreciation at 31 March 2019</b>	<b>(716)</b>	<b>-</b>	<b>(84,986)</b>	<b>(14,739)</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>(100,444)</b>
<b>Balance sheet amount 31 March 2019</b>	<b>200,896</b>	<b>917</b>	<b>100,463</b>	<b>18,473</b>	<b>22,193</b>	<b>2,378</b>	<b>34,096</b>	<b>379,416</b>

### Depreciation

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

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

## NOTES TO MAIN FINANCIAL STATEMENTS

### Revaluations

The Council carries out a recurrent rolling programme that ensures all PPE required to be measured out at least every five years, along with other revaluations as required. New valuations undertaken in 2019/20 were carried out to the value of £176.7m. Along with existing valid valuations, acquisitions and disposals this gave a total valuation of £228.6m. 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 2020 the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years estimated to cost £26.005m  
These are detailed below:

	2019/20	2018/19
	£'000	£'000
Leisure Centres	1,001	6,289
Waste and Cleaning Vehicles	1,795	810
Bath Quays	13,703	21,423
Education & Children's Services	1,893	2,660
Bath Transport Package	191	86
Archway Centre	1,922	254
Cleveland Bridge	1,819	-
Resources (Property) Schemes	2,031	470
Other	1,650	1,566
<b>Total</b>	<b>26,005</b>	<b>33,558</b>

## 13 HERITAGE ASSETS

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

2019/20 Cost or Valuation	Victoria Art Gallery £'000	Roman Baths £'000	Fashion Museum £'000	Chandeliers £'000	Records Office £'000	Library £'000	Total £'000
1st April	15,103	9,084	3,995	1,800	1,303	2,811	34,096
Additions							-
Disposals							-
Revaluations	1,032	912	123	0	2,834		4,901
Impairment Losses/(reversals) recognised in the Reval Reserve							-
Impairment Losses/(reversals) recognised in the Surplus or Deficit on Provision of Service							-
<b>31st March</b>	<b>16,135</b>	<b>9,996</b>	<b>4,118</b>	<b>1,800</b>	<b>4,137</b>	<b>2,811</b>	<b>38,997</b>

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

2018/19 Cost or Valuation	Victoria Art Gallery £'000	Roman Baths £'000	Fashion Museum £'000	Chandeliers £'000	Records Office £'000	Library £'000	Total £'000
1st April	14,928	9,084	3,729	1,800	1,303	2,623	33,467
Additions							-
Revaluations	175		266			188	629
<b>31st March</b>	<b>15,103</b>	<b>9,084</b>	<b>3,995</b>	<b>1,800</b>	<b>1,303</b>	<b>2,811</b>	<b>34,096</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 14 INVESTMENT PROPERTIES

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

	2019/20	2018/19
	£'000	£'000
Rental Income from Investment Property	19,580	18,957
Direct operating expenses arising from Investment Property	(965)	(1,253)
Net gain/(loss)	<u>18,615</u>	<u>17,704</u>

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

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

	2019/20	2018/19
	£'000	£'000
Balance at start of year	319,322	322,272
Adjustment to opening balance		
Additions of expenditure	742	31,452
Disposals	(1,134)	(2,405)
Net gains/losses from fair value adjustments	(9,024)	(30,482)
Transfer to/from Property, Plant & Equipment	856	(1,515)
<b>Balance at end of the year</b>	<u>310,762</u>	<u>319,322</u>

The Council carries out annual valuations of all investment properties. The valuer's report identified a total valuation of £310.8m, being all level 2 in the hierarchy outlined in policy 1.17. 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.

	2019/20	2018/19
	£'000	£'000
<b>Cost or valuation as at 1 April</b>	1,551	1,548
Purchases	595	3
Transfers	-	-
Disposals	(11)	-
Net gains/losses from fair value adjustments	-	-
<b>Cost or valuation as at 31 March</b>	<u>2,135</u>	<u>1,551</u>
Accumulated Amortisation as at 1 April	1,054	758
Amortisation for the period	264	296
Amortisation Write Back (Disposals)	(6)	-
Accumulated Amortisation at 31 March	<u>1,312</u>	<u>1,054</u>
<b>Net Carrying amount at 31 March</b>	<u>823</u>	<u>497</u>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 16 FINANCIAL INSTRUMENTS

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

	Long-Term		Current	
	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000
Financial liabilities at amortised cost - loans	216,578	232,869	10,000	-
Accrued Interest (1)			1,974	1,998
Financial liabilities at amortised cost trade creditors			19,460	19,513
<b>Total borrowings</b>	<b>216,578</b>	<b>232,869</b>	<b>31,434</b>	<b>21,511</b>

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

	Long-Term		Current	
	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000
Financial assets held at amortised cost *	-	-	39,720	52,300
Accrued Interest (1) *			124	192
Financial assets held at fair value through profit and loss			-	4,455
Cash			692	106
Loans & receivables - trade debtors			13,635	15,713
<b>Total Investments</b>	<b>-</b>	<b>-</b>	<b>54,171</b>	<b>72,766</b>

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

(2) Impairment of Investments was estimated at £12k and not considered material.

\* The "Financial assets held at amortised cost" and "accrued interest" figures above include those short-term investments classed as Cash Equivalents, as detailed in Note 20. Cash Equivalents equated to £27.313m as at 31st March 2020, with the remaining £25.179m being short term investments. (£24.790m Cash Equivalents as at 31st March 2019, with £15.054m being short term investments).

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			Financial Assets		
	31 March 2019 £'000	31 March 2019 £'000	Total £'000	31 March 2020 £'000	31 March 2020 £'000	Total £'000
Interest Expense *	(6,171)	-	(6,171)	(7,122)	-	(7,122)
Impairment Losses		(128)	(128)		(48)	(48)
Net Gain / (Loss) on Financial Assets Measured at Fair Value Through Profit or Loss			-		(545)	(545)
<b>Interest payable &amp; similar charges</b>	<b>(6,171)</b>	<b>(128)</b>	<b>(6,299)</b>	<b>(7,122)</b>	<b>(593)</b>	<b>(7,715)</b>
Interest Income	-	375	375	-	771	771
<b>Interest &amp; investment Income</b>	<b>-</b>	<b>375</b>	<b>375</b>	<b>-</b>	<b>771</b>	<b>771</b>
<b>Net gain/(loss) for the Year</b>	<b>(6,171)</b>	<b>247</b>	<b>(5,924)</b>	<b>(7,122)</b>	<b>178</b>	<b>(6,944)</b>

\*The Authority also paid £1.10m (of which £0.47m related to principal), in respect of its share of debt relating to the former Avon County Council which is managed by Bristol City Council.

## NOTES TO MAIN FINANCIAL STATEMENTS

### Fair value of assets and liabilities carried at amortised cost

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

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

+ cash flows arising from Public Works Loan Board loans have been discounted on an IFRS13 basis, 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.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices

Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

	Fair Value Level	31 March 2019		31 March 2020	
		Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
<b>Financial liabilities held at amortised cost:</b>					
Financial Liabilities - PWLB Loans (Long Term Borrowing)	2	197,627	229,221	203,960	237,855
Financial Liabilities - Local & Police Authority Loans (Long Term Borrowing)	2	0	0	10,049	10,109
Financial Liabilities - Market Loans (Long Term Borrowing)	2	20,861	32,640	20,858	34,414
<b>Total</b>		218,488	261,861	234,867	282,378
<i>Liabilities for which fair values are not disclosed:</i>					
Financial Liabilities - Local & Police Authority Loans (Short Term Borrowing)		10,065		0	
Financial Liabilities - trade creditors (see Note 21)		19,460		19,513	
<b>Total Financial Liabilities</b>		<u>248,013</u>		<u>254,380</u>	

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

The fair value as at 31st March 2020 on the Council's portfolio of loans is higher 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.

	Fair value Level	31 March 2019		31 March 2020	
		Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
<i>Financial assets held at fair value:</i>					
Property funds	2			4,455	4,455
<i>Financial assets held at amortised cost:</i>					
Money market funds and S/Term deposits	1	39,720	37,741	52,300	52,274
<b>Total</b>		39,720	37,741	56,755	56,729
<i>Assets for which fair value is not disclosed:</i>					
Accrued Interest		124		192	
Cash		692		106	
Loans & Receivables - trade debtors (see Note 19)		13,635		15,713	
<b>Total Financial Assets</b>		<u>54,171</u>		<u>72,766</u>	

Property funds totalling £4.455m currently sit in level 2 of the hierarchy for 2019/20 reflecting that there is no longer an active market in these instruments. Fund managers have suspended redemptions reflecting market conditions for underlying properties caused by the economic consequences of the coronavirus pandemic, however under normal circumstances these funds would have a level 1 valuation.

## NOTES TO MAIN FINANCIAL STATEMENTS

### Disclosure of nature and extent of risks arising from financial instruments

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

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

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

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. The Council's approved Treasury Management Strategy (as revised) for 2019/20 sets the minimum credit ratings for the banks and financial institutions with which deposits can be made. The minimum credit ratings were Long Term rating BBB+ or equivalent for UK banks and A for Foreign banks. The Council also set additional criteria in relation to the time limit and amount of monies which will be invested with financial institutions based on the level of their credit rating with a maximum lending limit of £10m restricted to UK banks and foreign banks.

For operational reasons, the Treasury Management Strategy for 2019/20 permitted the overnight use of the Council's current bank account provider (NatWest), subject to maintaining a credit rating of not lower than BBB-.

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £15m per country for those rated AAA and £10 million for those rated AA+ 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.

IFRS9 Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 122% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. At 31st March 2020, £12K of loss allowances related to treasury investments and deemed not material. (2018/19 £5k).

In furtherance of the Council's service objectives, it has lent money to the various companies as set out in the table below. The Council manages the credit risk inherent in its loans in line with its published Investment Strategy, and IFRS9 loss allowances have been calculated by reference to the possibility of default in next 12 months using an interest rate margin approach. No loans were written off to the Surplus or Deficit on the Provision of Services in 2019/20.

	Aequus Developm't Limited	Aequus Construction Limited	Aequus Working Capital	Other Loans	Totals
	£'000	£'000	£'000	£'000	£'000
Loans Brought Forward	3,058	7,955	450	521	11,985
New Loan Issued (*)	982	4,880	250	-	6,112
Repayments	(39)	(1,655)	(165)	(357)	(2,216)
<b>Loans Balance at 31st March 2020</b>	<b>4,001</b>	<b>11,180</b>	<b>535</b>	<b>165</b>	<b>15,881</b>
IFRS 9 Loan Impairments at 31st March 2020	(13)	(146)	(13)	(3)	(175)

(\*) The Aequus Working Capital loans is funded as revenue, the balance of £5.862m being capital expenditure loans

## NOTES TO MAIN FINANCIAL STATEMENTS

	2020 £'000	2019 £'000
Trade Debtors	15,713	13,635
Total debtors at 31st March including trade debtors	34,620	31,937

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

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

The Authority does not generally allow credit for customers, such that the balance of £15.7m outstanding at 31st March 2020 is all past its due date for payment.

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

	2019/20 £'000's	2018/19 £'000's
Less than three months	11,574	9,969
Three to six months	398	402
Six months to one year	696	770
More than one year	3,045	2,494
	<u>15,713</u>	<u>13,635</u>

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 2020		Amount at 31 March 2019	
	£'000's	%	£'000's	%
<b>Loans &amp; Receivables (Cash on Deposit) by Country Analysis</b>				
UK Debt Management Office	1,000	1.8%	-	0.0%
UK Local Authorities	10,023	17.6%	-	0.0%
UK - Other Financial Institutions	36,105	63.4%	29,799	74.8%
Australia	-	0.0%	5,019	12.6%
Singapore	5,014	8.8%	5,021	12.6%
Sweden	301	0.5%	-	0.0%
Pooled funds not subject to credit risk	4,504	7.9%		
<b>Total</b>	<u>56,947</u>	<u>100%</u>	<u>39,839</u>	<u>100%</u>

### 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 2019 £'000	31 March 2020 £'000
Borrowing due for repayment:		
Under 1 year *	30,453	20,450
Between 1 and 2 years		5,000
Between 2 and 5 years		5,000
Between 5 and 10 years		10,000
Between 10 and 15 years	15,000	20,300
Between 15 and 20 years	20,300	5,000
Between 20 and 25 years	84,276	91,330
Between 35 and 40 years	0	9,548
Between 25 and 30 years	9,777	5,000
Between 40 and 45 years	25,000	20,000
Between 45 and 50 years	41,772	41,241
	<u>226,578</u>	<u>232,869</u>

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

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

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

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

## NOTES TO MAIN FINANCIAL STATEMENTS

### Market Risk

#### Interest Rate Risk

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

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

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

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

For indication purposes, at 31st March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	<b>£'000</b>
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	<b>230</b>
Impact on Income and Expenditure Statement	<b>230</b>
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)	<b>(37)</b>
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)	<b>(35,622)</b>

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

#### Price Risk

The market prices of the Council's units in pooled bond funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £5m. A 5% fall in commercial property prices at 31st March 2020 would result in a £0.217m charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

#### 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

	<b>Current</b>		<b>Non-Current</b>	
	<b>2019/20</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance outstanding at start of year	<b>1,725</b>	800	-	-
Assets newly classified as held for sale:		1,691	-	-
<i>Property, Plant &amp; Equipment</i>	<b>61</b>		-	-
Additions	<b>68</b>		-	-
Revaluation gains/(losses)	<b>(7)</b>	<b>(39)</b>	-	-
Assets declassified as held for sale:			-	-
<i>Property, Plant &amp; Equipment</i>	<b>(590)</b>		-	-
Assets sold	<b>(1,159)</b>	<b>(727)</b>	-	-
<b>Balance outstanding at year end</b>	<b>98</b>	<b>1,725</b>	<b>-</b>	<b>-</b>

## 18 INVENTORIES

	Balance	Purchases	Recognised	Written off	Balance
	31 March 2019		as expense	Balances	31st March 2020
	£'000	£'000	in year £'000	£'000	£'000
Consumable Stores	498	141	<b>(24)</b>		<b>615</b>
<b>Total Inventories</b>	<b>498</b>	<b>141</b>	<b>(24)</b>	-	<b>615</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 19 DEBTORS

	2019/20	2018/19
	£'000	£'000
Amounts falling due in one year:		
Central Government bodies	2,226	2,125
Other local authorities	4,290	5,649
NHS bodies	1,856	1,554
Other entities and individuals (Trade Debtors)	15,713	13,635
Other entities and individuals (Non-Trade Debtors)	6,963	6,228
Prepayments	3,572	2,746
<b>Total - Current Assets</b>	<b>34,620</b>	<b>31,937</b>
Amounts falling after one year:	£'000	£'000
Other entities and individuals	16,994	13,298
<b>Total - Long Term Assets</b>	<b>16,994</b>	<b>13,298</b>

### 20 CASH AND CASH EQUIVALENTS

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

	2019/20	2018/19
	£'000	£'000
Cash held by the Authority	81	106
Bank current accounts	25	586
Short-term deposits	27,313	24,790
<b>Total cash and cash equivalents</b>	<b>27,419</b>	<b>25,482</b>

### 21 CREDITORS

	2019/20	2018/19
	£'000	£'000
Central government bodies	915	1,966
Other local authorities	3,537	3,370
NHS bodies	792	469
Other entities and individuals (Trade Creditors)	19,513	19,460
Other entities and individuals (Non-Trade Creditors)	17,910	18,382
Income Received in Advance	1,342	2,473
Pensions Fund	2,403	3,469
	<b>46,412</b>	<b>49,589</b>

### 22 PROVISIONS FOR LIABILITIES

Provisions comprise:	31 March 2019 £'000	New Provisions £'000	Utilised in Year £'000	Written Back £'000	31 March 2020 £'000
Provision for Child Care Costs	11				11
Children's Services Provision	32				32
Social Services Pension Provision	327				327
Planning Provision	74				74
NNDR Appeals Provision	8,593	3,182	(55)		11,720
Land Charge Fee Provision	50				50
	<b>9,087</b>	<b>3,182</b>	<b>(55)</b>	<b>-</b>	<b>12,214</b>

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

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

## NOTES TO MAIN FINANCIAL STATEMENTS

### 23 GENERAL FUND BALANCES AND RESERVES

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20.

<b>Unearmarked Reserves</b>	31 March 2019 £'000	transfers to £'000	transfers from £'000	31 March 2020 £'000
General Fund Balances unearmarked	12,318	13,005	(12,656)	12,667
<b>Earmarked Reserves</b>	31 March 2019 £'000	transfers to £'000	transfers from £'000	31 March 2020 £'000
LMS Schools Balances	388	197		585
Corporate Earmarked Reserves	29,944	12,127	(5,046)	37,025
Service Specific Reserves	2,708	267	(206)	2,769
General Service Earmarked Reserves	3,528	1,572	(678)	4,422
	36,568	14,163	(5,930)	44,801
<b>Total General Fund Balances and Reserves</b>	<b>48,886</b>	<b>27,168</b>	<b>(18,586)</b>	<b>57,468</b>
<b>Other Usable Reserves</b>				
Capital Receipts Reserve	3,474	3,203	(1,680)	4,997
Capital Grants Unapplied Reserve	222	24,895	(25,103)	14
<b>Total Usable Reserves</b>	<b>52,582</b>	<b>55,266</b>	<b>(45,369)</b>	<b>62,479</b>

LMS Schools balances will be used by individual schools

<b>Corporate Earmarked Reserves</b>	31 March 2019 £'000	transfers to £'000	transfers from £'000	31 March 2020 £'000
Insurance Fund	1,864	144	(213)	1,795
Capital Financing Reserve	7,611	1,145	(421)	8,335
Revenue Funding of Capital	285	245	(24)	506
Financial Planning & Smoothing Reserve	6,437		(152)	6,285
Revenue Budget Contingency Reserve	1,848	4,113	(483)	5,478
Invest To Save Reserve	1,256		(557)	699
Revenue Grants Unapplied	1,221	4,932	(504)	5,649
Transformation Investment Reserve	2,149	45	(875)	1,319
Restructuring & Severance Reserve	2,183			2,183
Dedicated Schools Grant Reserve *	-		(1,250)	(1,250)
Business Rates Reserve	2,602	966		3,568
Other	2,488	537	(567)	2,458
	29,944	12,127	(5,046)	37,025

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

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

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

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

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

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

The Revenue Grants Unapplied Reserve is used to fund future costs where the revenue grant is received without any conditions, in advance of Service spend. The transfers to this reserve during 2019/20 includes the Tranche 1 Covid-19 Support grant of £4.644m that was received on 27th March 2020.

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

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

\* The Dedicated Schools Grant (DSG) Reserve holds the balance of DSG to be carried forward for use in future years. Based on the separate report of DSG deployment in accordance with the requirements of the Accounts and Audit Regulations 2015, as amended (Regulation 7 (4)), the 2019/20 DSG overspend has resulted in a negative reserve, for recovery against future years' DSG.

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

## NOTES TO MAIN FINANCIAL STATEMENTS

	31 March 2019 £'000	transfers to £'000	transfers from £'000	31 March 2020 £'000
<b>General Service Earmarked Reserves</b>				
Information Technology Reserve	533			533
Finance VAT Advice Reserve	453		(45)	408
Leisure Reserves	497			497
Waste Reprovision Reserve	772	192		964
Public Transport Reserve	150		(150)	-
Combe Down Stone Mines Interpretation Centre Reserve	156		(11)	145
Care & Health Reserve	400	1,305		1,705
SEN Children's Services Reserve	462		(462)	-
Other Service Reserves	105	75	(10)	170
	<u>3,528</u>	<u>1,572</u>	<u>(678)</u>	<u>4,422</u>

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

The Waste Reprovision Reserve is used to support the timing differences between the spend and capital receipts in relation to the Waste Reprovision project.

The Care & Health Reserve is a retained reserve to enable the protection of social care in meeting demographic demand and transformation projects

### 24 UNUSABLE RESERVES

	2019/20 £'000	2018/19 £'000
Revaluation Reserve	150,336	125,599
Capital Adjustment Account	263,586	274,264
Deferred Capital Receipts Reserve	407	414
Financial Instruments Adjustment Account	(5,832)	(6,002)
Pooled Fund Adjustment Account	(545)	-
Accumulated Absences Account	(655)	(794)
Pensions Reserve	(326,153)	(314,663)
Collection Fund Adjustment Account	2,610	1,758
<b>Total Unusable Reserves</b>	<u>83,754</u>	<u>80,576</u>

#### Revaluation Reserve

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

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

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

	2019/20 £'000	2018/19 £'000
Balance at 1 April	125,599	119,199
Adjustment to opening balance		
Upwards revaluation of assets	43,600	29,510
Downwards revaluation of assets not charged to the Surplus/Deficit on the Provision of Services	(13,573)	(17,095)
Impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	-
Transfer of depreciation on re-valued assets	(2,585)	(2,325)
Written Back on asset disposal and transfer	(2,704)	(3,690)
Impairment of fixed assets - transfer		
<b>Balance at 31 March</b>	<u>150,336</u>	<u>125,599</u>

## NOTES TO MAIN FINANCIAL STATEMENTS

### Capital Adjustment Account

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

	2019/20 £'000	2019/20 £'000	2018/19 £'000
Balance at 1 April		274,264	310,632
Adjustment to opening balance			
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:			
Charges for depreciation and impairment of non-current assets	(23,718)		(21,067)
Revaluation losses on Property, Plant & Equipment	(3,483)		(4,792)
Amortisation of intangible assets	(264)		(296)
Impairment allowance for capital expenditure loans	(44)		(118)
Revenue expenditure funded from capital under statute	(8,681)		(11,349)
Grant funding of revenue expenditure funded from capital under statute	5,634		4,336
		(30,556)	(33,286)
Adjusting amounts written out of the Revaluation Reserve			
Transfer of depreciation on re-valued assets		2,585	2,325
Transfer of revaluation reserve balance on asset disposal		2,704	3,690
Net written out amount of the cost of non-current assets consumed in the year		(25,267)	(27,271)
Capital financing applied in the year:			
Use of capital receipts reserve to finance new capital expenditure	1,631		4,025
Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	24,633		20,541
Capital expenditure financed from revenue	24		134
Minimum Revenue Provision	6,145		5,267
		32,433	29,967
Movements in the market value of investment properties debited or credited to the Comprehensive Income & Expenditure Statement		(9,024)	(30,482)
Deferred liability - Repayment of Avon Loan Debt		474	494
Carrying value of fixed assets disposed of		(8,944)	(9,076)
Other movements		(350)	1
<b>Balance at 31 March</b>		<u>263,586</u>	<u>274,264</u>

### 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.

	2019/20 £'000	2019/20 £'000	2018/19 £'000
Balance at 1 April		(6,002)	(6,171)
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		169
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	169
<b>Balance at 31 March</b>		<u>(5,832)</u>	<u>(6,002)</u>

## NOTES TO MAIN FINANCIAL STATEMENTS

### Pooled Fund Adjustment Account

The Pooled Fund Adjustment Account fulfils a statutory requirement to maintain an account to hold changes in the fair value of pooled investment funds, such that the changes do not impact on the revenue account.

	2019/20 £'000	2018/19 £'000
Balance at 1 April	-	-
Amount by which the change in fair value of pooled funds charged to the Comprehensive Income & Expenditure Statement is different from that calculated for the year in accordance with statutory requirements.	(545)	-
<b>Balance at 31 March</b>	<b>(545)</b>	-

### 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.

	2019/20 £'000	2018/19 £'000
Balance at 1 April	(314,663)	(275,301)
Remeasurements of the net defined benefit liability / (asset)	2,253	(28,798)
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	(30,571)	(28,569)
Business Combinations	-	-
Employer's pensions contributions and direct payments to pensioners payable in the year	16,828	18,004
<b>Balance at 31 March</b>	<b>(326,153)</b>	<b>(314,663)</b>

### 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.

	2019/20 £'000	2018/19 £'000
Balance at 1 April	414	422
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	-	-
Transfer to the Capital Receipts Reserve upon receipt of cash	(7)	(8)
<b>Balance at 31 March</b>	<b>407</b>	<b>414</b>

### 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.

	2019/20 £'000	2018/19 £'000
Balance at 1 April	1,758	(1,839)
Amount by which income credited to the Comprehensive Income & Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	852	3,597
<b>Balance at 31 March</b>	<b>2,610</b>	<b>1,758</b>

### 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.

	2019/20 £'000	2019/20 £'000	2018/19 £'000
Balance at 1 April	-	(794)	(743)
Settlement or cancellation of accrual made at the end of the preceding year	794	-	743
Amounts accrued at the end of the current year	(655)	-	(794)
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	-	139	(51)
<b>Balance at 31 March</b>	<b>-</b>	<b>(655)</b>	<b>(794)</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 25 CASH FLOW STATEMENT

<b>Note A to the cash flow statement</b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Net Surplus or (Deficit) on the Provision of Services	<b>(19,205)</b>	<b>(46,763)</b>
<u>Adjust net surplus or deficit on the provision of services for non cash movements</u>		
Depreciation	<b>23,718</b>	21,067
Impairment and downward valuations	<b>3,527</b>	4,793
Amortisation	<b>264</b>	296
Impairment allowance on service loans	<b>48</b>	128
Adjustment for internal interest charged	<b>24</b>	22
Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss a/c	<b>545</b>	-
Adjustments for effective interest rates	<b>(5)</b>	<b>(5)</b>
Increase/Decrease in Interest Creditors	<b>27</b>	426
Increase/Decrease in Creditors	<b>(11,824)</b>	<b>(6,804)</b>
Increase/Decrease in Interest and Dividend Debtors	<b>(68)</b>	1,457
Increase/Decrease in Debtors	<b>(3,655)</b>	7,142
Increase/Decrease in Inventories	<b>(117)</b>	<b>(58)</b>
Pension Liability	<b>18,567</b>	11,487
Pension Fund Gains on Past Service Costs		4,114
Contributions to/(from) Provisions	<b>3,127</b>	2,094
Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	<b>8,945</b>	9,076
Movement in investment property values	<b>9,024</b>	30,482
Other movements		
Total adjustments on the provision of services for non cash movements	<b>52,147</b>	85,717
<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>		
Capital Grants credited to surplus or deficit on the provision of services	<b>(30,059)</b>	<b>(23,725)</b>
Net adjustment from the sale of short and long term investments	-	-
Proceeds from the sale of property plant and equipment, investment property and intangible assets	<b>(3,147)</b>	<b>(4,721)</b>
Total adjustments on the provision of services that are investing or financing activities	<b>(33,206)</b>	<b>(28,446)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>(264)</b>	10,508

<b>Note B to the Cash Flow Statement - Operating Activities (Interest)</b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
<b>Operating activities within the cash flow statement include the following cash flows relating to interest</b>		
Ordinary interest received	<b>771</b>	375
Other adjustments for differences between Effective Interest Rates and actual interest receivable-Long Term L	-	-
Opening Debtor	<b>124</b>	30
Closing Debtor	<b>(192)</b>	<b>(124)</b>
<b>Interest Received</b>	<b>703</b>	281
Interest charge for year	<b>(7,746)</b>	<b>(6,819)</b>
Adjustment for difference between effective interest rates and actual interest payable	<b>(5)</b>	<b>(5)</b>
Adjustment for impairment loss on service loans	<b>48</b>	128
Adjustment for internal interest charged to balance sheet funds	<b>24</b>	22
Opening Creditor	<b>(65)</b>	-
Closing Creditor	<b>91</b>	426
<b>Interest Paid</b>	<b>(7,653)</b>	<b>(6,248)</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

<b>Note C to the Cash Flow Statement - Cash Flows from Investing Activities</b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Property, Plant and Equipment Purchased	(46,847)	(38,138)
Purchase of Investment Properties	(742)	(31,452)
Other Capital Payments	(596)	-
Opening Capital Creditors	(5,921)	(5,154)
Closing Capital Creditors	4,679	5,921
Purchase of Property, Plant and Equipment, investment property and intangible assets	(49,427)	(68,823)
Purchase of short term investments	(60,000)	(35,000)
Long term loans granted		
Proceeds from the sale of property plant and equipment, investment property and intangible assets	3,154	4,728
Proceeds / (Purchase) from short term investments	45,000	20,000
Proceeds from long term investments	-	-
Other capital cash receipts	61,236	27,534
Capital Grants Received / (Repaid)	(4,048)	(5,970)
Other Receipts / (Payments) from Investing Activities	57,188	21,564
<b>Total Cash Flows from Investing Activities</b>	<b>(4,085)</b>	<b>(57,531)</b>
<b>Note D to the Cash Flow Statement - Cash Flows from Financing Activities</b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Cash receipts of long term borrowing	20,000	55,000
Billing Authorities - Council Tax and NNDR adjustments	465	694
Precepting Authorities Only - Appropriation to/from Collection Fund Adjustment Account	-	-
Other receipts from Financing Activities	-	-
Repayment of Short-Term and Long-Term Borrowing	(14,180)	(21,834)
Payments for the reduction of a finance lease liability	-	-
<b>Total Cash Flows from Financing Activities</b>	<b>6,285</b>	<b>33,860</b>
<b>Note E - Makeup of Cash and Cash Equivalents</b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Bank Balances	106	692
Cash Investments - regarded as cash equivalents	27,313	24,790
Bank Overdraft	-	-
	<b>27,419</b>	<b>25,482</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 26 EXPENDITURE & INCOME ANALYSED BY NATURE

	2019/20 £'000	2018/19 £'000
<b>Expenditure</b>		
Employee expenses	101,361	99,917
Other service expenses	225,128	244,069
Depreciation amortisation & impairment	27,465	26,155
Loss on disposal of non-current assets	5,893	5,299
Net Loss on Trading Operations	-	354
Decrease in Investment Estate Fair Value	9,024	30,482
Interest payments (Inc. Net Interest on Net Defined Benefit Liability)	15,039	13,509
Precepts and levies	7,076	6,761
	<b>390,986</b>	<b>426,546</b>
<b>Income</b>		
Fees and charges and other service income (including Contributions)	(85,698)	(101,151)
Income from Council Tax & Business Rates	(118,665)	(118,227)
Surplus from Trading Operations	(42)	-
Income from Investment Estate	(18,615)	(17,704)
Government Grants & Contributions	(147,989)	(142,326)
Interest & Investment Income	(771)	(375)
	<b>(371,780)</b>	<b>(379,783)</b>
<b>Deficit on provision of services</b>	<b>19,205</b>	<b>46,763</b>

### 26a SEGMENT REPORTING

	2019/20 £'000	2018/19 £'000 Restated
<b>Depreciation amortisation &amp; impairment</b>		
Leader	66	50
Resources	3,962	2,894
Adult Services	3,194	1,733
Children's Services	1,418	3,266
Climate Emergency & Neighbourhood Services	1,503	1,923
Housing, Planning & Economic Development	(45)	86
Community Services	2,304	394
Transport Services	15,063	15,809
<b>Total</b>	<b>27,465</b>	<b>26,155</b>
<b>Revenues from external customers / Contributions</b>		
Leader	(528)	4
Resources	(6,248)	(3,672)
Adult Services	(27,241)	(41,345)
Children's Services	(6,317)	(7,136)
Climate Emergency & Neighbourhood Services	(2,554)	(2,658)
Housing, Planning & Economic Development	(3,943)	(8,871)
Community Services	(24,791)	(23,983)
Transport Services	(14,076)	(13,490)
<b>Total</b>	<b>(85,698)</b>	<b>(101,151)</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 27 TRADING OPERATIONS

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

	2019/20 Income £'000	2019/20 Expenditure £'000	Deficit/ (Surplus) £'000	2018/19 £'000
School and Other Catering	2	4	6	404
Cleaning Services	(50)	36	(14)	(7)
Fleet Management	(196)	246	50	(76)
Passenger Transport Services	(52)	277	225	265
Trade Refuse Collection	(844)	790	(54)	(137)
Print Services	7	24	31	90
Bath Museum Shops	(2,337)	2,051	(286)	(185)
<b>Surplus for Year</b>	<b>(3,470)</b>	<b>3,428</b>	<b>(42)</b>	<b>354</b>

### 28 POOLED FUNDING

Under the Section 75 Pooled Funding Arrangement where the Council is lead commissioner and responsible for making contract payments, the Council and CCG have adopted a Net Accounting Policy resulting in costs and income attributable to CCG funded

#### Adult Learning Difficulties

	2019/20 £'000	2018/19 £'000
<b>Gross Funding</b>		
Bath & North East Somerset Council	22,386	21,731
NHS Bath & North East Somerset Clinical Commissioning Group	6,827	6,638
Other Funding	853	-
Income from Client Contributions	1,423	2,765
<b>Total Funding</b>	<b>31,489</b>	<b>31,134</b>
<b>Total Expenditure</b>	<b>32,108</b>	<b>31,038</b>
<b>Net (Underspend) / Overspend</b>	<b>619</b>	<b>(96)</b>

#### Overspend Recharged

Bath & North East Somerset Council	474	-
NHS Bath & North East Somerset Clinical Commissioning Group	145	-

#### Community Equipment

	2019/20 £'000	2018/19 £'000
<b>Gross Funding</b>		
Bath & North East Somerset Council	203	203
Bath & North East Somerset Council - Additional Grant Funding	44	-
NHS Bath & North East Somerset Clinical Commissioning Group	473	473
Income from Client Contributions	-	93
<b>Total Funding</b>	<b>720</b>	<b>769</b>
<b>Total Expenditure</b>	<b>720</b>	<b>769</b>
<b>Net (Underspend) / Overspend</b>	<b>0</b>	<b>0</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### Better Care Fund

	2019/20 £'000	2018/19 £'000
<b>Gross Funding</b>		
Bath & North East Somerset Council	7,340	32,050
Bath & North East Somerset Council - Community Services Contract	26,549	-
NHS Bath & North East Somerset Clinical Commissioning Group	12,617	37,994
NHS Bath & North East Somerset Clinical Commissioning Group - Community Services Contract	26,160	-
<b>Total Funding</b>	<b>72,666</b>	70,044
Spend on Better Care Fund schemes	13,565	70,044
Spend on Community Services Contract	59,101	
<b>Total Expenditure</b>	<b>72,666</b>	70,044

### Children and Young People with Multiple and Complex Needs

	2019/20 £'000	2018/19 £'000
<b>Gross Funding</b>		
Bath & North East Somerset Council	2,514	2,486
NHS Bath & North East Somerset Clinical Commissioning Group	392	392
<b>Total Funding</b>	<b>2,906</b>	2,878
<b>Total Expenditure</b>	<b>5,968</b>	3,078
<b>Net (Underspend) / Overspend</b>	<b>3,062</b>	200
<b>Overspend Recharged</b>		
Bath & North East Somerset Council	2,644	173
Bath & North East Somerset Clinical Commissioning Group	418	27

### Mental Health

	2019/20 £'000	2018/19 £'000
<b>Gross Funding</b>		
Bath & North East Somerset Council	-	3,078
NHS Bath & North East Somerset Clinical Commissioning Group	-	2,983
<b>Total Funding</b>	-	6,061
<b>Total Expenditure</b>	-	6,226
<b>Net (Underspend) / Overspend</b>	-	165
<b>Overspend Recharged</b>		
Bath & North East Somerset Council	-	(172)
NHS Bath & North East Somerset Clinical Commissioning Group	-	337

## NOTES TO MAIN FINANCIAL STATEMENTS

### 29 MEMBERS' ALLOWANCES

The total cost of Members Allowances for 2019/20 including employers national insurance, pensions contributions and expenses was £793,341 (£860,460 in 2018/19).

