CHELTENHAM
BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 21 September 2011
6.00 pm
Pittville Room, Municipal Offices

Membership	
Councillors:	Andrew Wall (Chairman), Paul Massey (Vice-Chair), Rowena Hay, Robin MacDonald, Paul Wheeldon and Bernard Fisher

The Council has a substitution process and any substitutions will be announced at the meeting

Agenda

1.		**APOLOGIES**	
2.		**DECLARATIONS OF INTEREST**	
3.		**MINUTES** 22 June 2011	(Pages 1 - 8)
4.		**PUBLIC QUESTIONS** These must be received no later than 10am on the fifth working day before the date of the meeting	
5.		**PROGRESS IN DELIVERING KPMG ACTION PLAN** Report of the Chief Executive	(Pages 9 - 36)
6.		**REVISED FINANCIAL RULES** Report of the Director of Resources	(Pages 37 - 114)
7.		**LOCAL AUTHORITY COMPANY (WASTE) GOVERNANCE ARRANGEMENTS** Presentation by Jane Griffiths	
8.		**REVIEW OF ANNUAL STATEMENT OF ACCOUNTS** Report of the Director of Resources	(Pages 115 - 248)
9.		**YEAR END - AUDIT COMMITTEE REPORTING** Report of KPMG	(Pages 249 - 272)

10.		**ENHANCEMENT OF AUDIT PARTNERSHIP GOVERNANCE** Report of the Audit Partnership Manager	(Pages 273 - 292)
11.		**INTERNAL AUDIT MONITORING REPORT (INCLUDING RECOMMENDATIONS TRACKER UPDATE)** Report of the Audit Partnership Manager	(Pages 293 - 306)
12.		**WORK PROGRAMME**	(Pages 307 - 308)
13.		**ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION**	
14.		**DATE OF NEXT MEETING** 11 January 2012	
		BRIEFING NOTES (FOR INFORMATION ONLY) • Corporate Governance Group – update • Governance and Commissioning - update	

Contact Officer: Beverly Thomas, Democracy Officer, 01242 775153
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Audit Committee

Wednesday, 22nd June, 2011
6.02 - 7.27 pm

Attendees	
Councillors:	Andrew Wall (Chairman), Bernard Fisher, Paul Massey (Vice-Chair) and Paul Wheeldon
Also in attendance:	Jane Griffiths (Director of Commissioning), Councillor Colin Hay (Cabinet Member Corporate Services), Rob Milford (Audit Partnership Manager), Bryan Parsons (Policy Officer), Ian Pennington (KPMG Auditor), Rachael Tonkin (KPMG Auditor) and Councillor John Webster (Cabinet Member Finance and Community Development)

Minutes

1. APOLOGIES

Apologies were received from Councillors MacDonald and R. Hay and Mark Sheldon (Director of Resources).

2. DECLARATIONS OF INTEREST

None declared.

3. MINUTES

The minutes of the last meeting had been circulated with the agenda.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 23 March 2011 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

No public questions were received.

5. ANNUAL GOVERNANCE STATEMENT

The Director of Commissioning introduced the report as circulated with the agenda, in the absence of the Director of Resources.

The Annual Governance Statement (AGS) was considered annually by the Audit committee and formed part of the annual statement of accounts. Whilst the accounts timetable had changed and the statement of accounts would be considered for approval in September, officers had felt it important to prepare the AGS in advance. The action plan identified control issues and set out how the weaknesses would be addressed.

The following responses were given by the Director of Commissioning, with assistance from the Policy Officer, to questions from members of the committee;

- Control issues which did not include a target completion date within the action plan would be updated to include one prior to Council on the 29 September.
- Governance controls were considered by the council every year. Each March the Directors assessed existence and adequacy of governance and control arrangements. Once completed this was considered by the Director of Resources, Policy Officer and Head of Internal Audit, to identify any improvements to be included in the action plan. The Senior Leadership Team and Corporate Governance Group then considered the governance statement, before it was submitted to the Audit Committee ahead of its consideration by Council
- The payroll issue was a capacity issue which had not been addressed despite the best efforts of the Council to improve resilience. Measures had been put in place and for one reason or another had not come to fruition. There was somebody on the GO Programme that could be utilised.
- Internal Audit monitored and assessed controls. If progress was not achieved on any item within the action plan following six monthly tracking, a full audit was undertaken.

The action plan was scheduled for review by the Audit Committee in December.

Ian Pennington, the KPMG Auditor, assured members that KPMG were not overly concerned with the outstanding items, given that a large number were I.T. matters that would be addressed by the GO Programme. He accepted the stance of the Council, that it was hard to justify investment when various changes were planned for later in the year.

Upon a vote it was unanimously

RESOLVED that;

1. **The annual governance statement be approved and recommended for adoption as part of the statement of accounts, and**

2. **The Leader and Chief Executive be recommended to sign the annual governance statement, and**

3. **An update report on progress against actions be scheduled on the Audit Committee work plan for December 2011.**

6. THE BRIBERY ACT 2010

The Policy Officer introduced the report as circulated with the agenda, which set out the impact of the Bribery Act 2010 which would come into force on 1 July 2011. As a result, internal controls and policies would need to be reviewed and updated where necessary to reflect the Act.

The following responses were given by the Policy Officer to questions from members of the committee;

- The Procurement Officer had confirmed that the Act's provisions were reflected within the contract rules and would be kept under review.
- HR had also confirmed that the recently amended Employee Code of Conduct reflected the requirements of the Bribery Act.
- The Ministry of Justice guidance confirmed that the Act created a new offence which can be committed by commercial organisations that fail to prevent persons associated with them from committing bribery, this did not affect local authorities directly because of existing codes of conduct for members and staff and therefore would not alter the rules on hospitality.
- All new and revised policies were circulated to HR, Finance and Legal for comment in order that wording did not preclude existing arrangements.
- All internal control policies within appendix A of the Code of Corporate Governance and this, along with information about the Act would be posted on the intranet, along with a link to the Ministry of Justice guidance notes. The named Officers would be responsible for updating policies where appropriate.

The constitution was to be considered by Council in October and the Director of Commissioning suggested that the committee may like to consider making a recommendation to the relevant Cabinet Member to ensure that the requirements of the Bribery Act are taken into account.

Members requested confirmation that implementation was complete at the appropriate time.

Upon a vote it was unanimously

RESOLVED that the changes effected by the Bribery Act 2010 be taken account of by the committee, along with the proposal to review and update any necessary changes to the Council's policies.

7. ANNUAL INTERNAL AUDIT REPORT

The Audit Partnership Manager introduced the report as circulated with the agenda, which was produced annually alongside the Opinion Statement and feeds into the Annual Governance Statement (AGS). He highlighted some key messages.

Item 3.2 of the covering report summarised the assurance opinion for 2010-11, which based on activities and systems examined and other assessment evidence, was 'satisfactory', with the four opinion options being high, satisfactory, limited or low assurance.

Having assessed the effectiveness of internal audit as part of the review, it was considered 'fit or purpose'. Members were reminded that the service had benefited from the wider partnership of which it was now a part, which had improved the knowledge base and skill set of the service.

The Internal Audit Report itself highlighted three areas where a 'limited assurance' opinion had been deemed necessary and this was reflected in the

AGS. 'Street Scene Enforcement' Management Controls and Performance Effectiveness, were reviewed after numerous delivery responsibilities were bought together under one enforcement group. Various improvements were identified and significant progress had already been made. A 'Health Check' audit identified that 'Business Continuity Plans' required full testing. Whilst desk-top testing had been undertaken throughout the year (2010-11), a full system test had not and as a result Internal Audit were actively monitoring this area.

Internal Audit were able to take assurances from other providers, including KPMG, so as to avoid duplication.

Appendix A detailed the range of Internal Audit activity and the assurances gained. Some areas were ongoing, those marked as 'consultancy' did not involve full reviews but as with the GO Programme, the Audit Partnership Manager sat on the Programme Board and was able to challenge the business case. Some activity had progressed in the last year and some had needed to be deferred as more urgent matters had arisen.

The following responses were given by the Audit Partnership Manager to questions from members of the committee;

- The Performance Effectiveness element of the 'Street Scene Enforcement' review did not relate to individual's performance but in fact, performance indicators and what the service should be delivering, for example, what level of mileage claim was to be expected.
- 'Consultancy' involved ongoing advice, mitigating risks to allow progress, highlighting best practice and suggesting improvements.
- The ability to offer an Assurance Opinion depended on the scope of the review, hence why one had been given to the Cemetery and Crematorium and not Leisure@.
- Once, for example, the GO Programme and Cheltenham Development Task Force have established what they wanted to achieve, Internal Audit will be in a position to offer an assurance opinion, which they couldn't in relation to programme management.

Upon a vote it was unanimously

RESOLVED that the Annual Audit Opinion 2010-2011 be accepted by the committee.

8. INTERIM AUDIT REPORT 2011/12

Ian Pennington, KPMG Auditor, introduced the report as circulated with the agenda. He and his colleague, Rachael Tonkin, highlighted some headline messages.

The report summarised the key findings arising from KPMG's interim audit work at Cheltenham Borough Council in relation to the 2010-11 financial statements and work to support the KPMG 2010-11 value for money conclusion up to June 2011. The main body of work would be undertaken when the accounts were completed.

Page two of the report summarised some of the work done to date and the remainder of the report provided further details on specific areas.

Section three of the report related to higher level controls which gave KPMG an understanding of the Councils organisational control environment, which overall were considered to be effective.

Some aspects of the IT control environment were assessed at level 2 (amber) and this had much to do with the APTOS system and access to it. Improvements had proved difficult at present but would be increasingly important with the introduction of the Agresso system.

KPMG evaluated the financial systems of the Council to ensure that the system was likely to produce reliable figures for inclusion in the financial statements. This was generally sound. The last four systems would be assessed at the final audit visit as part of the year end process and would be reported to the committee in September.

Whilst the Council had implemented a number of the recommendations from the prior years report, KPMG had bought forward a high level recommendation ‘testing of back-ups’. Formal testing of back-ups was in progress but had not yet been completed.

IFRS accounts would look very different to previous years and the Finance Team had approached the conversion very well.

The Council had made good progress in addressing the key risk areas that KPMG had identified, however, there remained some significant challenges that required focus and these areas would be revisited in the year end report in September.

Section five credited the Council for its positive response to the Public Interest Report, its handling of which had impressed the KPMG Auditor. He did wonder whether the Council may like to consider what difference it had made at some point.

Councillor Massey welcomed the positive report from KPMG and commended Internal Audit for their role in this achievement. He was also pleased to note that a number of the issues highlighted in the report related to the ICT infrastructure of the Council and would ‘shine a light’ on the matter.

