

Audit Committee Briefing

Overview of the Accounts

July 2018

- » **2017/18 Areas of Change**
- » **Future Changes**
- » **The Main Statements**
- » **Annual Governance Statement**
- » **Audit Findings**

2017/18 Changes

- » **Publication Deadline changes**
 - » **Draft Publication by 31st May (previously 30th June)**
 - » **Final publication by 31st July (previously 30th Sept.)**

- » **No other major changes, just clarifications to:**
 - » **Narrative Reporting**
 - » Accounts & Audit Regulations 2015 requires authorities to prepare a narrative statement which “...*must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.*”
 - » **Going Concern Basis**
 - » Reporting on financial resilience and sustainability.

Future Changes

» **IFRS9 Financial Instruments (2018/19)**

- » Changes to classification & Measurement of financial assets
- » New impairment model – Expected Credit Loss.

» **IFRS15 Revenue from Contract with Customers**

- » Recognition of income from customers based on meeting contracted performance obligations – due to main sources of income received (e.g. grants, taxes) unlikely to have impact.

» **IFRS16 Leases (2019/20)**

- » Only changes accounting where Council is Lessee
 - » Creates an asset “Right To Use Asset” & matching liability in Balance Sheet.
 - » No separation between Finance & Operating Leases.

Narrative Report (Pg 7-16 / 51-60)

» Key Points

- » 2017/18 Revenue Outturn – Overspend of £1.3m after carry forward of underspends
- » Additional demand pressures in Adult & Children Social Care Services
- » 2018/19 Budget Report included £8m rebasing of budgets to reflect pressures
- » Continued Financial Challenge for future years highlighted in line with MTFS and 2018/19 Budget Report

The Main Statements

» **Comprehensive Income & Expenditure Statement (CIES) – (Pg17 / 61)**

- » Summarises the resources that have been generated and consumed in providing services and managing the Council during the year
- » **Expenditure on Services** - Variances across service net expenditure mainly due to changes in asset valuation and other capital accounting charges which are made to services;
- » **Other Operating Expenditure** - increase due to WECA Levy of £4.2m now included (previously Service Expenditure - Transport).
- » **Financing & Investment I&E** – change reflects revaluation gains on Commercial Estate of £25.6m (compared to losses of £8.3m in 2016/17). Indexation accounted for £5.4m of these gains.

The Main Statements

- » **Comprehensive Income & Expenditure Statement (CIES) – (continued)**
 - » **Surplus on Upward Revaluations of Non-current Assets** – mainly due to revaluations of Other Land & Buildings & Heritage Assets;
 - » **Re-measurement of the net defined benefit liability** – reflects positive investment returns offsetting a slight increase in Pensions Liabilities;

The Main Statements

- » **Movement in Reserves Statement (MiRS) – (Pg18 / 62)**
 - » Shows the movement in the year on different reserves held by the Council. (Usable / Unusable Reserves)
 - » Net £2.8m Transferred from Earmarked Reserves, to fund relevant areas of 2017/18 expenditure. Unearmarked Reserve level stable. Examples include Financial Planning & Smoothing Reserve, DSG Reserve, Restructuring & Severance Reserve, and Social Care & Health Reserve.
 - » Unusable Reserve increase of £33.6m reflects reduction in future Pension Liabilities, owing to changes in the actuary's assumptions in valuing the liability, and Statutory Capital accounting movements.

The Main Statements

» **Balance Sheet – (Pg 19 / 63)**

- » Shows the assets and liabilities of the Council as a whole as at 31st March
- » **Land & Buildings** – net £10m reduction mainly to disposals, including academy school transfers.
- » **Assets Under Construction / Infrastructure** – £20m transfer between these, mainly due to Bath Western Riverside, Destructor Bridge, Bath Quays North Flood Mitigation & Street Lighting LEDs becoming operational.
- » **Investment Property** – £54m increase due to revaluation gains of £26m and additions of £29m.
- » **Short Term Investments / Cash & Cash Equivalents** – all investments at year end held for under 90 days, so classified as Cash Equivalents.

The Main Statements

» Balance Sheet – (Pg 19 / 63) - continued

- » **Short Term & Long Term Borrowing** – change reflects profile of additional borrowing taken in year.
- » **Short Term Creditors** – Large decrease mainly due to West of England RIF creditor balances (previously held in 2016/17) being transferred to WECA during 2017/18.
- » **Other Long Term Liabilities** – decrease due to reduction in Pension liability following changes in the Actuary's assumptions.
- » **Unusable Reserves** – increase reflects the previously mentioned movements on the Pensions Reserve, and statutory capital accounting charges taken to the Revaluation Reserve & Capital Adjustment Account.

The Main Statements

» Cash Flow Statement (Pg 20 / 64)

- » Summarises the inflows and outflows of cash arising from external transactions for both capital and revenue transactions.
- » Operating Activities – various movements including revaluation gains (Land & Buildings & Investment Estate) and reduced creditors.
- » Investing & Financing Activities – changes reflect additional borrowing during 2017/18 and higher spend on Investment Estate than in previous year.
- » Cash & Cash Equivalents – change reflects maturity profile of investments held at 31st March – increase of £15m to £38m.

The Main Statements

» **Collection Fund (Pg 80 / 124)**

- » Shows the transactions of the billing authority in relation to collection from taxpayers of Council Tax and Business Rates and its distribution to preceptors and Central Government.
- » Collection Fund Deficit on Business Rates was mainly due to increase in reliefs (Small Business & Empty Property).
- » Additional s31 grant income received to revenue account to compensate some of these impacts.
- » The Council holds a Business Rate Reserve to help manage these risks.

Annual Governance Statement

- » **Background (Page 109 / 153 of Accounts)**
- » Paper to Feb Audit Committee setting out process and timetable - It is a Management Statement – but Audit Committee oversee process and it is included in Accounts.
- » Statement is signed by Chief Executive and Leader of Council
- » **What would a Significant Issue look like?**
- » Significant failures in decision making at Council or Executive
- » Significant unexpected use of Resources
- » Significant performance failings or failures in service delivery
- » Significant issues from inspections, audits, complaints etc
- » Significant issues failures in respect of statutory duties
- » Significant issues from operational issues and third parties

Annual Governance Statement

- » **Outcome of Review for 2017/18 –**
- » No **significant** governance or other failings that satisfy criteria
- » There is significant risk however and there were issues which affected the council (**not failures**). Such as
- » Scale of Financial Challenge
- » Continued spend pressures on Adults & Children's Services
- » Virgin Care contract and service delivery issues
- » Economic Agenda, WECA & transfer of accountable body status
- » GDPR, Increase in Cyber-Security, phishing and scam Attacks
- » **SMT Recommendation –**
- » **Include one issue around the Scale of Financial Challenge focussed on Adults & Children's Services**

Audit Findings

- » **Unqualified opinion given on the Accounts**
- » **Some adjustments were required to Fixed Asset valuations & disclosure notes.**
- » **Grant Thornton will cover full audit findings**

Questions ?