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	1,188	-	1,188
APPLEYARD	R	25,485	-	25,485
BALL	TM	24,961	-	24,961
BARRETT	CV	816	21	836
BEATH	CE	816	-	816
BECKER	J	816	-	816
BEVAN	SF	9,443	208	9,651
BLACKBURN	C	8,201	-	8,201
BORN	A	7,385	-	7,385
BROMLEY	S	7,385	55	7,440
BULL	JA	1,591	-	1,591
BUTTERS	TN	16,581	-	16,581
CLARKE	AK	816	-	816
CLARKE	V	7,385	262	7,647
COCHRANE	M	1,045	-	1,045
CRAIG	S	8,201	-	8,201
CROSSLEY	PN	24,961	-	24,961
CURRAN	G	7,385	-	7,385
DANDO	C	11,484	-	11,484
DAREY	F	816	-	816
DAVID	J	7,385	261	7,646
DAVIES	M	816	-	816
DAVIES	T	9,106	-	9,106
DAVIS	S	10,163	-	10,163
DEACON	DE	8,201	18	8,219
DIXON	E	816	-	816
DUGUID	P	9,106	-	9,106
ELLIOTT	M	7,385	-	7,385
EVANS	M	8,201	111	8,312
FURSE	AJ	10,281	-	10,281
GERRISH	CD	3,817	3	3,820
GILCHRIST	IA	816	-	816
GLADWYN	E	816	-	816
GOODMAN	R	3,817	131	3,947
GUY	K	24,146	-	24,146
HAEBERLING	F	1,548	-	1,548
HALE	AD	8,201	54	8,254
HARDMAN	EJ	8,201	225	8,426
HEDGES	SP	8,279	-	8,279
HIRST	J	7,385	-	7,385
HODGE	L	7,385	-	7,385
HORSTMANN	D	816	-	816
HOUNSELL	D	7,385	231	7,617
HUGHES	S	7,385	-	7,385
JACKSON	EM	16,735	81	16,816
JEFFRIES	S	816	-	816
JOHNSON	G	7,385	-	7,385
KEW	LJ	1,308	151	1,460
KUMAR	Y	7,385	116	7,501
LONGSTAFF	M	816	-	816
MACFIE	H	7,385	-	7,385
MACRAE	BJ	816	-	816
MALLOY	R	7,385	-	7,385
MAY	P	14,155	762	14,916
McCABE	M	19,698	-	19,698
McGALL	S	12,008	358	12,366
MILLAR	A	1,591	-	1,591
MOORE	S	7,385	-	7,385
MOSS	R	13,212	524	13,736
MYERS	P	19,737	-	19,737
NORTON	M	816	-	816

cont...

## NOTES TO MAIN FINANCIAL STATEMENTS

cont...

		Basic & Special Allowance	Expenses	Total
		£	£	£
O'BRIEN	B	8,724	8	8,732
O'DOHERTY	M	9,921	-	9,921
ORGAN	BS	816	-	816
PANKHANIA	B	7,385	265	7,650
PATTERSON	L	816	-	816
PLAYER	J	8,201	-	8,201
PRITCHARD	VL	17,712	1,589	19,300
RAYMENT	J	795	-	795
RICHARDSON	EA	816	-	816
RIGBY	A	15,014	-	15,014
ROBERTS	CM	816	-	816
ROBERTS	N	816	-	816
ROMERO	UM	38,737	18	38,755
ROPER	M	7,385	-	7,385
SAMUEL	R	24,961	-	24,961
SANDRY	WA	1,591	-	1,591
SHEARN	B	10,669	55	10,723
SHELFORD	M	3,817	-	3,817
SIMMONS	B	8,201	-	8,201
SINGLETON	A	7,385	516	7,902
TURNER	P	816	-	816
VEAL	M	816	-	816
VEALE	DJ	1,308	56	1,365
WAIT	A	7,385	188	7,573
WALKER	K	17,454	558	18,012
WARD	G	816	-	816
WARREN	E	15,765	543	16,308
WARREN	T	5,593	102	5,694
WARRINGTON	K	10,871	122	10,994
WATT	C	8,201	-	8,201
WILLS	R	7,385	-	7,385
WOOD	D	15,765	2,659	18,424
WRIGHT	J	15,765	132	15,897
<b>Total</b>		<b>749,368</b>	<b>10,381</b>	<b>759,749</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 30 SENIOR OFFICER REMUNERATION

The following posts meet the CIPFA definition of Senior Officers for the purpose of this note.

<b>Senior Officers emoluments - annualised salary of £150,000 or more for the year ending 31 March 2020</b>					
Post Holder	Salary	Expenses	Benefits in Kind e.g. Relocation, Subscriptions	Employer Pension Contrib'ns	Total
	£	£	£	£	£
Chief Executive - Ashley Ayre (to 30/09/2019)	79,597			18,466	<b>98,063</b>
Chief Executive - William Godfrey (from 07/10/2019)	71,129			16,501	<b>87,630</b>
<b>Senior Officers emoluments - annualised salary between £50,000 and £150,000 for the year ending 31 March 2020</b>					
Post Holder	Salary (incl. Honorary)	Expenses	Benefits in Kind e.g. Relocation, Subscriptions	Employer Pension Contrib'ns	Total
	£	£	£	£	£
Corporate Director	127,356			27,630	<b>154,986</b>
Corporate Director	127,356			29,546	<b>156,902</b>
Director of Public Health	126,310	904		18,163	<b>145,377</b>
Head of Legal & Democratic Services	93,597			21,714	<b>115,311</b>
Interim Director of Finance (to 08/03/2020)	81,795	119		18,719	<b>100,633</b>
Director of Finance (from 01/03/2020)	8,287			1,922	<b>10,209</b>
Director of HR & Organisat'n Develop't (from 01/09/2019)	39,812			11,773	<b>51,585</b>
Interim Director of HR & Org. Develop't (from 04/11/2019)	35,830			7,524	<b>43,354</b>

<b>Senior Officers emoluments - annualised salary of £150,000 or more for the year ending 31 March 2019</b>						
Post Holder	Salary	Expenses	Benefits in Kind e.g. Relocation, Subscriptions	Compensation for Loss of Office	Employer Pension Contrib'ns	Total
	£	£	£	£	£	£
Chief Executive - Ashley Ayre	156,075				35,897	<b>191,972</b>
<b>Senior Officers emoluments - annualised salary between £50,000 and £150,000 for the year ending 31 March 2019</b>						
Post Holder	Salary (incl. Honorary)	Expenses	Benefits in Kind e.g. Relocation, Subscriptions	Compensation for Loss of Office	Employer Pension Contrib'ns	Total
	£	£	£	£	£	£
Corporate Director	116,601				26,818	<b>143,419</b>
Corporate Director (from 01/05/2018)	114,455				26,324	<b>140,779</b>
Strategic Director - Resources (to 15/05/2018)	16,446	217		19,531	14,641	<b>50,835</b>
Strategic Director - Place (to 18/05/2018)	16,124			14,085	3,708	<b>33,917</b>
Director of Public Health	124,468	92	-		17,898	<b>142,458</b>
Head of Legal & Democratic Services	91,764		-		21,105	<b>112,869</b>
Interim Director of Finance	84,323	389	563		19,394	<b>104,669</b>
Director Integrated Health & Care Commissioning	103,233				23,743	<b>126,976</b>
Commercial Director (from 01/07/2018)	87,864		5		20,208	<b>108,077</b>
Operations Director	107,022	897			24,615	<b>132,534</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 31 EMPLOYEES' EMOLUMENTS

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

Remuneration band	2019/20		2019/20	2018/19		2018/19
	Teachers	Others	Total	Teachers	Others	Total
£50,000 - £54,999	10	33	43	8	30	38
£55,000 - £59,999	3	24	27	6	28	34
£60,000 - £64,999	2	7	9	5	7	12
£65,000 - £69,999	6	5	11	1	5	6
£70,000 - £74,999	1	3	4	-	2	2
£75,000 - £79,999	-	3	3	-	9	9
£80,000 - £84,999	1	13	14	-	10	10
£85,000 - £89,999	-	1	1	-	5	5
£90,000 - £94,999	-	4	4	-	4	4
£95,000 - £99,999	-	8	8	-	4	4
£100,000 - £104,999	-	-	-	-	3	3
£105,000 - £109,999	-	-	-	-	1	1
£110,000 - £114,999	-	-	-	-	2	2
£115,000 - £119,999	-	1	1	-	1	1
£120,000 - £124,999	-	-	-	-	2	2
£125,000 - £129,999	-	2	2	-	-	-
£130,000 - £134,999	-	-	-	-	-	-
£135,000 - £139,999	-	-	-	-	1	1
£140,000 - £144,999	-	-	-	-	-	-
£145,000 - £149,999	-	-	-	-	-	-
£150,000 - £154,999	-	1	1	-	-	-
£155,000 - £159,999	-	-	-	-	1	1
£160,000 - £164,999	-	-	-	-	-	-
£165,000 - £169,999	-	1	1	-	-	-
£170,000 - £174,999	-	-	-	-	1	1
£175,000 - £179,999	-	-	-	-	-	-
	<b>23</b>	<b>106</b>	<b>129</b>	<b>20</b>	<b>116</b>	<b>136</b>

The above totals include 5 staff who would not have been included in the note if it were not for one-off severance payments (28 staff in 2018/19).

This included 0 in the Teacher category (0 in 2018/19) and 5 in the Others category (28 in 2018/19).

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 2019/20, incurring liabilities of £1.032m (£3.137m in 2018/19). 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. Any Exit Packages over £100,000 are agreed by the Council's Restructure Implementation Committee.

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)	2019/20		2019/20	2018/19		2018/19
	Number of	Number of	Total	Number of	Number of	Total
	Compulsory Redundancies	Other Exits Agreed	Cost £	Compulsory Redundancies	Other Exits Agreed	Cost £
£0 - £20,000	7	22	181,239	41	55	590,158
£20,001 - £40,000	2	7	239,602	10	7	471,654
£40,001 - £60,000	-	-	0	3	5	395,262
£60,001 - £80,000	-	1	73,009	1	3	287,939
£80,001 - £100,000	-	-	0	-	3	269,936
£100,001 - £150,000	2	-	239,648	2	2	473,281
£150,001 - £200,000	-	-	0	-	2	346,505
£200,001 - £250,000	-	-	0	-	-	0
£250,001 - £300,000	-	1	298,083	-	-	0
£300,001 - £350,000	-	-	0	-	1	302,735
	<b>11</b>	<b>31</b>	<b>1,031,581</b>	<b>57</b>	<b>78</b>	<b>3,137,470</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 33 EXTERNAL AUDIT COSTS

The Council has incurred the following fees payable to its auditors, Grant Thornton UK LLP	<b>2019/20</b> <b>£'000</b>	2018/19 £'000
Fees payable with regard to external audit services	119	95
Fees payable for the certification of grant claims and returns	36	29
Fees payable for other services during the year	-	5
	<b>155</b>	<b>129</b>

### 34 DEDICATED SCHOOLS GRANT

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

Details of the deployment of DSG receivable for 2019/20 are as follows:

	2019/20 Central Expenditure £'000	2019/20 Individual Schools Budget £'000	2019/20 Total £'000	2018/19 Total £'000
Final DSG for before Academy recoupment			140,744	135,598
Academy figure recouped			93,685	84,652
Total DSG after Academy recoupment			47,059	50,946
<i>plus</i> Brought forward from previous year			-	20
<i>less</i> Carry forward into future year agreed in advance				
Final budget distribution	29,930	17,129	47,059	50,966
<i>less</i> Actual central expenditure	31,576		31,576	32,614
<i>less</i> Actual ISB deployed to schools	-	16,733	16,733	20,575
<i>plus</i> Local Authority contribution for year	-		-	2,223
Carry forward	(1,646)	396	(1,250)	-

### 35 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

<b>Credited to Taxation and Non Specific Grant Income</b>	<b>2019/20</b> <b>£'000</b>	2018/19 £'000
Council Tax Income	95,953	90,045
Contribution from the Non-Domestic Rate Pool / Non-Domestic Rate Income	22,712	28,182
Department of Education	1,068	1,067
Department of Transport	2,675	2,888
Department of Health & Social Care	47	323
West of England Combined Authority	14,574	13,056
Other	2,005	34
Third party contributions	188	473
Section 106 Developer / CIL Contributions	4,077	2,349
	<b>143,298</b>	<b>138,417</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### Credited to Services

Education Funding Agency (incl. Universal Infant Free School Meals)	1,158	1,602
Pupil Premium Grant	1,377	1,732
Mandatory rent allowances	31,362	34,047
Public Health Grant	8,694	8,930
Department of Health & Social Care	383	216
Department for Education	2,994	2,141
Department of Transport	329	314
West of England Combined Authority	1,281	1,670
Ministry of Housing, Communities & Local Government (MHCLG)	22,998	14,230
New Homes Bonus Grant	5,139	4,790
Other	5,074	4,861
Third party contributions	11	149
Section 106 Developer / CIL Contributions	1,088	726
	<b>81,888</b>	<b>75,408</b>

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

	2019/20	2018/19
	£'000	£'000
<b>Grants Receipts In Advance (Capital Grants &amp; Contributions)</b>		
Section 106 Developer & 3rd Party Contributions	6,011	3,327
Various Capital Grants	20,755	7,802
<b>Total</b>	<b>26,766</b>	<b>11,129</b>
<b>Grants Receipts In Advance (Revenue Grants)</b>		
Various Service Grants	9,544	3,554
<b>Total</b>	<b>9,544</b>	<b>3,554</b>

### Long-Term Liabilities

	2019/20	2018/19
	£'000	£'000
<b>Grants Receipts In Advance (Capital Grants &amp; Contributions)</b>		
Section 106 Developer & 3rd Party Contributions	13,147	17,959
Various Capital Grants	16,304	12,509
<b>Total</b>	<b>29,451</b>	<b>30,468</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 36 RELATED PARTIES

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

There are no material outstanding balances between the Council and the Related Parties disclosed below.

#### Central Government

Central UK Government has effective control over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the Grants Note 35.

#### 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 £2,108,771 (£1,934,497 2018/19) and support services costs of £517,662 (£527,427 2018/19). Five B&NES Councillors are voting members on the Pensions Committee.

#### Visit Bath

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

#### Aequus Developments Ltd (ADL)

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

#### Aequus Construction Ltd (ACL)

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

#### Members & Officers

Three 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 £285,661 (£1,441,176 in 2018/19) to voluntary bodies and organisations where members have an interest (either due to a Council nomination or in an independent capacity).

	<b>2019/20</b>
	<b>£</b>
Bath & North East Somerset Carers Centre	58,852
Bath Royal Literary & Scientific Association	1,915
Great Spas of Europe	23,919
Keynsham & District Dial-A-Ride	111,778
Radstock Museum Society	1,015
Sarah Ann Trust	31
South West Councils	27,532
SWAN Advisory Network	60,619
	<b><u>285,661</u></b>

#### Clinical Commissioning Group

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

#### Adoption West

Adoption West is a private company limited by guarantee set up by 6 local authorities (South Gloucestershire, Bath & North East Somerset, North Somerset, Bristol, Wiltshire and Gloucestershire Councils) to co-ordinate and facilitate adoptions across the region, with each authority funding and owning an equal share. This has involved the transfer of staff and assets to the newly formed company and the local authorities will provide funding in proportion to service provided by the company as agreed in the "Commissioning Agreement" between the parties, with service commencing on 1st March 2019.

#### Youth Connect South West

Youth Connect South West (YCSW) is a public service mutual organisation. It continues to deliver public services and aims to have a positive social impact. YCSW provides youth services that were previously delivered within Bath and North East Somerset Council. The organisation was created on 4th November 2019, and involved the transfer of staff and assets. There is a 5 year contract in place to deliver targeted youth support services and complete statutory returns concerning young peoples' education, employment or training status.

## NOTES TO MAIN FINANCIAL STATEMENTS

### 37 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

<b>Capital expenditure on fixed assets was as follows:</b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Bath Quays: North South & Bridge	10,067	6,230
Bath Western Riverside	9,051	1,105
Highways, Transport, Road Safety & Bridge Strengthening	7,154	12,191
Keynsham Leisure Centre Modernisation	4,481	5,105
School Improvements	3,924	3,036
Archway Centre	1,677	34
Capitalised Buildings Maintenance	1,614	1,705
Waste Project	1,369	4,155
Clean Air Zone	1,262	-
Commercial Estate Investment	789	31,106
Children's Centres	533	391
Keynsham Redevelopment Project	405	213
Sydney Gardens	295	177
Housing Delivery Schemes	269	275
Bath Quays Flood Mitigation	29	423
Saw Close Development Works	8	244
Other	5,621	3,200
	<b>48,548</b>	<b>69,590</b>

This above table excludes Revenue expenditure funded from capital under statute & loans.

<b>Capital Expenditure was categorised as follows:</b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Property, plant and equipment	28,306	23,403
Investment properties	742	31,452
Intangible assets	595	3
Heritage Assets	-	-
Assets under construction	18,837	14,732
Non Current Assets held for sale	68	-
Capital Loans	5,862	7,104
Revenue expenditure funded from capital under statute (*)	8,681	11,349
Total expenditure	<b>63,091</b>	<b>88,043</b>

\* This includes £1.261m of transformation and severance costs funded under the Government's flexible use of capital receipts scheme (£3.453m in 2018/19). These costs will contribute to ongoing revenue savings in line with the Council's approved Efficiency Strategy.

<b>Sources of finance:</b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Capital Receipts	1,680	4,159
Grants	24,904	21,181
Borrowing	31,120	58,872
3rd Party Contributions	199	622
S.106 / CIL contributions	5,164	3,075
Revenue	24	134
Total financing	<b>63,091</b>	<b>88,043</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### Capital Financing Requirement

	2019/20 £'000	2018/19 £'000
Opening Capital Financing Requirement	300,712	247,107
Capital Investment	63,091	88,043
Other Adjustments to CFR (including revenue reversion of prior years spend)	(314)	
Sources of Finance:		
Capital Receipts	(3,381)	(4,159)
Government grants & other contributions	(30,267)	(24,878)
Sums set aside from revenue (including MRP)	(6,169)	(5,401)
Closing Capital Financing Requirement	<u>323,672</u>	<u>300,712</u>
Increase in underlying need to borrow unsupported by Government financial assistance	30,806	58,872
Repayments received in respect of Capital Expenditure Loans	(1,701)	(134)
Less minimum revenue provision repayment	(6,145)	(5,267)
Increase / (decrease) in Capital Financing Requirement	<u>22,960</u>	<u>53,471</u>

## 38 LEASES

### Authority as Lessee

#### Finance Leases

The Authority has acquired a number of buildings and vehicles, plant and equipment under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	2019/20 £'000	2018/19 £'000
Other Land & Buildings	4,159	3,869
Vehicles, Plant & Equipment	-	-
	<u>4,159</u>	<u>3,869</u>

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

#### Operating Leases

The Council uses vehicles and other equipment financed under the terms of various operating leases. The lease rentals paid in 2019/20 were £1,519K (£1,236K in 2018/19).

The future payments required under these leases are £3,516K comprising the following elements:

	2019/20 £'000	2018/19 £'000
Not later than one year	852	274
Later than one year and not later than five years	1,434	1,125
Later than five years	1,230	1,640
	<u>3,516</u>	<u>3,038</u>

The Council continues to hold no Property Leases as operating leases as per 2018/2019.

## NOTES TO MAIN FINANCIAL STATEMENTS

### Authority as Lessor

#### Finance Leases

The Authority has leased out a number of commercial properties on finance leases in 2019/20, the capital receipts from these total £1.697m (2018/19 3.072m.)

#### Operating Leases

The Authority leases out a large number of investment properties.

Rental income receivable from operating property leases on investment properties totalled £19.580m (£19.931m in 2018/19).

The net book value of these properties is £310.762m (£319.322m in 2018/19).

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

	2019/20	2018/19
	£'000	£'000
Not later than one year	16,489	18,176
Later than one year and not later than five years	51,313	57,615
Later than five years	139,581	203,428
	<u>207,383</u>	<u>279,219</u>

Rental income receivable from Property Plant and Equipment leases totalled £1,227K in 2019/20 (£1,166K in 2018/19).

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

	2019/20	2018/19
	£'000	£'000
Not later than one year	712	683
Later than one year and not later than five years	1,703	1,466
Later than five years	2,408	2,472
	<u>4,823</u>	<u>4,621</u>

### 39 EXCEPTIONAL ITEMS

There were no exceptional items in 2019/20.

### 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 2019/20 the Council paid £1.978m to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 20.6% of pensionable pay. The figures for 2018/19 were £1.840m and 16.5%. There were no contributions remaining payable at the year end.

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

## NOTES TO MAIN FINANCIAL STATEMENTS

### 41 PARTICIPATION IN PENSIONS SCHEMES

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

The Council participates in two pension schemes:

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

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

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

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

The actual payment made in 2017/18 (net of academy conversions) was £14.837m, and the actuary calculated the Equivalent Discounted annual Lump Sums Certified across the 3 years as follows:  
£4.975m relating to 2017/18,  
£4.947m relating to 2018/19, and  
£4.915m relating to 2019/20.

The Pension Liability as at 31st March 2018 was reduced by the total £14.837m payment, and the full amount was reflected in the actuarial valuation as at 31st March 2018. The £4.975m relating to 2017/18 was charged to the General Fund in the 2017/18 Statement of Accounts, the £4.947m was charged in 2018/19, and the £4.915m charged in 2019/20 via the Movement In Reserves Statement, along with the small refund adjustments relating to academy conversions.

The result of this is that the Pensions Liability and the Pensions Reserve self-balance as at 31st March 2020, by when the full £14.837m upfront 3 year payment having been charged to the General Fund over the three years.

#### Transactions relating to post-employment benefits

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

## NOTES TO MAIN FINANCIAL STATEMENTS

	Local Government Pension Scheme		Unfunded Liabilities (Teachers) Discretionary Benefits	
	2019/20	2018/19	2019/20	2018/19
<b>Comprehensive Income and Expenditure Statement</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<i>Cost of Services:</i>				
Current Service Costs	19,128	17,635		
Past Service Cost	2,420	-	-	-
Settlement and Curtailment (Gain) / Loss	1,399	3,973	-	-
Administration Expenses	331	270		
<i>Financing and Investment Income &amp; Expenditure:</i>				
Net Interest Expense	6,769	6,124	524	567
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>30,047</b>	<b>28,002</b>	<b>524</b>	<b>567</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income &amp; Expenditure Statement</i>				
Remeasurement of the net defined benefit liability:				
Return on plan assets (excluding the amount included in the net interest expenses)	-	-	-	-
Experience (gains) and losses	1,878	-	(234)	-
Actuarial (gains) and losses arising on changes in demographic assumptions	(36,033)	-	(994)	966
Actuarial (gains) and losses arising on changes in financial assumptions	(18,636)	42,447	(425)	-
Total Remeasurements	(52,791)	42,447	(1,653)	966
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(22,744)</b>	<b>70,449</b>	<b>(1,129)</b>	<b>1,533</b>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	30,047	28,002	524	567
<b>Actual amount charged against General Fund Balance for pensions in the year:</b>				
Employers' contributions payable to scheme	10,504	11,461		
add upfront deficit payment recognised in year (paid 2017/18)	4,824	5,037		
	3,983	3,816	-	-
Retirement benefits payable to pensioners			19,940	22,569

## NOTES TO MAIN FINANCIAL STATEMENTS

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

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

	Funded Liabilities		Unfunded Liabilities	
	Local Government Pension Scheme		(Teachers) Discretionary Benefits	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Present value of defined benefit obligation	<b>844,609</b>	<b>875,027</b>	<b>19,940</b>	22,569
Fair value of plan assets	<b>(538,396)</b>	<b>(587,757)</b>	-	-
<b>Net liability arising from defined benefits obligation</b>	<b>306,213</b>	<b>287,270</b>	<b>19,940</b>	<b>22,569</b>

Reconciliation of present value of the scheme liabilities:

	Funded Liabilities		Unfunded Liabilities	
	Local Government Pension Scheme		(Teachers) Discretionary Benefits	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Opening Balance at 1 April	<b>875,027</b>	813,854	<b>22,569</b>	22,542
Current service cost	<b>19,128</b>	17,635	-	-
Interest cost	<b>20,745</b>	20,808	<b>524</b>	567
Contributions from scheme participants	<b>3,754</b>	3,871	-	-
Actuarial gains and losses	<b>(52,791)</b>	42,447	<b>(1,653)</b>	966
Benefits paid	<b>(25,073)</b>	<b>(26,587)</b>	<b>(1,500)</b>	<b>(1,506)</b>
Business Combinations	-	-	-	-
Past service costs	<b>3,819</b>	6,868	-	-
Past service gain	-	<b>(3,869)</b>	-	-
<b>Closing Balance at 31 March</b>	<b>844,609</b>	<b>875,027</b>	<b>19,940</b>	<b>22,569</b>

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

	Local Government Pension Scheme	
	2019/20	2018/19
	£'000	£'000
Opening Fair Value of scheme assets at 1 April	<b>587,757</b>	570,957
Interest on Plan Assets	<b>13,976</b>	14,684
Remeasurement Gain (Loss)	<b>(52,191)</b>	14,615
Administration Expenses	<b>(331)</b>	<b>(270)</b>
Business Combinations	-	-
Settlements	-	<b>(974)</b>
Contributions from employer	<b>10,504</b>	11,461
Contributions from employees into the scheme	<b>3,754</b>	3,871
Benefits paid	<b>(25,073)</b>	<b>(26,587)</b>
<b>Closing Balance at 31 March</b>	<b>538,396</b>	<b>587,757</b>

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 £37.006m (2018/19 £29.299m).

### Scheme History

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000	£'000
Present value of liabilities:						
Local Government Pension Scheme	<b>(683,245)</b>	<b>(664,807)</b>	<b>(809,137)</b>	<b>(813,854)</b>	<b>(875,027)</b>	<b>(844,609)</b>
Discretionary Benefits	<b>(24,383)</b>	<b>(22,793)</b>	<b>(23,976)</b>	<b>(22,542)</b>	<b>(22,569)</b>	<b>(19,940)</b>
Fair value of assets in the Local Government Pension Scheme	481,219	464,682	535,285	570,957	587,757	<b>538,396</b>
Surplus/(deficit) in the scheme:						
Local Government Pension Scheme	<b>(202,026)</b>	<b>(200,125)</b>	<b>(273,852)</b>	<b>(242,897)</b>	<b>(287,270)</b>	<b>(306,213)</b>
Discretionary Benefits	<b>(24,383)</b>	<b>(22,793)</b>	<b>(23,976)</b>	<b>(22,542)</b>	<b>(22,569)</b>	<b>(19,940)</b>
<b>Long Term Liability in Balance Sheet</b>	<b>(226,409)</b>	<b>(222,918)</b>	<b>(297,828)</b>	<b>(265,439)</b>	<b>(309,839)</b>	<b>(326,153)</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £326m 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 2020/21 are estimated to be £17.8m. 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 2019, which showed a shortfall of assets against liabilities of £0.28 billion as at that date, equivalent to a funding level of 94%. The fund's employers are paying additional contributions over a period of up to 13 years in order to meet the shortfall. The next triennial valuation will be as at 31st March 2022.

The weighted average duration of the Authority's defined benefit obligation is 16 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 2020.

The principal assumptions used by the actuary have been:

	Avon Pension Fund		Discretionary Benefits (Teachers) Scheme	
	2019/20	2018/19	2019/20	2018/19
<b>Mortality assumptions :</b>				
Longevity for current pensioners:	at 65		at 75	
Men	23.2	23.7	14.3	14.7
Women	25.3	26.2	16.1	16.7
Longevity for future pensioners:				
Men	24.7	26.3		
Women	27.3	29.0		
Rate of inflation	2.1%	2.2%	2.1%	2.3%
Rate of increase in salaries	3.6%	3.7%		
Rate of increase in pensions	2.2%	2.3%	2.2%	2.4%
Rate for discounting scheme liabilities	2.4%	2.4%	2.4%	2.4%

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	Decrease in Assumption
	£'000	£'000
Longevity (increase or decrease in 1 year)	22,864	(22,864)
Rate of Inflation (increase or decrease by 0.1%)	13,241	(13,241)
Rate of increase in salaries (increase or decrease by 0.1%)	1,295	(1,295)
Rate of discounting scheme liabilities (increase or decrease by 0.1%)	(13,037)	13,037

## NOTES TO MAIN FINANCIAL STATEMENTS

### Risks and Investment strategy

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

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

### Constitution of the fair value of scheme assets

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

Assets Held :	Assets at 31 March 2020		Assets at 31 March 2019	
	£'000	%	£'000	%
Equity investments	234,499	43.6%	237,452	40.4%
Government Bonds	30,150	5.6%	71,119	12.1%
Other Bonds	48,726	9.1%	68,768	11.7%
UK Property Funds	27,997	5.2%	29,976	5.1%
Overseas Property Funds	25,305	4.7%	27,037	4.6%
Alternatives	159,874	29.7%	143,413	24.4%
Cash Accounts	11,845	2.2%	9,992	1.7%
<b>Total</b>	<b>538,396</b>	<b>100%</b>	<b>587,757</b>	<b>100%</b>

### Impact of COVID-19

In respect of the pooled UK property funds held in the UK Property and Secured Income portfolios (valued at £229.2m), the independent valuers consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and as a result have reported the values on the basis of "Material Valuation Uncertainty" as per VPGA 10 of the RICS Red Book-Global Standards. Consequently, for these assets, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

### History of experience gains and losses

Actuarial losses identified as movements on the Pensions Reserve in 2019/20 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2020.

	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15
<b>Difference between the expected and actual return on scheme assets:</b>						
amount (£'000)	(52,191)	14,615	(3,304)	64,055	(20,621)	39,638
percentage	9.7	2.5	0.6	12.0	4.4	8.2
<b>Experience gains and losses on liabilities</b>						
amount (£'000)	1,878	-	-	-	-	-
percentage	0.2	0.0	0.0	0.0	0.0	0.0
	<b>(50,313)</b>	<b>14,615</b>	<b>(3,304)</b>	<b>64,055</b>	<b>(20,621)</b>	<b>39,638</b>
<b>Cumulative gains / losses recognised</b>	<b>41,373</b>	<b>91,686</b>	<b>77,071</b>	<b>80,375</b>	<b>16,320</b>	<b>36,941</b>

## 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 2020 apportioned to this Council is £11.38m (£11.85m in 2018/19). 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 2019	Principal Repaid	31 March 2020
	£000	£000	£000
Ex- Avon loan debt principal repayment	11,852	(474)	11,378

## NOTES TO MAIN FINANCIAL STATEMENTS

### 43 MINIMUM REVENUE PROVISION (MRP)

#### Minimum Revenue Provision - Provision for Repayment of External Debt

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

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

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

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

- For capital expenditure incurred before 1st April 2008 MRP will be determined as the principal repayment on a 50 year annuity with an annual interest rate equal to 2% which will fully finance this element of the Capital Financing Requirement (CFR) within 50 years, incorporating an "Adjustment A" of £38.8m.
- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For assets acquired by finance leases or the Private Finance Initiative, [and for the transferred debt from Avon County Council], 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.

Using the various elements outlined in this MRP Policy the Council will calculate a gross amount that it considers prudently necessary to fund previously incurred borrowing in respect of capital expenditure. It will then decide how much of this to fund from capital receipts with the residual amount being the Council's MRP for the year.