In response to a question from a member of the committee, the Director of Commissioning explained that the issue of password control had been raised with ICT and HR. They felt that the technical complexity of implementing increased password controls far outweighed the benefits of doing so.

Councillor Wheeldon raised an issue about member password expiration, which the Director of Commissioning would highlight to IT and HR.

The Interim Audit Report 2011-12 was formerly noted by the Audit Committee.

9. AUDIT FEE LETTER 2011-2012

Ian Pennington, the KPMG Auditor, introduced the Audit fee letter 2011-12 as circulated with the agenda. The letter gave an indication of the fee being proposed by KPMG for the 2011-12 financial year.

Audit Commission advice had been for KPMG to deduct 5% of the 2010-11 fee, which did not include the £5k for the follow up of the Public Interest Report. He appreciated the Councils disappointment at not having received the IFRS reimbursement from the Audit Commission.

In response to a question from a member of the committee the KPMG Auditor advised that despite the level of Internal Audit undertaken by the Council, there was not a downward trend in the KPMG fee. The Council were however, at the low end of the scale of fees. This was largely based on the high quality of accounts produced by the Council.

The Audit fee letter 2011-12 was formerly noted by the Audit Committee.

10. DCLG CONSULTATION

The Audit Partnership Manager introduced the report as circulated with the agenda.

The DCLG consultation paper (Appendix A), was a cumbersome document, but one that he felt important for members of the committee to see. The table of draft responses (Appendix B) had been formulated by the Audit Partnership Manager and the Corporate Governance Group.

The Audit Partnership Manager had two main items to raise with the committee. Firstly, having assessed the 'design principles' of what DCLG want to achieve, he didn't feel it covered all of the elements that he would have liked to have seen, for it to include external auditors and other assurance providers. Secondly, the introduction of independent Chair and Vice Chair as a minimum could be counter productive whereby the Audit Committee members have been elected by the public and have a fundamental duty to the public. Another issue was how they would be vetted and remuneration.

Members made the following comments;

- The Audit Partnership Manager and Corporate Governance Group had formed some good responses and there was not a lot that the committee could add.
- Retain member involvement, the committee already had the professional external auditors (KPMG), it was unclear what value independent members would bring.
- The response to question 42 onwards, relating to smaller bodies, in which it was felt the questions were applicable to the authority. The Council did have a justifiable interest in Parish Councils and felt that the Council could legitimately suggest that expenditure of £10k, inline with Charities was more sensible than the proposed £1k.
- Perhaps co-opting independent members from time to time as was necessary would be useful.

Ian Pennington, KPMG Auditor, observed a range of Audit Committees and felt that this committee had improved over the last four years, in the way in which it considered and talked about risk. He suggested that the committee consider a self assessment of effectiveness which hadn't been done for some time and could provide some perspective on whether things were done as well as they could be.

Upon a vote it was unanimously

RESOLVED that the comments of the committee be considered by the Audit Partnership Manager and updated as necessary.

11. COMMISSIONING - UPDATE ON CURRENT COMMISSIONING EXERCISES

The Director of Commissioning introduced the paper as circulated with the agenda, which had been produced at the request of the committee at their last meeting. Appendix A, set out the different delivery and governance options available, which would be used at the start of all commissioning exercises. She hastened to add that this was a working draft, the document would evolve and therefore member comments were welcome.

Experience gained through the GO Programme and the Council's relationship with CBH, were useful, but this was a learning curve for all involved.

Ultimately, if externalising services, the Audit Committee needed to be satisfied, as with services delivered internally, that governance arrangements were being delivered, as in some cases the service would remain a statutory function of the authority. The two commissioning reviews, leisure & culture and built environment were in the very early stages.

Members of the committee made the following comments;

- Some form of framework needed to be developed which should be considered as part of every commissioning review. Ultimately, regardless of the delivery option the Council would still require the same governance arrangements.
- Community Interest Companies did not pay dividends, this needed to be amended.
- The primary issue was the 'governance' column. The Audit Committee needed assurances that the relevant governance arrangements were in place and that these were enforceable.
- The document should show what level of control the Council would have over the various delivery options, for example, the Council would have little control over a Limited Company.

Members were assured that an optional appraisal would form part of each commissioning review, which would automatically discount some models. Some delivery options would be subject to more governance by their very nature and it could be that the Council was not able to influence this.

Ian Pennington, KPMG Auditor, reminded members that they would be commissioning external auditors in four years time. His colleague, Rachael Tonkin, highlighted the need to consider how commissioning may impact on the Council's accounts. Would the accounts be consolidated as with CBH or would different delivery options have different impacts on the accounting process.

The Director of Commissioning told how discussions were ongoing in relation to the GO Programme and extra accounting.

The Director of Commissioning reiterated that Appendix A was a working progress and thanked members for their comments, which would help to inform development of the document.

12. WORK PROGRAMME

The Chairman referred members to the work plan as circulated with the agenda.

The following items were to be added to the work plan;

21 September 2011

- Recommendation tracker
- GO Shared Services update

11 January 2012

- KPMG Annual Audit letter
- KPMG Grant certification
- KPMG 2011-12 Audit Strategy

20 June 2012

- KPMG Interim report
- New member training session
- GO Shared Services – post implementation update

The Internal Audit monitoring report would be considered at each meeting as a standing item.

Under the 'items to be added at a later date' the changes to the appointment process for external auditors would not be reported by KPMG and an Audit Committee self assessment would be added.

13. ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION

There were no urgent items for discussion.

14. DATE OF NEXT MEETING

The next meeting was scheduled for the 21 September 2011, for which Councillor Massey tendered his apologies.

Andrew Wall
Chairman

Cheltenham Borough Council

Audit Committee – 21st September 2011

Monitoring of Action Plans approved by the Council

Accountable officer	**Andrew North, Chief Executive**
Accountable scrutiny committee	**Economy and business improvement**
Ward(s) affected	**None directly**
Executive summary	On 22nd March 2010, the Council approved Action Plans in response to recommendations made by the Council's Auditors, KPMG in a report in the Public Interest relating to the Council's decision making processes and to recommendations made by a Member Working Group set up to review employment and dispute resolution processes. Those Action Plans are attached for information at Appendix 2. The Council delegated responsibility to the Audit Committee to monitor implementation of the Action Plans. Monitoring reports have been considered by the Committee in June and September 2010, and in January 2011.and March 2011. At its last meeting, the Committee noted that the majority of the actions approved by the Council had been implemented, with only 3 actions remaining to be fully completed. A table has been produced at Appendix 1 which contains only those actions which had not been fully completed when the Action Plan was last reviewed by the Committee in March 2011. The table indicates the progress which has been made since March in respect of those outstanding actions. The requirements of both of the approved action plans are now substantially complete. The action plan in response to the Review Working Group recommendations awaits a decision of the Council in October in respect of one action point (R10), but is otherwise implemented. The planned response to the KPMG recommendations is complete save for a single action point of the plan (R8,1.) which has not proved to be practicable to implement in the manner anticipated, but alternative arrangements have been put in place which are intended to satisfy the requirements of the recommendation(Appendix 1). With the minor exception referred to above, the action plans will have been implemented and will have been completed in full by the 10th October 2011.
Recommendations	**The Committee considers the information set out in the Report and Appendices and confirms that, having monitored implementation of the action plans, it is satisfied that all specified actions have been fully addressed.**

Financial implications	There are no financial implications arising directly from this report. **Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123**

Legal implications	There are no legal implications arising directly from this report. **Contact officer: Sara Freckleton, sara.freckleton@tewkesbury.gov.uk, 01684 272011**
HR implications (including learning and organisational development)	There are no HR implications arising directly from this report. **Contact officer: Amanda Attfield, amanda.attfield@cheltenham.gov.uk 01242 264186**
Key risks	See attached report risk template.
Corporate and community plan Implications	Producing an action plan that is monitored by the Audit Committee meets the Council's corporate commitment to comply with KPMG and Review Working Group recommendations. A corporate risk has been identified and placed on the Corporate Risk Register (Appendix 3). The actions described within the action plan will minimise the risk to the Council's reputation and financial resources.

1. Background

1.1 On 22nd March 2010, the Council considered a report in the Public Interest (PIR) which was issued by KPMG regarding the Council's decision making processes arising from a review of the Council's decision making processes for the High Court litigation against its former Managing Director. At the same meeting, the Council received a report from a Member Working Group which was set up to review the KPMG report, recruitment and appointment processes and the internal processes for dispute resolution.

1.2 The Council accepted the recommendations made by KPMG in the PIR and by the Working Group and approved Action Plans in response to each. The approved Action Plans are attached for information at Appendix 2.

1.3 Responsibility was delegated to the Audit Committee to monitor the implementation of the Action Plans which were approved by the Council. This Committee has now reviewed progress against the Action plans on four occasions; in June and September 2010 and in January and March 2011.

2. Progress against Action Plans

2.1 In March 2011 it was reported to the Committee that the majority of the actions approved by the Council had been implemented, with the three remaining having been partially completed or in the course of completion

2.2 The table attached as Appendix 1 contains only those actions which were yet to be fully completed/implemented at the time of the Committee's last review in March 2011. The table is divided into Part A (actions in response to KPMG recommendations) and Part B (actions in response to Review Working Group recommendations) and indicates the progress made to date against those individual action points.

2.3 It is clear from Appendix 1 that the Action Plans have now been substantially implemented. There is one element of the Review Working Group recommendation 10 (deputising for statutory officers in extended periods of absence) which will be concluded in October 2011 as part of the review of the Council's Constitution. With regard to the proposed Action in respect of the KPMG recommendation 8 (Appendix 1), it has not proved practicable to implement a centralised log of decisions taken as had been envisaged by Action 1 of this recommendation. However, an alternative has been put in place which it is intended will satisfy the requirements of the recommendation. Consequently, the Action Plans will have been fully implemented by the 10th October 2011.

3. Reasons for recommendations

3.1 To comply with the decision of the Council that the Audit Committee should monitor the approved Action Plans

4. Alternative options considered

4.1 None

5. Consultation and feedback

5.1 None

6. Performance management –monitoring and review

6.1 The Action Plans will be implemented in full by the 10th October 2011 and the Committee will determine whether it wishes to undertake any further monitoring/review.

Report author	**Contact officer: Sara Freckleton, sara.freckleton@tewkesbury.gov.uk,** **01684 272011**
Appendices	1. Extract from KPMG/Review Working Group Action Plans Table 2. Council approved Action Plans 3. Risk Template
Background information	1. Reports to and Minutes of Extraordinary Council Meeting held on the 22nd March 2010. 2. Reports to and Minutes of Audit Committee Meetings held on 23rd June 2010, 29th September 2010, 9th January 2011 and 23rd March 2011

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Actions outstanding as at March 2011 to implement KPMG and Review Working Group Recommendations

As agreed at
Council 22nd March 2010
and
Reviewed at Audit committee;

23rd June 2010
29th September 2010
9th January 2011
23rd March 2011
21st September 2011

Part A - Action Plan in response to KPMG RECOMMENDATIONS

RECOMMENDATIONS			
Objectives and Option Appraisal			
R8 Review the process for taking forward, and reporting back on, decisions made by committees to ensure agreed actions are delivered (or explanations provided as to why they are not).			
Recommended Action	**Progress report**	**Due Date**	**Lead officer**
1. Implement a centralised log of decisions taken with mechanisms for recording and monitoring actions taken in accordance with those decisions. 2. Devise a mechanism whereby Committees review progress of implementation of decisions which they have made.	**1. Modern.gov has now been implemented and within the system decisions can be reviewed by date, decision maker and decision status, and the system also enables the decision to be linked to issues so that anyone can see associated decisions. There is a facility to update a decision status of Modern.gov but this is not widely used by other councils and not cost-effective in terms of the Democratic Services resource that would be needed to monitor decisions. The 'decision' on the budget for example could contain as many as 20 separate recommendations. Instead implementation of decisions is the responsibility of Directors and these will be reviewed with members via 1-1s and where appropriate a review can be scheduled in a committee's workplan. Where the decisions support actions in the Corporate Strategy these will be monitored by the Performance Management system. As such this action is now complete.** **2. Completed**	30th June 2010	Assistant Chief Executive

RECOMMENDATIONS			
Risk Management			
R16 Undertake mandatory risk management training to appropriate officers and Members. This should include Directors, Assistant Directors and Service Managers. The training should be specific to Cheltenham's own risk management process.			
Recommended Action	**Progress report**	**Due Date**	**Lead officer**
1. Consider the needs of Members and Officers for risk management training. 2. Develop a training programme for Members and Officers. 3. Implement the training programme. 4. That risk management training be a pre-requisite for Members who serve on the Audit Committee and the Treasury Management Panel.	**1, 2, 3 & 4 completed.** **3. The risk management e-learning module has been completed and is loaded on the Learning Gateway. Directors & Service Managers have been notified and asked to refresh their own and employees knowledge via the suggest module.**	1 & 2 - 30th September 2010 3 & 4 - October 2010-March 2011	AD Human Resources

Part B - ACTION PLAN - IMPLEMENTATION OF REVIEW WORKING GROUP RECOMMENDATIONS

RECOMMENDATIONS

Recommendation 10
That the Council introduces a procedure whereby nominated Officers deputise for Chief Officers / Statutory Officers during any extended absence e.g. sickness, and are given full authority to act in that capacity.

Recommended Action	Progress report	Due Date	Lead Officer
Introduce a formal procedure for the nomination of deputies to act for Chief and Statutory Officers during any extended absence and measures to ensure that the deputies are provided with the necessary authority to act in that capacity.	**Nominated deputies are in place for the Chief Executive, Chief Finance Officer (s.151.) and the Monitoring Officer. Any further measures which are necessary regarding authority to act will be included within the report on the Review of the Constitution to be considered by the Council on 10th October 2011.**	30th September 2010	Borough Solicitor /Assistant Director Human Resources

RECOMMENDED ACTION PLAN IN RESPONSE TO KPMG REPORT

Statutory Recommendation under Section 11 of the Audit Commission Act 1998

It is recommended that the Council "consider and respond to the detailed recommendations included in this report".

Recommended Action
That the Council accepts the statutory recommendation and approves the actions set out below in response to the 26 recommendations within the report

RECOMMENDATIONS

The Role of the Borough Solicitor

R1. Review the constitution to make clear what the Borough Solicitor can and cannot do regarding decisions to instigate and continue legal action, whether financial limits should apply to the Borough Solicitor's delegated authority, and when and from whom further sanction is required for financial expenditure above that limit.

Recommended Action	Due Date	Lead officer
1. That the powers delegated to the Borough Solicitor will be considered as part of the review of the Constitution (including the Employee Delegation Scheme). Specific consideration will be given to the scope of delegation of decisions to instigate and continue legal action and to any financial limits which should apply and, how and from whom authority to exceed that limit is obtained. 2. That the Borough Solicitor is tasked to undertake a comprehensive review of the Constitution and to produce a report by the 30th September 2010 for consideration by the Staff and Support Services Committee.	30th September 2010	Borough Solicitor

R2. Review the constitution for other potential instances where authority is delegated to individuals without clarity over the extent of their financial authority.

Recommended Action	Due Date	Lead officer
1. That the Employee Delegation Scheme to be reviewed by the Borough Solicitor as part of the review of the Constitution. The review will consider whether there is sufficient clarity as to the financial restrictions which should appropriately apply and how and from whom authority to exceed any limits is obtained.	30th September 2010	Borough Solicitor

2. That the Borough Solicitor is tasked to undertake a comprehensive review of the Constitution and to produce a report by the 30th September 2010 for consideration by the Staff and Support Services Committee.		
The Role of the Borough Solicitor		
R3. Ensure that where there are alternative people or bodies who could take a lead decision making role, that all options are evaluated and the conclusion is documented clearly.		
Recommended Action	**Due Date**	**Lead officer**
That a process, to be implemented corporately, be devised whereby, in circumstances where there are alternative officers or committees who could make a particular decision, the options for the decision making are evaluated and the conclusion clearly documented. The process is to be explained within the guidance note being prepared by the Assistant Chief Executive for the Senior Leadership Team (SLT) and Service Managers.	30th June 2010	Assistant Chief Executive
The Role of Members		
R4. Review the need for, and remit of, the S&SSC and other committees. In a Cabinet/Scrutiny model, a Council may only need regulatory committees (Licensing, Audit, Planning). Mixing decisions between Cabinet and S&SSC can be confusing. It may be possible for many operational matters to be delegated to the officers and the Chief Executive as head of paid service, perhaps supported by ad hoc Member Panels or other fora for advisory purposes.		
Recommended Action	**Due Date**	**Lead officer**
1. That the need for and remit of the Staff and Support Services Committee and other Committees should be reviewed as recommended as part of the comprehensive review of the Constitution. 2. That a Member Working Group be established to undertake the review of the remit of Committees and any other aspect of the Constitution as is deemed appropriate by the Staff and Support Services Committee. 3. That the Borough Solicitor is tasked to undertake a comprehensive review of the Constitution and to produce a report by the 30th September 2010 for consideration by the Staff and Support Services Committee.	30th September 2010	Borough Solicitor & AD Human Resources

The Role of Members		
R5. Review constitutionally whether ‘key decisions’ made by committees should be subject to similar procedural and notification requirements as those made by Cabinet.		
Recommended Action	**Due Date**	**Lead officer**
1. That consideration as to whether there should be procedural and notification requirements for decisions made by Committees which are similar to the procedures for “key decisions” to be included as part of the comprehensive review of the Council’s Constitution. 2. That the Borough Solicitor is tasked to undertake a comprehensive review of the Constitution and to produce a report by the 30th September 2010 for consideration by the Staff and Support Services Committee.	30th September 2010	Borough Solicitor
R6. When important constitutional questions are raised, then the Council should take care to answer the precise question and also to look further at the underlying implications.		
Recommended Action	**Due Date**	**Lead officer**
1. That the requirement to identify, answer and consider underlying implications of important constitutional questions should be included within the guidance note being prepared by the Assistant Chief Executive for the Senior Leadership Team (SLT) and Service Managers. 2. That the Corporate Governance Group recommend a process / procedure to ensure that constitutional questions are identified and dealt with.	30th June 2010	Assistant Chief Executive

The Role of Members		
R7. Where decisions are made by committees or officers, ensure there is sufficient briefing of, and involvement from, the relevant Cabinet leads at appropriate stages.		
Recommended Action	**Due Date**	**Lead officer**
1. This has been implemented. 2. That the need for timely and sufficient briefing of Cabinet Leads (and Shadow Leads as appropriate), be included within the guidance note which is being prepared for the Senior Leadership Team and Service Managers.	Implemented 30th June 2010	Assistant Chief Executive
Objectives and Option Appraisal		
R8. Review the process for taking forward, and reporting back on, decisions made by committees to ensure agreed actions are delivered (or explanations provided as to why they are not).		
Recommended Action	**Due Date**	**Lead officer**
1. Implement a centralised log of decisions taken with mechanisms for recording and monitoring actions taken in accordance with those decisions. 2. Devise a mechanism whereby Committees review progress of implementation of decisions which they have made.	30th June 2010	Assistant Chief Executive
R9. Ensure that all relevant options are assessed when considering crucial decisions.		
Recommended Action	**Due Date**	**Lead officer**
1. The assessment of all relevant options should be included within the reports placed before Committees and the corporate Committee report template should be revised to incorporate options evaluation. 2. A process whereby the evaluation of options in respect of decisions taken under delegated powers should be devised and implemented.	30th June 2010	Assistant Chief Executive

3. The requirements in respect of the drafting of reports and decisions made within delegated authority should be included within the guidance note which is being prepared for the Senior Leadership Team (SLT) and Service Managers.		
R10. Options should be reassessed throughout decision processes. This includes revisiting the overall objective and ensuring that the strategy being followed remains appropriate for delivering the objective. The council needs to remain flexible, and be prepared to change objectives, options and decisions on a timely basis if information changes.		
Recommended Action	**Due Date**	**Lead officer**
That the need to apply project management principles and to reassess risks during throughout a decision process should be included within the guidance note which is being prepared for the Senior Leadership Team (SLT) and Service Managers. The Project Management Principles should include defining at the outset, the period for reviewing the project, its purpose and objectives.	30th June 2010	Assistant Chief Executive
Professional Advice		
R11. The Council should, in all instances, take decisions based on a balanced range of success factors including service needs, legal issues, financial implications and risk. Decisions should be informed by appropriate risk scenarios or possible outcomes.		
Recommended Action	**Due Date**	**Lead officer**
1. Revise the Council's standard report template to ensure that a balanced range of success factors, legal and financial implications and risks are required to be fully considered within each report to the Council and its Committees. 2. Devise a procedure to ensure that the same range of factors as set out above are demonstrably considered in respect of crucial decisions taken under authority delegated to officers and implement the procedure.	30th June 2010	Assistant Chief Executive