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 £6.145m calculated as follows:

	2019/20	2018/19
	£000	£000
Provision for capital expenditure incurred before 1st April 2008	564	553
Provision based on estimated useful life of new assets since 2008	5,581	4,714
<b>Total Minimum Revenue Provision (MRP)</b>	<b>6,145</b>	<b>5,267</b>

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

## NOTES TO MAIN FINANCIAL STATEMENTS

### 44 TRUST FUNDS

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

The only Trusts with material assets are:

	2019/20 Exp. £'s	2019/20 Income £'s	2019/20 Assets £'s	2019/20 Liabilities £'s
Alice Park Trust	87,819	(88,754)	157,277 *	
<b>Total</b>	<b>87,819</b>	<b>(88,754)</b>	<b>157,277</b>	<b>0</b>

\* Includes external investments valued at £18,097

	2018/19 Exp. £'s	2018/19 Income £'s	2018/19 Assets £'s	2018/19 Liabilities £'s
Alice Park Trust	37,996	(39,128)	156,342 *	
<b>Total</b>	<b>37,996</b>	<b>(39,128)</b>	<b>156,342</b>	<b>0</b>

\* Includes external investments valued at £18,341

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:

	2019/20 Exp. £'s	2019/20 Income £'s	2019/20 Assets £'s	2019/20 Liabilities £'s
Educational Funds		(286)	47,518	
Graves/memorial maintenance		(79)	12,655	
Twinning Fund		(165)	26,430	
Bequests		(227)	36,212	
<b>Total</b>	<b>0</b>	<b>(757)</b>	<b>122,815</b>	<b>0</b>

	2018/19 Exp. £'s	2018/19 Income £'s	2018/19 Assets £'s	2018/19 Liabilities £'s
Educational Funds	300	(602)	47,232	
Graves/memorial maintenance		(84)	12,576	
Twinning Fund		(174)	26,265	
Bequests		(239)	35,985	
<b>Total</b>	<b>300</b>	<b>(1,099)</b>	<b>122,058</b>	<b>0</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 45 CONTROLLED COMPANIES

#### Visit Bath

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

The Company's un-audited accounts to 31st March 2020 show a turnover of £2,198,934, a net loss of £110,514 and net current liabilities of £274,799 (turnover of £2,444,087, a net loss of £45,299 and net current liabilities of £83,533 in 2018/19). The turnover and assets / Liabilities held by this company are not considered significant enough to be included in Group Accounts.

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

#### Aequus Developments Ltd (ADL)

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

The Company's draft un-audited accounts to 31st March 2020 show a turnover of £558,018, a net profit of £211,815, net current liabilities of £238,427 and net non-current assets of £8,088. (Turnover of £239,256, a net profit of £390,814, net current liabilities of £83,882 and net non-current assets of £579,948 in 2018/19). These figures include outstanding loans made to the company by the Council of £4,235,907 (£3,308,251 2018/19).

#### Aequus Construction Ltd (ACL)

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

The Company's draft un-audited accounts to 31st March 2020 show a turnover of £192,209, a net profit of £823,901, net current assets of £11,720,262 and net non-current liabilities of £11,408,638 (a turnover of £192,209, a net loss of £373,445 net current assets of £7,523,245 and net non-current liabilities of £8,035,522 in 2018/19). These figures include outstanding loans made to the company by the Council of £11,479,876 (£8,154,876 in 2018/19).

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

The turnover and assets held by Aequus Developments Ltd (ADL) and Aequus Construction Ltd. (ACL) is considered significant enough to produce Group Accounts, and have therefore been consolidated with the accounts of Bath & North East Somerset Council in the group accounts section of the Statement of Accounts.

### 46 WEST OF ENGLAND PARTNERSHIP

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

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

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

The table below reflects the revenue expenditure incurred by Bath and North East Somerset on behalf of the West of England Authorities in 2019/20:

#### West of England Pooled Revenue Expenditure 2019-20

Expenditure	£'000	Acting As
Joint Spatial Plan	480	
Feasibility Studies	99	
<b>Total Expenditure</b>	<b>579</b>	
<b>Funding</b>		
Local Authority Contributions	510	Agent
WECA Grant	69	Agent
<b>Total Income</b>	<b>579</b>	

## NOTES TO MAIN FINANCIAL STATEMENTS

### 47 CONTINGENT LIABILITIES

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

### 48 HERITAGE ASSETS; FURTHER INFORMATION ON THE COLLECTIONS

#### Roman Baths Museum

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

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

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

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

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

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

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

Valuations are carried out by the museums curator and where necessary supplemented with advice is sought from an external source.

#### Bath Record Office

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

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

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

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

#### Fashion Museum

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

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

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

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

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

## NOTES TO MAIN FINANCIAL STATEMENTS

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### 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. Valuations are carried out the museums curator, and where necessary supplemented with advice is sought from an external source.

**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 2018/19 by Bonhams for insurance purpose.

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

# NOTES TO MAIN FINANCIAL STATEMENTS

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

### Restatement of Service Income & Expenditure

Expenditure on services and income relating to or derived from those services is classified in the Comprehensive Income & Expenditure Statement in accordance with the CIPFA Code of Local Authority Accounting in the UK. The 2019/20 Code requires that authorities present expenditure and income on services on the bases of its reportable segments. These reportable segments are based on the Authority's reporting structure. The Authority's reportable segments are the Cabinet Portfolios, and following a change to the Cabinet structure during 2019/20, the Portfolios of responsibility are structured differently to those included in the 2018/19 Statement of Accounts. This note shows how the net expenditure and income has been restated.

	As originally reported in the CIES 2018/19 £'000	Adjustments between Cabinet Portfolio structure £'000	As Restated 2018/19 £'000
<b>NET EXPENDITURE</b>			
<b>Cabinet Portfolio</b>			
Leader	2,294	(1,885)	409
Finance & Efficiency	11,377	(11,377)	-
Adult Care, Health & Wellbeing	62,525	(62,525)	-
Children & Young People	34,664	(34,664)	-
Development & Neighbourhoods	21,198	(21,198)	-
Economic & Community Regeneration	(6,587)	6,587	-
Transformation & Customer Services	6,266	(6,266)	-
Transport & Environment	14,989	(14,989)	-
Resources	-	16,138	16,138
Adult Services	-	62,538	62,538
Children's Services	-	34,505	34,505
Climate Emergency & Neighbour'h'd Serv.	-	15,785	15,785
Housing, Planning & Economic Development	-	1,127	1,127
Community Services	-	801	801
Transport Services	-	15,423	15,423
<b>Cost of Services</b>	<b>146,726</b>	<b>-</b>	<b>146,726</b>
<b>GROSS EXPENDITURE</b>			
<b>Cabinet Portfolio</b>			
Leader	2,520	(1,782)	738
Finance & Efficiency	63,421	(63,421)	-
Adult Care, Health & Wellbeing	117,575	(117,575)	-
Children & Young People	98,745	(98,745)	-
Development & Neighbourhoods	33,337	(33,337)	-
Economic & Community Regeneration	15,645	(15,645)	-
Transformation & Customer Services	8,800	(8,800)	-
Transport & Environment	29,489	(29,489)	-
Resources	-	69,498	69,498
Adult Services	-	117,575	117,575
Children's Services	-	98,586	98,586
Climate Emergency & Neighbour'h'd Serv.	-	18,479	18,479
Housing, Planning & Economic Development	-	8,797	8,797
Community Services	-	25,040	25,040
Transport Services	-	30,819	30,819
<b>Cost of Services</b>	<b>369,532</b>	<b>-</b>	<b>369,532</b>
<b>GROSS INCOME</b>			
<b>Cabinet Portfolio</b>			
Leader	(226)	(103)	(329)
Finance & Efficiency	(52,044)	52,044	-
Adult Care, Health & Wellbeing	(55,050)	55,050	-
Children & Young People	(64,081)	64,081	-
Development & Neighbourhoods	(12,139)	12,139	-
Economic & Community Regeneration	(22,232)	22,232	-
Transformation & Customer Services	(2,534)	2,534	-
Transport & Environment	(14,500)	14,500	-
Resources	-	(53,360)	(53,360)
Adult Services	-	(55,037)	(55,037)
Children's Services	-	(64,081)	(64,081)
Climate Emergency & Neighbour'h'd Serv.	-	(2,694)	(2,694)
Housing, Planning & Economic Development	-	(7,670)	(7,670)
Community Services	-	(24,239)	(24,239)
Transport Services	-	(15,396)	(15,396)
<b>Cost of Services</b>	<b>(222,806)</b>	<b>-</b>	<b>(222,806)</b>

## NOTES TO MAIN FINANCIAL STATEMENTS

### 50 CITY REGION DEAL

#### Background

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

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

#### Transactions

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

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

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

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

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

	Cash Transactions		Revenue & Expenditure	
	Business Rates Pool Total £'000	of which the Council's Share £'000	Council Expenditure £'000	Council Revenue £'000
Funds held by BRP at 1 April 2019	(29,086)	(1,222)	0	0
Receipts into the Pool in-year:				
- Growth sums payable by Councils to BRP in-year	(26,671)	(592)	336	0
Distributions out of the Pool in-year:				
- Tier 1 no worse off	9,548	213	0	(213)
- BRP Management Fee	37	9	0	0
- EDF Management Fee	69	17	0	0
- Tier 2 EDF funding	2,362	38	0	(216)
- Tier 3 Demographic and service pressures	2,710	59	0	(350)
<b>Funds held by the BRP at 31 March 2019</b>	<b>(41,031)</b>	<b>(1,478)</b>		
Analysed between:				
Uncommitted cash (Tier 2 incl. Contingency)	(38,182)	(1,374)	303	n/a
Committed cash not yet allocated	(2,849)	(104)	(47)	n/a
	<b>(41,031)</b>	<b>(1,478)</b>		
<b>Expenditure / (Revenue) recognised</b>			<b>592</b>	<b>(779)</b>

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 (£1.478m) 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 £2.362m on behalf of the EDF in 2019/20.

The council itself has recognised revenue income of £779,000 (2018/19: (£696,000)) from the BRP and expenditure of £592,000 (2018/19: £714,000) to the BRP for the year.

## COLLECTION FUND 2019/20

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	2019/20 £'000	2018/19 £'000
<b>INCOME</b>				
Council Tax	2	<b>(115,046)</b>		<b>(107,524)</b>
Income collectable from business ratepayers	3	<b>(70,440)</b>		<b>(70,228)</b>
			<b>(185,485)</b>	<b>(177,752)</b>
<b>EXPENDITURE</b>				
Council Tax - Precepts and demands				
Bath & North East Somerset		<b>94,763</b>		89,242
Avon & Somerset Police	1	<b>14,307</b>		12,471
Avon Fire	1	<b>4,827</b>		4,591
			<b>113,897</b>	106,304
National Non-Domestic Rates (NNDR)				
Central share payment to Government		-		-
Local share payment to Bath & North East Somerset		<b>61,527</b>		61,879
Local share payment to WECA		<b>3,273</b>		3,291
Local share payment to Avon Fire Authority		<b>655</b>		658
Transfer of City Deal Growth Disregard to General Fund	6	<b>556</b>		654
Transfer of Renewable Energy Growth Disregard to General Fund		<b>25</b>		29
Cost of Collection Allowance		<b>265</b>		261
			<b>66,300</b>	66,772
Impairments of debts	4			
Write off of uncollectable amounts			<b>301</b>	553
Increases / (decreases) in allowance for impairment				
Provision for NNDR Appeals	5		<b>3,381</b>	2,630
Contributions				
Contribution towards previous year's estimated Collection Fund Surplus/(Deficit)			<b>558</b>	<b>(2,678)</b>
			<b>184,438</b>	173,582
(Surplus)/Deficit for the Year			<b>(1,047)</b>	<b>(4,170)</b>
(Surplus)/Deficit Brought Forward as at 1 April			<b>(1,633)</b>	2,538
<b>(Surplus)/Deficit as at 31 March</b>	<b>7</b>		<b>(2,680)</b>	<b>(1,633)</b>
Council Tax Surplus / (Deficit) to be refunded to Police & Fire Authorities			<b>236</b>	133
NNDR Surplus / (Deficit) to be refunded / charged to Government, WECA & Fire Authority			<b>77</b>	49
<b>Bath &amp; North East Somerset (Surplus)/Deficit</b>			<b>(2,367)</b>	<b>(1,451)</b>

# NOTES TO THE COLLECTION FUND

## 1 The Collection Fund

The Collection Fund Account is a statutory fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). The year end surplus/deficit on the Fund is due to/from 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;

	<b>Precept</b>	<b>Surplus / (Deficit)</b>	Precept Surplus / (Deficit)	
	<b>2019/20</b>	<b>2019/20</b>	2018/19	2018/19
	<b>£'000</b>	<b>£'000</b>	£'000	£'000
The Avon & Somerset Police Authority	<b>14,307</b>	<b>100</b>	12,471	(6)
The Avon Fire Authority	<b>4,827</b>	<b>37</b>	4,591	(2)

## 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 65,687.52 (64,346.64 for 2018/19). This amount of Council Tax for a Band D property £1733.93 (£1,652.06 - 2018/19) is multiplied by the proportion specified for the particular band to give an individual amount due.

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

	Discounted Properties	Ratio to Band D	Band D Equivalents
Band A - Disabled Relief	9	5/9	5
Band A	6,492	6/9	4,328
Band B	16,446	7/9	12,792
Band C	17,505	8/9	15,560
Band D	12,263	9/9	12,263
Band E	8,813	11/9	10,771
Band F	5,080	13/9	7,337
Band G	4,422	15/9	7,370
Band H	368	18/9	737
			71,163
Overall Adjustment for Council Tax Support and Technical Changes			<u>(5,475)</u>
<b>Council Tax Base</b>			<u><b>65,688</b></u>

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

The income for 2019/20 is receivable from the following sources:-

	<b>2019/20</b>	2018/19
	<b>£'000</b>	£'000
Billed to Council Tax payers	<b>(115,012)</b>	(107,487)
Localism Act Discounts funded from General Fund	-	(2)
DWP Benefits funded from General Fund	<b>(6)</b>	(4)
Foster Carers Locally Defined Discount funded from General Fund	<b>(11)</b>	(11)
Care Leavers Locally Defined Discount funded from General Fund	<b>(17)</b>	(20)
	<u><b>(115,046)</b></u>	<u>(107,524)</u>

## NOTES TO THE COLLECTION FUND

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

The Council collects NNDR for its area based on local rateable values multiplied by a uniform business rate set nationally by Central Government. The national multipliers for 2019/20 were 49.1 pence for qualifying small businesses and 50.4 pence for all other businesses, subject to transitional arrangements. The NNDR income after reliefs of £70.440 million for 2019/20 (£70.228 million in 2018/19) resulted from a total rateable value at 31 March 2020 of £186.236 million (2018/19: £184.235 million).

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

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

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

The closing surplus on the business rates retention scheme in 2019/20 is £1.276m (£0.809m surplus in 2018/19). The surplus is to be allocated to the Council (94%), WECA (5%) and Fire Authority (1%) based on the proportional shares agreed under the 100% retention pilot.

### 4 Council Tax and NNDR - Provision for Bad Debts

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

	2019/20 £'000	2018/19 £'000
<b>Council Tax</b>		
Balance at 1 April	629	624
Write-offs during the year	1,065	(257)
Contributions to provisions during the year	(282)	262
Net Increase/(Decrease) in Provision	783	5
Balance at 31 March	<u>1,412</u>	<u>629</u>
<b>NNDR</b>		
Balance at 1 April	462	407
Write-offs during the year	(306)	(236)
Contributions to provisions during the year	584	291
Net Increase/(Decrease) in Provision	278	55
Balance at 31 March	<u>740</u>	<u>462</u>
<b>Total</b>		
Balance at 1 April	1,091	1,031
Write-offs during the year	759	(493)
Contributions to provisions during the year	302	553
Net Increase/(Decrease) in Provision	1,061	60
Balance at 31 March	<u>2,152</u>	<u>1,091</u>

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

### 5 Provision for Appeals

An estimate of the impact of business rate appeals, where businesses believe they have been overcharged and have made an appeal to the Valuation Office Agency (VOA), has been made, including for the effect of backdated appeals costs prior to 1 April 2019.

	2019/20 £'000	2018/19 £'000
Balance at 1 April	9,140	6,946
Cost of Appeals settled during the year	(55)	(436)
Contributions to provisions during the year	3,381	2,630
Net Increase/(Decrease) in Provision	3,326	2,194
Balance at 31 March	<u>12,466</u>	<u>9,140</u>

The net increase in appeals provision is due to provisions made in respect of potential 2017 rating list appeals. Provision for appeals on 2017 rating list has been made at 4.7% of the net business rates payable.

## NOTES TO THE COLLECTION FUND

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### 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 2020, the balance on the Collection Fund stood at an overall surplus of £2.680m.

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:

	<b>Council Tax</b>	<b>NDR</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Central Government	-	(0)	(0)
Bath & North East Somerset	(1,168)	(1,199)	(2,367)
West of England Combined Authority (WECA)	-	(64)	(64)
Avon & Somerset Police	(177)	-	(177)
Avon Fire Authority	(59)	(13)	(72)
	<b>(1,404)</b>	<b>(1,276)</b>	<b>(2,680)</b>

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.

## NARRATIVE REPORT

### Introduction

In common with many other local authorities, the BANES has created separate companies with its partners to further the goals of the Council. The use of separate companies means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

This section presents the statutory financial statements for BANES Council Group (the Group) for the period from 1 April 2019 to 31 March 2020. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of its subsidiaries are aligned with the policies of the Council where transactions are material. Details of policies which related solely to the subsidiary, which cover elements of business the Council as a single entity does not cover, have been added to the group accounts.

This narrative report provides a summary of the Group's financial position and details of material items that have impacted on the accounts during the year.

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2020, with comparative figures for the previous financial year.

### Consolidation of subsidiaries

#### Inclusion Within The Group Accounts

The Council has business relationships with a number of entities over which it has varying degrees of control or influence. These are classified into the categories of subsidiaries, associates and joint ventures. The meaning of these terms are outlined below:

**Subsidiary** - "A subsidiary is an entity including an unincorporated entity such as a partnership that is controlled by another entity (the Council), known as the parent."

**Associate** - "An associate is an entity over which an investor (the Council) has significant influence."

**Joint Venture** - "A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement"

The Council has two material subsidiary companies which are both 100% owned, these are:

Aequus Developments Limited (ADL) &

Aequus Construction Limited (ACL)

ACL is a 100% owned subsidiary of ADL but as ADL is 100% owned by the council, both are treated as separate companies 100% owned by the council.

More detail regarding each of these organisations can be found in note G3.

The Council does not currently have any material associate or joint venture arrangements with any other entities.

Although this is the fourth year of operations for ADL in previous years the amounts related to both subsidiaries were deemed as immaterial in light of the local council's figures. As such this is the first year for which Group accounts consolidating these entities have been produced. In previous years ADL and ACL will have formed parts of the council accounts as debtors reflecting the loans made to the companies. They were also disclosed as related parties.

Further detail regarding the Council's relationship with the above companies is given in Note 36 of the Council's Statement of Accounts.

The following statements consolidate the accounts of the Council with those of its subsidiaries. Transactions between the Council and its Group entities are eliminated on consolidation.

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2019/20

This statement shows the income and expenditure recognised by the Group during the reporting period.

Activities of the subsidiaries have been added as a separate line item in the expenditure on services section. Subsidiary figures also feed in to the Financing and Investment Income and Expenditure and Taxation and Non-Specific Grant income line items.

Notes	2018/19	2018/19	2018/19		2019/20	2019/20	2019/20
	Gross Exp £'000	Gross Inc £'000	Net Exp £'000		Gross Exp £'000	Gross Inc £'000	Net Exp £'000
				<b>Expenditure on Services</b>			
	738	(329)	409	Leader	663	(528)	135
	69,405	(53,104)	16,301	Resources	68,687	(57,328)	11,359
	117,575	(55,037)	62,538	Adult Services	106,301	(41,253)	65,048
	98,586	(64,081)	34,505	Children's Services	93,597	(60,931)	32,666
	18,479	(2,694)	15,785	Climate Emergency & Neighbourhood Serv.	19,328	(2,568)	16,760
	8,797	(7,670)	1,127	Housing, Planning & Economic Developm't	9,371	(5,651)	3,720
	25,040	(24,239)	801	Community Services	24,466	(25,116)	(650)
	30,819	(15,396)	15,423	Transport Services	30,159	(15,085)	15,074
	505	(748)	(242)	Activities of Subsidiaries	4,190	(5,363)	(1,173)
	369,944	(223,297)	146,647	<b>Cost of Services - continuing Operations</b>	<b>356,762</b>	<b>(213,823)</b>	<b>142,939</b>
			12,060	Other Operating Expenditure			12,969
			26,449	Financing and Investment Income & Expenditure			5,333
		(138,411)		Taxation and Non-Specific Grant Income			(143,071)
			46,746	<b>(Surplus) or Deficit on Provision of Services</b>			<b>18,170</b>
		(29,510)		(Surplus) or Deficit on Upward Revaluation of Non-current Assets			(43,656)
			17,095	(Surplus) or Deficit on Downward Revaluation of Non-current Assets			13,573
			28,798	Remeasurement of the net defined benefit liability			(1,259)
			<b>16,383</b>	<b>Other Comprehensive Income &amp; Expenditure</b>			<b>(31,342)</b>
			<b>63,129</b>	<b>Total Comprehensive Income &amp; Expenditure</b>			<b>(13,172)</b>

## GROUP MOVEMENT IN RESERVES STATEMENT 2019/20

This statement shows the movement in the year on the different reserves held, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

<b>Current Year</b>	<b>Total General Fund Balance £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Capital Grants Unapplied £'000</b>	<b>Total Usable Reserves £'000</b>	<b>Unusable Reserves £'000</b>	<b>Total Authority Reserves £'000</b>	<b>Authority's share of reserves of subsidiaries £'000</b>	<b>Total Group Reserves £'000</b>
<b>Balance at 31 March 2019</b>	<b>48,886</b>	<b>3,474</b>	<b>222</b>	<b>52,582</b>	<b>80,576</b>	<b>133,158</b>	<b>(16)</b>	<b>133,142</b>
Movements During 2019/20:								
Total Comprehensive Income & Expenditure	(19,011)			(19,011)	32,280	13,269	(97)	13,172
Adjustments between group accounts and authority accounts	(194)			(194)		(194)	194	-
<b>Net Increase/ Decrease before transfers</b>	<b>(19,205)</b>	<b>-</b>	<b>-</b>	<b>(19,205)</b>	<b>32,280</b>	<b>13,075</b>	<b>98</b>	<b>13,172</b>
Adjustments between accounting basis and funding basis under statutory provisions	27,786	1,523	(208)	29,101	(29,101)	-		-
<b>Increase / (Decrease) during year</b>	<b>8,581</b>	<b>1,523</b>	<b>(208)</b>	<b>9,896</b>	<b>3,179</b>	<b>13,075</b>	<b>98</b>	<b>13,172</b>
Transfers to / (from) earmarked reserves				-				
<b>Balance at 31 March 2020</b>	<b>57,468</b>	<b>4,997</b>	<b>14</b>	<b>62,479</b>	<b>83,754</b>	<b>146,233</b>	<b>81</b>	<b>146,314</b>
<b>Comparative Year</b>	<b>Total General Fund Balance £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Capital Grants Unapplied £'000</b>	<b>Total Usable Reserves £'000</b>	<b>Unusable Reserves £'000</b>	<b>Total Authority Reserves £'000</b>	<b>Authority's share of reserves of subsidiaries £'000</b>	<b>Total Group Reserves £'000</b>
<b>Balance at 31 March 2018</b>	<b>45,960</b>	<b>2,770</b>	<b>1,375</b>	<b>50,105</b>	<b>146,199</b>	<b>196,304</b>	<b>(34)</b>	<b>196,270</b>
Movements During 2018/19:								
Total Comprehensive Income & Expenditure	(46,926)			(46,926)	(16,383)	(63,309)	181	(63,129)
Adjustments between group accounts and authority accounts	163			163		163	(163)	(0)
<b>Net Increase/ Decrease before transfers</b>	<b>(46,763)</b>	<b>-</b>	<b>-</b>	<b>(46,763)</b>	<b>(16,383)</b>	<b>(63,146)</b>	<b>17</b>	<b>(63,129)</b>
Adjustments between accounting basis and funding basis under statutory provisions	49,690	704	(1,153)	49,241	(49,241)	-		-
<b>Increase / (Decrease) during year</b>	<b>2,927</b>	<b>704</b>	<b>(1,153)</b>	<b>2,478</b>	<b>(65,624)</b>	<b>(63,146)</b>	<b>17</b>	<b>(63,129)</b>
Transfers to / (from) earmarked reserves				-				
<b>Balance at 31 March 2019</b>	<b>48,886</b>	<b>3,474</b>	<b>222</b>	<b>52,582</b>	<b>80,576</b>	<b>133,158</b>	<b>(16)</b>	<b>133,142</b>

## GROUP BALANCE SHEET as at 31 MARCH 2020

The Group Balance Sheet summarises the financial position of the Council and its two subsidiaries as a whole. It shows the value of group assets and liabilities at the end of the financial year.

Notes	31 March 2019 £'000		31 March 2020 £'000
		Property, Plant & Equipment:	
	200,896	Land & Buildings	227,185
	917	Community Assets	1,337
	100,463	Infrastructure	93,504
	18,493	Vehicles, Plant & Equipment	19,061
	22,193	Assets under Construction	40,000
	2,378	Surplus assets	2,138
	34,096	Heritage Assets	38,997
	323,226	Investment Property	316,078
	497	Intangible Assets	823
G5	1,922	Long Term Debtors	1,336
	99	Deferred tax asset	69
	<u>705,180</u>	<b>Long Term Assets</b>	<u>740,527</u>
		Short Term Investments	29,634
G4	15,054	Inventories	11,763
	8,512	Short Term Debtors	34,268
G5	31,891	Cash and Cash Equivalents	29,179
	25,708	Assets Held for Sale	98
	<u>1,725</u>	<b>Current Assets</b>	<u>104,941</u>
	82,889		
	(10,065)	Short Term Borrowing	-
	(50,343)	Short Term Creditors	(47,396)
	(3,554)	Grants Receipts In Advance - Revenue	(9,544)
	<u>(11,129)</u>	Grants Receipts In Advance - Capital	<u>(26,766)</u>
	(75,091)	<b>Current Liabilities</b>	<u>(83,706)</u>
		Long Term Creditors	(144)
	(9,087)	Provisions	(12,214)
	(218,488)	Long Term Borrowing	(234,867)
	(103)	Deferred tax liability	(2)
	(321,691)	Other Long Term Liabilities	(338,770)
	<u>(30,468)</u>	Grants Receipts In Advance - Capital	<u>(29,451)</u>
	(579,837)	<b>Long Term Liabilities</b>	<u>(615,449)</u>
	<u>133,141</u>	<b>Net Assets</b>	<u>146,314</u>
		Usable reserves	62,560
	52,565	Unusable Reserves	83,754
	80,576		
	<u>133,141</u>	<b>Total Reserves</b>	<u>146,314</u>

## GROUP CASH FLOW STATEMENT

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The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period.

2018/19		2019/20
£'000		£'000
(46,746)	Net surplus or (deficit) on the provision of services	(18,170)
	Adjustment to surplus or deficit on the provision of services	
79,908	for non cash movements	49,521
	Adjust for items included in the net surplus or deficit on the provision	
<u>(28,446)</u>	of services that are investing and financing activities	<u>(33,206)</u>
4,716	Operating Activities	(1,855)
(58,831)	Investing Activities	(5,182)
40,836	Financing Activities	10,506
<u>(13,279)</u>	<b>Net Increase/(decrease) in cash equivalents</b>	<u>3,471</u>
38,987	Cash & cash equivalents at the beginning of the reporting period	25,708
25,708	Cash & cash equivalents at the end of the reporting period	29,179

# NOTES TO GROUP FINANCIAL STATEMENTS

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## G1 Accounting policies

The Group Financial Statements summarise the Council's and its Group's transactions for the 2019/20 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 supported by International Financial Reporting Standards (IFRS).

Members within the Group have both been classified as subsidiaries as they are both 100% council owned. The subsidiaries have been consolidated into the Group Financial Statements on a line by line basis.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, the Notes to the Council entity accounts provide the required disclosures. Where material, Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity accounts, with additional policies specific to the Group set out below. Any statutory adjustments between accounting basis and funding basis included in the Council's Accounting Policies do not apply to the subsidiary companies.

### 1.1 Inventories

Inventories are initially stated at cost or at the fair value at acquisition date and then held at the lower of this initial amount and net realisable value. Costs comprise direct materials and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Land is recognised in inventory when the significant risks and rewards of ownership have been transferred to the company.

### 1.2 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country in which the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and there is an intention to settle the balances on a net basis.

### 1.3 Assets recognised from costs to fulfil a contract

Assets are recognised in relation to costs incurred in developing assets that will be used to fulfil future contracts. Contract assets are initially stated at cost or at the fair value at acquisition date and then held at the lower of this initial amount and net realisable value. Costs comprise direct materials and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Land is recognised in inventory when the significant risks and rewards of ownership have been transferred to the company.

# NOTES TO GROUP FINANCIAL STATEMENTS

## G2 Bodies not consolidated

The following have not been consolidated in to the Group Accounts

Entity	Reason
Visit Bath	Immaterial subsidiary

### Visit Bath

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

## G3 Bodies Consolidated

The Council has consolidated two of its Subsidiaries into its Group Accounts, these are Aequus Developments Ltd (ADL) & Aequus Construction

### Aequus Developments Ltd (ADL)

ADL was set up to develop, deliver, own and manage property for both the rental and home owner's market. ADL set up a 100% owned subsidiary in name of Aequus Construction Limited (ACL) which deals with the construction and development sites of the business. The separation of ADL and ACL allows them to focus on their differing businesses, taking advantage of the different areas of expertise of management and professional advisors, together with separating the risks associated with the specific areas of operation. The principal activity of the ADL in the year under review was that of an investment property company.

The draft accounts for the year to 31 March 2020 for ADL have been summarised below, with comparator figures for the previous reporting period.

Aequus Developments Ltd (ADL)	Year ended 31 March 2019 £000	Year ended 31 March 2020 £000
Profit for the year	391	212
Other Comprehensive Income		(938)
Total Comprehensive Income	391	(726)
Net assets	496	(230)

### Aequus Construction Ltd (ACL)

ACL is as a wholly owned subsidiary of Aequus Developments Limited (ADL), established to deliver the construction and development of sites for Bath & North East Somerset Council (the Council). The principal activity of the company in the year under review was that of property development and construction.

The draft accounts for the year to 31 March 2020 for ACL have been summarised below, with comparator figures for the previous reporting period.

Aequus Construction Ltd (ACL)	Year ended 31 March 2019 £000	Year ended 31 March 2020 £000
Profit for the year	(373)	824
Other Comprehensive Income		
Total Comprehensive Income	(373)	824
Net assets	(512)	312

## G4 Inventories

2018/19 £'000		2019/20 £'000
498	Consumable stores	615
8,014	Work in progress	11,232
<u>8,512</u>		<u>11,847</u>

## G5 Debtors

2018/19 £'000	Amounts falling due in one year:	2019/20 £'000
2,220	Central Government bodies	2,268
5,649	Other local authorities	4,290
1,554	NHS bodies	1,856
13,446	Other entities and individuals (Trade Debtors)	15,307
6,235	Other entities and individuals (Non-Trade Debtors)	6,963
2,787	Prepayments	3,584
<u>31,891</u>	<b>Total - Current Assets</b>	<u>34,268</u>
£'000	Amounts falling after one year:	£'000
1,922	Other entities and individuals	1,336
<u>1,922</u>	<b>Total - Long Term Assets</b>	<u>1,336</u>

## PENSION FUND ACCOUNTS 2019/20

### Fund Account

For the Year Ended 31 March 2020

	Notes	2019/20 £'000	2018/19 £'000
<b>Dealing with members, employers and others directly involved in the fund</b>			
Contributions Receivable	4	(161,648)	(153,929)
Transfers In		(20,452)	(9,035)
		<b>(182,100)</b>	<b>(162,964)</b>
Benefits Payable	5	181,242	171,863
Payments to and on account of Leavers	6	12,818	9,722
		<b>194,060</b>	<b>181,585</b>
<b>Net (additions) / withdrawals from dealings with member</b>		<b>11,960</b>	<b>18,621</b>
Management Expenses	7	31,102	22,858
<b>Net (additions)/withdrawals including fund management expenses</b>		<b>43,062</b>	<b>41,479</b>
<b>Returns on Investments</b>			
Investment Income	8	(32,568)	(37,012)
Profits and losses on disposal of investments and change in value of investments	9	335,511	(221,369)
<b>Net Returns on Investments</b>		<b>302,943</b>	<b>(258,381)</b>
<b>Net (Increase) in the net assets available for benefits during the year</b>		<b>346,005</b>	<b>(216,902)</b>
<b>Opening Net Assets of the Fund</b>		<b>4,817,827</b>	<b>4,600,925</b>
<b>Closing Net Assets of the Fund</b>		<b>4,471,822</b>	<b>4,817,827</b>

### Net Assets Statement at 31 March 2020

	Notes	31 March 2020 £'000	%	31 March 2019 £'000	%
<b>INVESTMENT ASSETS</b>					
Equities		147,306	3.3	554,790	11.5
Property Pooled Investment vehicles		424,153	9.5	428,751	8.9
Non Property Pooled Investment Vehicles		3,778,471	84.5	3,718,768	77.1
Cash Deposits		143,135	3.2	105,377	2.2
Other Investment balances		3,249	0.1	3,486	0.1
Derivative Contracts (Foreign Exchange hedge)		-	-	7,984	0.2
Derivative Contracts: FTSE Futures		1,078	0.0	349	0.0
Long Term Investments		427	0.0	395	0.0
<b>INVESTMENT LIABILITIES</b>					
Derivative Contracts (Foreign Exchange hedge)		(30,367)	(0.7)	-	-
Other Investment balances		(413)	(0.0)	(147)	(0.0)
<b>TOTAL NET INVESTMENT ASSETS</b>	10	<b>4,467,039</b>		4,819,753	
Long Term Debtors	12a	212	-	70	
<b>Net Current Assets</b>					
Current Assets	12	14,206	0.3	13,079	0.3
Current Liabilities	12	(9,635)	(0.2)	(15,075)	(0.3)
<b>Net assets of the scheme available to fund benefits at the period end</b>		<b>4,471,822</b>	<b>100.0</b>	<b>4,817,827</b>	<b>99.9</b>

#### Analysis of Non Property Pooled Investment Vehicles

Diversified Growth Funds	605,666	597,717
Infrastructure	358,444	342,723
Liability Driven Investments	287,601	580,817
Multi Asset Credit	291,660	410,444
Derivative Contract: OTC Equity index Options	118,816	(12,585)
Hedge Funds	257,966	232,127
Secured Income	51,514	16,695
Equity	1,692,261	1,464,662
Bonds	114,543	86,168
	<b>3,778,471</b>	<b>3,718,768</b>

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2020. The actuarial present value of these liabilities is disclosed in note 15.