R12. Before starting legal proceedings that are likely to incur significant costs, estimate the potential risks and costs and revisit this analysis throughout the process, and certainly whenever there is a sea change in the case.		
Recommended Action	**Due Date**	**Lead officer**
The action recommended is as set out above in R10 and R11.	30th June 2010	Assistant Chief Executive
Crucial Decision Points		
R13. The Council should recognise that not taking an explicit decision (e.g. use of "The Committee notes") can amount to a positive decision to continue with the existing course of action. In sensitive or important issues, officers should carefully draft recommendations so that it is clear what will happen as a result.		
Recommended Action	**Due Date**	**Lead officer**
Include guidance to report authors to ensure careful drafting of recommendations to Committee and what Officers should seek from Members in considering those recommendations will be included in a guidance note to the Senior Leadership Team (SLT) and Service Managers.	30th June 2010	Assistant Chief Executive
Committee Process		
R14. The Council should apply its usual governance processes to all decisions brought to Members, in whatever committee or forum, and explain the reason for any deviation from the processes.		
Recommended Action	**Due Date**	**Lead officer**
1. Devise a process to ensure, through the Democratic Services, that all matters brought to members for a decision follows the usual governance processes, and to include specific provisions for the recording of any deviations from the standard process. 2. That the process be incorporated within the guidance note which is being prepared for the Senior Leadership Team (SLT) and Service Managers.	30th June 2010	Assistant Chief Executive

Involvement of Officers Corporately		
R15. The Strategic Directors, Assistant Directors and Service Managers should immediately review all major service and corporate issues that they are individually dealing with, and check whether they are being managed properly and reported through the appropriate channels . There should be an on-going process to ensure that significant issues are escalated to the right people. (See also risk management below).		
Recommended Action	**Due Date**	**Lead officer**
1. This has been implemented. 2. Action has already been instigated by the Chief Executive for an immediate review of all major services and corporate issues being dealt with by Strategic Directors, Assistant Directors and Service Managers to ensure the proper management and reporting. The ongoing process will be reviewed regularly through both the internal audit as part of its audit plan and the corporate governance group. The Chief Executive has issued an email to Strategic Directors, Assistant Directors and Service Managers asking them to undertake the review.	Implemented with a Due Date of the 30th April 2010 for completion of the initial reviews	Chief Executive
Risk Management		
R16. Undertake mandatory risk management training to appropriate officers and Members. This should include Directors, Assistant Directors and Service Managers. The training should be specific to Cheltenham's own risk management process.		
Recommended Action	**Due Date**	**Lead officer**
1. Consider the needs of Members and Officers for risk management training. 2. Develop a training programme for Members and Officers. 3. Implement the training programme. 4. That risk management training be a pre-requisite for Members who serve on the Audit Committee and the Treasury Management Panel.	1 & 2 – 30th September 2010 3 & 4 – October 2010-March 2011	AD Human Resources

R17. Immediately review all risks on the corporate and service risk registers to ensure that they are complete, appropriate and that the descriptions and risk assessments continue to reflect the current state. Any high scoring service risks should be transferred to the corporate risk register where appropriate. The updated corporate risk register should be presented to Members for consideration.		
Recommended Action	**Due Date**	**Lead officer**
1. The Corporate and Service Risk Registers have recently been reviewed by the Senior Leadership Team, Service Managers and the Corporate Governance Group. 2. That the Corporate Risk Register is in future to be presented to the Audit Committee on a quarterly basis, commencing in June 2010.	Review of Corporate and Service Registers completed June 2010	Assistant Chief Executive
Project Management		
R18. All legal case work should have a formally appointed Instructing Officer and a written scoping document. In practice, the Borough Solicitor or other members of the legal team should only be the Instructing Officer in rare circumstances. All legal actions and defences should continue to be channelled through the legal team.		
Recommended Action	**Due Date**	**Lead officer**
To be Included in revised case management procedures.	Immediate	Borough Solicitor
R19. On any occasion where the Borough Solicitor is the Instructing Officer rather than acting on behalf of other service departments, the Council should consider the controls in place to ensure an appropriate corporate oversight is maintained.		
Recommended Action	**Due Date**	**Lead officer**
That the Chief Executive provide a corporate oversight should the circumstances arise in which the Borough Solicitor is the Instructing Officer.	Immediate	Chief Executive

R20. The Council should review its scheme of delegation to consider at what level formal project management techniques should be employed. This does not necessarily apply only to capital programmes, IT development or major change projects – but could apply (as in this legal case) to revenue activities.

Recommended Action	**Due Date**	**Lead officer**
Directors and Assistant Directors to 1. review which Officers within the organisation are responsible for implementation of projects requiring project management skills. 2. identify whether those Officers require either project management training or dedicated project management support in order to effectively implement the project.	30th September 2010	Assistant Director of Human Resources

R21. The Council should review the project management skills base within its workforce, and seek to train more people if necessary, or to find ways of sharing the resource among different projects.

Recommended Action	**Due Date**	**Lead officer**
1. Draw up a list of those officers with project management qualifications. 2. Prepare a report on the project management resource available to specifically include details of external spend. 3. Prepare a forward plan as to how the project management skills will be utilised. 4. Identify whether there are any deficiencies in project management resource. 5. Report on proposals as to how any deficiencies may be addressed.	1. 30th June 2010 2. 30th September 2010 3. 31st December 2010 4. 30th September 2010 5. 31st January 2011	Assistant Director of Human Resources Assistant Director Customer Access and Service Transformation

R22. Significant legal casework should be supported by a budget and monitored accordingly. If further budget provision then becomes necessary, this should be considered through established virement processes.

Recommended Action	Due Date	Lead officer
1. Implementation of recommended actions specified in recommendations 10, 11 and 12 above. 2. That a requirement that the financial implications of any significant legal casework which is proposed to be commenced should be fully assessed, that any financial restrictions on the exercise of authority complied with and that the necessary budget is available to be included in the guidance note which is being prepared for the Senior Leadership Team (SLT) and Service Managers. 3. Implementation of recommendations 11 & 12 will ensure that the financial implications are reviewed in accordance with sound project and risk management principles.	30th June 2010	Assistant Chief Executive

Pre-Meeting Briefings

R23. Ensure Chairs and Vice Chairs of committee meetings are always briefed sufficiently on crucial matters such as those concerning significant legal cases, to allow them to manage the debate at committee and facilitate appropriate challenge by Members.

Recommended Action	Due Date	Lead officer
1. Already implemented. 2. Procedures for ensuring that Chairs and Vice-Chairs of Committee meetings are sufficiently briefed on crucial matters to be set out in the guidance note which is being prepared for the Senior Leadership Team (SLT) and Service Managers.	Immediate 30th June 2010	Assistant Chief Executive

Format of Member Reporting		
R24. Ensure that written reports to committee meetings are clear on what decision is required of Members. Noting update briefings may often be appropriate but where decisions are required, or officers are seeking endorsement or support for decisions, specific recommendations should be made.		
Recommended Action	**Due Date**	**Lead officer**
That the requirement for clarity as to the decision being sought from a Committee or Council be included within the guidance note being prepared for the Senior Leadership Team (SLT) and Service Managers.	30th June 2010	Assistant Chief Executive
RECOMMENDATIONS		
Minutes		
R25. Exempt minutes must record the names of those attending the meeting and include sufficient detail to record discussions and decisions fully.		
Recommended Action	**Due Date**	**Lead officer**
Ensure that all exempt minutes record the names of those attending the meeting and include sufficient discussion to enable full understanding of the decision and the reason for it.	Immediate	Assistant Chief Executive
R26. Develop guidance on the circumstances when it may be appropriate to record the number of people voting for, against and abstaining. This might apply in sensitive matters, and exempt proceedings might be expected to be sensitive.		
Recommended Action	**Due Date**	**Lead officer**
As part of the review of the Constitution, develop guidance on the circumstances in which it might be appropriate to record the names of those Members voting for, against or abstaining from the decision on any item of business.	30th September 2010	Borough Solicitor

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RECOMMENDED ACTION PLAN FOR IMPLEMENTATION OF REVIEW WORKING GROUP RECOMMENDATIONS

RECOMMENDATIONS

A. Recommended changes to Council's pre-appointment processes

Recommendation 1

That the Council adopts a Recruitment Protocol for Chief Officers to include the Councils intentions as to how it will:-

- Manage the recruitment process for Chief Officer / Statutory Officers and in particular
  - Whether external agencies will be engaged to manage the recruitment process
  - How advertising for the vacancy will take place
  - How the feedback to successful and unsuccessful candidates (both internal and external) will take place
  - Guidelines for making conditional offers of employment
  - Timescale for making written offer of employment
  - Timescale for issue of contract of employment
- Include in the final selection process significant Councillor involvement as well as involvement from partners and employees
- The process which will be undertaken to obtain medical clearance for the employment of the successful candidate
- Induction processes as appropriate to a senior position

Recommended Action	Due Date	Lead Officer
Introduce a Cheltenham Borough Council Recruitment Protocol.	30th September 2010	Assistant Director Human Resources

Recommendation 2

The Council includes, as part of the recruitment process for Chief Officers / Statutory Officers / Assistant Directors, a requirement for the candidates for the post to undertake relevant job related competency based person profiling (e.g. leadership / personality profiling)

Recommended Action	Due Date	Lead Officer
Devise a competency based recruitment process for the Council's senior appointments.	30th September 2010	Assistant Director Human Resources

<u>Recommendation 3</u>
When commencing a recruitment process for a Chief Officer / Statutory Officer, careful consideration should be given to the timing of the process and the date for the Council meeting to make the appointment to avoid dates where there are likely to be significant member absences due to holiday (e.g. avoid Christmas / New Year period).

Recommended Action	Due Date	Lead Officer
Ensure that the timing of any recruitment process for posts which require to be appointed by the Council take into account statutory holiday periods.	Immediate	Assistant Director Human Resources

B. Recommended changes to Council's appointment processes

<u>Recommendation 4</u>
That the Council sets up an Appointments Committee to make recommendations to the Council on appointments to posts which are required to be made by the Council with Terms of Reference which include recommending a preferred candidate to Council for approval following a full interview and assessment process being carried out by the Appointments Committee.

Recommended Action	Due Date	Lead Officer
Include the establishment of an Appointments Committee, with terms of reference as set out in recommendation 4, as part of the report on the review of the Council's Constitution.	30th September 2010	Borough Solicitor

<u>Recommendation 5</u>
That the Council amends the Council Rules of Procedure to require that the appointment of any Statutory Officer (Head of Paid Service, Section 151 Officer and Monitoring Officer) should be approved by 2/3rds of the Members who are present at the meeting and voting.

Recommended Action	Due Date	Lead Officer
Include, within the report on the review of the Council's Constitution, a recommended amendment to the Council's Procedure Rules as set out in Recommendation 5.	30th September 2010	Borough Solicitor

Recommendation 6 That the Council sets a target of 28 days, from the date of the acceptance by the employee of the offer of employment, for the issue of an employee's Statement of Particulars of Employment.		
Recommended Action	**Due Date**	**Lead Officer**
Issue Statements of Particulars of Employment to new employees within a target of 28 days from acceptance by the employee of the Council's offer of employment.	Immediate	Assistant Director Human Resources
Recommendation 7 That the Council's appointment / recruitment **/** absence management and dispute resolutions policies be reviewed regularly to ensure that they continue to be up to date, robust and fit for purpose.		
Recommended Action	**Due Date**	**Lead Officer**
Include within the Human Resources Policy Review Timetable the regular review of the Council's appointment, recruitment, absence management and dispute resolution policies to ensure that they continue to be up to date, robust and fit for purpose.	30^{th} April 2010	Assistant Director Human Resources
C. Recommended changes to Council's procedures to ensure that disputes are resolved efficiently and effectively		
Recommendation 8 That the Council reviews the membership and functions of the JNC Disciplinary Committee to ensure that they are consistent with the guidance in the 2009 version of the JNC for Local Authority Chief Executives (National Salary Framework and Conditions of Service).		
Recommended Action	**Due Date**	**Lead Officer**
Include, within the report of the review of the Council's Constitution, recommended revisions to the membership and functions of the JNC Disciplinary Committee to reflect the 2009 version of the JNC for Local Authority Chief Executives (National Salary Framework and Conditions of Service).	30^{th} September 2010	Borough Solicitor

Recommendation 9

That the Council explores the possibility and appropriateness of incorporating within the conditions of contract of Officers, an ongoing requirement for the Council (by instructing an occupational health practitioner) to have access to medical records, subject to safeguards and clarity as to what event would trigger that consent being used and subject also to legislation relating to disclosure of medical records.

Recommended Action	Due Date	Lead Officer
Consider whether the Council is permitted, within the relevant employment and access to medical records legislation, to seek ongoing access to medical records from employees and, if this is permissible, to implement the necessary changes.	30th September 2010	Assistant Director Human Resources

Recommendation 10

That the Council introduces a procedure whereby nominated Officers deputise for Chief Officers / Statutory Officers during any extended absence e.g. sickness, and are given full authority to act in that capacity.

Recommended Action	Due Date	Lead Officer
Introduce a formal procedure for the nomination of deputies to act for Chief and Statutory Officers during any extended absence and measures to ensure that the deputies are provided with the necessary authority to act in that capacity.	30th September 2010	Assistant Director Human Resources/ Borough Solicitor

Recommendation 11

That the Council amends its guidance on managing sickness absence, to ensure that:

1. employees who are certified as being unfit for work are clear about the circumstances and purposes for which they can attend the workplace
2. guidance is in place to ensure that employees who are certified as being unfit for work do not issue inappropriate instructions or requests to other employees and the guidance should be such that employees who receive inappropriate instructions or requests are clear that they are able to refer these to their manager
3. the Council include in its guidance on managing absence, nominated post(s) with responsibility for managing any absence of the Chief Executive/Head of paid Service.

Recommended Action	Due Date	Lead Officer
Introduce amendments to the Council's guidance on managing sickness to satisfy items 1-3 of the recommendation.	30th September 2010	Assistant Director Human Resources

Recommendation 12 That the Council makes an appropriate amendment to the Employees Code of Conduct to ensure that Officers who have an interest in any matter which would, in the case of any Member of the Council, amount to a "prejudicial interest", should not participate in or seek to influence the outcome of that matter.		
Recommended Action	**Due Date**	**Lead Officer**
Prepare a report for the Standards Committee/Council to suggest revisions to the Employees Code of Conduct to clarify the requirements regarding personal interests, as identified in the recommendation.,	31st December 2010	Assistant Director Human Resources / Borough Solicitor
Recommendation 13 That the Standards Committee be asked to undertake a review of the Protocol for Member / Officer Relations to ensure that it reflects best practice.		
Recommended Action	**Due Date**	**Lead Officer**
Request the Standards Committee to review the Protocol for Member / Officer relations as specified in the recommendation.	30th September 2010	Borough Solicitor
D. Recommended response to KPMG Recommendations		
Recommendation 14 That the Council endorses the proposed actions set out in Appendix 1 to this report as its response to the KPMG Public Interest Report.		
Recommended Action	**Due Date**	**Lead Officer**
See Appendix 1.		
E. General		
Recommendation 15 That authority be delegated to the Audit Committee to monitor implementation of the actions agreed by the Council.		
Recommended Action	**Due Date**	**Lead Officer**
See Recommendation 1.2.5 in the report.		

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Action Plan to implement
KPMG and Review Working Group Recommendations
Risk template

Appendix 3

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	**Risk description**	**Risk Owner**	**Date raised**	**I**	**L**	**Score**	**Control**	**Action**	**Deadline**	**Responsible officer**	**Transferred to risk register**
CR1	If the council does not implement the recommendations and action plan arising from the public interest report and working group report and put in place preventative measures based on lessons learnt then there is a potential local and national reputation risk and potential adverse audit assessment.	Chief Executive Andrew North	10th March 2010	3	2	**6**	Reduce	All recommendations agreed by council. Action plan has been developed following discussions with officers and has been incorporated within the council's corporate strategy and will be reported through the corporate performance management system. Monitoring of the action plan is to be undertaken by	Deadlines as per the action plan. First monitoring report June 2010. Audit committee September 2010, January, March and Sept 2011	Assistant Chief Executive Jane Griffiths	Action plan is complete. **Suggest that this risk is closed following the final update report to audit committee on the 21 September.**

								the audit committee on a quarterly basis. Internal audit have set time aside in their audit plan. KPMG has reviewed progress as part of the annual audit of accounts.			
CR2	If councillors and officers do not “draw a line” under the review and move forward as recommended by both the judge and KPMG there is a reputation risk, as well as a risk that further resource both financially and time could be incurred	Chief Executive Andrew North	10 March 2010	3	3	9	reduce	CEX has discussed the matter with the group leaders. Clear action plan developed on lessons learnt. Letter of apology signed by CEX and Group leaders. CEX to discuss with group leaders should any further issues arise.	May 2010 March 2011	Chief Executive Andrew North	Corporate Risk Register. It would appear that councillors have responded constructively in learning lessons from the review without blame. However, points of tension may still arise and continued vigilance is required.

XX COUNCIL
Financial Rules

These financial rules relate to each of the Local Authorities forming the GO Shared Services, being Cotswold District Council, Cheltenham Borough Council, Forest of Dean District Council and West Oxfordshire District Council. This Shared Service provides shared financial, payroll, procurement and human resources services across the partnering authorities. Each council's governance structure is laid down in their constitutions.

CONTENTS

B: Financial Planning, Budget Preparation and Budget Monitoring

C: Scheme of Virement

D: Risk Management and Insurance

E: Internal Controls and Audit

F: Assets

G: Treasury Management

H: Financial Systems and Accounting Procedures

I: Income

J: Council Tax and Non-Domestic Rates

K: Council Tax Benefit and Housing Benefit

L: External Arrangements

Partnerships:

External Funding:

Work for Third Parties:

Appendices

Introduction

Financial Rules, together with Contract Procedure Rules and other forms of guidance on procedure and conduct, provide the framework for managing the council's financial affairs, ensuring high integrity and accountability. They apply to every Member and Officer of the council and anyone acting on behalf of the council.

To conduct its business efficiently the council needs to ensure that there are sound financial management policies in place and that these are strictly adhered to. Part of this process is the establishment of Financial Rules that set out the financial policies of the councils forming the GO Shared Services.

These Financial Rules are made pursuant of the Local Government Act 1972, Section 151 the Accounts and Audit Regulations 2003 (as amended) and all other enabling powers.

The Financial Rules provide clarity over the accountabilities of individuals, ensures that the council uses best practice when dealing with financial matters and that council resources are used wisely.

For the purpose of these Financial Rules, the description "Council" shall refer to the Full Council, made up of elected members, and the term "council" shall relate to the local authority.

The financial limits approved as part of these Financial Rules are summarised in Appendix A – Schedule of Financial Limits.

Status of Financial Rules

These Financial Rules relate to each of the Local Authorities forming the GO Shared Services, being Cotswold District Council, Cheltenham Borough Council, Forest of Dean District Council and West Oxfordshire District Council. This service provides shared financial, payroll, procurement and human resources services across the partnering authorities.

The Financial Rules shall be complied with by all Officers and Members from each of the above Local Authorities. If job titles and roles differ between the councils, the responsibilities defined in the Rules shall be adopted by the most appropriate level of employee within each council's structure, agreed locally.

The Financial Rules shall apply to all Officers within the GO Shared Services, irrespective of the client council. Full access to financial systems and records shall be given to delegated Officers within the Shared Services in order to facilitate transactional processing and other finance related work, as required.

The Financial Rules identify the financial responsibilities of Council, Cabinet and Cabinet Members, other Members, the Head of Paid Service (Chief Executive), the Monitoring Officer, the Section 151 Officer, other Directors and Heads of Service and all other employees and agents of the council.

Directors and Heads of Service are responsible for ensuring that all staff in their departments are aware of their responsibilities according to the Financial Rules and other internal regulatory documents and comply with them.

Cabinet Members and Senior Officers should maintain a written record where these responsibilities have been delegated to members of staff, including seconded staff.

Where responsibilities have been delegated or devolved to other responsible Officers, references to the Members or Senior Officers in the rules should be read as referring to them.

All Members and Employees have a general responsibility for taking reasonable action to provide for the security of the assets under their control, and for ensuring that the use of these resources is legal, is properly authorised and provides value for money. Nothing included in or omitted from these Financial Rules shall detract from this responsibility.

The Section 151 Officer is responsible for maintaining a continuous review of the Financial Rules and advising the Cabinet of any non-material additions or changes necessary.

The Rules will be formally reviewed every 5 years under the control of the Section 151 Officer, in consultation with the Strategic Lead of GO Shared Services, GO Shared Services Heads of Finance and all those who deal with financial matters within and on behalf of the council. The revised Rules will be reported to each council for approval. In the meantime, if material changes make a review of the Rules necessary, this should be the subject of a report by the Section 151 Officer at each council.

Should an instance of non-compliance with these rules be discovered the Section 151 Officer may, after consultation with the Chief Executive, make a report to the Leader, Full Council and/or Cabinet, as appropriate. Non-compliance with financial rules may also lead to disciplinary action being taken.

FINANCIAL RULES

A: FINANCIAL MANAGEMENT

Introduction

Financial management covers all financial accountabilities in relation to the running of the council, including the policy framework and budget.

Key processes and controls must be in place to ensure good financial management and help the council conduct affairs in an efficient, effective and economic manner.

Monitoring systems must be in place to review compliance with financial standards and to ensure compliance with legal and corporate requirements for accountability.