**Notes to Accounts - Year Ended 31 March 2020**

**1 INTRODUCTION & STATEMENT OF ACCOUNTING POLICIES**

**1.1 Description of Fund**

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

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

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

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

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

**Introduction to the Statement of Accounts**

1.2 This statement comprises the Statement of Accounts for the Avon Pension Fund (the Fund). The accounts cover the financial year from 1 April 2019 to 31 March 2020.

1.3 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2019/20 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 1.21. They do not take account of liabilities to pay pensions and other benefits in the future.

**Impact of COVID-19 Pandemic**

1.4 The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 came into force on 30 April 2020. The Regulations extend the publication date for local authority audited accounts to 30 November 2020. The public inspection period will start on 1 September 2020. These regulations apply only in relation to annual accounts relating to the 2019/20 financial year.

1.5 These regulations were provided in order for authorities to have additional time to complete the audit of their accounts for 2019/20, given the likely impact of the COVID19 virus on availability of local authority staff and auditors to complete the audit process within current deadlines.

1.6 Staff have been working from home during the year end process and audit. The Fund has focussed on delivering the service digitally to members and employers, the payment of pensions within deadlines, monitoring cashflow including the receipt of contributions from employers, monitoring the impact on the investment strategy and communicating with members to reassure them about their pension benefits.

**1.7 Actuarial Valuations**

As required by the Local Government Pension Scheme Regulations 2013 (as amended) an actuarial valuation of the Fund was carried out as at 31 March 2019. The market value of the Fund's assets at the valuation date was £4,818m. The Actuary estimated that the value of the Fund was sufficient to meet 94% of its expected future liabilities of £5,102m in respect of service completed to 31 March 2019, with a deficit of £284m.

1.8 At the 2019 valuation the average deficit recovery period for the Fund overall was set at 13 years.

1.9 The 2019 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:

	<b>Past Service Liabilities (Primary Contribution Rate)</b>	<b>Future Service Liabilities (Secondary Contribution Rate)</b>
Rate of return on investments (discount rate)	4.65% per annum	4.15% per annum
Rate of pay increases (long term)*	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

1.10 The 2019 triennial valuation was completed during 2019/20 using market prices and membership data as at 31 March 2019. The 2019 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 2020. The discount rate used in the 2019 valuation is based on CPI plus a real investment return of 1.75% p.a. for past service (the secondary contribution rate) and CPI plus 2.25% p.a. for future service (the primary contribution rate). The discount rate for the lower risk investment strategy was 2.6% p.a..

1.11 The Actuary has estimated that the funding level has fallen over the year to 84% based on the 2019 valuation financial assumptions.

1.12 The 2019 valuation outcome does not include an allowance for McCloud. However at the overall Fund level the impact was estimated to increase past service liabilities by £35m and to increase the Primary Contribution Rate by 0.5% of pensionable pay per annum. Individual employers were informed of the impact on their costs as part of the valuation exercise, with the option to include the estimated costs in contributions paid from 1 April 2020. Once the remediation for the Local Government Pension Scheme is known, employer contributions will be adjusted in line with guidance from the Scheme Advisory Board for those employers who have opted not to pay estimated costs from 1 April 2020. For those that have included an allowance in their contributions no adjustment will be made until the next valuation. The estimated costs of the remedy is included in the IAS26 disclosure.

## PENSION FUND ACCOUNTS 2019/20

- 1.13 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.
- 1.14 The Fund's Funding Strategy Statement can be found on the Fund's website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Funding Strategy Statement) and is summarised within the Fund's Annual Report. The purpose of the Funding Strategy Statement is to set out a clear and transparent funding strategy that will identify how each employer's pension liabilities are to be met going forward.
- 1.15 In March 2020 there was significant volatility in investment markets as a result of the COVID-19 pandemic. The long term impact is not yet known but there could be far-reaching consequences in terms of funding and risk. The funding position and employer covenants will be closely monitored as the situation evolves. The Fund's risk management strategy will mitigate some of the impact of lower asset prices if they persist into 2020/21. Given the current uncertainty, employer contributions will not be revisited but kept under review so the potential implications are assessed and any actions can be effectively managed.

### Investment Strategy Statement

- 1.16 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](http://www.avonpensionfund.org.uk) (search Investment Strategy Statement) and is summarised within the Fund's Annual Report. The ISS is updated following strategic reviews.
- 1.17 The Fund's assets are currently managed externally by investment managers appointed and monitored by the Fund. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require funds to pool their investments assets from 1 April 2018. As a consequence the Fund is a member of Brunel Pension Partnership, a pool of 10 LGPS funds, which has established an FCA regulated company, Brunel Pension Partnership Limited (Brunel), to manage the assets of the pool. Each LGPS fund in the pool is a shareholder owning an equal share of the company. Since July 2018 the Fund's assets have gradually transitioned to Brunel. Once assets have transferred, Brunel is responsible for appointing and monitoring managers and other investment related operational aspects of the Fund. The Investment Strategy Statement will be updated during this transition to reflect the changing responsibilities.
- 1.18 The Fund has implemented three investment strategies to manage specific risks within the asset portfolio. These strategies are held within a Qualified Investment Fund (QIF) managed by Blackrock.
- (i) A Liability Driven Investment strategy provides a hedge against changes in the value of the pension liabilities within the asset portfolio. This strategy consists of bonds and derivatives such as gilt repurchase agreements and interest and inflation swaps, structured to achieve the desired hedge profile.
  - (ii) Additionally within the QIF is a strategy to lock in the gains in equity markets ahead of the 2019 actuarial valuation. Using Over The Counter (OTC) equity index option contracts this strategy protects the Fund's developed markets equity assets from a fall in global markets into 2020.
  - (iii) A Low Risk Investment Strategy has been implemented where the assets (mainly corporate bonds) better match the liability profile of the

## Statement of Accounting Policies

### Basis of Preparation

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

### Investments

- 1.20 Investments are shown in the accounts at fair value, which has been determined as follows:
- i) Quoted Securities have been valued at 31 March 2020 by the Fund's custodian using internationally recognised pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Some UK property funds have been valued at mid price as opposed to bid price with unaudited valuations used as the latest available for the accounting date. Unquoted securities are included at fair value based on the Fund Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and their external auditors.
  - ii) Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
  - iii) Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2020. The basis of valuation is explained further in note 24.
  - iv) Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2020.
  - v) Open futures contracts are included in the Net Asset Statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
  - vi) Over the Counter (OTC) Equity Index options are included in the Net Asset Statement at their fair market value, which is the unrealised profit or loss at the current value of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts
  - vii) Overseas properties are valued as at 31 March 2020 using unaudited values to take account of the market conditions prevailing at 31 March 2020.
  - viii) Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
  - ix) The only Long Term Investment is shares in Brunel Pension Partnership Ltd. Its fair value is based on the value of equity in Brunel Pension Partnership Ltd accounts.
  - x) Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
  - xi) Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
  - xii) The Fund's surplus cash is managed separately from the surplus cash of Bath and North East Somerset Council (B&NES) and is treated as an investment asset.

## PENSION FUND ACCOUNTS 2019/20

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### Contributions

- 1.21 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 rates applying in 2019/20 relate to the 2016 valuation and the 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 (as amended). The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. The contribution rates arising from the 2019 valuation are effective from 1 April 2020.
- 1.22 Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

### Benefits, Refunds of Contributions and Cash Transfer Values

- 1.23 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Prices Index.
- 1.24 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.
- 1.25 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Accruals are only made when it is certain that a transfer is to take place.
- 1.26 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

### Investment Income

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

### Investment Management & Administration

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

### Taxation

- 1.30 The Fund is not liable to UK income tax, on income derived from investments, under Section 186 of the Finance Act 2004, nor is it liable to capital gains tax under section 271 Taxation of Chargeable Gains Act 1992. As Bath & North East Somerset Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. For taxation of overseas investment income please see note 3 iv. in the Notes to the Accounts.

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

1.31 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 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. Estimates are used in the valuation of unquoted investments 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 Scheme 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.

Item	Uncertainties	Effect if actual results differ from assumptions
Market Value of investments	The Fund's investments are revalued on a monthly basis using quoted prices in active markets or by reference to markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs with the exception of the Hedge Funds (£257.9m), Property (£406.6m), Infrastructure (£358.4m) and Secure Income (£69.1m).	For every 1% increase in Market Value the value of the Fund will increase by £45m with a decrease having the opposite effect.
	The Hedge Fund, Infrastructure and Property Limited Partnerships are not publicly listed and as such there is a degree of estimation involved in their valuation. Due to the COVID-19 pandemic there is a risk that these valuations have an increased level of uncertainty. There is a wide range of possible outcomes mainly due to the high degree of uncertainty about the ultimate impact of the pandemic on the underlying assets.	If the valuations of the Property Limited Partnerships and Secured Income and Infrastructure assets turn out to be lower than estimated, then the value of the Fund's investments will have been overstated. A further 5-10% fall in the valuations included in the accounts for these portfolios would result in a reduction of between £31m and £62m in total Fund assets.
	As the Hedge Fund valuation metrics are derived primarily from financial instruments and assumptions they provide a valid estimation as at the reported date. The managers of the Property Limited Partnerships and Infrastructure assets have included an estimated impact of COVID-19 in the valuations as at 31 March 2020.	The value of the UK Property funds is £229.2m. Having taken advice from the fund manager of the UK Property Portfolio, the indicative effect of COVID-19 pandemic on these valuations could result in a reduction of 10-15% in the reported value which is between £23m and £34m.
Actuarial present value of promised retirement benefits (Note 15)	For the pooled UK property funds held in the UK Property and Secured Income portfolios (valued at £229.2m), the independent valuers consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and as a result have reported the values on the basis of "Material Valuation Uncertainty" as per VPGA 10 of the RICS Red Book-Global Standards. Consequently, for these assets, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.	
	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. Mercer, a firm of consulting actuaries, is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the actuarial present value of promised retirement benefits (the Fund's liabilities) of changes in individual assumptions can be measured. For instance, based on the 2019 actuarial valuation results: <ul style="list-style-type: none"> <li>• a 0.25% per annum reduction in the real investment return assumption would increase deficit by £219m (to £503m)</li> <li>• a 0.25% per annum increase in the assumed pensionable salary growth would increase the deficit by £16m (to £300m)</li> <li>• a 0.25% per annum increase in the long term improvement rate in life expectancy would increase the deficit by £34m (to £318m)</li> <li>• a 25% fall in asset value would increase the deficit by £1,205m (to £1,489m)</li> </ul>

**Events After the Balance Sheet Date**

1.32 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.

**COVID-19**

The COVID-19 global pandemic has caused significant uncertainty with regard to national economic conditions and this is likely to impact on employer income streams in future years. This will need to be taken into account for employer's contributions to the fund. It is anticipated that the future value of investments may be exposed to increased market volatility as a result of COVID-19 and this may impact on the value of the fund in the short to medium term; however it is not possible to reliably estimate the financial impact of this on the position and performance of the fund in future periods.

The Pension Fund Accounts include more specific detail regarding the impact of COVID-19 in the accompanying disclosure notes concerning Actuarial valuations and Accounting Assumptions.

**Financial Instruments**

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

**Critical Judgements in Applying Accounting Policies**

1.34 The net pension fund liability is recalculated every three years by the Scheme Actuary. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the Actuary and have been summarised in Note 1.9 above.

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

Following consultation the judgement has been made that the Fund does not have significant influence over the Brunel Pensions Partnership and consequently it is not considered to be a joint venture. Each fund holds an equal 10% stake in the pension fund, so no pension fund exerts more influence than another. Also, a holding of 20% or more of the voting power is generally required to indicate significant influence.

## PENSION FUND ACCOUNTS 2019/20

### 2 MEMBERSHIP

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

	31 March 2020	31 March 2019
<b>Employed Members</b>	<b>38,064</b>	36,894
<b>Pensioners</b>	<b>33,602</b>	32,137
<b>Members entitled to Deferred Benefits</b>	<b>42,508</b>	42,114
<b>Undecided Leavers</b>	<b>7,538</b>	6,968
<b>TOTAL</b>	<b><u>121,712</u></b>	<u>118,113</u>

A further estimated 818 (738 in 2018/19) ex-members whose membership was for up to 2 years before 1 April 2014 or up to 3 months after that date are due refunds of contributions. Retrospective reporting has unearthed a further 144 outstanding cases from the commencement of this project in 2011/12. 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

Where the Fund receives interest on overseas government interest bonds portfolios which is gross, 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:-

	2019/20 £'000	2018/19 £'000
<b>Employers' normal contributions</b>		
Scheduled Bodies	83,909	78,070
Administering Authority	8,538	8,569
Admission Bodies	7,829	7,832
	<u>100,276</u>	<u>94,471</u>
<b>Employers' deficit Funding</b>		
Scheduled Bodies	16,498	14,593
Administering Authority	-	(180)
Admission Bodies	699	637
	<u>17,197</u>	<u>15,050</u>
<b>Total Employer's normal &amp; deficit funding</b>	<b><u>117,473</u></b>	<u>109,521</u>
<b>Employers' contributions - Augmentation</b>		
Scheduled Bodies	1,318	1,950
Administering Authority	950	2,230
Admission Bodies	319	308
	<u>2,587</u>	<u>4,488</u>
<b>Members' normal contributions</b>		
Scheduled Bodies	34,623	32,892
Administering Authority	3,704	3,754
Admission Bodies	2,719	2,720
	<u>41,046</u>	<u>39,366</u>
<b>Members' contributions toward additional benefits</b>		
Scheduled Bodies	450	429
Administering Authority	56	82
Admission Bodies	36	43
	<u>542</u>	<u>554</u>
<b>Total</b>	<b><u>161,648</u></b>	<u>153,929</u>

The increase in Employers' contributions between 2018/19 and 2019/20 is due to the effect of phased/stepped contributions. In 2018/19 Unitary councils received £1,109k in deficit rebates relating to payments for Academies who transferred in 2018/19 (£180k of which related to the Administering Authority). There were no such payments in 2019/20

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 Utmost Life & Pensions or Aviva on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in note 18.

## PENSION FUND ACCOUNTS 2019/20

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### 5 BENEFITS PAYABLE

#### Analysis of Gross Benefits Payable by Type:-

	2019/20 £'000	2018/19 £'000
Retirement Pensions	149,862	142,405
Commutation of Pensions and Lump Sum Retirement Benefits	27,527	25,802
Lump Sum Death Benefits	3,853	3,656
	<u>181,242</u>	<u>171,863</u>

#### Analysis of Gross Benefits Payable by Employing Body:-

	2019/20 £'000	2018/19 £'000
Scheduled & Designating Bodies	148,027	140,228
Administering Authority	18,338	18,312
Admission Bodies	14,877	13,323
	<u>181,242</u>	<u>171,863</u>

### 6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

#### Leavers

	2019/20 £'000	2018/19 £'000
Refunds to members leaving service	1,148	866
Individual Cash Transfer Values to other schemes	11,670	8,856
Group Transfers	0	0
	<u>12,818</u>	<u>9,722</u>

## PENSION FUND ACCOUNTS 2019/20

### 7 MANAGEMENT EXPENSES

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

	2019/20	2018/19
	£'000	£'000
Administrative Costs	2,408	2,177
Investment Management Expenses	26,943	19,304
Oversight & Governance Costs	1,752	1,377
	<u>31,103</u>	<u>22,858</u>
<b>Further Analysis of Management Expenses:-</b>		
<b>Administrative Costs</b>		
Management Costs	1,555	1,450
Administration and Processing	568	420
Service from Administrating Body	490	497
Fees and Income	(205)	(190)
	<u>2,408</u>	<u>2,177</u>
<b>Investment Management Expenses</b>		
Fund Manager Base Fees	20,295	20,470
Fund Manager Performance Fees	3,586	(3,330)
Investment Transaction Costs	199	969
Investment Transition Costs	2,825	947
Global custody	37	248
	<u>26,942</u>	<u>19,304</u>
<b>Oversight &amp; Governance Costs</b>		
Management costs	609	535
Specialist advice and Governance	1,349	1,068
Actuarial recharges	(244)	(266)
Audit Fees	32	40
Audit Related Services	6	
	<u>1,752</u>	<u>1,377</u>
	<u>31,102</u>	<u>22,858</u>

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.

The performance fees relate mainly to pooled funds and they are estimated from the information available. Fund manager performance fees paid in 19/20 represent a reduction in the provision of £7.123m offset by performance fees realised of £10.709m

Investment transition costs for each year include the costs of transitioning assets to the portfolios managed by Brunel.

Included within management fees is £1.437m (£0.998m in 18/19) paid to Brunel Pension Partnership for core investment services.

Transaction costs include the costs of transitioning assets to the portfolios managed by Brunel.

Management costs in Oversight & Governance Costs include investments, actuarial and accounting staff costs. Specialist Advice and Governance includes £0.384m of costs relating to the triennial valuation. Audit fees include; £0.022m external audit fee as set out in the Audit Plan (2018/19 £0.022m), £0.008m internal audit charge (2018/19 £0.008m) and additional audit fees of £0.004m less a rebate of fees from the PLSA of £0.002m. The audit related service of £0.006m is for an additional external fee relating to information provided to the actuary regarding individual employers' IAS19 disclosures not accounted for in 2018/19.

## PENSION FUND ACCOUNTS 2019/20

### 8 INVESTMENT INCOME

	2019/20 £'000	2018/19 £'000
Dividends from equities	13,020	18,954
Income from pooled Property Investments	14,810	13,017
Income from other pooled investment vehicles	3,977	3,977
Interest on cash deposits	556	912
Other - stock lending	205	152
<b>TOTAL</b>	<b>32,568</b>	<b>37,012</b>

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

The value of the stock on loan as at 31 March 2020 was £24.1m (31 March 2019 £15.6m), comprising of equities and sovereign debt. This was secured by collateral worth £26.0m comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

### 9 CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at	Purchases	Sales	Change in	Value at
	31/03/19	at Cost	Proceeds	Market	31/03/20
	£'000	£'000	£'000	Value	£'000
Equities	554,790	106,998	(501,191)	(5,292)	155,305
Long Term Investments	395			32	427
Pooled Investments-					
- Property	428,752	31,992	(25,133)	(11,458)	424,153
- Non Property	3,718,767	1,221,116	(868,805)	(292,607)	3,778,471
Derivatives	8,333	77,735	(58,459)	(56,898)	(29,289)
<b>Sub Total</b>	<b>4,711,037</b>	<b>1,437,841</b>	<b>(1,453,588)</b>	<b>(366,223)</b>	<b>4,329,067</b>
Cash Deposits	105,377	291,448	(282,435)	28,745	143,135
Net Purchases & Sales		1,729,289	(1,736,023)	(14,733)	
Investment Debtors & Creditors	3,339			(503)	2,836
Total Investment Assets	4,819,753				4,475,038
Long Term Debtors	70			142	212
Current Assets	(1,996)			6,567	4,571
Less Net Revenue of Fund				10,494	
<b>Total Net Assets</b>	<b>4,817,827</b>			<b>(335,511)</b>	<b>4,479,821</b>

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

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

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

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

The Net Revenue of Fund figure in the above table includes the investment transaction costs as specified below. These are the costs that it has been possible to identify. Additional costs will have been absorbed within pooled investments. The Net Revenue of Fund equals the Net Withdrawals / additions including fund management expenses (£43.062m) plus Investment income (£-32.568m) as shown in the Fund account.

## PENSION FUND ACCOUNTS 2019/20

### Change in Total Net Assets 2018/19

Change in Market Value of Investments	Value at	Purchases	Sales	RESTATED	Value at
	31/03/18	at Cost	Proceeds	Change in	31/03/19
	£'000	£'000	£'000	Market	£'000
				Value	
				£'000	
Equities	1,075,449	321,072	(855,828)	14,097	554,790
Long Term Investments	840			(445)	395
Pooled Investments-					
- Property	410,899	202,717	(196,868)	12,004	428,752
- Non Property	2,907,105	1,914,192	(1,330,941)	228,411	3,718,767
Derivatives	13,243	89,542	(42,438)	(52,014)	8,333
<b>Sub Total</b>	<b>4,407,536</b>	<b>2,527,523</b>	<b>(2,426,075)</b>	<b>202,053</b>	<b>4,711,037</b>
Cash Deposits	204,037	295,606	(387,589)	(6,677)	105,377
Net Purchases & Sales		2,823,129	(2,813,664)	9,465	
Investment Debtors & Creditors	(3,266)			6,605	3,339
Total Investment Assets	4,608,307				4,819,753
Long Term Debtors				70	70
Current Assets	(7,382)			5,386	(1,996)
Less Net Revenue of Fund				4,467	
<b>Total Net Assets</b>	<b>4,600,925</b>			<b>221,369</b>	<b>4,817,827</b>

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

### 10 INVESTMENT ASSETS

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

	31 March		Restated	
	2020	31 March	2019	31 March
	£'000	£'000	£'000	£'000
<b>UK Equities</b>				
Quoted	144,274		190,348	
Pooled Investments	154,503		194,418	
FTSE Futures	1,078	299,855	349	385,115
<b>Overseas Equities</b>				
Quoted	3,032		364,442	
Pooled Investments	1,537,758		1,270,243	
Equity Index Options	118,816	1,659,606	(12,585)	1,622,100
<b>UK Bonds</b>				
Quoted	-		-	
<b>Sterling Bonds (excluding Gilts)</b>				
Pooled Investments	113,513	113,513	86,168	86,168
<b>Non Sterling Bonds</b>				
Pooled Investments	1,030	1,030	-	-
<b>Diversified Growth Funds</b>				
Overseas Pooled Investments	605,666	605,666	597,717	597,717
<b>Infrastructure</b>				
Overseas Pooled Investments	358,444	358,444	342,723	342,723
<b>Liability Driven Investment</b>				
UK Pooled Investments	287,601	287,601	580,817	580,817
<b>Multi Asset Credit</b>				
Overseas Pooled Investments	291,660	291,660	410,444	410,444
<b>Hedge Funds</b>				
Overseas Pooled Investments	257,966	257,966	232,127	232,127
<b>Property</b>				
UK Pooled Investments	211,634		227,565	
Overseas Pooled Investments	194,926	406,560	201,187	428,752
<b>Secured Income</b>				
UK Pooled Investments	69,107	69,107	16,695	16,695
<b>Long Term Investments</b>				
Brunel Share Capital	427	427	395	395
<b>Cash Deposits</b>				
Sterling	137,351		68,871	
Foreign Currencies	5,784	143,135	36,506	105,377
<b>Investment Debtors/Creditors</b>				
Investment Income	2,848		3,486	
Sales of Investments	401		-	
Foreign Exchange Hedge	(30,367)		7,984	
Purchases of Investments	(413)	(27,531)	(147)	11,323
<b>TOTAL INVESTMENT ASSETS</b>		<b>4,467,039</b>		<b>4,819,753</b>

## PENSION FUND ACCOUNTS 2019/20

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

The Liability Driven Investments pooled vehicle is structured to provide a hedge against changes in the value of the pension liabilities. The structure invests in Index linked gilts and derivatives to provide the desired hedge against the liabilities. At 31 March 2020 the net value of these assets was £287,601m (£580,817m as at 31 March 2019).

OTC Equity Index Options are used to protect the equity assets from a fall in equity markets. At 31 March 2020 the unrealised gain on this strategy was £118.8m.

Both strategies are held within the same pooled vehicle, a Qualified Investment Fund (QIF) managed by Blackrock on a bespoke basis for the Fund; the QIF had a value of £937m at March 2020.

The COVID-19 pandemic negatively affected investment markets especially equity, credit and less liquid assets as at 31 March 2020. The equity option strategy protected the Fund from some of the fall in equity assets which account for approximately 41% of total assets.

Investments in secured income include long property funds and pooled infrastructure funds. Where the accounts require analysis on a pooled or non property basis secured is split between property and non property secured income. The Secured Income portfolio value of £69.1M differs to that in Net Asset Statement (NAS) analysis of non property funds (£51.5M) because it holds both property and non- property funds whilst in the NAS the assets are split by category of fund i.e. property or non- property rather than asset type. The NAS also shows pooled property £424.2m whilst Note 10 shows £406.5m - the difference between the two relates to property funds held in the Secured Income portfolio

### DERIVATIVES ANALYSIS

#### Open Forward Currency Contracts

Settlement	Currency Bought		Currency Sold		Asset Value £'000	Liability Value £'000
	Local Value 000		Local Value 000			
Up to one month	EUR	65,340	GBP	57,585	263	-
Up to one month	JPY	1,487,400	GBP	11,077	43	-
Up to one month	USD	102,425	GBP	81,344	1,212	-
Up to one month	GBP	11,059	JPY	1,487,400	498	-
Up to one month	GBP	58,346	EUR	65,340	-	(61)
Up to one month	GBP	79,427	USD	102,425	-	(3,129)
One to six months	EUR	38,376	GBP	32,922	1,101	-
One to six months	JPY	290,800	GBP	2,105	74	-
One to six months	USD	117,086	GBP	88,679	5,597	-
One to six months	GBP	249,895	EUR	291,041	-	(8,293)
One to six months	GBP	52,787	JPY	7,426,800	-	(2,862)
One to six months	GBP	403,014	USD	511,741	-	(9,031)
Six to twelve months	GBP	45,112	EUR	50,533	175	-
Six to twelve months	GBP	10,698	JPY	1,427,200	-	(22)
Six to twelve months	GBP	500,324	USD	647,560	-	(20,684)
Six to twelve months	USD	95,043	GBP	71,722	4,753	-
<b>Total</b>					<b>13,715</b>	<b>(44,082)</b>
<b>Net forward currency contracts at 31st March 2020</b>						<b>(30,367)</b>
Open forward currency contracts at 31 March 2019					10,472	(2,488)
<b>Net forward currency contracts at 31st March 2019</b>						<b>7,984</b>

#### Equity Options

	Original Notional (GBP) £'000's	Notional at 31 March £'000's	Gain/(Loss) at 31 March £'000's
S&P 500 Index Options	253,810	215,834	16,567
Nikkei 225 Index Options	477,008	398,977	26,855
FTSE 100 Index Options	955,271	848,426	43,646
EuroStoxx50 Index Options	177,230	159,045	7,059
MSCI EM Index Options	293,729	231,667	24,689
<b>Total</b>	<b>2,157,048</b>	<b>1,853,949</b>	<b>118,816</b>
<b>Equity Options at 31 March 2019</b>	-	-	<b>(13,230)*</b>

\* BlackRock held a small amount of cash in this fund for immediate collateral requirements which was added to the total value. For March 2019 the cash balance was £643,752.

#### Exchange Traded Derivatives held at 31 March 2020:-

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	June 2020	21,109	1,078

#### Exchange Traded Derivatives held at 31 March 2019:-

FTSE equity futures	June 2019	21,297	350
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A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

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

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

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

## PENSION FUND ACCOUNTS 2019/20

### Investment Assets by Manager

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

	31 March 2020 £'000		31 March 2019 £'000	
		%		%
<b>Investments managed by Brunel Pension Partnership:</b>				
BlackRock	937,195	21.0	-	-
LGIM Low Carbon Global Equities	497,508	11.1	520,926	10.8
Brunel Infrastructure	24,312	0.5	11,152	0.2
Brunel Secured Income Portfolio	69,107	1.5	16,695	0.3
Brunel UK Equity Portfolio	149,873	3.4	187,270	3.9
Brunel Emerging Market Equity	196,232	4.4	-	-
Brunel Global High Alpha Equity	377,707	8.5	-	-
	<b>2,251,934</b>	<b>50.4</b>	<b>736,043</b>	<b>15.3</b>
<b>Investments managed outside Brunel Pension Partnership:</b>				
Blackrock	40,434	0.9	1,166,378	24.2
Record	(8,174)	(0.2)	29,631	0.6
Jupiter Asset Management	173,740	3.9	205,588	4.3
Genesis Investment Management	-	-	117,600	2.4
Partners Group	231,705	5.2	228,326	4.7
Loomis (Natixis)	291,661	6.5	410,444	8.5
Pyrford International	213,642	4.8	218,582	4.5
TT International	310	0.0	305	0.0
IFM Investors	334,132	7.5	331,571	6.9
Ruffer	392,024	8.8	379,136	7.9
Unigestion (UK) Ltd	-	-	110,931	2.3
Schroder Investment Management	228,380	5.1	630,378	13.1
JP Morgan	257,967	5.8	232,127	4.8
General Cash	23,192	0.5	14,409	0.3
Long Term Investment	427	0.0	395	0.0
Treasury Management	35,665	0.8	7,909	0.2
	<b>2,215,105</b>	<b>49.6</b>	<b>4,083,710</b>	<b>84.7</b>
<b>TOTAL INVESTMENT ASSETS</b>	<b>4,467,039</b>	<b>100.0</b>	<b>4,819,753</b>	<b>100.0</b>

During 2019/20, the assets managed by Genesis Investment Management and Unigestion (UK) Ltd (both Emerging Market Equities) and Schroder Investment Management (Global Equities) transitioned to the Brunel asset pool. Brunel has appointed Blackrock as the manager for Risk Management Strategies and therefore the Liability Driven Investing, Equity Protection and Lower Risk Corporate Bond strategies are all now managed under the pooling arrangements. In addition, commitments to Renewable Infrastructure and Secured Income were invested via Brunel portfolios.

### 11 SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	March 2020 £'000	Asset	March 2019 £'000	% of Net Asset
Blackrock Liability SOL Mutual Fund	937,195	20.96%	1,008,422	20.93%
LGIM Low Carbon Global Equity	497,508	11.13%	520,926	10.81%
CF Ruffer Absolute Return Fund	392,024	8.77%	379,136	7.87%
Brunel Global High Alpha Equity Fund	377,707	8.45%	-	0.00%
IMF Global Infrastructure (UK)	334,132	7.47%	331,571	6.88%
NATIXIS Investment Solutions	291,661	6.52%	410,444	8.52%
APF Absolute Return Strategies	257,967	5.77%	-	0.00%

## PENSION FUND ACCOUNTS 2019/20

### 12 CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2020.

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

	31 March 2020 £'000		31 March 2019 £'000
<b>CURRENT ASSETS</b>			
Contributions Receivable			
- Employers	8,723		7,981
- Members	3,340		3,128
Transfer Values Receivable	-		-
Discretionary Early Retirement Costs	537		129
Other Debtors	1,606	<u>14,206</u>	1,841
			<u>13,079</u>
<b>CURRENT LIABILITIES</b>			
Management Fees	(1,389)		(1,647)
Provision for Performance Fees	(3,795)		(10,918)
Transfer Values Payable	-		-
Lump Sum Retirement Benefits	(2,254)		(1,203)
Other Creditors	(2,197)	<u>(9,635)</u>	(1,307)
			<u>(15,075)</u>
<b>NET CURRENT ASSETS</b>		<u>4,571</u>	<u>(1,996)</u>

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

### 12a LONG TERM DEBTORS

Provision has been made in the accounts for long term debtors known to be outstanding at 31 March 2020.

	31 March 2020 £'000		31 March 2019 £'000
Reimbursement of lifetime tax allowances	212		
		<u>212</u>	70
			<u>70</u>

The Lifetime tax allowance was introduced in 2016. It limits the amount of pension that can be paid without an extra charge. Responsibility for payment rests with the pensioner. Avon Pension Fund offer to pay the tax upfront and are reimbursed from pension deductions over time. This creates a long term debtor in the accounts.

### 13 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2020. (31 March 2019 = NIL)

### 14 EVENTS AFTER THE BALANCE SHEET DATE

#### Non-adjusting event - COVID -19 pandemic

The outbreak of COVID-19 has impacted global economies and financial markets. In many countries measures to contain the virus, including social distancing, travel bans, quarantines and closure of non-essential services have triggered a slump in consumer demand and a sharp slowdown in global economic activity. Global stock markets have experienced increased volatility and weakness. Government and central banks have responded with monetary and fiscal stimulus to stabilise economic conditions.

It is difficult to quantify the eventual outcome on the investment assets given the unknown nature of this shock. In addition to how the pandemic itself will play out, material factors that will determine the outcome include the length and depth of the economic shock, the pace of economic recovery and the permanence or not of changes in corporate, government and consumer behaviour as a result.

The asset portfolio is well diversified and this will mitigate against reductions in valuations. There will be a wide dispersion of the impact even within asset classes as some assets such as telecommunication and related infrastructure providers may have seen uplifts to their valuations whereas others such as transport infrastructure will have seen negative impacts due to the demand shock.

The Fund has determined that these events are non-adjusting subsequent events. Accordingly the financial position as at 31 March 2020 has not been adjusted to reflect their impact. It is not possible at this stage to reliably estimate the duration or severity of the situation and therefore the impact on the performance of the Fund for future periods.