Emergencies

Nothing in these Financial Rules or the Contract Rules shall prevent the Cabinet, the Executive Board or a Director from incurring expenditure essential to meet any immediate needs created by an emergency, or which is referable to Section 138 of the Local Government Act 1972. This should be done in accordance with the council's constitution. Any such action shall be reported as soon as possible to Cabinet, detailing the nature of the emergency, the action taken, the financial implications and any other consequences.

The Full Council

The Full Council for each authority is responsible for:

- Adopting the council's Constitution and Members' Code of Conduct and for approving the policy framework and budget within which the Cabinet operates.

- Approving and monitoring compliance with the council's overall framework of accountability and control. The framework is set out in the council's written Constitution.

- Approving procedures for recording and reporting decisions taken. This includes decisions taken by the Council, the Cabinet, Committees and Officers. These delegations and details of who has responsibility for which decisions are set out in the council's Constitution.

The Full Council (together with the Section 151 Officer) has a statutory responsibility to ensure:

- The setting of the annual budget, including the allocation of financial resources to different services and projects, proposed reserves, the Council tax base and the setting of the Council tax.

- The preparation of the annual Statement of Accounts, in accordance with the Accounts and Audit Regulations 2011, before 30th June following the year end to which they relate. The Section 151 Officer shall sign and date the draft Statements before 30th June of each year and the final audited Statements before 30th September each year***)***

- The publishing of the Statement of Accounts, and the external auditor's Certificate, Opinion or Report by 30th September each year following the year end to which they relate. The Council has given delegated authority for the Statement to be approved by Audit Committee or other approved Committee as per the council's constitution, and signed by the person presiding at the Committee meeting at which the approval is given.

- The Statement of Accounts are made available for public inspection for 20 days prior to the date set by the external auditor, on or after which the electors rights under Section 15 (2) and 16 (1) of the Audit Commission Act 1988 can be exercised in accordance with the Accounts and Audit Regulations 2003. Also to ensure publish of the Annual Audit and Inspection letter received from the external auditor.

- That public notice is given by advertisement of the conclusion of the audit and that the Statement of Accounts and the external auditor's report are available for inspection.

The Cabinet

The Cabinet is responsible for discharging executive functions in accordance with the policy framework and budget and for monitoring compliance with the agreed policy and related executive decisions.

Executive decisions can be delegated to a Committee of the Cabinet, an individual Cabinet Member, an Officer, a Joint Committee.

The constitution contains a requirement to ensure that an individual Cabinet Member consults with relevant officers before taking a decision within his or her delegated authority. In doing so, the individual member must take account of legal and financial liabilities and risk management issues that may arise from the decision.

No member shall ask an employee to incur expenditure for which there is no appropriate provision in the budget, unless in consultation as part of an emergency as detailed in paragraph xx.

A record shall be kept of the decision making process.

Overview and Scrutiny Committee(s)

The council has Overview and Scrutiny Committee(s), responsible for the scrutiny of Cabinet decisions before or after they have been implemented and for holding the Cabinet to account. These Committee(s) are also responsible for making recommendations on future policy options and reviewing the general policy and service delivery of the council.

Overview and Scrutiny Committee(s) do not have authority over any financial activity, other than to support the work of the Committee itself, but can make reports to Cabinet and the council concerning any matter.

Audit Committee

The council has an Audit Committee, responsible for ensuring effective internal control and independent assurance mechanisms across all areas of the council.

The Audit Committee is responsible for Internal Audit, External Audit provision, risk management, the signed approval of the Annual Statement of Accounts and the Corporate Governance Framework. This Committee does not have authority over any financial activity, other than to support the work of the Committee itself, but can make reports to other Committees and the council concerning any matter.

Standards Committee

The council has a Standards Committee, established by Full Council, responsible for promoting and maintaining high standards of conduct amongst Members of the council and co-opted Members on its Committees and Sub-Committees. In particular, it is responsible for advising the council on the adoption of the Members' Code of Conduct, and for monitoring the operation of the code.

The Standards Committee does not have authority over any financial activity, other than to support the work of the Committee itself, but can make reports to other Committees and the council concerning any matter.

Other Committees

Planning and Licensing Committees-
Planning regulation and licensing are quasi-judicial functions and are exercised though Planning and Licensing Committees within the council, under powers delegated by Full Council. The terms and references of these committees are set out in the Constitution.

Joint Committees-
The council can set up Joint Committees with other organisations to oversee the management of activities or facilities. The financial activity of Joint Committees is governed by their terms of reference. The council's procedural and Financial Rules apply to Joint Committees unless there has been specific agreement by Full Council for the Joint Committee to operate under other rules.

Head of Paid Service (Chief Executive)

The Head of Paid Service (Chief Executive) is responsible for the corporate and strategic management of the council and fulfils the statutory role of Head of Paid Service. He or she must report to and provide information for Full Council, Cabinet, Overview and Scrutiny Committees, Audit Committee and any other Committees as required. He or she is responsible for establishing a framework for management direction, style and standards and for monitoring the performance of the organisation.

The Head of Paid Service (Chief Executive) is also responsible, together with the Monitoring Officer and/or other delegated Officer, for the system of record keeping in relation to all Full Council's decisions.

Monitoring Officer

The Monitoring Officer is a statutory role within the council, and is the lead Solicitor for the Authority. The Monitoring Officer is responsible for:

- Promoting and maintaining high standards of conduct, providing support to the Standards Committee.

- Reporting any actual or potential breaches of the law or maladministration to Full Council and/or Cabinet, and for ensuring that procedures for recording and reporting key decisions are operating effectively.

- Ensuring that Cabinet decisions and the reasons for them are made public. He or she must also ensure that all Members are aware of decisions made by the Cabinet and of those made by Officers who have delegated executive responsibility.

- Advising all Members and Officers about who has authority to take a particular decision. He or she is responsible for advising Cabinet and/or Full Council about whether a decision is likely to be considered contrary to or not wholly in accordance with the policy framework.

- Maintaining up-to-date Constitutions.

The Monitoring Officer (together with the Section 151 Officer) is responsible for advising the Cabinet and/or Full Council as to whether a decision is likely to be considered contrary to or not wholly in accordance with the budget.

Section 151 Officer

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs. This Officer must be a member of a specific accounting body.

The Section 151 Officer is therefore a statutory role of the council, with statutory duties in relation to the financial administration and stewardship of the council. He or she (or his/her designated deputy) shall have the right and duty to advise the Council, Cabinet, Committees and Board on priorities in relation to resources and capital expenditure. This statutory responsibility cannot be overridden.

The Section 151 Officer is responsible for:

- The proper administration of the council's financial affairs.

- Determining the council's accounting records, including the form of accounts and supporting accounting records and its accounting control systems, in compliance with the Accounts and Audit regulations 2003.

- Providing financial information and advising on the corporate financial position to the authority as required.

- Ensuring that the Annual Statements of Accounts are prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

- Signing the Annual Statement of Accounts and certifying that it presents a true and fair view of the financial position of the council at the financial year end.

- Preparing the Medium Term Financial Strategy and the Annual Revenue Budgets and Capital Programmes, within the Policy Framework.

- Reporting to Full Council (under the requirement of Section 25 of the Local Government Act 2003), when it is considering its budget, council tax and housing rents (if applicable) for the new financial year. This 'Section 25' report to include the robustness of estimates and adequacy of reserves.

- Advising the council on the level of reserves needed for meeting estimated future expenditure, in accordance with the statutory requirement for billing authorities to maintain financial reserves (under Sections 32 and 43 of the Local Government Finance Act 1992).

- Treasury Management.

- Advising the Cabinet or Full Council about whether a decision is likely to be considered contrary to or not wholly in accordance with the approved budget.

- Providing regular reports to the Cabinet on the council's finances and financial performance.

- Monitoring compliance with the Financial Rules and Contract Procedure Rules and reporting, where appropriate, breaches of these rules to the Cabinet and/or full Council.

- Formally reviewing the Financial and Contract Procedure Rules every 5 years and reporting the revised Rules to the council for approval.

- Maintaining a continuous review of the Financial and Contract Procedure Rules and making any non-material changes to the Rules, as considered necessary, or as part of the formal 5 year review.

- Advising the Cabinet of any material additions or changes necessary to the Financial Rules.

- Issuing advice and guidance to underpin these rules for Members, employees and agents of the council to follow.

Section 114 of the Local Government Finance Act 1988 requires:

- The Section 151 Officer to nominate a properly qualified member of his or her staff to deputise should he or she be unable to perform the Section 151 Officer duties personally.

- The council to provide the Section 151 Officer with sufficient staff, accommodation and other resources, including legal advice where necessary, in order to carry out the Section 151 Officer duties.

Directors and Heads of Service

Directors and Heads of Service are responsible for the delivery of their own service(s) and for the day to day management of their service(s) budgets. Spending and income generation should be in accordance with service budgets and performance monitored against budget.

Each Director or Head of Service is responsible for:

- Complying with the Financial and Contract Rules and other internal regulatory documents and ensuring that all employees within his or her service(s) are aware of the existence and content of these Rules.

- Advising Cabinet Members of the financial implications of all proposals and ensuring that the financial implications have been agreed by the Section 151 Officer.

- Consulting with the Section 151 Officer or delegated Deputy and seeking approval on any matter liable to affect the Council's finances materially (defined as in excess of £10,000), before any commitments are incurred.

- Ensuring that all systems and controls within his or her service(s) are operated to prevent, minimise and detect any opportunity for fraud, theft or other irregularity. He or she should ensure the accountability and control of employees and the security, custody and control of all other resources within the service(s).

Employees

All employees and/or agents acting on behalf of the council are responsible for:

- Complying with the Financial and Contract Procedure Rules and any other internal regulatory documents of the council.

- Keeping accurate and comprehensive records to support transactions they undertake on the council's behalf. These records must be in accordance with the accounting systems and policies established by the Section 151 Officer.

- Avoiding conflicts of interest and ensuring compliance with the employees code of conduct.

Internal Audit

The Accounts and Audit Regulations 2011 (England) requires that the council must undertake an adequate and effective internal audit of its accounting records and its system of internal control, in accordance with the proper practices in relation to internal control.

The Section 151 Officer is responsible for ensuring that arrangements are put in place to ensure financial stewardship, probity and compliance with laws and regulations within the council.

The Head of Internal Audit is responsible for providing a written report to those charged with governance, which includes an opinion on the adequacy and effectiveness of the council's control environment under the CIPFA Code of Practice for Internal Audit in Local Government 2006.

The council's Internal Audit function is responsible for reviewing and reporting on corporate and departmental internal control arrangements, both financial and operational, as appropriate. This function can be provided by a suitably qualified external body (for example a shared Internal Audit Service).

Internal Audit shall provide positive assurance when financial controls are effective and recommendations for improvement where they are not. They shall advise all levels of management on the operation of financial and operational controls to help prevent things going wrong.

Internal Audit are responsible for the investigation and reporting of all suspected irregularities, at the request of the Section 151 Officer, Monitoring Officer, the Chief Executive or a Director.

External Audit

External Audit is responsible for considering whether the council has proper arrangements in place for:

- Securing financial resilience; reviewing the council's financial governance, financial planning and financial control processes.
- Challenging how it secures economy, efficiency and effectiveness; looking at how the council is prioritising resources and improving efficiency and productivity.

B: FINANCIAL PLANNING, BUDGET PREPARATION AND BUDGET MONITORING

Introduction

Full Council is responsible for agreeing the council's policy framework and budget, which will be proposed by the Cabinet. In terms of financial planning, the key elements are the corporate plan, the annual revenue budget, the capital programme and the Medium Term Financial Strategy.

The policy framework comprises a number of statutory plans and strategies that are listed in the council's Constitution.

The budget is the financial expression of the council's plans and policies. It reflects Council, Cabinet and Committee priorities and gives authority to Budget Holders to incur expenditure or collect income. It should take due account of the risks and opportunities facing the council.

The revenue budget must be constructed to ensure that resource allocation properly reflects the service plans and priorities of the council. Budgets are needed so that the council can plan, authorise, monitor and control the way money is allocated and spent. It is illegal for the council to budget for a deficit.

Medium term financial planning covering a minimum period of 5 years, which incorporates both revenue and capital plans, involves a planning cycle in which Members, the Chief Executive, Directors and Budget Holders plan for significant events and changes to spending and income. This allows for measured and appropriate action to be taken each year when setting detailed budgets and avoids the need for urgent or undesirable action.

Full Council

Full Council is responsible for the approval and adoption of its annual Budget in February of each year prior to the start of the next financial year.

This includes:

- The allocation of financial resources to services and projects.
- The control of capital expenditure.
- The approval of the Medium Term Financial Strategy.
- The control of the council's borrowing requirement.
- Setting the Council Tax base and the rate of Council Taxation.

Full Council is responsible for approving procedures for agreeing variations to approved budgets, plans and strategies forming the Policy Framework.

Full Council is responsible for setting the level at which the Cabinet, Cabinet Members and Officers may reallocate budget funds from one service to another (see virement rules, Section C).

Cabinet

The general format of the annual budget will be approved by Cabinet, on the advice of the Section 151 Officer, in the autumn of each year prior to the start of the next financial year.

The Cabinet is responsible for:

- Co-ordinating the development of the Budget and Policy Framework and submitting budget proposals to Full Council in February prior to the start of the next financial year.

- Taking in-year decisions on resources and priorities in order to deliver the budget and Policy Framework within the financial limits set by the council.

- Monitoring financial performance against the budget.

Section 151 Officer

The Section 151 Officer is responsible for ensuring that a revenue budget is prepared on an annual basis and a Medium Term Financial Strategy is prepared on a minimum 5 year basis for consideration by the Cabinet, before submission to Full Council in February prior to the start of the next financial year.

The Section 151 Officer is responsible for:

- Determining the format of the budget and budget timetable to be agreed by Cabinet in the autumn prior to the start of the next financial year.

- Supplying the financial information that needs to be included in policies, strategies and performance plans in accordance with statutory requirements and agreed timetables.

- Providing guidance to Officers on budget preparation.

- Advising Full Council on Cabinet budget proposals in accordance with his or her responsibilities under Section 151 of the Local Government Act 1972. This advice to be presented to Full Council at its budget setting meeting in February, as part of his or her S25 Report.

- Ensuring that expenditure is committed only against an approved budget and that all Officers responsible for committing expenditure comply with the Financial Rules and other relevant guidance.

- Establishing a framework of budgetary management and control, ensuring that financial performance information is monitored sufficiently frequently to allow corrective action to be taken if targets are not likely to be met.

- The preparation of Budget Monitoring reports, to be reported to Cabinet, reflecting significant variations to income and expenditure budgets (in excess of £10,000) and the overall financial position, on a quarterly basis.

- Ensuring that appropriate and timely information is provided on receipts and payments, in order to allow budgets to be monitored effectively.

- Ensuring that systems are in place to measure activity and collect accurate financial information for use in local financial performance indicators.

- Complying with all legal requirements and CIPFA's Code of Practice on Local Authority Accounting and CIPFA's Service Reporting Code of Practice for Local Authorities.

Directors and Heads of Service

Directors and Heads of Service should manage their budgets responsibly and prudently and not create future commitments without approved budget.

They are responsible for:

- Contributing to the development of the Policy Framework, budgets and performance plans within their areas of responsibility. Budget estimates should be prepared in line with guidance issued by the Section 151 Officer and have regard to known spending patterns, legal requirements and agreed corporate and/or service plans.

- Contributing to the development of corporate and service targets, objectives and performance information in their areas of responsibility.

- Developing their services' performance plans in line with statutory requirements and corporate guidance.

- Achieving the targets, objectives and levels of performance as set out in the corporate plans (including achievement of budgetary targets within their areas of responsibility).

- Complying with the accounting guidance provided by the Section 151 Officer and ensuring that income and expenditure is properly recorded and accounted for in their service areas. Income and expenditure should not be miscoded as a means of applying unauthorised virement.

- Monitoring income and expenditure within their approved budgets and reporting to the Section 151 Officer and Cabinet Member significant variations to budget (in excess of £10,000). He or she should also take the necessary action required to improve the financial position.

Directors and Heads of Service are able to delegate budget responsibilities to Service Managers within their given area of responsibility. Any such scheme of delegation should be documented and the Budget Holder made aware of their levels of authority and the contents of the Financial Rules. Adequate training and support should be provided to Budget Holders to enable them to carry out their financial responsibilities and internal controls should be established to ensure that budgets are properly monitored.

Budget Holders and Other Employees

Each delegated budget holder and employee shall be responsible for the sound financial management and budgetary control of their delegated area. This will include the monitoring and control of all financial and finance related systems and the monitoring and control of access to computerised financial records. Significant variations to budgets should be reported to their Director or Head of Service.

Preparation of Capital Programme

Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the authority, such as land, buildings, and major items of plant and equipment or vehicles. Capital assets shape the way services are delivered for the long-term and create financial commitments for the future in the form of financing costs and revenue running costs. Capital expenditure may include loans and grants which are used by others for capital purposes.

The Section 151 Officer is responsible for defining whether expenditure is classed as capital or revenue expenditure, having regard to Government regulations and accounting requirements.

The council can set a “de minimis” level for treating capital expenditure as revenue, to avoid unnecessary work in identifying potential capital spend. The current “de minimis” level is set at £10,000. Expenditure falling within the definition of capital expenditure will be charged to revenue if is for £10,000 or less.

The Section 151 Officer is responsible for ensuring that a capital programme is prepared on an annual basis for consideration by Cabinet, before submission to Full Council for approval as part of the annual Budget setting process.

Each Director or Head of Service will prepare a business case for each new item to be included in the capital programme, including details of the scheme, the capital budget requirement, a project plan, associated revenue expenditure and any other details requested by the Section 151 Officer.

No capital scheme shall commence which will increase the revenue expenditure of the council until such revenue provision has been approved.

The Government places strict controls on the financing capacity of the authority.This means that capital expenditure should form part of an investment strategy and should be carefully prioritised in order to maximise the benefit of scarce resources.

Additional funding of capital schemes should be approved as follows:

- Amounts not exceeding £100,000 – by Cabinet
- Amounts in excess of £100,000 – by Full Council.

This approval is subject to council approved budgets and financial rules.

As part of the capital programme, an asset management plan shall be maintained by a designated Director or Head of Service and a capital strategy shall be maintained by the Section 151 Officer. The plan and strategy shall be reported to Cabinet every three years.

Once a capital project has been approved, a Director, or delegated employee, will be accountable for the delivery of the scheme and must comply with the council's Procurement Rules, Financial Rules and any other internal regulatory documents.

One-Off Revenue Funding

Additional one-off revenue funding should be approved as follows:

- Amounts not exceeding £100,000 – by Cabinet
- Amounts in excess of £100,000 – by Council

This approval is subject to council approved budgets and financial rules.

Resource Allocation

Where there is a mismatch between available resources and required resources, service needs should be prioritised and resources fairly allocated.

The Section 151 Officer is responsible for:

- Developing and maintaining a resource allocation process that ensures due consideration of the council's policy framework.

- Advising on methods available for accessing additional resources and assessing their financial implications.

- Assisting in the allocation of resources to budget holders.

Increases in Estimates

Other than by virement or supplementary estimate, expenditure estimates may not be increased as a result of increased income, unless the service is designated as a trading service by the Section 151 Officer, in consultation with the relevant Director and Cabinet Member. In these circumstances expenditure estimates approved by the Council may be increased as a result of increased income, in line with the virement rules set out in the Financial Rules.

Carry Forward of Budget

Carry forward of planned underspend of revenue budgets into the following financial year will be allowed with the agreement of the Section 151 Officer, in order to meet the needs of approved service delivery. All applications shall be submitted to the Section 151 Officer in accordance with the agreed year end timetable.

Section 151 Officer approval is subject to evidence that the underspend is as a result of timing, has been committed for the **same purpose** as originally intended, and will be spent in the new financial year. The Section 151 Officer will report agreed carry forwards to the Cabinet each year.

All other carry forward requests, including budget under spends that have been carried forward in previous financial years, will be subject to Full Council approval at the Financial Outturn meeting held after the year end.

Maintenance of Reserves

Full Council must set the level of general reserves it wishes to maintain before it can decide the level of the Council Tax. Reserves are maintained as a matter of prudence. They enable the council to provide for unexpected events and thereby protect it from overspending should such events occur.

The Section 151 Officer has a statutory obligation under the Local Government Act 2003 to report on the adequacy of the council's reserves to Cabinet and Full Council, at the time the Council considers its budget for the coming year.

Reserves can be maintained for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing (This forms part of general reserves).

- A contingency to cushion the impact of unexpected events or emergencies (This also forms part of general reserves).

- A means of building up funds to meet known or predicted requirements (Earmarked reserves).

The Section 151 Officer has delegated authority to approve in year transfers to and from earmarked reserves to support the activities of the council.

The transfer to and from general reserves shall be the responsibility of Full Council. As part of the annual budget approval process, Full Council may delegate the amount by which such funds may be utilised and approved by Cabinet in meeting unforeseen expenditure.

C: SCHEME OF VIREMENT

Introduction

The scheme of virement is intended to enable the Cabinet, Directors and Heads of Service and Budget Holders to manage budgets with a degree of flexibility within the overall Policy Framework determined by the council, and therefore to optimise the use of available resources.