**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 2020 (the 31 March 2019 assumptions are included for comparison):

	<b>31st March 2020</b>	31st March 2019
Rate of return on investments (discount rate)	<b>2.4% per annum</b>	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	<b>2.1% per annum</b>	2.2% per annum
Rate of pay increases*	<b>3.6% per annum</b>	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	<b>2.2% per annum</b>	2.3% per annum

\* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £7,102 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£172 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£114 million (this includes any increase in liabilities arising as a result of early retirements/augmentations and the potential impact of GMP Indexation – see comments below). There was also a decrease in liabilities of £277million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £7,111 million.

**GMP Indexation**

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £22 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

## PENSION FUND ACCOUNTS 2019/20

### 16 TRANSFERS IN

During the year ending 31 March 2020 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.

	2019/20 £'000	2018/19 £'000
<b>Benefits Paid and Recharged</b>	<u>5,845</u>	<u>5,882</u>

The Fund also administers £24.3m pension payments on behalf of the Fire Service and the Teachers' pension schemes. (£25.6m in 2018/19, including a large number of Retirement Lump Sum payments). These are not funded by the Fund and are recharged in full. They are not included in the Fund Account. The Fire Service and Teachers' employers also pay for the cost of providing this service.

### 18 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with Utmost Life & Pensions or Aviva, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to Utmost Life & Pensions during 2019/20 were £55 (2018/19 Equitable Life- £55). Additional Voluntary Contributions received from employees and paid to Aviva during 2019/20 were £434,272 (2018/19 - £375,694).

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

	31 March 2020 £'000	31 March 2019 £'000
<u>Utmost Life &amp; Pensions (Equitable Life in 2018/19)</u>		
With Profits Retirement Benefits	-	315
Unit Linked Retirement Benefits	678	317
Building Society Benefits	-	-
	<u>678</u>	<u>632</u>
Death in Service Benefit	<u>53</u>	<u>53</u>
<u>Aviva</u>		
With Profits Retirement Benefits	73	79
Unit Linked Retirement Benefits	3,438	3,763
Cash Fund	455	378
	<u>3,966</u>	<u>4,220</u>

AVC contributions are not included in the Fund's financial statements as they do not come under the requirements of Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016 regarding regulation 69(1)(a) of the Local Government Pension Scheme Regulations 2013.

## PENSION FUND ACCOUNTS 2019/20

### 19 RELATED PARTIES

#### Committee Member Related:-

In 2019/20 £39,331 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£38,250 in 2018/19). Six 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 2019/2020. (Seven voting members and one non-voting member in 2018/2019, including three B&NES Councillor Members)

#### Independent Member Related:-

Three Independent Members were paid allowances of £16,075, £14,480 and £7,585 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. Two Members were paid in respect of the full year and one was paid in respect of part of the year. 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 2019/20 the Fund paid B&NES Council £426,662 for administrative services (£436,428 in 2018/19). Various Employers paid the fund a total of £223,831 for pension related services including pension's payroll and compiling data for submission to the actuary (£191,825 in 2018/19).

#### Pension Board Related:-

The Pension Board came in to operation in July 2015. In 2019/20 £7,574 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board (£7,842 in 2018/19). Four members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2019/2020. (Five members in 2018/2019).

#### Officer and Manager related:-

The officers administering the Avon Pension Fund are all eligible to be members of the Avon Pension Fund.

The Fund is governed by Central Government regulation. There are no other related party transactions except as already disclosed elsewhere.

#### Brunel Pension Partnership Limited

Brunel Pensions Partnership Limited (BPP Ltd. Company number 10429110) was formed on the 14th October 2016 and will oversee the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Bath & North East Somerset Council own 10% of BPP Ltd. In 2019/20 the Pension Fund paid BPP £1,436,784 (2018/19 £998,932).

As part of our investment in BPP Ltd. we provided regulatory capital. This will be subject to regular review by the regulator that could result in additional calls for capital.

### 20 KEY MANAGEMENT REMUNERATION

The key management personnel of the fund are those persons having the authority and responsibility for planning, directing and controlling the activities of the fund, including the oversight of these activities. The key management personnel of the Fund are the Head of Business Finance and Pensions and the Divisional Director Risk and Assurance. It does not include the Director of Finance (S151).

	31 March 2020 £'000	31 March 2019 £'000
Proportion of salary Recharged to Avon Pension Fund	50	47
Proportion of employers contributions recharged to Avon Pension Fund	12	12
	<hr/> 62	<hr/> 59

### 21 OUTSTANDING COMMITMENTS

As at the 31 March 2020 the Fund had outstanding commitments relating to investments in Property, Infrastructure and Secure Income funds that will be drawn down in tranches by the Investment Managers totalling £428.6m (31 March 2019 £333.3m). The increase is due to the new commitments made in the year to Secured Income and Renewable Infrastructure.

## PENSION FUND ACCOUNTS 2019/20

### 22 FINANCIAL INSTRUMENTS

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

2019/20	Fair Value through Profit and Loss £'000	Loans & receivables £'000	Financial liabilities at amortised cost £'000
<b>Financial Assets</b>			
Equities	147,305		
Long Term Investments	427		
Pooled Investments (Non-Property)	3,389,639		
Liability Driven Pooled investments	287,601		
Pooled Property Investments	406,559		
Derivative Contracts Futures	1,078		
Derivative Contracts Equity Options	118,816		
Cash		143,123	
Other investment balances	2,848		
Debtors		14,418	
<b>Total Financial Assets</b>	<b>4,354,273</b>	<b>157,541</b>	<b>-</b>
<b>Financial Liabilities</b>			
Other investment balances			
Derivative Contracts FX Hedge	(30,367)		
Creditors			(9,635)
<b>Total Financial Liabilities</b>	<b>(30,367)</b>	<b>-</b>	<b>(9,635)</b>
<b>Total Net Assets</b>	<b>4,323,906</b>	<b>157,541</b>	<b>(9,635)</b>
<b>2018/19</b>			
	Fair Value through Profit and Loss £'000	Loans & receivables £'000	Financial liabilities at amortised cost £'000
<b>Financial Assets</b>			
Equities	554,790		
Long Term Investments	395		
Pooled Investments (Non-Property)	3,150,535		
Liability Driven Pooled investments	580,817		
Pooled Property Investments	428,752		
Derivative Contracts FX Hedge	7,984		
Derivative contracts Futures	349		
Cash		105,230	
Other investment balances	3,486		
Debtors		13,149	
<b>Total Financial Assets</b>	<b>4,727,108</b>	<b>118,379</b>	<b>-</b>
<b>Financial Liabilities</b>			
Other investment balances			
Derivative Contracts Equity Options	(12,585)		
Creditors			(15,075)
<b>Total Financial Liabilities</b>	<b>(12,585)</b>	<b>-</b>	<b>(15,075)</b>
<b>Total Net Assets</b>	<b>4,714,523</b>	<b>118,379</b>	<b>(15,075)</b>

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

#### Net gains and losses on Financial Instruments

	31st March 2020 £'000	31st March 2019 £'000
<b>Financial assets</b>		
Fair value through profit & loss	32	254,512
Amortised Cost - realised gains on derecognition of assets		
Amortised cost - unrealised gains	30,712	19,316
<b>Financial Liabilities</b>		
Fair value through profit & loss	(366,255)	(52,459)
Amortised Cost - realised losses on derecognition of assets		
Amortised cost - unrealised losses		
	<b>(335,511)</b>	221,369

### 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.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the pension fund. Policies are reviewed regularly to reflect changes in activity and in market conditions.

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.

As the Fund's assets transition to Brunel Pension Partnership (Brunel) over the next few years, the current roster of external managers will reduce as Brunel takes over responsibility for managing the portfolios. At 31 March 2020, Brunel manage £2,252m of assets on behalf of the Fund which includes the Risk Management Strategies managed by BlackRock who have appointed by Brunel to manage the individual Risk Management Strategies of the Clients. The majority of the Fund's equity assets are now managed by Brunel, along with the funds committed to Secured Income and Renewable Infrastructure.

The Fund's investments are held by State Street Bank and Trust who acts as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not normally 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. The COVID-19 pandemic is an example of a more extreme 'Black Swan' event that causes significant falls in asset prices and is not fully captured in the following analysis which assesses risk over longer time frames, normally three years or longer. Such events demonstrate the importance of diversification within the Fund by asset class and underlying manager. Although Brunel is the investment manager for a number of asset classes, it appoints a number of underlying managers to each portfolio so the manager diversification is greater under Brunel than it was before pooling.

#### (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 e.g. COVID-19 type shocks and geopolitical trade tensions and will affect the assets held by the Fund in different ways.

All investments present a risk of loss of capital. By diversifying its investments across asset classes, geography and industry sectors, investment mandate guidelines and Investment Managers the Fund aims to reduce its exposure to price risk. Diversification seeks to reduce the correlation of price movements. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

The Fund's largest allocation is to equities and therefore the fluctuation in equity prices is the largest market risk within the portfolio. The maturity profile of the Fund and strong underlying covenant underpins the allocation to equities which are expected to deliver higher returns over the long term.

The Fund has an equity hedging strategy in place to protect from a significant fall in equity values. The strategy was implemented to protect the improvement in the funding level since the 2016 valuation which was primarily driven by the rise in equity values. The strategy was renewed following the 2019 valuation and equity index options have been used to protect the downside and to cap the upside above a fully funded position based on the current funding plan.

As Brexit is yet to be implemented it could still impact asset values if the eventual 'exit' differs from that assumed by markets. The main conduit is via the value of sterling which has weakened significantly since the referendum. However, the positioning of the Fund's investment strategy means that the potential impact of unfavourable market events on the Fund's assets will be moderated. Given a significant part of the Fund's overall investment strategy (over 60%) is invested in non-UK assets, the expected risk associated with Brexit should be limited. The investment strategy is globally diversified from a currency, country of risk, sector and issuer perspective and this would be expected to reduce volatility in the event of an adverse outcome. Moreover, non-sterling currency exposure from the developed global equities, hedge fund and global property portfolios is hedged back to sterling (partially in the case of equities) in order to reduce the impact from currency volatility that may result.

The medium to long term impact of COVID-19 pandemic on markets and investment opportunities is difficult to ascertain at this stage. The immediate volatility experienced during March 2020 has abated somewhat but the path out of the crisis and longer term impact remains uncertain. In particular, potential structural changes in global trade and globalisation, higher levels of indebtedness and the need for the costs to be covered possibly through higher taxes could all impact the future value of assets. In addition there may be permanent behavioural changes such as more working from home, changes in consumption patterns that could impact business models across numerous sectors. The analysis below uses longer term historic data more representative of 'normal' market conditions to provide an indication of the portfolio's sensitivity to market prices.

As the global economy transitions to a low carbon economy there is a risk to asset values as business models adapt or become obsolete and new opportunities arise. The Fund has a strategy to minimise its exposure to carbon intensive assets through allocations to low carbon and more sustainable assets. In addition it is investing in renewable infrastructure projects that will power the new economy. The analysis below does not take account of the potential impact of climate change on asset prices.

## PENSION FUND ACCOUNTS 2019/20

### 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 2020. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund.

The equity hedge does not affect the expected volatility of the equity assets. The hedging strategy caps the upside for the developed market equity assets to around 9.4% plus dividends (which represent another c. 2.7% upside potential). The emerging market assets are capped at 13% plus dividends (which represent another c.5.5% upside potential). Capping upside at these levels protects the equity assets if markets fall by more than 10% from the market level when the strategy was implemented. It is worth noting that the strategy was implemented during an exceptional level of market volatility and so the absolute levels at which the protection is triggered / falls away is very different across each tranche of the strategy. The unrealised gain/loss on the equity index options has been added to the Global Equities value in the table below.

The analysis for the year ending 31 March 2020:

Asset Type	Value	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Equities	299,855	14.3%	342,734	256,975
Global Equities	1,463,374	12.1%	1,640,442	1,286,306
Emerging Market Equities	196,232	16.0%	227,629	164,835
UK Bonds	114,543	8.9%	124,737	104,349
Liability Driven	287,601	10.6%	318,087	257,115
Diversified Growth Funds	605,666	7.4%	650,485	560,847
Multi Asset Credit	291,661	7.3%	312,952	270,369
Property	406,559	1.8%	413,878	399,241
Fund of Hedge Funds	257,967	5.4%	271,897	244,036
Infrastructure	358,444	15.9%	415,436	301,451
Secured Income	69,107	1.1%	69,867	68,347
Long Term Investment	427	15.0%	491	363
Cash & Equivalents	115,594	0.1%	115,710	115,478
<b>Total Investment Assets</b>	<b>4,467,029</b>	<b>8.0%</b>	<b>4,904,344</b>	<b>4,029,713</b>

The analysis for the year ending 31 March 2019 is shown below:

Asset Type	Value	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Equities	385,116	9.4%	421,317	348,915
Global Equities	1,393,569	10.2%	1,535,713	1,251,425
Emerging Market Equities	228,531	16.0%	265,096	191,966
UK Bonds	86,168	5.3%	90,735	81,601
Liability Driven Investments	580,817	12.6%	654,000	507,634
Diversified Growth Funds	597,717	5.3%	629,396	566,038
Multi Asset Credit	410,444	2.8%	421,937	398,952
Property	428,751	2.1%	437,755	419,747
Fund of Hedge Funds	232,127	3.8%	240,948	223,306
Infrastructure	342,723	12.3%	384,878	300,568
Secured Income	16,695	1.5%	16,946	16,445
Long Term Investment	395	15.0%	454	336
Cash & Equivalents	116,700	0.1%	116,817	116,583
<b>Total Investment Assets</b>	<b>4,819,753</b>		<b>5,215,990</b>	<b>4,423,516</b>

### Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities ("bonds").

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

	31st March 2020	31st March 2019
	£'000	£'000
Cash and Cash Equivalents	115,604	116,700
Bonds	402,144	666,984
<b>Total</b>	<b>517,748</b>	<b>783,684</b>

## PENSION FUND ACCOUNTS 2019/20

### Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the bonds as at 31 March 2020 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

The Fund has implemented a strategy to better match or hedge its liabilities with bond assets (called "Liability Driven Investment"). The primary 'matching' instruments used in this strategy include physical instruments such as fixed interest and index-linked Government bonds (financed through "repurchase" agreements) and derivative instruments such as interest-rate and inflation swaps.

An increase or decrease of 100 basis points (bps) in interest rates would have increased or decreased the net assets by the amount shown below.

	Change in net assets		
	Value	+100 bps	-100 bps
	£'000	£'000	£'000
Cash and Cash Equivalents	115,604	-	-
Bonds	402,144	(74,409)	74,409
<b>Total</b>	<b>517,748</b>	<b>(74,409)</b>	<b>74,409</b>

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 2019 is shown below:

	Change in net assets		
	Value	+100 bps	-100 bps
	£'000	£'000	£'000
Cash and Cash Equivalents	116,700	-	-
Bonds	666,984	(136,811)	136,811
<b>Total</b>	<b>783,684</b>	<b>(136,811)</b>	<b>136,811</b>

### 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 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. In 2019/20 the Fund's investment in IFM's pooled Infrastructure Fund was switched from US dollar to sterling denominated units eliminating the need to be hedged.

Currency risk by asset class:

Currency Exposure - Asset Type	Asset value as at 31st	Asset value as at 31st March
	March 2020	2019
	£'000	£'000
Global Equities	1,463,374	1,393,569
Global Property	194,926	201,187
Fund of Hedge Funds	257,967	232,127
Infrastructure	-	342,723

### 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 2020. The analysis reflects the Fund's passive hedging policy of a 50% hedge ratio on the global equity assets, and a 100% hedge ratio on the global property 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 2020 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	1,463,374	4.05%	1,522,579	1,404,168

The same analysis for the year ending 31 March 2019 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£)	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
Overseas Equities	1,393,569	4.65%	1,458,330	1,328,808

**(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. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial 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 derivative instruments held within the QIF are fully collateralised on a daily basis with cash and/or gilts. Management of collateral is delegated to the manager who has access to a pool of eligible collateral (gilts, cash and equities). Daily collateralisation mitigates credit risk to a large extent as in the event a counterparty defaults sufficient assets are held to re-establish any lost position at the prevailing market rate.

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).

The fund is subject to credit risk within its general debtors although none of these would represent a material risk to the fund. General debtors were £1.6m for 19/20 (£1.8m for 18/19)

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 2020 was £58.8m. This was held with the following institutions:

	31st March 2020		31st March 2019	
	Rating	Balance £'000	Rating	Balance £'000
<b>Custodian's Liquidity Fund</b>				
State Street Global Services	AAA	23,193	AAA	7,735
<b>Money Market Funds</b>				
Goldman Sachs Global Treasury Fund	AAA	7,800	AAA	30
Aberdeen Liquidity Fund	AAA	9,950	AAA	810
Federated Investors	AAA	9,780	AAA	9,780
State Street Global Advisors	AAA	950	AAA	90
<b>Bank</b>				
Handelsbanken	AA	1,410	AA	3,250
Bank of Scotland Corporate Deposit Account	A+	90	A+	90
State Street Bank and Trust Co	AA+	3,629		-
NatWest Special Interest Bearing Account	A+	1,960	A+	340
NatWest	A+	30	A+	8

A securities lending programme is managed by the Fund's custodian State Street Bank and Trust who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted. Further details of collateral arrangements for stock lending are included in Note 8.

**(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. In addition the Fund invests in a range of Exchange Traded Funds that provide a similar liquidity profile to cash so that capital calls from the private market portfolios can be managed efficiently. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property, infrastructure and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2020 the value of the illiquid assets was £1,093m, or 24.5% of the total Fund assets (31 March 2019: £1,021m which represented 21.2% of the total Fund assets).

## PENSION FUND ACCOUNTS 2019/20

### 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. Transfers between levels are recognised in the year in which they occur. There were no transfers between levels in 19/20 or 18/19. The hierarchy has the following levels:

- Level 1 – Asset and liabilities where the fair value is derived from unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Assets and liabilities where quoted market prices are not available but uses inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value.
- Level 3 – assets and liabilities where at least one unobservable input used to measure fair value could have a significant effect on the valuation and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

#### Fair Value Hierarchy

The basis of the valuation of each class of investment asset is set out below. The COVID-19 pandemic has increased the level of uncertainty of asset values based on forward looking estimates. For example, the future rental income for property assets or usage volumes in infrastructure is uncertain and could affect the value of the asset.

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published closing bid price ruling at year end.	Not required.	Not required.
Exchange traded futures and forward currency contracts	Level 1	Published exchange prices at the year end.	Not required.	Not required.
Pooled equity, credit, bond funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Not required.
Diversified Growth Funds and Multi Asset Funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Not required.
Pooled property funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis using transactional data and cash flow forecasts.	Refer to note 1.31 "Estimation Uncertainty" regarding the specific impact of COVID-19 on valuations
Over the counter Equity Index Options	Level 2	Valued using formula reflecting quoted market and index prices	Inputs to the formula are market prices of quoted securities and derivatives; time value of the contract.	Not required.
Secured Income	Level 3	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis using transactional data and cash flow forecasts.	Valuations can be affected by material events between the date of the financial accounts provided and the pension fund's own reporting
Hedge Funds	Level 3	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Valuations can be affected by material events between the date of the financial accounts provided and the pension fund's own reporting date, by changes to expected cash flows and by any differences between the audited and unaudited accounts.
Limited Partnerships and closed ended funds	Level 3	Valued using a number of different market and income valuation methods as well as comparable market transactions prices.	Market transactions; market outlook; cash flow projections; last financings; multiple projections.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows and any differences between audited and unaudited accounts.
Infrastructure funds	Level 3	Infrastructure investments are valued at the end of each quarter by independent valuation firms. The valuation method is employed for each asset at the discretion of the appointed independent valuer but must fall within the standards prescribed by the relevant accounting bodies as appropriate.	Infrastructure investments are typically valued on a discounted cash flow approach, utilising cash flow forecasts. Valuations are cross-checked with public market information and recent transactions.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, significant increases and decreases in the discount rate and any differences between audited and unaudited accounts.
Long Term Investments - Equities	Level 3	Brunel Share Capital is valued at the Equity value as stated in Brunel Pension Partnership Statement of Accounts	Earnings and revenue multiples; discount for lack of marketability; control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows and any differences between audited and unaudited accounts.

## PENSION FUND ACCOUNTS 2019/20

The following sets out the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 31 March 2020.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	187,555	1,770,828		1,958,383
Bonds - Quoted		114,543		114,543
Pooled Investments:-				
Liability Driven Investments		287,601		287,601
Fund of Hedge Funds		-	257,967	257,967
Diversified Growth Funds		605,666		605,666
Multi Asset Credit		291,661		291,661
Property		211,633	194,926	406,559
Infrastructure			358,444	358,444
Secured Income			69,107	69,107
Long Term Investment			427	427
Cash	143,135			143,135
Derivatives: Forward FX	(30,367)			(30,367)
Derivatives: Futures	1,078			1,078
Investment Debtors/Creditors	2,836			2,836
	<b>304,236</b>	<b>3,281,932</b>	<b>880,871</b>	<b>4,467,039</b>

The fair value hierarchy as at 31 March 2019 was:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	626,394	1,380,472		2,006,866
Bonds - Quoted	-	86,168		86,168
Pooled Investments:-				
Liability Driven Investments	-	580,817		580,817
Fund of Hedge Funds	-		232,127	232,127
Diversified Growth Funds	-	597,717		597,717
Multi Asset Credit	-	410,444		410,444
Property	-	227,565	201,187	428,751
Infrastructure	-	-	342,723	342,723
Secured Income	-	-	16,695	16,695
Long Term Investment	-	-	395	395
Cash	105,377	-		105,377
Derivatives: Forward FX	7,984	-	-	7,984
Derivatives: Futures	350	-	-	350
Investment Debtors/Creditors	3,339	-	-	3,339
	<b>743,444</b>	<b>3,283,182</b>	<b>793,127</b>	<b>4,819,753</b>

There has been no re-classification of assets between levels of the hierarchy between 31 March 2019 and 31 March 2020.

Level 2 assets were sold during the year to fund the investment in Secured Income and Renewable Energy Infrastructure assets.

### Reconciliation of Fair Value measurements within Level 3

Level 3	Market Value 01 April 2019	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 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property	201,187	-	13,073	(20,877)	(15,811)	17,354	194,926
Fund of Hedge Funds	232,127	-	-	-	25,840	-	257,967
Infrastructure	342,723	-	22,149	(9,362)	(128,372)	131,306	358,444
Secure Income	16,695	-	52,689	-	(277)	-	69,107
Long Term Investment - Equities	395	-	-	-	32	-	427
	<b>793,127</b>	<b>-</b>	<b>87,911</b>	<b>(30,239)</b>	<b>(118,588)</b>	<b>148,660</b>	<b>880,871</b>

## PENSION FUND ACCOUNTS 2019/20

### 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 2019. The impact from COVID-19 pandemic is reflected in an increase in the sensitivity for core property from 10% to 15%. This assessment does not allow for any specific impact from Brexit on investment assets. The assets valued at Level 3 have a bias to non-UK assets with the exception of Secured Income and the Long Term Investment and therefore any potential impact should be moderated; however it is possible that in the short term Brexit may cause greater variance in values than indicated in the table.

	Assessed valuation range +/-	Value at 31 March 2020	Value on increase	Value on decrease
		£'000	£'000	£'000
Property	15%	194,926	224,165	165,687
Fund of Hedge Funds	10%	257,967	283,763	232,170
Infrastructure	15%	358,444	412,211	304,677
Secure Income	10%	69,107	76,018	62,196
Long Term Investment	15%	427	491	363
<b>Total</b>		<b>880,871</b>	<b>996,647</b>	<b>765,094</b>

The same analysis for 31 March 2019:

	Assessed valuation range +/-	Value at 31 March 2019	Value on increase	Value on decrease
		£'000	£'000	£'000
Property	10%	201,187	221,304	181,067
Fund of Hedge Funds	10%	232,127	255,341	208,914
Infrastructure	15%	342,723	394,131	291,315
Secured Income	10%	16,695	18,365	15,026
Long Term Investment - Equities	15%	395	454	336
<b>Total</b>		<b>793,127</b>	<b>889,595</b>	<b>696,658</b>

## 25 EMPLOYING BODIES

As at 31 March 2020 the following employing bodies had contributing scheme members in the Avon Pension Fund:

### Principal Councils and Service Providers

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

North Somerset Council  
South Gloucestershire Council  
West of England Combined Authority

### 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

### Academies and Schools

Abbeywood Community School  
Abbot Alphege Academy  
All Saints East Clevedon C of E Primary School  
Ashcombe Primary School  
Ashton Park School  
Ashton Vale Primary School  
Aspire Academy  
Avanti Gardens School  
Backwell C of E Junior School  
Backwell School  
Badock's Wood E-ACT Academy  
Bannerman Road Community Academy  
Barton Hill Academy  
Bathampton Primary School  
Batheaston Church School  
Bathford Church School  
Bathwick St Mary Church School  
Becket Primary School  
Bedminster Down School  
Beechen Cliff School  
Begbrook Primary Academy  
Birdwell Primary School  
Bishop Sutton Primary School  
Blagdon Primary School  
Blaise High School  
Bournville Primary 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 Academy  
Cabot Learning Federation  
Callicroft Primary School  
Cameley CEVC Primary School  
Castle Batch Primary School  
Castle Primary School  
Chandag Infant School  
Chandag Junior School  
Charborough Road Primary School  
Charfield Primary School  
Charlton Wood Primary Academy  
Cheddar Grove Primary School  
Chew Magna Primary School  
Chew Stoke Church School  
Chew Valley School  
Christ Church C of E Primary School (Bristol)  
Christ Church C of E Primary School (WSM)  
Churchill Academy  
City Academy  
Clevedon School  
Clutton Primary School  
Colston's Girls' School  
Combe Down C of E Primary School  
Compass Point South Street Primary School  
Cotham Gardens Primary School  
Cotham School  
Court de Wyck Church School  
Crockerne C of E Primary School  
CST Trinity Academy  
Culverhill School  
Digitech Studio School  
Diocese of Bristol Academy Trust  
Downend School  
Dundry C of E Primary School  
East Harptree Primary School  
Easton C of E Academy

Elmlea Infant School  
Elmlea Junior School  
Endeavour Academy Trust  
Evergreen Primary Academy  
Fairfield High School  
Fairlawn Primary School  
Farmborough Church Primary School  
Farrington Gurney C of E Primary School  
Federation of Hannah More Infant School  
Filton Avenue Primary School  
Filton Hill Primary School  
Fishponds Church of England Academy  
Flax Bourton Primary School  
Fonthill Primary School  
Fosse Way School  
Four Acres Academy  
Freshford Church School  
Frome Vale Academy  
Gatehouse Green Learning Trust  
Gatehouse Green Learning Trust (Central Functions)  
Gordano School  
Greenfield E-ACT Primary Academy  
Grove Junior School  
Hanham Woods Academy  
Hans Price Academy  
Hareclive E-ACT Academy  
Hayesfield Girls School  
Haywood Village Academy  
Headley Park Primary School  
Henbury Court Primary Academy  
Henleaze Junior School  
Heron's Moor Academy  
High Down Infant School  
High Down Junior School  
High Littleton C of E Primary School  
Hotwells Primary School  
Hutton C of E Primary School  
IKB Academy  
Ilminster Avenue E-ACT Academy  
Kings Oak Academy  
Kingshill Church School  
Knowle DGE Academy  
Lansdown Park Academy  
Little Mead Primary Academy  
Locking Primary School  
Longvernal Primary School  
Luckwell Primary School  
Lyde Green Primary School  
Mangotsfield School  
Marsbury C of E Primary School  
Marlwood School  
Mary Elton Primary School  
May Park Primary School  
Mead Vale Community Primary School  
Meadowbrook Primary School  
Mendip Green Primary School  
Merchants' Academy  
Midsomer Norton Primary School  
Midsomer Norton Schools Partnership  
Milton Park Primary School  
Minerva Primary Academy  
Moorlands Infant School  
Moorlands Junior School  
Mulberry Park Educate Together Primary  
Nailsea School  
New Siblands School  
Northleaze C of E Primary School  
Notton House Academy  
Oasis Academy Bank Leaze

Oasis Academy Brightstowe	St Stephen's Primary Church School
Oasis Academy Brislington	St Teresa's Catholic Primary School
Oasis Academy Connaught	St Ursula's E-ACT Primary Academy
Oasis Academy John Williams	Stanton Drew Primary School
Oasis Academy Long Cross	Stoke Bishop C of E Primary School
Oasis Academy Marksbury Road	Stoke Lodge Primary School
Oasis Academy New Oak	Stoke Park Primary School
Oldfield Park Infant School	Summerhill Academy
Oldfield Park Junior School	Swainswick Church School
Oldfield School	The Bath Studio School
Oldmixon Primary School	The Castle School
Olympus Academy Trust	The Dolphin School
Orchard School Bristol	The Kingfisher School
Parklands Educate Together Primary	The Meadows Primary School
Parson Street Primary School	Three Ways School
Patchway Community School	Tickenham C of E Primary School
Peasedown St John Primary School	Trinity Anglican Methodist Primary School
Pensford Primary School	Trinity Church School
Perry Court E-ACT Academy	Trust in Learning (Academies) (Central Functions)
Portishead Primary School	Tyndale Primary School
Priory Community School	Ubley Primary School
Ralph Allen School	Venturers' Academy
Redfield Educate Together Primary Academy	Venturers' Trust (Central Functions)
Roundhill Primary School	Victoria Park Primary School
Salford C of E Primary School	Walliscote Primary School
Severn Beach Primary School	Wallscourt Farm Academy
SGS Pegasus School	Wansdyke Primary School
Shoscombe Church School	Waycroft Academy
Sir Bernard Lovell Academy	Wellsway School
Somerdale Educate Together Primary Academy	Welton Primary School
St Andrew's Church School	West Leigh Infant School
St Anne's C of E VA Primary School	West Town Lane Academy
St Bede's Catholic College	Westbury Park Primary School
St Georges Church School	Westbury-on-Trym C of E Academy
St John The Evangelist Church School	Westfield Primary School
St John's C of E Primary School (Keynsham)	Weston All Saints C of E Primary School
St John's C of E Primary School (MSN)	Wicklea Academy
St Julian's C of E Primary School	Widcombe C of E Junior School
St Katherine's School	Widcombe Infant School
St Mark's Ecumenical Anglican/Methodist Primary School	Windwhistle Primary School
St Martin's C of E Primary School	Winford C of E Primary School
St Martin's Garden Primary School	Winterbourne International Academy
St Mary Redcliffe C of E Primary School	Winterstoke Hundred Academy
St Mary's C of E VA Primary School	Woodlands Academy
St Matthias Academy	Woodlands Primary School
St Michael's C of E Junior Church School	Worle Community School
St Nicholas Chantry C of E VC Primary School	Worle Village Primary School
St Nicholas of Tolentine Catholic School	Wraxall C of E Voluntary Aided Primary School
St Patrick's Catholic Primary School	Writhlington School
St Peter's C of E Primary School	Yate Academy
St Philip's C of E Primary School	Yatton C of E Junior School
St Saviours Infant Church School	Yatton VC Infant School
St Saviours Junior Church School	Yeo Moor Primary School

### Designating Bodies

Almondsbury Parish Council	Patchway Town Council
Aequus Developments Limited	Paulton Parish Council
Backwell Parish Council	Peasedown St John Parish Council
Bradley Stoke Town Council	Pill & Easton in Gordano Parish Council
Bristol Waste Company	Portishead Town Council
Charter Trustees of the City of Bath	Radstock Town Council
Clevedon Town Council	Saltford Parish Council
Congresbury Parish Council	Sodbury Parish Council
Destination Bristol	Stoke Gifford Parish Council
Dodington Parish Council	Stoke Lodge & the Common Parish Council
Downend and Bromley Heath Parish Council	Thornbury Town Council
Emersons Green Town Council	Visit Bath Ltd
Filton Town Council	Wellsway MAT Trading Company Limited
Frampton Cotterell Parish Council	Westerleigh Parish Council
Hanham Abbots Parish Council	Westfield Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Keynsham Town Council	Whitchurch Parish Council
Midsomer Norton Town Council	Winterbourne Parish Council
Nailsea Town Council	Yate Town Council
Oldland Parish Council	Yatton Parish Council

## Community Admission Bodies

Adoption West  
Alliance Homes  
Ashley House Hostel  
Bristol Music Trust  
Clifton Suspension Bridge Trust  
Disability Equality Forum  
Learning Partnership West Ltd  
Merlin Housing Society Ltd (New staff since 2007)  
Merlin Housing Society Ltd (SG)

Sirona Care & Health CIC (2017)  
Southwest Grid for Learning Trust  
The Care Quality Commission  
The Holburne Museum  
The Park Community Trust Ltd  
University of Bath  
Vision North Somerset CIO  
West of England Sport Trust (WESPORT)  
Writhlington Trust

## Transferee Admission Bodies

ABM Catering Ltd - SGC Schools  
Active Community Engagement Limited (Bristol City Council)  
Adapt Cleaning - NSC Campus Cleaning (North Somerset Council)  
Agilisys Limited (North Somerset Council)  
Agilisys Limited 2015 (North Somerset Council)  
Alliance in Partnership (Westbury-on-Trym C of E Academy)  
Alliance Living Care Limited (North Somerset Council)  
Aspens Services Ltd - Bishop Sutton & Stanton Drew Schools (Lighthouse Schools Partnership)  
Aspens Services Ltd - Castle Primary School (Bath and North East Somerset Council)  
Aspens Services Ltd - Cherry Garden Primary School (South Gloucestershire Council)  
Aspens Services Ltd - Culverhill School (South Gloucestershire Council)  
Aspens Services Ltd - Lighthouse Schools Partnership  
Aspens Services Ltd - Mangotsfield School (Castle School Educational Trust)  
Aspens Services Ltd - New Horizons Learning Centre (South Gloucestershire Council)  
  
Aspens Services Ltd - PFI (Bristol City Council)  
Aspens Services Ltd - Redland Green Academy (Gatehouse Green Learning Trust)  
Aspens Services Ltd - Staple Hill Primary School (South Gloucestershire Council)  
Aspens Services Ltd - The Tynings School (South Gloucestershire Council)  
Aspens Services Ltd (Cathedral Schools Trust)  
  
Aspens Services Ltd (Venturers Trust)  
Aspens Services Ltd - Beacons Rise Primary School (South Gloucestershire Council)  
Aspens Services Ltd - Begbrook Primary Academy (Cabot Learning Federation)  
Aspens Services Ltd - Blackhorse Primary School (South Gloucestershire Council)  
Aspens Services Ltd - Castle School (Castle School Education Trust)  
Aspens Services Ltd - Charfield School (Castle School Education Trust)  
Aspens Services Ltd - Downend School (Castle School Education Trust)  
Aspens Services Ltd - Frampton Cotterell School (South Gloucestershire Council)  
Aspens Services Ltd - Frome Vale Academy (Cabot Learning Federation)  
Aspens Services Ltd - Hanham Abbots Junior School (South Gloucestershire Council)  
Aspens Services Ltd - Hanham Wood Academy (Cabot Learning Federation)  
Aspens Services Ltd - King's Oak Academy (Cabot Learning Federation)  
Aspens Services Ltd - Longwell Green Primary School (South Gloucestershire Council)  
Aspens Services Ltd - Marlwood School (Castle School Education Trust)  
Aspens Services Ltd - Minerva Academy (Cabot Learning Federation)  
Aspens Services Ltd - Summerhill Academy (Cabot Learning Federation)  
Aspens Services Ltd - Warmley Park School (Bristol City Council)  
Ategi limited (South Gloucestershire Council)  
BAM Construction UK Limited (Bristol City Council)  
Bespoke Cleaning Services Limited - (Olympus Academy Trust)  
  
Bespoke Cleaning Services Limited (Castle School Education Trust)  
Bespoke Cleaning Services Limited (South Gloucestershire & Stroud College)  
Braybourne Facilities Services Limited (Bristol City Council)  
Caterlink (Bristol City Council)  
Churchill Contract Services Ltd - Cabot Learning Federation  
Churchill Contract Services Ltd - Westhaven School (North Somerset Council)  
Churchill Contract Services Ltd (Wellsway MAT)  
Churchill Contract Services Ltd - Golden Valley Primary School (North Somerset Council)  
Circadian Trust (South Gloucestershire Council)  
Compass Contract Services (UK) Ltd - Ashton Park School (Bristol City Council)  
Compass Contract Services (UK) Ltd - Bristol Cathedral School (Bristol Cathedral Schools Trust)

Compass Contract Services (UK) Ltd - Luckwell Primary School (Bristol City Council)  
Compass Contract Services (UK) Ltd (Bristol City Council)  
Compass Contract Services (UK) Ltd (Cathedral Schools Trust)  
Compass Contract Services (UK) Ltd (Diocese of Bristol Academies Trust)  
Compass Contract Services (UK) Ltd (Palladian Academy Trust)  
Compass Contract Services (UK) Ltd (St Bede's Academy)  
Compass Contract Services (UK) Ltd (St Patrick's Catholic Primary School)  
  
Compass Contract Services (UK) Ltd (St Teresa's Catholic Primary School)  
Compass Contract Services (UK) Ltd (Westbury Park Primary School)  
  
Creative Youth Network (South Gloucestershire Council)  
  
Direct Cleaning Services (South West) Limited (Bath and North East Somerset Council)  
Dolce Ltd - Mangotsfield School (Castle School Education Trust)  
  
Edwards and Ward Ltd - Courtney Primary School (South Gloucestershire Council)  
  
Edwards and Ward Ltd - Paulton Infant School (Bath and North East Somerset Council)  
Edwards and Ward Ltd - St Keyna Primary School (Bath and North East Somerset Council)  
Edwards and Ward Ltd - St Mark's C of E Secondary School (Bath and North East Somerset Council)  
  
Edwards and Ward Ltd (Bath & Wells MAT)  
  
Edwards and Ward Ltd (Chew Stoke Church School)  
Edwards and Ward Ltd (Henleaze Academy)  
Future Cleaning Services Limited - Ashton Park School (Gatehouse Green Learning Trust)  
  
Future Stars Club Limited (Bath & Wells MAT)  
  
Glen Cleaning Company Limited (Lighthouse Schools Partnership)  
  
Glen Cleaning Company Ltd (Bristol City Council)  
  
Greenwich Leisure Ltd (Bath and North East Somerset Council)  
  
Greenwich Leisure Ltd (North Somerset Council)  
  
Learning Partnership West (Yate Town Council)  
  
Learning Partnership West (South Gloucestershire Council)  
  
Lex Leisure C.I.C. (Bristol City Council)  
  
Liberata UK Ltd (North Somerset Council)  
  
Mentoring Plus (Bath and North East Somerset Council)  
  
Nobilis Care West Ltd (North Somerset Council)  
  
Notaro Homecare Limited (North Somerset Council)  
  
PH Sports Ltd - St Peter's Cof E Primary School (Lighthouse Schools Partnership)  
  
Prestige Cleaning & Maintenance Limited (Circadian Trust)  
  
Reylon Cleaning Services - Cotham Gardens Primary School  
Ridge Crest Cleaning Ltd (Bristol City Council)  
Shaw Healthcare - The Granary (North Somerset Council)  
Sita Holdings UK Ltd  
Skanska Rashleigh Weatherfoil Ltd (Bristol City Council)  
  
SLM Community Leisure Trust (Bristol City Council)  
SLM Fitness & Health Ltd (Bristol City Council)  
Southern Brooks (South Gloucestershire Council)  
Taylor Shaw (Olympus Academy Trust)  
Taylor Shaw Limited (City of Bristol College)  
  
The Brandon Trust (North Somerset Council)  
Trowbridge Office Cleaning Services Ltd (Learn@MAT)  
  
Virgin Care Services Limited (Bath & North East Somerset Council)  
Weston Support Services Ltd (Extend Learning Academies Network)  
  
Youth Connect (Bath & North East Somerset Council)  
  
Virgin Care Services Limited

# ANNUAL GOVERNANCE STATEMENT 2019/20

## 1. SCOPE OF RESPONSIBILITY

1.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, which includes ensuring a sound system of internal control and effective arrangements for the management of risk.

1.3 The Council has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of our code is available from our website.

1.4 This Statement explains how the Council has complied with our Local Code of Corporate Governance and also meets the requirements of:

- The Accounts and Audit (England) Regulations 2015, specifically Regulation 6 (1) in respect of the annual review of the effectiveness of its system of internal control and preparation and publication of an Annual Governance Statement.
- The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020

1.5 The governance framework described in this Statement has been in place at the Council for the year ended 31 March 2020, and up to the date of the approval of the statement of accounts.

## 2. THE PURPOSE OF A GOVERNANCE FRAMEWORK AND LOCAL CODE

2.1 Good governance enables Bath & North East Somerset Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times and the following diagram illustrates how good governance is integral to supporting the delivery of the organisation's priorities.



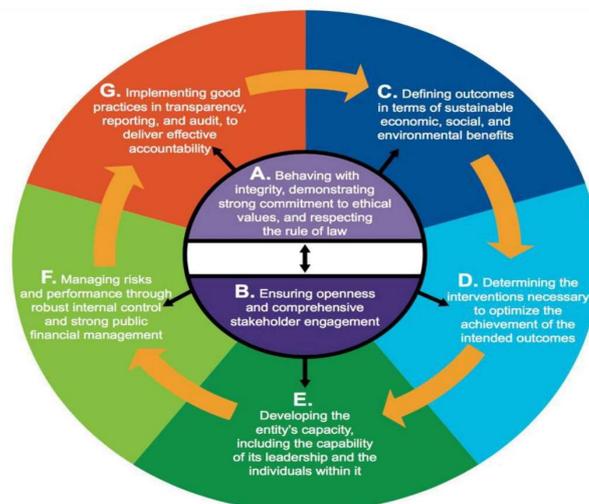
The Council's Local Code of Corporate Governance aims to ensure that in conducting its business the Council:

- operates in a lawful, open, inclusive and honest manner
- makes sure public money is safeguarded, properly accounted for and spent wisely
- has effective arrangements in place to manage and control risk
- secures continuous improvements in the way it operates.

The Code comprises the systems and processes, culture and values and structures by which the Council is directed and controlled. The Code is the sum-total of all of these things, and it includes those activities required to enable the Council to engage with, account to and lead the communities it serves. The Code enables the Council to set its strategic objectives and to manage the achievement of the objectives whilst ensuring delivery of appropriate, cost effective services.

The system of internal control is a significant part of that Code and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

The CIPFA/SOLACE framework envisages that the Code will be organised to ensure a continuous process of seven principles based around two core principles (A and B).



Source: CIPFA/SOLACE

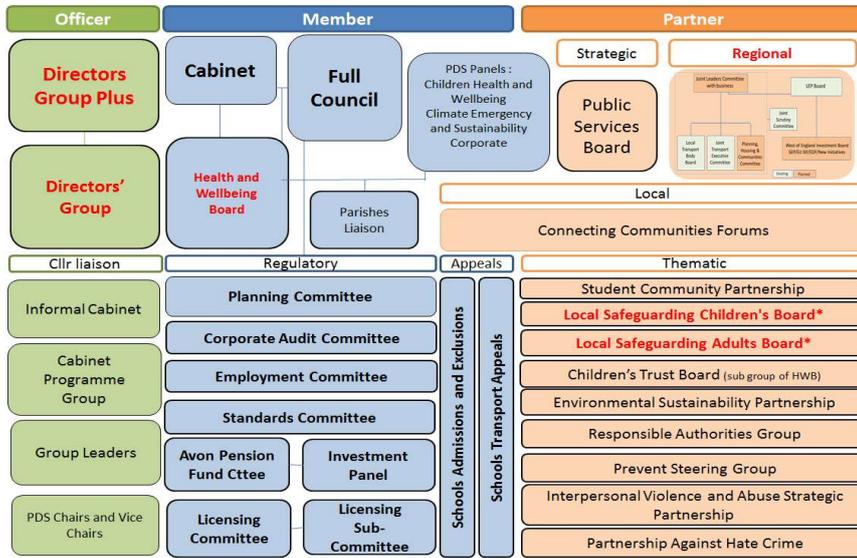
The governance framework and a Code has continued to be in place at Bath & North East Somerset Council for the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts.

# ANNUAL GOVERNANCE STATEMENT 2019/20

## 3. KEY ELEMENTS OF OUR CODE OF CORPORATE GOVERNANCE

The Council's Constitution is kept under constant review and updated as necessary through the year and sets out how the Council operates. It clearly defines the roles of Councillors and officers and this clarity contributes to effective working relationships.

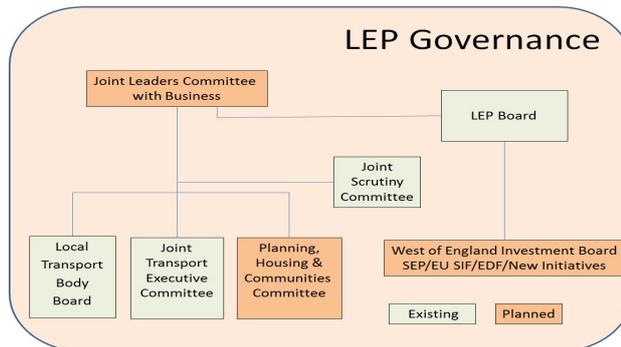
The diagram records the Council's governance structure for formal member meetings, key partnership bodies and key internal officer groups. It should be noted that the two Officer Groups – Directors Group and Directors Group Plus were replaced during the financial year by Strategic Leadership Team and Corporate Management Team.



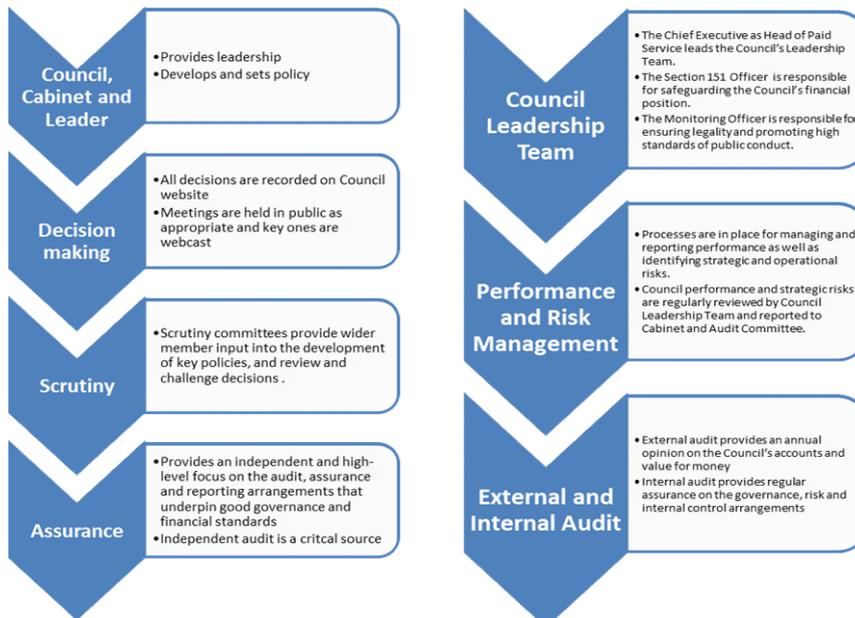
\*new statutory powers, TBA

(Key: formal decision-making bodies = **bold**; operational decision-making bodies = **bold**;)

The Partner – Regional structure - contained in the above structure diagram is recorded below:



The wider elements of the framework of our governance arrangements at the Council during 2019/20 were:



# ANNUAL GOVERNANCE STATEMENT 2019/20

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## Appointment of New Chief Executive

At the Special Council Meeting on 5th September 2019, Will Godfrey was formally appointed to the position of Council Chief Executive with a start date of 7th October 2019. The meeting also formally designated him as Head of Paid Service (under section 4 of the Local Government & Housing Act 1989) and Returning Officer for all elections and Electoral Registration Officer with effect from his start date.

## Group Structure

The Council has established a Shareholder Group which is to advise the Shareholder in the exercise of their responsibility for the Council's functions as corporate shareholder of a company or group of companies (i.e. ADL and ACL). A revised protocol was agreed by Council in November 2019 and in summary the Shareholder Group has a number of important functions –

1. To monitor the performance of a company in relation to its Business Plan and, in particular, the company's performance in respect of:
  - (a) Financial Matters
  - (b) Objectives of the company as set out in the company's Objects, Business Case or Business Plan.The Council through its Shareholder Group (or any specific sub-group) will
2. Evaluate and monitor the financial and other returns on investment (be that shareholding, loans or direct investment); and risks and opportunities including those arising from joint ventures or new opportunities.
3. Consider matters reserved to the Council for shareholder approval, such as:
  - (a) Varying Articles of Association
  - (b) Varying ownership and structure
  - (c) Variations to shares (number of; rights; etc.)
  - (d) Entering contracts that: (i) have a material effect on BaNES Council business (including other companies within the group) (ii) are outside of the business plan or do not relate to the business Printed on recycled paper (iii) are significant in relation to the size of the business, the business plan, etc.
  - (e) Material legal proceedings outside of ordinary business
  - (f) Adopting and amending business plans each year and strategic plans (3 years)
  - (g) Appointment, removal and the remuneration of directors (members of the company board)
  - (h) Selection of the chair of the board
  - (i) Appointment of auditors
  - (j) Issue of dividends and as more part

## Shareholder Group Relationship with other Governance Arrangements

The Shareholder Group as it considers appropriate in accordance with its functions described above, may:

1. Report and make formal recommendations to the Cabinet;
2. Make reports to and consult PDSP (including full Council) subject to the opportunity for Cabinet to first comment on reports or
3. Make reports to and consult the Audit Committee, in relation to that Committee's particular functions.

## How the Council has fulfilled the principles of good governance

### Review of the Council's Code of Governance

As above, the Council's Code of Corporate Governance is made up of the arrangements that the Council has in place to deliver the requirements of each principle of the Framework. The Code is not a document, it is the sum-total of all these systems and processes, culture and values and structures by which the Council is directed and controlled.

In preparing this Annual Governance Statement the Council has:

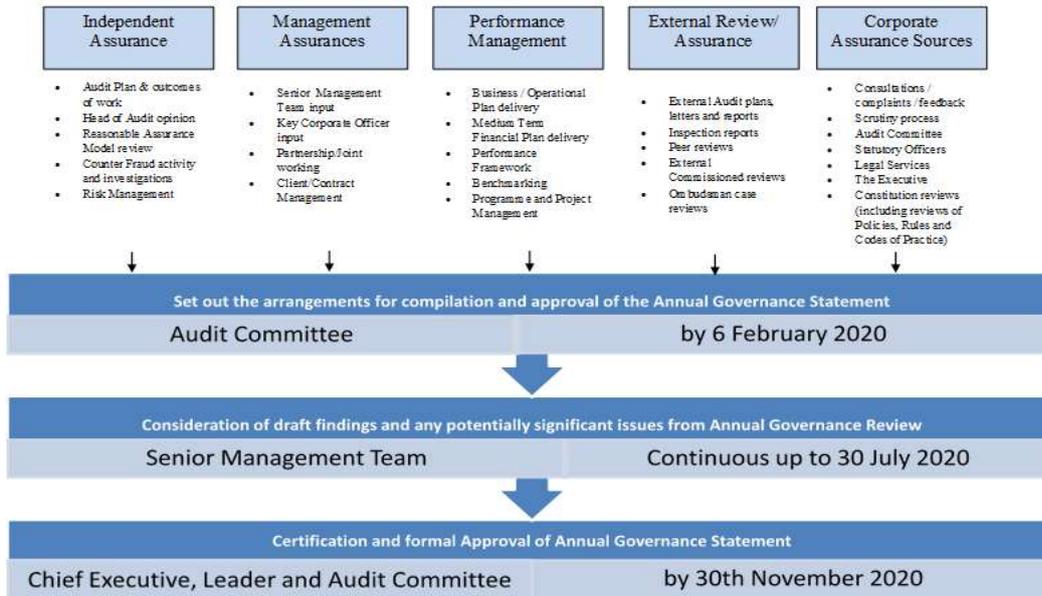
- reviewed the Council's existing governance arrangements against the revised CIPFA / SOLACE 'Delivering Good Governance in Local Government framework - 2016 Edition' good practice guidance;
- thereby assessed the effectiveness of the Council's Local Code of Corporate Governance.
- Taken into consideration the findings of external inspection agencies and the Chief Audit Executive's formal opinion on the internal control framework.

The remainder of this document sets out some key aspects of how the Council's has complied with the principles set out in the Framework during 2019/20 however it is not intended to be exhaustive.

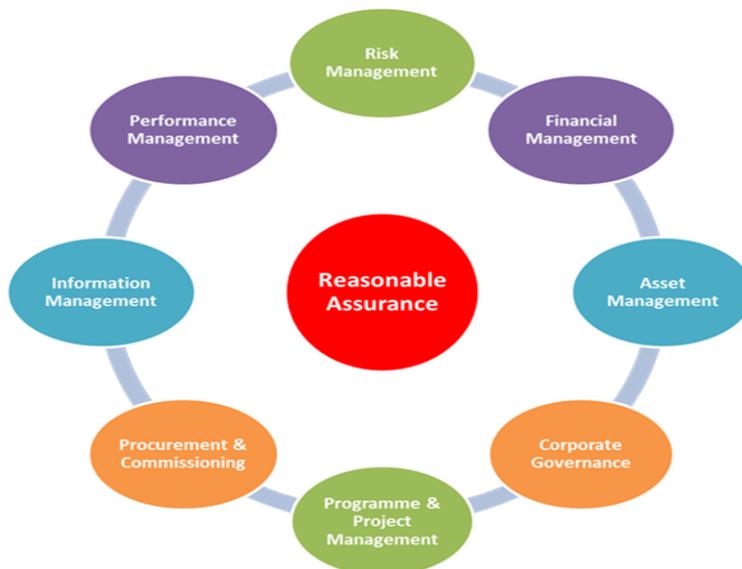
# ANNUAL GOVERNANCE STATEMENT 2019/20

## 4. REVIEW OF GOVERNANCE FRAMEWORK

Throughout the year the Council will review the effectiveness of its governance framework. The methodology is recorded below.



A key component of the review is using the adopted 'Reasonable Assurance Model' to assess the level of Assurance in place over eight themes.



Each Theme has a set of questions and the answers to these questions help assess the level of assurance and the level of risk for each theme. The Reasonable Assurance Model informs the Internal Audit Annual Plan and also enables an assessment of compliance with the seven principles of good governance as recorded in the Council's Local Code of Corporate Governance.

This Local Code was adopted by the Council at its meeting of 10th May 2018 and a copy of the Code is accessible through the Council's website at:

<http://www.bathnes.gov.uk/content/bathnes-local-code-corporate-governance>

An explanation – but not exhaustive list - is now provided on how the authority has complied with its Local Code – the seven principles of good governance.

## 5. PRINCIPLES OF OUR GOVERNANCE FRAMEWORK

### **i. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law**

#### Behaving with integrity

Bath & North East Somerset Council has both a Members Code of Conduct and an Employees Code of Conduct which the respective individuals are required to adhere to in their respective roles. The Members Code is recorded within the Council's Constitution (Part 6). The Employees Code of Conduct is accessible through the Council's intranet (HR + Payroll / HR Policies) and updates were planned during 2019/20 into 2020/21.

All members of the Council are obliged to sign an "acceptance of office" and following election to office they have a full induction and training programme, including the Members Code of Conduct. Dependent on the roles allocated to members additional tailored training is provided. The Council's Monitoring Officer is overall responsible for member induction and support services for elected members. Part 4 of the Constitution records the 'Procedural Rules' of the Council.

Officers sign contracts of employment and are required to complete a probationary period of employment as standard. All relevant HR policies are in place and made available from the Council Information Service (intranet). These include a formal disciplinary procedure, a Whistleblowing Policy, Information Governance Policies, Counter Fraud Strategy bringing together the Council's Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Money Laundering Policy under one umbrella. We maintain electronic registers of interests and gifts & hospitality for staff. Members are required to declare interests and this and the Councillors attendance record and declarations at meetings are recorded against their individual Councillors page accessible through the Council's internet webpages.

#### Demonstrating strong commitment to ethical values

Bath & North East Somerset Council maintain a Standards Committee which under the Constitution (Part 5) records the Committee's Terms of Reference. The Terms of Reference includes:

- Promote and maintain high standards of conduct by Councillors; Parish Councillors; co-opted members and church and parent governor representatives;
- Oversee the effectiveness of the Council's Constitutional arrangements from an ethical perspective and make recommendations to the Council on any desirable or necessary changes.

The Committee is scheduled to meet every two months (if required) and reports to Council at least annually. The last annual report was submitted to the 10th October 2019 Council Meeting. It recorded that the 12 members (5 B&NES Councillors, 3 Parish Councillors and 3 independents) and Independent Person met on five occasions between July 2018 and July 2019 to fulfil its role and responsibilities. Membership of the Committee changed in May 2019 based on Council elections. At each meeting the Committee monitored its Work Plan and noted the current position of complaints using the Complaints Tracker. A single complaint was heard by the Committee during the period reported. The Committee also reviewed the "Local Government Ethical Standards" (a review by the Committee on Standards in Public Life) and it noted that the Council was already complying with best practice however an advice note for Councillors on bullying and harassment was agreed to be recommended to Council. The Committee also considered the Annual Report on Commission for Local Administration in England (Local Government and Social Care Ombudsman) Complaints; updated the Council's Policy for Gifts & Hospitality for Councillors; agreed a Protocol between the Council and Avon & Somerset Constabulary; produced the Annual Report of the Standards Committee; reviewed the Council's Code of Conduct and agreed the Councillor role profiles.

The Code of Conduct for Members and Co-opted Members makes specific reference to the need to adhere to seven principles of public life (the Nolan principles).

All formal meetings of the Council (i.e. Committees) require declarations of interest from Members of those Committees as a standing item and meetings are minuted / recorded. There is also a member complaint policy which is overseen and administered by the Council's Monitoring Officer.

#### Respecting the rule of law

The Council's Constitution sets out the legal requirements around Council business including decision making. Guidance is available on both the Council's Information Service (Intranet) and public accessible website (Internet) to guide Officers in ensuring that Decisions are taken by the appropriate committee, Member or Officer under the Scheme of Delegation (Part 3 of the Constitution). The Constitution is reviewed by a Constitution Working Group and amendments are reported to Full Council to ensure it remains fit for purpose and is legally compliant.

All reports requiring decision must be cleared by the Council's S151 and Monitoring Officers. The adopted report template requires the author to record 'Statutory considerations and basis for the proposal' and this section should contain details of any relevant considerations regarding equalities, crime & disorder, sustainability, natural environment, planning, human rights, children, public health & inequalities. It should also specify the legal power or duty that authorises the decision to be made. Specific Report Writing guidance is available to Officers to provide clarification of actions required.

All Council contracts must comply with the Council's Contract Standing Orders and guidance from specialist procurement and legal Officers is available in order to comply with legal requirements e.g. EU Procurement regulations.

Additional guidance is available to Members and Officers to ensure compliance with other legislation including:

- Proceeds of Crime Act 2002 (e.g. Anti-Money Laundering Policy 2019)
- Bribery Act 2010 (e.g. Anti-Bribery Policy 2019)

The Council also considers Motions submitted by political groups / Councillors e.g. 15th Sept 2016 motion against modern slavery linked to the Modern Slavery Act 2015.

# ANNUAL GOVERNANCE STATEMENT 2019/20

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## ii. Ensuring openness and comprehensive stakeholder engagement

### Openness and engaging with individual citizens and service users effectively

The Constitution outlines the Citizens rights to access information (Part 2 – Article 3 Citizens and the Council) in addition Part 4 – Procedural Rules record the access to information procedure rules (Part 4B). It details: rights to attend meetings; notice of meetings being held; access to agendas and reports; provision of agenda and report copies; access to meeting minutes; and rules around the exclusion of access by the public to meetings.

Key decisions are all recorded and accessible to the public and the templates for decisions require officers to provide all necessary and pertinent information to make an informed decision. The Cabinet forward plan of business is published in advance in accordance with access to information requirements.

To help ensure decision making rules are followed an intranet page provides officers with information about the stages to be followed for single member, Cabinet, Officer and urgent decisions.

The Council's website contains information about services and provides easy access key links such as 'Cabinet Decisions'.

We monitor compliance with the Department for Communities and Local Government Transparency Code and the Transparency page on the internet provides the links to access business operations and outcomes (such as payments to suppliers / expenditure over £500) as required by the Code.

We are very open with our communications and digital communication channels are used including a library of webcasts e.g. Council and Cabinet meetings. The Council and its services use Social Media such as Twitter, Facebook, and Instagram. A weekly e-connect newsletter is accessible and in addition to digital communications the Council produces a quarterly residents magazine called 'Together'. Staff also receive a weekly communications e-mail.

### Engaging Comprehensively with Institutional Stakeholders

Our strategic partnership landscape has changed significantly with CCG integration, development of the West of England Combined Authority and an Area Forum structure established to help engage with local communities. There are 6 Area Forums and these are made up of Bath & North East Somerset elected members, parish councils, local groups and residents. The Forums set their own priorities based on an understanding of local needs.

The Parish Charter provides a framework between the Council and the 51 parishes across the area for working together. We have a common purpose to promote the wellbeing of B&NES, and we serve the same residents. The Council consults with parishes on matters which affect their area and residents.

The Council has consultation webpages which records current, future and closed consultations plus a consultation results section. Some of the key consultation / engagement work carried out over the last year include:

- Entry Hill Golf Course
- Milsom Street Feedback

Partnership working with our health and West of England partners is of critical importance in both service delivery and in shared financial efficiencies. NHS England has challenged the health and care system to develop a Sustainability and Transformation Plan (STP) and the Council has been fully engaged in the STP development process. The Clinical Commissioning Group (CCG) and B&NES Council are joining their commissioning functions and continuing to pool budgets. The Health & Wellbeing Board is responsible for preparing a Joint Health and Wellbeing Strategy and reviewing and reporting on health and social care commissioning. The Council and CCG are represented on the Board.

Following the transfer of functions to the West of England Combined Authority (WECA) on 1st February 2017 the Authority represents Bath and North East Somerset Council, Bristol City Council and South Gloucestershire Council. A Joint Committee, Overview & Scrutiny Committee and an Audit Committee assist in the good governance of the Combined Authority.

## iii. Defining outcomes in terms of sustainable, economic, social and environmental benefits

### Defining outcomes

At the 25th February 2020 Council Meeting, Bath & North East Somerset Council adopted the Corporate Strategy 2020-24 and the Corporate Delivery Programme. The framework of the new Strategy has a single overriding purpose – to improve people's lives.

Against each of the three recorded principles, there are key commitments and linked to the commitments examples of how progress will be measured.

The Council Corporate Strategy Framework recognises "Managing our Money" through the Medium-Term Financial Strategy and there is much more emphasis on 'Performance Management and Review'. The importance of excellence in resource management and sound governance is fundamental to achieving its purpose and the stated commitments.

### Sustainable economic, social and environmental benefits

The Capital Programme 2019/20 to 2023/24 includes investments that provide economic, social and environmental benefits including: Bath Quays development; Bath Western Riverside development, Highways maintenance; Leisure Centre refurbishment and modernisation; and schools works.

The Council's wholly owned property investment company, Aqueus Development Ltd (ADL) and its subsidiary company ACL, develop, deliver, own and manage property as well as delivering new development. The Council also maintains Bath Tourism Plus (BTP) as a company limited by guarantee and its objective is to promote the area as a destination at home and abroad to benefit the local economy.

## **ANNUAL GOVERNANCE STATEMENT 2019/20**

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### **iv. Determining the interventions necessary to optimize the achievement of the intended outcomes**

#### Determining interventions

As stated earlier in the Statement the Council's decision-making processes are set by its Constitution and citizens and service users are consulted where appropriate prior to decisions being taken.

The decision-making process requires objective and rigorous analysis of options and associated risks. A Risk Management Strategy and Toolkit has been adopted and this provides guidance on the assessment of risks related to recommended actions / decisions.

The Monitoring and S151 Officers are consulted on all decision-making reports and they are able to provide their professional opinion on the matter being reported and actions / decisions to be taken.

#### Planning interventions

The Council's Forward Plans set out clearly the forthcoming business that will be taken to the relevant decision-making committees and by key officers and members. This includes dates of Cabinet meetings and anticipated dates for Single Member Decisions. The Council conforms to all legislation and best practice in publishing such plans in advance of meetings etc.

#### Optimising achievement of intended outcomes

The Medium-Term Financial Strategy (MTFS) outlines how the Council's budget will be delivered over the medium to long-term. The MTFS for B&NES spans two years with a further three added to show the likely longer-term picture.

Linked to the MTFS and the annual budget process the Council's S151 Officer is required to make a statutory statement (Section 25 of the Local Government Act 2003) on the robustness of estimates and adequacy of reserves for the budget year and Financial Plan. The Directors review and completion of Robustness Statements and other financial management processes including the provision of qualified and experienced financial staff to support service areas.

The 5 year period Capital Programme includes a number of economic projects including Bath Quays designed to increase opportunity and prosperity.

### **v. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

#### Developing the entity's capacity

The financial challenge and the on-going need to seek budgetary savings are having a direct effect of the Council's ability to maintain and develop its capacity. Service areas including libraries and youth are proactively looking for volunteers to help with non-statutory service provision.

#### Developing the capability of the entity's leadership and other individuals

Following the May 2019 elections, a full member induction programme was provided to allow all members but particularly new ones to understand how the Council works and the key services it provides. In addition to this specific induction training members are provided training specifically related to their roles and responsibilities.

For Council managers 'Leading and Managing Together' sessions are held periodically to provide a networking and communication forum.

The Council has developed a 'Performance Development Conversation' process with guidance and templates with the objective of improving communication and the performance of staff. It is linked to the Council's Values and Behaviours.

### **vi. Managing risks and performance through robust internal control and strong public financial management**

#### Managing Risk

The Council has adopted a Risk Management Strategy and Toolkit which was endorsed by the Bath & North East Somerset Council's Cabinet Member, the Council's Chief Executive and the Corporate Audit Committee (7th February 2019). The Strategy document records key activities and frequency and the toolkit provides detailed guidance on risk management processes.

The Council continues to raise awareness of the importance of good risk management and embed the adopted processes. Directors give on-going assurance to the Chief Executive regarding the management of risks within their area of service delivery. Risk management objectives are monitored through the Corporate Audit Committee in line with its terms of reference to evaluate the effectiveness of the risk management strategy and framework.

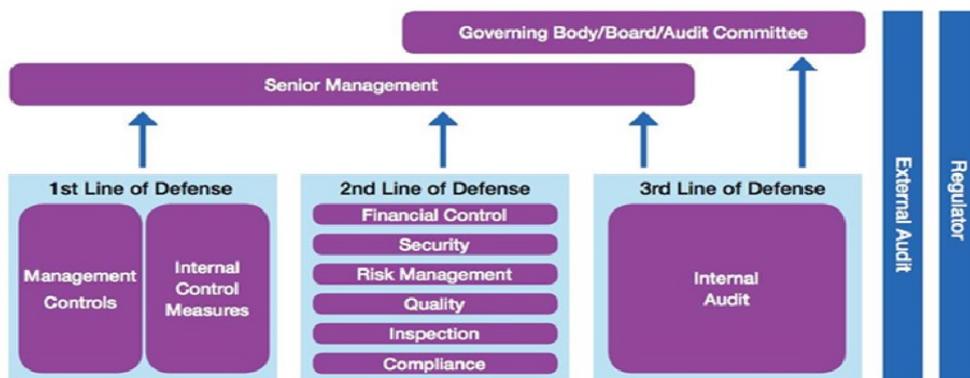
#### Managing Performance

Performance Management has been overhauled and is aligned with the Corporate Strategy 2020-24 and the Corporate Delivery Programme, Quarterly performance information and business intelligence is now being recorded and fed back to Senior Management to enable clear oversight, accountability and action.

# ANNUAL GOVERNANCE STATEMENT 2019/20

## Robust Internal Control

The Council's system of internal controls is managed and monitored through the 3 lines of defence and the External Auditor and other Inspectors.



The review and monitoring of internal controls by Internal Audit and other 'independent' inspectors are subject to risk assessment to ensure that resources are focussed on reviewing the controls associated with higher risk areas.

The Corporate Audit Committee Terms of Reference includes approving the Internal Audit Plan within the budget agreed by the Council and to monitor its delivery and effectiveness (including the implementation of audit recommendations). It has been agreed that in addition to receiving internal audit plan update reports which includes recording the assurance level allocated to all 'final' version internal audit reports, a more detailed explanation of findings (weaknesses and recommendations) and management response is provided to the Committee on any reports assessed as Assurance Levels 1 (Poor) or 2 (Weak). The opinion linked to Assurance Level 2 is 'The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure.'

The Council's Financial Regulations require Members and staff to inform the Chief Finance Officer and / or the 'Chief Audit Executive' immediately of any suspected financial irregularity. This enables the Internal Audit function to investigate all reported cases promptly to ensure the integrity of the system of internal control and to deal with the particular issues related to the matter reported.

## Managing Data

Bath and North East Somerset Council supports the objectives of increasing openness, accountability and transparency in the public sector.

Since the introduction of the Freedom of Information Act in January 2005, the Council has been committed to a proactive approach regarding access to information.

On the 25th of May 2018, Parliament enacted the Data Protection Act 2018 which is built on the European General Data Protection Regulations (GDPR).

The Council is responsible for a wide range of local functions that affect the everyday lives of residents. Information held by the Council is therefore of great relevance and interest to the public. A list of the information regularly made available by the Council to the public can be found in the Council's Publication Scheme.

Members of the public can submit a subject access request or a Freedom of Information request through the public website (submission of an electronic form) or by writing to the Council.

Members and staff can access guidance and training through the Council's Information Service. There is a comprehensive framework of Information Governance Policy that includes: Data Protection, Acceptable Use, Information Security, Information Sharing, and Security Incident Management Policy.

Information Sharing Agreements with public sector partners to ensure the effective and efficient secure sharing of information. When data is processed by a private sector body contracts include the relevant data protection, confidentiality and FOI clauses.

## Strong public financial management

The role of Chief Financial Officer (S151 Officer) was carried out by Donna Parham to the beginning of March 2020 when the position was then taken over by Andy Rothery. A meeting of Full Council on 16th December 2019 appointed the new Director of Finance and S151 Officer, based on a recommendation from the Restructuring Implementation Committee.

Both Officers confirmed that the principles outlined in the CIPFA Statement on the Role of the Chief Financial Officer (s151 Officer) in Local Government have been compiled with in performing their duties. They were members of Directors Group Plus which were replaced by Strategic Leadership Team and Corporate Management Team following changes to the management structure made by the Council's new Chief Executive. Membership of these groups ensures the Director of Finance can develop and implement strategic objectives and influence material business decisions. The Director of Finance is a CIPFA qualified accountant and the Finance Service has suitably qualified and experienced personnel in all senior positions.

All decision papers for Committees, Cabinet member or Officer delegated decisions require S151 financial sign-off before the decision can be taken.

Financial updates are regularly reported to Cabinet and the Corporate Policy Development and Scrutiny Panel and this includes budget monitoring and outturn reports.

The latest version of the Council Financial Regulations and Budget Scheme was approved on the 13th September 2018.

The Council's Statement of Accounts 2018/19 were presented to the 30th July 2019 meeting of Corporate Audit Committee and approved. The Council's external auditor reported to the same meeting to provide an opinion on the Council's Financial Statements and a Value for Money conclusion. The minutes of the meeting recorded that the external auditor was satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Budget and Council Tax 2020/21 and Financial Outlook Report was taken to Council on the 25th February 2020 by the Director of Finance. The Budget Report is a formal report and is part of a continuum of professional advice and detailed work carried out with Directors, Senior Managers and their teams and Members. It takes into account the forecast out-turn for 2019/20 and estimates for 2020/21. Director's produce Robustness Statements outlining savings and delivery risks which are incorporated into a corporate wide assessment. The review of reserves resulted in the proposal to increase un-earmarked reserves. The Chief Financial Officer concluded that the estimates for 2020/21 were robust and the budget was lawful.

## **ANNUAL GOVERNANCE STATEMENT 2019/20**

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### **Vii Implementing good practices in transparency, reporting and audit, to deliver accountability**

#### Implementing good practice in transparency

Transparency is a key condition and driver for the delivery of Council services. As a publicly funded organisation, we have a duty to our residents to be transparent about our business operations and outcomes and we have a transparency webpage.

Committee meetings and reports are easily accessible through the Council's website.

#### Implementing good practices in reporting

Reporting is required to assist the Council's decision-making process. The constitution requires decisions to be taken by an appropriate committee, Cabinet Member or officer and requires 'sign-off' by the Council's S151 and Monitoring Officers.

Officers write reports to assist understanding of the matter / issues and provide clarity what is being asked of the recipient of the report including recommended actions.

The annual governance review which has been carried out to produce this statement requires a robust methodology to be followed to enable a statement to be published within the statutory statement of accounts.

#### Assurance and effective accountability

The Corporate Audit Committee through its terms of reference monitors the implementation of both internal and external audit recommendations.

The Council has contracted with Virgin Care to provide community health and care services for children, young people and adults. A governance framework has been devised to monitor the Community Services Provision Contract and the related Service Development Improvement Plan (SDIP):

- 1) Community Services Steering Group - report to the Joint Commissioning Committee (Executive Group) and to the Health & Wellbeing Board.
- 2) Contract, Quality and Performance Meeting Group (CQPM) - provide a strategic/senior officer lead and a direct linkage to the Community Services Steering Group.
- 3) Financial Information Group - monitor the financial position and any budgetary issues.
- 4) The Transformation Group - produce a SDIP Performance Dashboard and report to CQPM on any delivery issues which need attention.

### **PROCESSES FOR MAINTENANCE AND REVIEW OF THE EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK**

The process for the Annual Governance Statement is a continuous process and Senior officers and Members consider emerging issues during the course of the year. This means that controls issues and risks can be addressed more quickly.

Publication of this Annual Governance Statement is the culmination of this work. The council's Chief Executive Officer signs the Statement as a summary of the effectiveness of the council's governance framework

### **OTHER CONTRIBUTORY REVIEW / ASSURANCE MECHANISMS**

In evaluating the effectiveness of the council's governance, information is available from a wide range of sources. These include the Internal Audit Service, the Information Governance Group, the External Auditors, inspectorates such as the Care Quality Commission and directorates themselves.

Audit West in conjunction with Statutory Officers reviews the effectiveness of the governance framework during the year and the draft Annual Governance Statement. The Statement is signed by the Chief Executive and Leader of Council and formally reviewed by the Audit Committee as part of the Financial Statements.

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 2019/20 has included –

- Meeting the Financial Challenge & Delivery of Savings
- Tackling the Climate Emergency and planning to meet future challenges
- Preparing for and meeting significant emergencies and business interruptions
- Supporting and stimulating Economic Growth and Regeneration through its economic plan
- Working across the West of England region to stimulate housing needs, skills and employment
- Managing and Investing in the key infrastructure and assets of the area and wider sub-region
- Safeguarding Children and Vulnerable Adults
- Delivering joined up commissioning of social care through the (Improved) Better Care Fund
- Supporting Council Services through an increase in its digital approach and effective use of IT
- Managing increased cyber security risks and protection of personal data

#### Chief Audit Executive - Internal Audit Opinion

In forming an opinion on the internal control framework, I have considered the work of the Audit & Assurance function as well as consideration of the wider governance framework, other assurances we can place reliance on and performance of the Council.

It is my opinion that up to March 2020 the Council's internal control framework and systems to manage risk had not altered significantly from the previous year.

- Reasonable assurance could be provided over the council's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders were broadly being complied with;
- Managers throughout the council were aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements were operated to deter and detect fraud and investigations did not identify any systemic failures;
- There were no fundamental system failures or control breakdowns to business- critical functions;

There has been continuing pressure on council budgets and services and the Covid19 outbreak and the resulting lockdown will have an unprecedented impact on the Council's finances and its ways of working. A robust Internal Audit service will continue to be a vital component of the Council's governance systems providing the third and final line of defence in relation to the internal control framework.

Jeff Wring  
Service Director – One West (Chief Audit Executive)

## **ANNUAL GOVERNANCE STATEMENT 2019/20**

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### **CONCLUSION & CERTIFICATION**

As laid out in the statement the Council's governance arrangements have been reviewed and considered in line with the CIPFA/SOLACE code of practice. To the best of our knowledge the governance arrangements as defined have been effectively operating during the year 2019/20. Significant governance issues identified through the Annual Governance Review are recorded in Section 6b.

We propose to take actions to address the issues raised with the objective of enhancing the Council's governance arrangements. The issues and related actions will be monitored as part of the annual governance review process.

### **SIGNED BY:**

**DINE ROMERO**

**LEADER OF THE COUNCIL**

**WILL GODFREY**

**CHIEF EXECUTIVE**

**DATE: 26th November 2020**

# ANNUAL GOVERNANCE STATEMENT 2019/20

## 6 a) SIGNIFICANT GOVERNANCE ISSUES 2018/19

Summary of Significant Issue for 2018/19	Commentary & Mitigating actions for 2019/20	Update Position at end of 2019/20
<p><b>Financial Challenge</b></p> <p>The financial challenge to the Council continued to be severe, with public sector austerity and a range of economic challenges likely to last well beyond 2020.</p> <p>The Council had responded positively with over £70M of savings being delivered, however at least £12M of additional savings were still needed over 2019/20. Council was actively planning to meet this challenge with new savings initiatives for current and future years.</p> <p>Despite this the Council's financial sustainability was challenged and its outturn position for 2018/19 resulted in an overall overspend of almost £1M - overspends of £2.7M in Children's Services and £0.8M in Transport and Environment and reduced income of £0.9M from the Commercial Estate (worse position than 2017/18).</p> <p>Whilst again no significant governance failures had occurred, the Council acknowledge that the level of grant</p> <p>Whilst again no significant governance failures had occurred, the Council acknowledge that the level of grant reductions from central government was a significant issue and represent the most significant set of challenges it had faced in being able to continue to deliver excellent services to the whole community.</p> <p>Nationally the pressures in Social Care and Children's Services started to be recognised and some temporary funding provided. However, this does not close the gap and increased health and social care integration and service transformation continue to be necessary.</p> <p>This puts additional strain on being able to meet the challenge not just in Social Care and Children's Services but across all services and entails making difficult choices. We therefore need robust governance and sensible plans to enable services to deliver against these challenges.</p>	<p>As with previous years the Council set out many of its plans to deliver services into the future against the backdrop of significant financial reductions. Overseeing delivery against this agenda is a key role for the Cabinet and Senior Management and they will continue to be proactive in working to ensure that significant risks to the organisation are appropriately mitigated &amp; controlled.</p> <p>For 2019/20 the total budget gap before savings is £8.9m, this is comprised of budget pressures brought forward from 2018/19, reviewed savings plans, budgets updated for inflation and demographics, the loss of Revenue Support Grant in 2019/20 but partially offset by business rates, tax base growth and other budget changes.</p> <p>The assessment of the plans to close the gap outlines a requirement for up to £1.5m of funds from the Financial Planning Reserve to smooth the delivery of savings in 2019/20 as they cannot all be delivered by the 1st April. It will also require a Revenue Budget Contingency sum of £2.0m to reflect the assessed level of risk associated with the scale of savings and further unknown pressures and demographics in 2019/20.</p> <p>In addition to this putting forward a balanced budget for 2019/20 continues to be dependent on the flexible use</p> <p>In addition to this putting forward a balanced budget for 2019/20 continues to be dependent on the flexible use of capital receipts to fund redundancies and once-off costs such as transformation to deliver the savings required.</p> <p>In high risk areas such as Adult Social Care and Children's Services the Government announced further grant distribution including £0.73m in 2019/20, for winter pressures grant funding to be pooled through the Better Care Fund. A further one-off grant of £1.247m was announced that can be utilised for pressures within Adult Social Care or Children's Services and will be used to fund Care placement pressures in 2019/20.</p> <p>The Better Care Fund ensures the integration of health and social care and to agree an integrated spending plan. Extra funding for adult social care was announced in the 2017 national budget with local allocations of one-off funding of £1.028m in 2019/20 and this funding is pre-committed to protect current Social Care spending levels.</p> <p>Many of the previous year's action also remain in place to control costs and continuing the stringent cost control mechanisms on staff costs, goods, works and services at an operational level whilst using the Corporate Plan and Medium Term Financial Plan to help focus services at a strategic level will remain a key role for Senior Management.</p>	<p>The Council's financial performance was reviewed, assessed and challenged by the Senior Management team on a monthly basis, together with the key risks and assumptions that were included within the medium-term financial plan.</p> <p>This resulted in a series of significant savings initiatives as outlined and at the end of the financial year revenue out-turn was recorded as £0.35m underspend (before carry-forward requests of £0.23m).</p>

# ANNUAL GOVERNANCE STATEMENT 2019/20

## 6 b). SIGNIFICANT GOVERNANCE ISSUES 2019/20

Issue in 2019/20	Commentary & Mitigating actions for 2020/21
<p><b>Coronavirus Pandemic (Covid19)</b></p> <p>The Council has worked tirelessly to respond to this public health emergency since declaring a major incident on 23rd March. It has been supporting the community including vulnerable residents and local businesses whilst maintaining critical services from refuse collection to child-protection. Throughout we have been following Public Health England advice and guidance.</p> <p>The Coronavirus Act 2020 received Royal Assent on 25th March 2020 and this resulted in new, modified or suspended local government powers and duties. The provisions within the Act are time limited for two years.</p> <p>The lock down which commenced in March 2020, requiring residents to 'stay at home' impacted the provision of Council Services and the Council's democratic business.</p> <p>The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 provided guidance around the provision of online meetings and allowed decisions to be made that way. Under Article 15.4 (b) of the Council's Constitution, the Monitoring Officer processed a decision on 28th April 2020 to adopt the Virtual Meetings Procedure Rules (VMPPR). In addition, the Monitoring Officer amended the public speaking scheme in time for the 6th May 2020 Planning Committee.</p> <p>In addition to changes to the impact on Council democratic business Covid19 has:</p> <ul style="list-style-type: none"> <li>• Significantly Impacted on service delivery – Major Services have closed, reduced or had to be provided in a different way with staff primarily working from home;</li> <li>• Created new areas of activity – emergency assistance e.g. PPE supply management, distribution of small business grants.</li> <li>• Resulted in significant funding and cash flow challenges</li> </ul> <p>The most significant organisational implication of the lockdown is the impact on the Council's finances and in particular its sources of income. The Council is heavily reliant on commercial income obtained through Heritage Services, Car Parking and its Commercial Estate along with potential cashflow implications linked to the payment of Council Tax and NNDR.</p> <p>All of these issues have amounted to a significant and unprecedented situation facing the Council its Community and whilst this situation started in 2019/20 most of the impacts have occurred in the following financial year. It is however important these are noted for transparency as they are directly affecting current Council activity.</p>	<p>As at the time of writing this statement the Pandemic is still ongoing and its impacts are likely to be felt for many years and this commentary and set of actions is simply a position statement at a point in time as the situation remains extremely fluid on a whole range of issues.</p> <p>Since the start of the crisis the Council has responded extensively to meet the demands placed on it from the Pandemic. These have been extensively described in its report to Cabinet on 29th May and 2nd July in terms of how the Council is meeting the health crisis and keeping services running.</p> <p>Importantly it has moved beyond incident response to recovery mode and set up two key workstreams to bring its organisation and the wider community back to a new sense of normality and enable positive change and opportunity –</p> <p><b>Renewal Board –</b></p> <p>Its focus will be on adapting our approach to mitigate the impacts of the pandemic by</p> <ul style="list-style-type: none"> <li>- Supporting Communities</li> <li>- Supporting Businesses &amp; the Economy</li> <li>- Maintaining Council Services</li> </ul> <p>This will consist of three main workstreams –</p> <ul style="list-style-type: none"> <li>- Reopening &amp; Renewing</li> <li>- Resilient Communities</li> <li>- Renewal Vision</li> </ul> <p><b>Recovery Board –</b></p> <p>Its focus will be on delivering a future focussed organisation by</p> <ul style="list-style-type: none"> <li>- Providing strategic leadership for all aspects of the Council's recovery;</li> <li>- Develop a new vision for how Council buildings and technology will support services post Covid-19;</li> <li>- Making the most of our workforce and available technology;</li> <li>- Ensuring Council services are future focussed, working at optimal efficiency and re-built on principles of good governance.</li> </ul> <p>This work will consist of a number of interlinked workstreams, including –</p> <ul style="list-style-type: none"> <li>- In-Year Financial Recovery</li> <li>- Resource Planning &amp; Allocation</li> <li>- Preparing for the Future – Workplace &amp; Workforce</li> <li>- Future Focussed Redesign</li> <li>- Effective Corporate Governance</li> </ul> <p>Both of these activities have high level boards overseen by the Chief Executive and meet on a very regular basis. They will continue to work on their key activities throughout the rest of the year and final outcomes reported through to Cabinet.</p>

## **STATEMENT OF RESPONSIBILITIES FOR THE ACCOUNTS**

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### **The Council is required to:**

- \* Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Council has made the Director of Finance responsible for financial administration.
- \* Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- \* Approve the statement of accounts for the year.

### **Director of Finance responsibilities:**

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this Statement of Accounts, the Director of Finance has:

- \* Selected suitable accounting policies and then applied them consistently
- \* Made judgements which were reasonable and prudent
- \* Complied with the local authority Code of Practice

The Director of Finance has also:

- \* Kept proper and up to date accounting records.
- \* Taken reasonable steps for the prevention and detection of fraud and other irregularities

### **Statement of the Director of Finance**

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Council at the accounting date and the income and expenditure for the year ended 31 March 2020.

### **SIGNED:**

**Director of Finance (s.151 Officer)**

**DATE: 26th November 2020**

**Andy Rothery**

### **Approval of Accounts**

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on 26th November 2020.

### **SIGNED:**

**Chair, Corporate Audit Committee**

**DATE: 26th November 2020**

**Councillor Mark Elliott**

**The Statement of Accounts were authorised for issue on 26th November 2020.**

## **GLOSSARY OF TERMS**

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### **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.

## **GLOSSARY OF TERMS**

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### **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 (NDR)**

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.

### **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.

The regular day-to-day running costs incurred in providing 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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**Director of Finance**

Lewis House  
Manvers Street  
Bath BA1 1JG

**Telephone:** 01225 477103

**E mail:** [Andy\\_Rothery@bathnes.gov.uk](mailto:Andy_Rothery@bathnes.gov.uk)

[www.bathnes.gov.uk](http://www.bathnes.gov.uk)

Grant Thornton UK LLP  
2 Glass Wharf  
Bristol  
BS2 0EL

Date: 26<sup>th</sup> November 2020

Our ref:

Your ref:

Dear Sirs

**Bath and North East Somerset Council  
Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of Bath and North East Somerset Council and its subsidiary undertakings, Aequus Construction Ltd and Aequus Developments Ltd for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

- ii We have complied with the requirements of all statutory directions affecting the group and 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 group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any 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. 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. We draw attention to Note 41 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in Note 41 to the financial statements, for the pooled UK property funds held in the UK Property and Secured Income portfolios (valued at £229.2m), the independent valuers consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and as a result have reported the values on the basis of "Material Valuation Uncertainty" as per VPGA 10 of the RICS Red Book-Global Standards. Consequently, for these assets, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.
- vi We draw attention to Note 4 of the financial statements, which describes that the outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, the valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they were faced with an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report.
- vii 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.

- viii Except as disclosed in the group and Council financial statements:
  - a) there are no unrecorded liabilities, actual or contingent
  - b) none of the assets of the group and 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.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- x All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- xi We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xii We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council. The financial statements are free of material misstatements, including omissions
- xiii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- 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 The prior period adjustments disclosed in Note 49 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xvi We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern 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 group and Council's ability to continue as a going concern need to be made in the financial statements.

- xvii We draw attention to Note 41 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in Note 41 to the financial statements, for the pooled UK property funds held in the UK Property and Secured Income portfolios (valued at £229.2m), the independent valuers consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and as a result have reported the values on the basis of 'Material Valuation Uncertainty' as per VPGA 10 of the RICS Red Book-Global Standards. Consequently, for these assets, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.
- xviii We draw attention to Note 4 of the financial statements, which describes that the outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, the valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they were faced with an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report.

### **Information Provided**

- xix We have provided you with:
- a) access to all information of which we are aware that is relevant to the preparation of the group and Council's 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) access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xx We have communicated to you all deficiencies in internal control of which management is aware.
- xxi All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxii 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.

- xxiii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
- 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.
- xxiv We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxv 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.
- xxvi We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxvii 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**

- xxviii 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**

- xxix The disclosures within the Narrative Report fairly reflect our understanding of the group and 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 **26<sup>th</sup> November 2020**.

Yours faithfully

Name            Andy Rothery  
Position        Director of Finance  
Date            26<sup>th</sup> November 2020 .....

Name            Cllr Mark Elliott  
Position        Chair of Corporate Audit Committee  
Date            26<sup>th</sup> November 2020 .....

# 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](http://www.avonpensionfund.org.uk)

**Tel:** 01225 477000

**Email:** [avonpensionfund@bathnes.gov.uk](mailto:avonpensionfund@bathnes.gov.uk)

**Fax:** 01225 395259



Grant Thornton UK LLP

2 Glass Wharf

Bristol

BS2 0EL

**DATE: 26<sup>th</sup> November 2020**

Dear Sirs

### Avon Pension Fund

#### Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Avon Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. 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.
- iii. The Fund 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 any 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. 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. We draw attention to Note 1.31 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in Note 1.31 to the financial statements, for the pooled UK property funds held in the UK Property and Secured Income portfolios (valued at £229.2m), the independent valuers consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and as a result have reported the values on the basis of "Material Valuation Uncertainty" as per VPGA 10 of the RICS Red Book-Global Standards. Consequently, for these assets, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.
- vi. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Fund has been assigned, pledged or mortgaged

**Location Address:** Avon Pension Fund, Keynsham Civic Centre, Market Walk, Keynsham, BS31 1FS

**Keep in touch with your pension** Visit "my pension" page at [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk)



- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- x. 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 Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern 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.

#### Information Provided

- xiv. 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. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xv. We have communicated to you all deficiencies in internal control of which management is aware.
- xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii. 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.
- xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
  - 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.
- xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xx. 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.
- xxi. A breach has been reported to the Pensions Regulator for the late issue of Pensions Savings Statements for the 2019/2020 financial year. We are statutorily required to issue Pensions Savings Statements annually to affected members by 6th October 2020, however there was a delay until 19th October 2020 due to COVID related matters. The Pensions Regulator have replied advising that no further action has been taken.
- xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

- xxiii. We have disclosed to you the identity of the Fund'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.

**Approval**

The approval of this letter of representation was minuted by the Fund's Audit Committee at its meeting on 26<sup>th</sup> November 2020.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of the Pension Fund**

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# Addendum to the Audit Findings Report for Bath and North East Somerset Council

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Year ended 31 March 2020

26 November 2020

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# Supplementary Findings

Our Audit Findings Report for the Council dated 23 November 2020 indicated that at that date our work was approximately 85% complete. Our work has continued and as at the 26 November 2020 the following additional audit issues have arisen that we wish to bring to the attention of Those Charged with Governance (the Corporate Audit Committee).

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Misclassification 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.

### Disclosure omission

Correction to the Financial Instruments note to reflect Group balances totalling £15m in scope of IFRS 9 not included in the draft accounts, including comparatives within 2018/19. A Prior Period Adjustment disclosure will be included in the revised accounts to detail the nature of the changes and impact on the accounts. This will be adjusted in the final version of the accounts prior to issuing the Opinion.

### Auditor recommendations      Adjusted?

Correction required.

✓



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<b>Bath &amp; North East Somerset Council</b>	
MEETING	<b>Corporate Audit Committee</b>
MEETING DATE:	<b>26<sup>th</sup> November 2020</b>
TITLE:	<b>Treasury Management Performance Report to 30<sup>th</sup> September 2020</b>
WARD:	All
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1</b> – Performance Against Prudential Indicators  <b>Appendix 2</b> – The Council’s Investment Position at 30<sup>th</sup> September 2020  <b>Appendix 3</b> – Average monthly rate of return for 1<sup>st</sup> 6 months of 2020/21  <b>Appendix 4</b> – The Council’s External Borrowing Position at 30<sup>th</sup> September 2020  <b>Appendix 5</b> – Arlingclose’s Economic &amp; Market Review Q2 of 2020/21  <b>Appendix 6</b> – Interest &amp; Capital Financing Budget Monitoring 2020/21  <b>Appendix 7</b> – Summary Guide to Credit Ratings  <b>Appendix 8</b> – Extract from Treasury Management Risk Register</p>	

## **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 for 2020/21 for the first six months of 2020/21.

## **2 RECOMMENDATION**

The Corporate Audit Committee agrees that;

- 2.1 The Treasury Management Report to 30<sup>th</sup> September 2020, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.
- 2.2 The Treasury Management Indicators to 30<sup>th</sup> September 2020 are noted.

### 3 THE REPORT

#### Summary

- 3.1 The average rate of investment return for the first three months of 2020/21 is 0.53%, which is 0.53% above the benchmark rate which is currently 0.00%.
- 3.2 The Council's Prudential Indicators for 2020/21 were agreed by Council in February 2020 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

#### Summary of Returns

- 3.3 The Council's investment position as at 30<sup>th</sup> September 2020 is given in **Appendix 2**. The balance of deposits as at 30<sup>th</sup> September 2020, compared to those as at 30<sup>th</sup> June 2020, are also set out in the pie charts in this appendix.
- 3.4 Gross interest earned on investments totalled £206k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.53%, which was 0.53% above the benchmark rate of average 7 day LIBID +0.05% (0.00%). This excess is mainly due to the £5m investment held in the CCLA Local Authority Property Fund, which is a long term strategic investment earning a higher rate of interest (3.43% for the first half of 2020/21).

#### Summary of Borrowings

- 3.5 The Council's external borrowing as at 30<sup>th</sup> September 2020 totalled £245.4 million and is detailed in **Appendix 4**. On 1<sup>st</sup> April 2020, the Council borrowed £15.0m short term from a local authority for general cashflow requirements, and to lower liquidity risks arising from uncertainties surrounding the Covid-19 pandemic.
- 3.6 The Council's Capital Financing Requirement (CFR) as at 31<sup>st</sup> March 2020 was £323.7 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.
- 3.7 The CFR represents the underlying need to borrow, and the difference between that and the current borrowing of £245.4 million represents re-investment of the internal balances including reserves, reducing the in-year borrowing costs in excess of the potential investment returns.
- 3.8 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 31<sup>st</sup> March 2020 apportioned to Bath & North East Somerset Council is £11.4m. Since this borrowing is managed by an external body 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 3.5.
- 3.9 The borrowing portfolio as at 30<sup>th</sup> September 2020 is shown in **Appendix 4**.

## Strategic & Tactical Decisions

- 3.10 As shown in the charts in **Appendix 2**, the investment portfolio of £67.1 million as at 30<sup>th</sup> September 2020 is diversified across Money Market Funds, Local Authorities, the CCLA Property Fund and highly rated UK Banks. The Council uses AAA rated Money Market funds and highly rated UK Bank call accounts to maintain very short term liquidity.
- 3.11 The Council does 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.
- 3.12 The Council's investment portfolio as at 30<sup>th</sup> September 2020 includes a total of £5m invested longer term in the CCLA Local Authorities Property Fund. Given the difficult economic climate and uncertainty over future cashflows, the Council is unlikely to make any further longer term investments this year.
- 3.13 The Council has reviewed its current investment holdings with its Treasury Management advisors to assess whether any of the investments placed are directly related to companies involved in fossil fuel activities. It was confirmed that the Council does not currently invest directly in equities or certificates of deposits that were not issued by banks or building societies and does not have any investments in fossil fuel companies. The main area where there is a potential for this type of investment is in the strategic diversified income funds which the Council was considering as part of its longer term investment approach, as these funds invest part of their portfolio in equities. A review into the two funds the council was considering using has shown that direct investment in fossil fuel companies forms a low proportion of the overall fund's investments (between 4% and 8%). Following the review, the Council has no immediate plans to pursue such investments at this stage.
- 3.14 The Council's average investment return is currently below the budgeted level of 1.1%. This is largely due to the budgeted level being set before the Covid-19 pandemic, which led to the significant reductions in interest rates across the globe. The impact of the interest rate reduction is mostly offset by the size of the Council's cash balances being higher than was forecast when the budget was set leaving a current forecast underachievement of interest income of £20k.

## Future Strategic & Tactical Issues

- 3.15 The Council's Treasury Management advisor's economic and market review for the second quarter of 2020/21 is included in **Appendix 5**.
- 3.16 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 remains on the rate of increase and the medium-term peak.
- 3.17 Any additional borrowing to take place in 2020/21 will therefore be balanced between a need to maintain an appropriate working cash balance and taking advantage of favourable movements in long term borrowing rates.

## **PWLB Borrowing Rate Increase**

- 3.18 On 9th October 2019, the PWLB increased the margin applied to loan rates by 100 basis points (1%) without warning; the new margin above gilts is now 180 basis points for certainty rate loans. This shift in policy was implemented by HM Treasury, who cite a substantial increase in the use of PWLB loans at some authorities in recent months, as the cost of borrowing has fallen to record lows, and state that HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms.
- 3.19 The PWLB published a consultation paper seeking feedback from Councils on the impact of this increase in rates and on how lending from the PWLB may change moving forward. The consultation paper does not give any indication as to whether the increase in margin is likely to be reduced in the near future.
- 3.20 As of 30<sup>th</sup> September 2020, the 25 year PWLB certainty rate for annuity loans was 2.25%.
- 3.21 In line with the Council's Treasury Management advisor's advice, the Council will continue to consider borrowing rates offered by alternative lenders, including other Local Authorities, alongside PWLB rates in order to minimise, where possible, its costs of borrowing.

## **Budget Implications**

- 3.22 A breakdown of the revenue budget showing interest and capital financing and the forecast year end position based on the period April to September 2020 is included in **Appendix 6**. An overall underspend of £2.180m is currently forecast, mainly related to the re-phasing of capital spend following the review of the capital programme as a result of the Covid 2020/21 financial recovery plan leading to lower than forecast borrowing costs and minimum revenue provision (MRP) requirement.

## **4 STATUTORY CONSIDERATIONS**

- 4.1 This report is for information only.

## **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

- 5.1 The financial implications are contained within the body of the report.

## **6 RISK MANAGEMENT**

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

- 6.2 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.
- 6.3 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.
- 6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year. An extract from the risk register, detailing how the top 5 market risks are managed, is included as **Appendix 8**.

## 7 CLIMATE CHANGE

- 7.1 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

## 8 OTHER OPTIONS CONSIDERED

- 8.1 None

## 9 CONSULTATION

- 9.1 Consultation has been carried out with the Cabinet Member for Resources, Section 151 Finance Officer and Monitoring Officer.
- 9.2 This report was also presented to November 2020 Cabinet & November 2020 Council.

<b>Contact person</b>	<i>Gary Adams - 01225 477107; Gary_Adams@BATHNES.GOV.UK</i> <i>Jamie Whittard - 01225 477213; Jamie_Whittard@BATHNES.GOV.UK</i>
<b>Background papers</b>	<i>2020/21 Treasury Management &amp; Investment Strategy</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## 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.

	<b>2020/21 Prudential Indicator</b>	<b>Actual as at 30<sup>th</sup> September 2020</b>
	£'000	£'000
Borrowing	457,000	245,449
Other long term liabilities	4,000	0
<b>Cumulative Total</b>	<b>461,000</b>	<b>245,449</b>

#### 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.

	<b>2020/21 Prudential Indicator</b>	<b>Actual as at 30<sup>th</sup> September 2020</b>
	£'000	£'000
Borrowing	427,000	245,449
Other long term liabilities	4,000	0
<b>Cumulative Total</b>	<b>431,000</b>	<b>245,449</b>

#### 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.

	<b>2020/21 Prudential Indicator</b>	<b>Actual as at 30<sup>th</sup> September 2020</b>
	£'000	£'000
<b>Fixed interest rate exposure</b>	<b>427,000</b>	<b>225,449*</b>

\* 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 Lender exercise this option to increase the rate).

#### 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.

	2020/21 Prudential Indicator	Actual as at 30 <sup>th</sup> September 2020
	£'000	£'000
<b>Variable interest rate exposure</b>	<b>214,000</b>	<b>20,000</b>

#### 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.

	2020/21 Prudential Indicator	Actual as at 30 <sup>th</sup> September 2020
	£'000	£'000
<b>Investments over 364 days</b>	<b>50,000</b>	<b>5,000</b>

#### 6. Maturity Structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	Actual as at 30 <sup>th</sup> September 2020
	%	%	%
<b>Under 12 months</b>	<b>50</b>	<b>Nil</b>	<b>15.5*</b>
<b>12 months and within 24 months</b>	<b>50</b>	<b>Nil</b>	<b>2.2</b>
<b>24 months and within 5 years</b>	<b>75</b>	<b>Nil</b>	<b>2.2</b>
<b>5 years and within 10 years</b>	<b>100</b>	<b>Nil</b>	<b>4.4</b>
<b>10 years and above</b>	<b>100</b>	<b>Nil</b>	<b>75.7</b>

\* 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**.

	2020/21 Prudential Indicator	Actual as at 30 <sup>th</sup> September 2020
	Rating	Rating
<b>Minimum Portfolio Average Credit Rating</b>	<b>A-</b>	<b>AAA-</b>

\* The calculation excludes the strategic investment in the CCLA Local Authority's Property Fund which is unrated.

## APPENDIX 2

### The Council's Investment position at 30<sup>th</sup> September 2020

The term of investments is as follows:

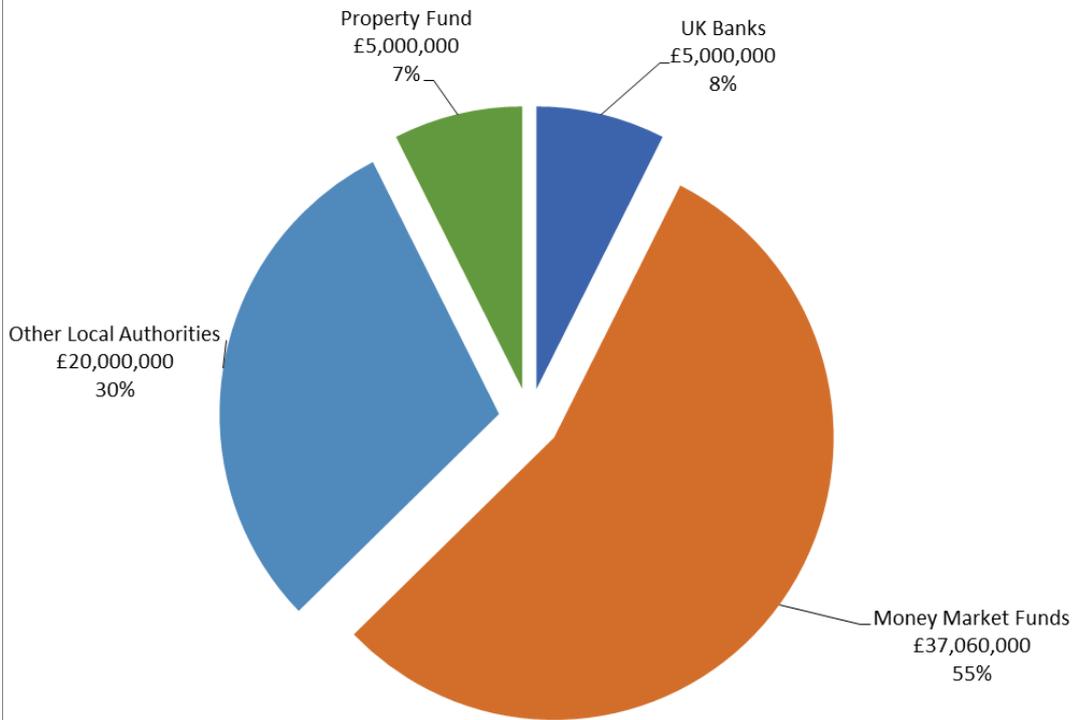
<b>Term Remaining</b>	<b>Balance at 30<sup>th</sup> September 2020</b>
	£'000's
Notice (instant access funds)	37,060
Up to 1 month	10,000
1 month to 3 months	10,000
3 months to 6 months	5,000
CCLA Property Fund (Strategic)	5,000
<b>Total</b>	<b>67,060</b>

The investment figure is made up as follows:

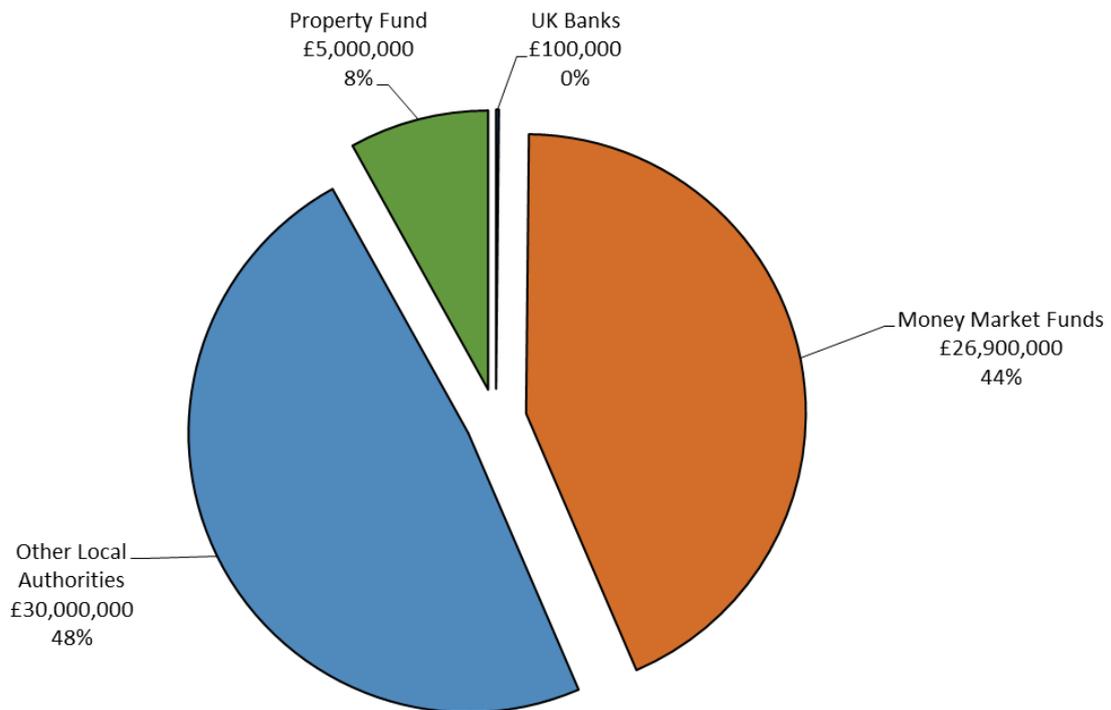
	<b>Balance at 30<sup>th</sup> September 2020</b>
	£'000's
B&NES Council	64,110
Schools	2,950
<b>Total</b>	<b>67,060</b>

The Council had a total average net positive balance of £75m during the period April 2020 to September 2020.

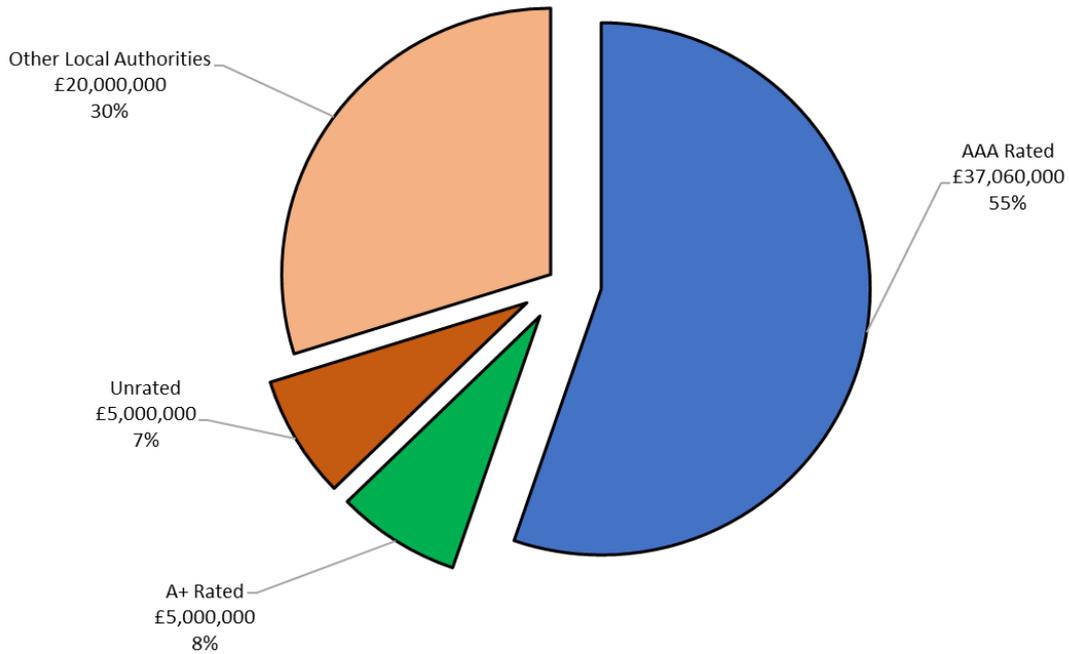
**Chart 1: Council Investments as at 30th September 2020 - £67.060m**



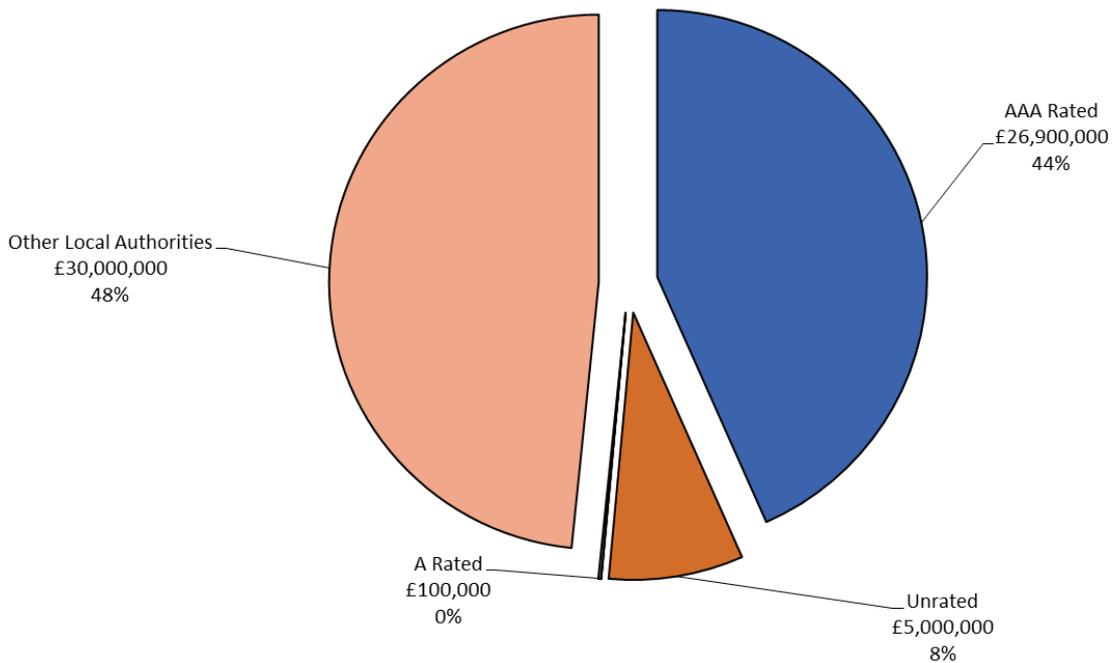
**Chart 2: Council Investments as at 30th June 2020 - £62.0m**



**Chart 3: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 30th September 2020 - £67.060m**



**Chart 4: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 30th June 2020 - £62.0m**



**APPENDIX 3****Average rate of return on investments for 2020/21**

	<b>Apr. %</b>	<b>May %</b>	<b>Jun. %</b>	<b>Jul. %</b>	<b>Aug. %</b>	<b>Sep. %</b>	<b>Average %</b>
<b>Average rate of interest earned</b>	0.55%	0.59%	0.58%	0.53%	0.50%	0.48%	0.53%
<b>Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)</b>	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Performance against Benchmark %</b>	+0.51%	+0.59%	+0.58%	0.53%	0.50%	0.48%	0.53%

## APPENDIX 4

### Council's External Borrowing at 30<sup>th</sup> September 2020

Lender	Amount outstanding	Start date	End date	Interest rate
<b>Long term</b>				
PWLB489142	10,000,000	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	29/01/2015	08/10/2064	2.92%
PWLB505122	17,533,317	20/06/2016	20/06/2041	2.36%
PWLB508126	9,399,306	06/12/2018	20/06/2043	2.38%
PWLB508202	9,798,475	12/12/2018	20/06/2068	2.59%
PWLB508224	4,694,717	13/12/2018	20/06/2043	2.25%
PWLB505744	8,759,019	24/02/2017	15/08/2039	2.28%
PWLB505966	8,914,518	04/04/2017	15/02/2042	2.26%
PWLB506052	7,576,255	08/05/2017	15/02/2042	2.25%
PWLB506255	6,788,649	10/08/2017	10/04/2067	2.64%
PWLB506729	9,241,844	13/12/2017	10/10/2042	2.35%
PWLB506995	9,257,583	06/03/2018	10/10/2042	2.52%
PWLB506996	9,431,831	06/03/2018	10/10/2047	2.62%
PWLB507749	9,402,320	10/09/2018	20/07/2043	2.42%
PWLB508485	19,688,066	11/02/2019	20/07/2068	2.52%
PWLB509840	9,663,367	04/09/2019	20/07/2044	1.40%
KBC Bank N.V *	5,000,000	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	5,000,000	08/10/2004	08/10/2054	4.50%
Eurohypo Bank *	10,000,000	27/04/2005	27/04/2055	4.50%
<b>Medium term</b>				
Gloucestershire C.C.	5,000,000	25/11/2019	25/11/2021	1.50%
Portsmouth C.C.	5,000,000	19/12/2019	19/12/2022	1.65%
<b>Short term</b>				
London Borough of Bromley	15,000,000	01/04/2020	01/04/2021	1.50%
<b>Total Borrowing</b>	<b>245,449,266</b>			

\*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. Should the lender use the option to change the rate, then at this point the borrower has the option to repay the loan without penalty.

## APPENDIX 5

### Economic update (Provided by Arlingclose)

The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is 'moderately' above the 2% average target, particularly given it has been below target for most of the last decade.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

**Financial markets:** Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

**Credit review:** Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose’s counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

### Arlingclose outlook for remainder of 2020/21

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
<b>Arlingclose Central Case</b>	<b>0.10</b>												
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, coronavirus has not been suppressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Q3.

However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have priced in a chance of negative Bank Rate.

Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

## APPENDIX 6

### Interest & Capital Financing Costs – Budget Monitoring 2020/21

April 2020 to September 2020	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	
<b>Interest &amp; Capital Financing</b>				
- Debt Costs	8,789	7,589	(1,200)	FAV
- Internal Repayment of Loan Charges	(9,029)	(9,529)	(500)	FAV
- Ex Avon Debt Costs	1,060	1,060	0	
- Minimum Revenue Provision (MRP)	7,296	6,796	(500)	FAV
- Interest on Balances	(466)	(446)	20	ADV
<b>Total</b>	<b>7,650</b>	<b>5,470</b>	<b>(2,180)</b>	<b>FAV</b>

## APPENDIX 7

### 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 - indicates an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

## APPENDIX 8

### Extract from Treasury Management Risk Register – Top 5 Market Risks

	Risk Nr	Description	Current Risk Score															Management Action
			Likelihood					Impact										
			1	2	3	4	5	1	2	3	4	5						
			L	M	H	L	M	H										
1	R01	Liquidity Risk - The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.		2							3					Obtain approval of annual Treasury Management Strategy by February Council. Carry out weekly reviews of investment portfolio and planned actions. Carry out monthly 'dashboard' meeting with DD Finance. Consider short and medium term cash balances and cashflows to inform any short - medium term borrowing requirement.		
2	R02	Interest Rate Risk - The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately		2						2						Monitor interest rates on a monthly basis and compare with budget to determine impact on Council finances and report through Monthly Finance Dashboard. Report implication of interest rate changes to Cabinet Member for Resources as part of quarterly Treasury Management Performance Report. Explore alternative potential investment products following new freedoms - including corporate bonds, gilts, Certificate of Deposits etc.		
3	R03	Exchange Rate Risk - The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	1							2						Treasury Management Policies clearly record the need to eliminate currency exchange rate risks .		
4	R04	Inflation Risk - The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.		2						2						Liaise with S151 Officer to ensure Inflation both current and projected forms part of the medium term financial planning framework.		
5	R05	Credit and Counterparty Risk - The risk of failure by a third party to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.			3									4		Complete annual review of Counterparty List with external advisors to feed into Treasury Management Strategy. Regular review of counterparty financial standing through use of credit ratings, credit default swap rates and national press coverage and liaison with S151 Officer and external advisors to consider any issues / change in circumstances of counterparties.		

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	Corporate Audit Committee	
MEETING DATE:	30th November 2020	<b>AGENDA ITEM NUMBER</b>
TITLE:	Internal Audit Annual Plan – Six Month Performance Update	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
Appendix 1- Audit Reviews Position Statement (as at 30th September 2020)		

## 1 THE ISSUE

1.1 The Annual Internal Audit Plan for 2020/21 was presented to the Corporate Audit Committee on the 30<sup>th</sup> July 2020. This report has been compiled to provide an update to the Committee on progress against the Plan and the results of Internal Audit work completed.

## 2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note progress made against the Internal Audit Plan for 2020/21.

2.2 The Corporate Audit Committee are asked to agree the revised Internal Audit Plan for 2020/21 resulting in a reduction of planned audit reviews from 35 to 26.

## 3 THE REPORT

3.1 The chart overleaf shows that as at halfway through the year:

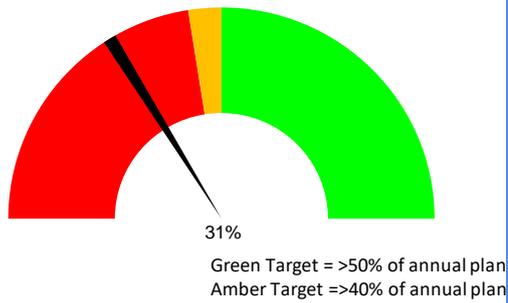
- The impact of COVID-19 and unplanned work has significantly impacted on scheduled work and will continue to do so over the next six months
- We will be agreeing with Senior Management a refocussed set of reviews for the remainder of the year taking into account continued Covid-19 impacts;
- Customers rated the service as 'excellent';
- Critical and High-level recommendations have been implemented;
- Audit Reviews are substantially being completed within their allocated days;
- State of the Internal Control framework is satisfactory, based on our audit opinions;
- Our opinions are however tempered by remote working as we cannot observe normal working practices.

# PERFORMANCE DASHBOARD - INTERNAL AUDIT

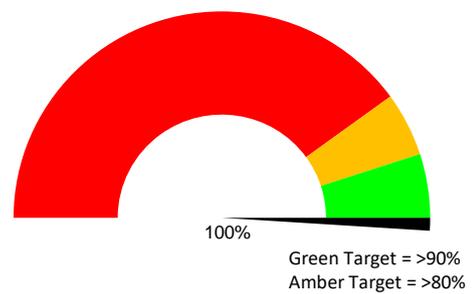
Client - Bath & North East Somerset

Period - April 2020 - September 2020

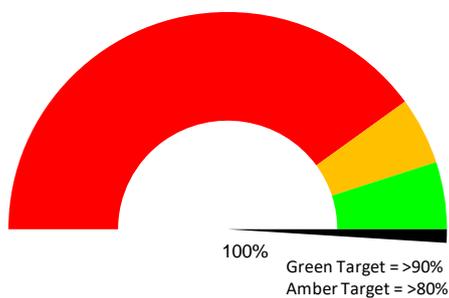
## 1. AUDIT PLAN COMPLETED



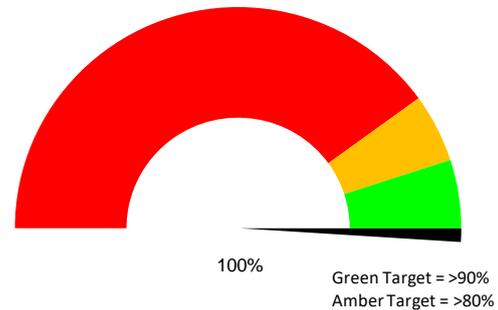
## 2. AUDITS COMPLETED IN PLANNED TIME



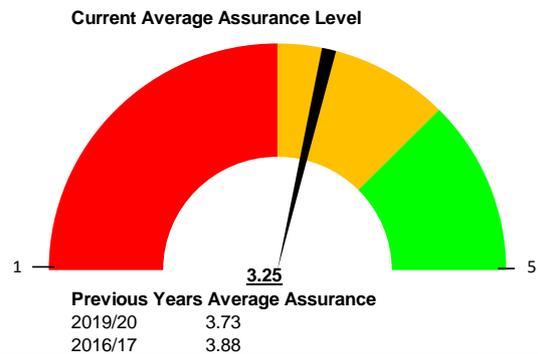
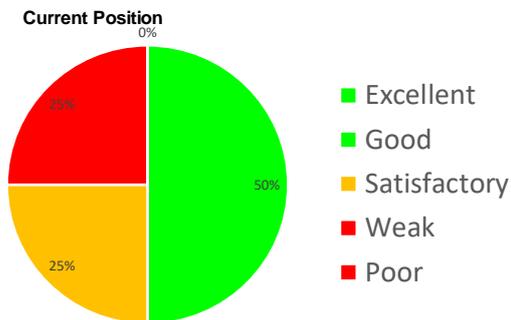
## 3. CUSTOMER SATISFACTION



## 4. IMPLEMENTATION OF RECOMMENDATIONS



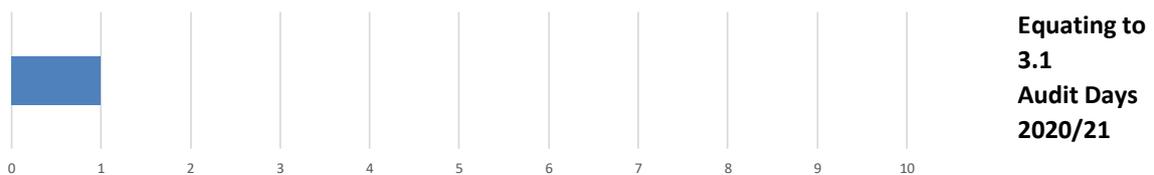
## 5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED



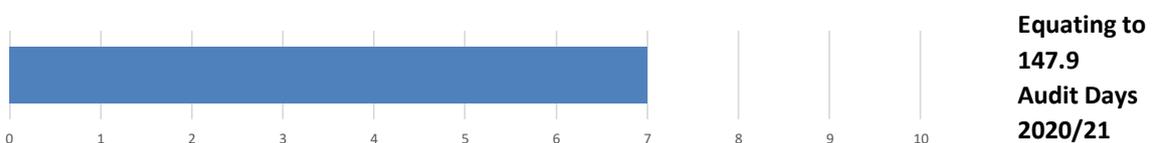
## 6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



## 7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



## 8. NEW UNPLANNED WORK



## 3.2 COMPLETION OF THE INTERNAL AUDIT PLAN

- 3.2.1 The Audit Plan was originally prepared pre-Covid-19 and so the impacts on the original plan have altered our work through the year and the Committee was updated on examples on this at its last meeting.
- 3.2.2 As we know from the National position the situation remains fluid but it is clear that Covid-19 will remain with us for the rest of the financial year and likely well into 2021.
- 3.2.3 Therefore we need to be agile and supportive to Senior Management to ensure the right work gets done at the right time and provide whatever support we can where it is needed for the remainder of the year.
- 3.2.4 Core work around Fraud, Risk Management, Grant Certification, Follow-up Audits and the Annual Governance Statement are ongoing and will remain unaffected as will any requested Investigation work, but we need to review the remainder of our planned areas.
- 3.2.5 This means that we will be re-focussing our planned time only on key issues and risks agreed with Senior Management and continuing to support the Council's Covid-19 work where we can and to this end we are asking the Committee for any views on these priorities for the remainder of the financial year
- 3.2.6 Significant impacts on plan at the financial year half-way point are:

### **Covid-19 & Level of Unplanned Work:**

The Performance Dashboard records that a total of 151 days has been used on 'Unplanned Work / Investigations'. Covid19 and the impacts on the Council has been the reason for significant unplanned work (see 3.7 below). In addition to 151 days being recorded specifically to 'unplanned' items of work significant Senior Management time has been spent on supporting the Council's recovery plan.

### **2019/20 Work Carried Forward:**

A number of the 2019/20 audit reviews still required work and this work has been carried out during the start of the financial year.

### **Remote Working:**

Whilst we can carry out audit reviews remotely and have good quality IT equipment our approach has had to be adapted to a range of issues connected to working at home, including wi-fi and network availability, home working conditions, access to systems and data remotely and access to team members and management that we are auditing. There are some limitations to this and it can and has slowed up or limited some of our work and our audit opinions are tempered by these facts.

## 3.3 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

- 3.3.1 The percentage of audits (included in 2020/21 Plan) completed within the initial allocated days is recorded at 100%. However, it is important to note that this performance indicator is based on audit reviews completed, i.e. 'Final' version of the Audit Report issued. A review those other audits that are in the process of being carried out has confirmed that audit work is taking more time to do based on remote working. It is acknowledged that the 'on the job' training for new recruits is increasing the time spent on individual reviews but the predominate reason for more time being spent on audit reviews is the difficulties of accessing records and auditees based on remote working.

3.3.2 The Head of Audit and Assurance will monitor this closely and work with audit colleagues to understand more fully the implications of remote working including whether testing implications has a significant impact on assurance that can be provided.

### **3.4 CUSTOMER SERVICE**

3.4.1 The relevance / importance of the 'Customer Service' performance measure, (based on completion of Audit Quality Questionnaires), has been subject of discussion at previous Committee meetings. It is important that Committee Members are aware that Audit Management doesn't just rely on the completion of questionnaires to monitor 'client satisfaction', we continually monitor client feedback to ensure the quality of the internal audit service is maintained. Feedback remains very positive. Examples of some of the comments received include:

*"The usual very professional service from the Audit team and this time under more difficult circumstances due to lockdown, thank you."*

*"As always \*\*\*\* displays an in-depth analysis and knowledge of the area under review and industry best practice - clearly does his homework before starting an audit."*

*"the approach the auditor took was excellent in that she was open, communicative and approachable. The outcome of the audit didn't necessarily give us all the answers we were looking for but helped us make some informed decisions about how we took the issues forward"*

### **3.5 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS**

3.5.1 The dashboard records implemented critical/high risk rated recommendations at the time the audit was 'Followed-Up' at 100%. The 3 audits 'Followed-Up' during the first half of the financial year recorded 3 high risk rated weaknesses / recommendations. The amount of 'Follow-Up' work has been low in the first 6 months of this financial year. The plan will be to carry out all the 'Follow-Up' work required before the end of the financial year.

### **3.6 INVESTIGATIONS/ WHISTLEBLOWING**

3.6.1 The service has only been involved in a single investigation during the first half of 2020/21 and the time on this was limited and did not result in any action having to be taken against Council Officers / Members.

### **3.7 UNPLANNED WORK (Including Covid-19 Reviews)**

3.7.1 As recorded in the Performance Dashboard the Internal Audit Team has had to respond to the Covid19 Pandemic and this has resulted in its involvement in 7 significant pieces of work:

- 1) Small Business and Retail, Hospitality & Leisure (RHL) grant support / advice
- 2) A review of the control framework related to the processing of small business, RHL and Discretionary grants.
- 3) Adult Care Provider Relief support
- 4) Passenger Services Supplier Relief Support
- 5) Support relating to an enquiry from a charitable body requesting the repayment of historic Council Tax payments to a vulnerable client following a court case.
- 6) Audit review of the management / administration of PPE Stock
- 7) Small Business; RHL and discretionary grant post payment review – use data analytics to examine legitimacy of grant applications / payments.

3.7.2 Based on the significant level of unplanned work completed during the first half of 2020/21 there is a need to re-set the Internal Audit Plan, acknowledging that not all the audits planned will be completed during the financial year (see 3.9).

### **3.8 ASSURANCE LEVEL PROVIDED**

3.8.1 The Assurance Level pie chart and speed dial in Section 5 of the dashboard record the results of the four 'finalised' 2020/21 reports – two scoring a 'good' (substantial assurance) level, one 'satisfactory' (reasonable assurance) and one 'weak' (limited assurance).

3.8.2 It has been agreed that any audits recording a 'Poor' or 'Weak' Assurance Level will be reported to the Committee. The single audit recording a 'weak' assurance rating was IT – Idox Contract Management. Idox provides an integrated suite of software that allows the Council to manage land and property portfolios. The Planning, Building Control, and Property teams use Idox for the processing of planning and building applications and for the storage of information relating to Council ownership of land and property.

3.8.3 The adequacy of Vendor performance monitoring and verifying compliance with Data Protection regulations relating to the new Idox GDPR module were areas highlighted by the review as requiring attention.

3.8.4 IT Service management have responded very positively to the recommended actions and all 4 High Risk Recommendations have been agreed for implementation during 2021 and implementation will be monitored / verified.

### **3.9 INTERNAL AUDIT PLAN 2020/21**

3.9.1 As stated in 3.7.2, there is a need to re-set the Internal Audit Plan based on unplanned work significantly exceeding the contingency allowance allocated for the whole of 2020/21. It is proposed that a minimum of 9 audit reviews (25% of the plan) are highlighted as likely not be carried out during the year and will be considered for inclusion in the 2021/22 Internal Audit Plan.

The 9 audit reviews are:

- 1) Revenue Estate – Property Acquisitions
- 2) Avon Pension Fund – Business Continuity
- 3) Revenue Estate – Asset Utilisation
- 4) Alternative Learning
- 5) Parks
- 6) Traffic Signals & Intelligent Networks
- 7) GLL Contract Management
- 8) Climate Change
- 9) Governance – Decision Making

These audits have been selected based on the original audit planning risk assessment, consideration of other review activity (e.g. current Property Review) and consultation with management.

As the impacts of Covid-19 are ongoing there may need to be further changes and these will be reported to the Committee.

## **4 STATUTORY CONSIDERATIONS**

4.1 There are no specific statutory considerations related to this report. As stated in the issue section of this report the Corporate Audit Committee is required to report back to Council annually.

## **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

5.1 There are no direct resource implications relevant to this report.

## **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 The Corporate Audit Committee has specific responsibility for ensuring the Council’s Risk Management and Financial Governance framework is robust and effective.

**7 EQUALITIES**

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

**8 CLIMATE CHANGE**

8.1 There are no direct climate change implications related to this report.

**9 OTHER OPTIONS CONSIDERED**

9.1 No other options to consider related to this report.

**10 CONSULTATION**

10.1 The Council's Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
<b>Background papers</b>	<i>Report to Corporate Audit Committee – 30<sup>th</sup> July 2020 – Internal Audit Plan - 2020/2021</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

**Audit Reviews Position Statement (as at 30th September 2020)**

Appendix 1

Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
20-001B	Highways Interventions & Drainage	Not Started			
20-002B	Governance - Council Companies	Not Started			
20-003B	Waste Collections - Income	Not Started			
20-004B	Property – Compliance (Statutory - H&S)	WIP			
20-005B	Clean Air Zone	Not Started			
20-006B	Grant Funded Projects	WIP			
20-007B	Accounts Payable (Agresso FMS Authorisations)	Draft	4	11	
20-008B	Revenue Estate - Property Acquisitions	Not Started			
20-009B	Car Parking Enforcement	WIP			
20-010B	APF - Altair - IT System Access	Final	4	8	8
20-011B	Revenue Estate - Service Charges and Tenant Management Relations	Programmed			
20-012B	Use of Unregulated Placements	Programmed			
20-013B	Community Care Contract Management - Integrity of Data	Not Started			
20-014B	Climate Change Response	Not Started			
20-015B	APF - Risk Management	WIP			
20-016B	Waste - Transfer Station	WIP			
20-017B	IT Audit - Configuration Management – Servers and Endpoints <b>Ransom Ware (MKI Code 20-211B)</b>	Change to Planned Audit <b>Programmed</b>			
20-018B	IT Audit - Electronic Service Delivery - Revenue & Benefits <b>Mobile &amp; Remote Working (MKI Code 20-210B)</b>	Change to Planned Audit <b>Not Started</b>			
20-019B	Community Resource Centre - Establishment Review	Programmed			
20-020B	APF - Business Continuity	Not Started			
20-021B	Heritage – Retail Shops – Purchasing & Stock Control	WIP			
20-022B	Council Tax - Liability, Billing & Refunds	Not Started			
20-023B	Revenue Estate - Asset Utilisation	Not Started			
20-024B	IT Audit - Helpdesk – Issue and Problem Management	WIP			
20-025B	APF - Pensions Governance COP 14	Not Started			
20-026B	IT Audit - Integrated Care Children’s Record Data (Migration)	Not Started			
20-027B	IT Audit - Application - IDOX Contract Management	Final	2	7	7
20-028B	Housing Benefits Processing Claims (& Overpayments)	Not Started			
20-029B	Traffic Signals & Intelligent Network	Not Started			
20-030B	Building Control	Final	4	3	3
20-031B	Governance - Decision Making	Not Started			
20-032B	Schools - Income & Payments (VAT)	WIP			
20-033B	Alternative Learning	Not Started			
20-034B	GLL Contract Management	Not Started			
20-035B	Parks	Not Started			