Virement is the switching of resources between approved budgets at a service or cost centre level. This transfer of budgetary provision may be used if additional expenditure is required on an existing budget, providing that an equal expenditure saving or additional income can be made on another budget, subject to the Virement Rules.

Full Council

Full Council is responsible for agreeing procedures for virement of expenditure between budget headings. The virement scheme is administered by the Section 151 Officer within the guidelines set by Full Council. Any variation from this scheme requires the approval of Full Council.

Virement in excess of £100,000 are deemed to change the Budget and Policy Framework and require the approval of Full Council.

Budget Variations within a Service

Action to correct actual or projected variations in budgeted income or expenditure within an approved cost centre / service is delegated to the relevant Service Manager or Budget Holder, in consultation with GO Shared Services. These variations should not have a financial impact on the approved net budget on the cost centre / service.

Virement Rules / Limits

The prior approval of the relevant Cabinet Member and the Section 151 Officer is required for any virement, of whatever amount, where it is proposed to vire as a result of a fortuitous increase in income to a cost centre not designated as Trading. The rules below cover the delegated virement limits.

Revenue budgets:

The following rules apply to virement between services:

- **Amounts up to £10,000 –**
  Approval by relevant Director(s) or Head of Service(s). The Section 151 Officer should be informed of this virement.

- **Amounts over £10,000 but not exceeding £25,000 –**
  Approval by relevant Director(s) or Head of Service(s) and the Section 151 Officer. Relevant Cabinet Member(s) to be informed of this virement.

- **Amounts over £25,000 but not exceeding £50,000 –**
  Approval by Cabinet Member(s) in consultation with Section 151 Officer.

- **Amounts over £50,000 but not in excess of £100,000 –**
  Approval of Cabinet.

- **Amounts in excess of £100,000 –**
  Approval of Full Council.

Capital Schemes:

- **Amounts up to £50,000 –**
  Approval of relevant Director(s) or Head of Service(s), with the agreement of the Section 151 Officer. Cabinet Member to be informed.

- **Amounts over £50,000 but not exceeding £100,000 –**
  Approval by Cabinet

- **Amounts in excess of £100,000 –**
  Approval of Full Council.

Virement that is likely to have a financial impact on the level of service activity falling under the responsibility of another Director should only be implemented with the approval of each Director or Cabinet Member concerned.

Virement must not be aggregated or disaggregated in order to avoid the Virement Rules.

No virement relating to a specific financial year will be made after 31st March in that year.

Where an approved budget is a lump sum budget or contingency intended for allocation during the year, its allocation will not be treated as a virement, provided that:

- the amount is used in accordance with the purposes for which it has been established.
- the Cabinet or Full Council has approved the basis and the terms, including financial limits, on which it will be allocated. Individual allocations in excess of the financial limits should be reported to the Cabinet or Full Council as required.

The virement must not contravene any statutory requirement.

All virement must be properly documented and approved. A record of all virement should be maintained by the Section 151 Officer and reported to the appropriate Cabinet Member.

D: RISK MANAGEMENT AND INSURANCE

Introduction

Risk is the chance of something going wrong which may result in loss, damage, injury, failure to achieve objectives or missed opportunity caused by an unwanted, uncertain or lack of action or event. It includes corporate and strategic risks. All organisations, whether they are in the private or public sectors, face risks to credibility, people, property and continued operations.

Risk management is the planned and systematic approach to the identification, evaluation and control of risk. Its objectives are to secure the organisation's opportunities and assets and to ensure its continued financial and organisational well-being. Risk management is, therefore, an integral part of good business practice.

It is essential that robust systems are developed and maintained for identifying and evaluating all significant opportunities and risks to the council as an integral part of management. This should include the active participation of all those associated with the planning and delivery of services.

The Council's Risk Management Policy and Strategy sets out criteria for risk assessment and guidance on how it should be managed.

Cabinet

The Cabinet is responsible for:

- Implementing the council's Risk Management Policy and Strategy.
- Promoting a culture of risk management awareness throughout the council
- Ensuring that adequate insurance cover exists where appropriate.

Audit Committee

The Audit Committee is responsible for:

- Approving the council's risk management strategy
- Ensuring that risk management procedures are satisfactorily carried out.
- Ongoing monitoring and review of the risk management strategy.

Section 151 Officer

The Section 151 Officer is responsible for:

- Preparing the Risk Management Policy & Strategy for Audit committee.
- Promoting the culture of Risk Management throughout the council.
- Advising the Cabinet on appropriate insurance cover for known insurance risks and assets owned and/or used in connection with the council's activities.
- The negotiation, and where appropriate, settlement, of insurance claims, in consultation with the Monitoring Officer and other Employees as appropriate.
- Ensuring that all appropriate Employees are included in a suitable fidelity guarantee insurance.
- Reviewing annually, or at any such other period considered necessary, all insurances, in consultation with Directors and other Employees as appropriate.

Directors and Heads of Service:

Directors and Heads of Service are responsible for risk management and the regular review of risk and opportunity within their services, having regard to advice from the Section 151 Officer and other specialist Officers (e.g. Health & Safety Advisor).

They are responsible for:

- Actively managing opportunities and risk in their area of responsibility.
- Providing prompt notification to the Section 151 Officer for all new risks, properties, services or vehicles which require to be insured and of any alterations affecting existing insurances. This should include any areas of responsibility undertaken in respect of an external organisation, whether or not linked to the council's activities.
- Providing notification to the Section 151 Officer in writing of any loss, liability or damage or any event likely to lead to a claim. Further notification should be given to the Section 151 Officer immediately on receipt of any insurance claim.

- Consulting with the Section 151 Officer and the Monitoring Officer concerning the terms of any indemnity which the council is requested to give.

- Ensuring that all employees:-

  - are aware of their responsibilities for risk management and insurance.

  - receive adequate support and training to carry out their responsibilities.

  - comply with the council's standards of financial management.

  - are personally protected from risk.

Budget Holders and Other Employees

Budget Holders and other Employees are responsible for:

- Identifying opportunities and risks in their service areas.

- Assessing the likelihood of their occurrence and evaluating the possible impact. This involves arranging them in order of priority, recording the risks and judging the potential financial cost, lost time, inconvenience or upheaval, disruption to service, bad publicity or loss of service quality.

- Taking steps to minimise potential losses. Effective action will represent a judgement between the likely risk and the cost or effort required to safeguard against it.

- Notifying the Section 151 Officer promptly of all new risks, properties or vehicles which require insurance and of any alterations affecting existing insurance.

- Notifying the Section 151 Officer immediately of any loss, liability or damage which may lead to a claim against the council, together with any information or explanation required by the Section 151 Officer or the council's insurers.

- Recording any incident which may result in a loss.

- Consulting the Section 151 Officer and the Monitoring Officer on the terms of any indemnities which the council is required to give.

- Ensuring that the council's employees, or anyone covered by the council's insurance, do not admit liability or make any offer to pay compensation which may prejudice the assessment of liability in respect of an insurance claim.

E: INTERNAL CONTROLS AND AUDIT

Introduction

Internal control refers to the systems of control devised by management to help ensure the council's objectives are achieved in a manner which promotes economical, efficient and effective use of resources and that the council's assets and interests are safeguarded.

The council faces a wide range of financial, administrative and commercial risks, both from internal and external factors. Internal controls are necessary to help manage these risks and to monitor progress towards its strategic objectives.

Internal Audit

The Accounts and Audit Regulations 2011 require that the council must undertake an adequate and effective internal audit of its accounting records and of its system of internal control, in accordance with proper practices in relation to internal control.

The internal audit function should operate in accordance with the CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, the Chartered Institute of Internal Auditors (UK and Ireland) Standards for the Professional Practice of Internal Auditing, and with any other statutory obligations and regulations.

Internal Audit shall provide an independent, objective, assurance and consulting activity for the review of the council's system of internal control.

The Head of Internal Audit is responsible for providing a written report to those charged with governance, which includes an opinion on the adequacy and effectiveness of the council's control environment under the CIPFA Code of Practice for Internal Audit in Local Government 2006.

The Head of Internal Audit has the right to meet the Chair of the Audit Committee in private.

Internal Audit shall have direct access to the Head of Paid Service, the Section 151 Officer, the Monitoring Officer, all levels of Management and Elected Members.

Internal Audit shall have full and complete access to all information, records, facilities and personnel relevant to the performance of an audit review.

External Audit and Inspection

The Audit Commission is responsible for appointing external auditors to each local authority in England and Wales. The basic duties of the external auditors are defined in the Audit Commission Act 1998 and the Local Government Act 1999.

The external auditor's main objectives are to review and report on the financial aspects of the council's corporate governance arrangements, the financial statements and the arrangements to manage its performance.

External Audit is responsible for considering whether the council has proper arrangements in place for:

- Securing financial resilience; reviewing the council's financial governance, financial planning and financial control processes.

- Challenging how it secures economy, efficiency and effectiveness; looking at how the council is prioritising resources and improving efficiency and productivity.

The council may, from time to time, be subject to audit, inspection or investigation by other external bodies, such as HM Customs and Excise, the Inland Revenue and the Benefit Fraud Inspectorate, all of whom have statutory rights of access.

Audit Committee

The Audit Committee provides a broad base audit role across all areas of the council, while promoting and ensuring effective governance, internal control and assurance mechanisms.

Audit Committee is responsible for:

- Reviewing internal and external reports and assessments in respect of corporate governance.

- Considering the Head of Internal Audit's annual report and opinion and annual internal audit plan and the level of assurance it gives over the council's corporate governance arrangements.

- Monitoring the operational Internal Audit plan and the audit planning process; ensuring that internal audit work is planned with due regard to risk, materiality and supports the council's corporate aims and priorities.

- Consulting with the Audit Commission on the appointment of the council's external auditor.

- Consideration and review of the external audit annual Report to those charged with governance (ISA 260) and all associated reports and other documents.

- Reviewing all matters relating to external audit, including audit and inspection planning, action points and reports

- Monitoring and review of actions required arising out of external and internal audit recommendations.

- Ensuring effective liaison between external and internal audit and any other inspection agency.

- Reviewing and signing approval of the audited annual statement of accounts and annual governance statement, including the statement of the system of internal financial control by 30th September of each year following the financial year end.

Section 151 Officer

The Section 151 Officer is responsible for:

- Advising and assisting the council to put in place a control environment which provides reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.

- Ensuring that an adequate and effective Internal Audit Service is maintained, with the authority to access all assets, records, documents, correspondence and control systems of the council, and such records belonging to third parties, such as contractors, when required.

- Ensuring that effective procedures are in place to investigate promptly any suspected fraud or irregularity.

- Ensuring that all External Auditors and Inspectors are given access at all reasonable times to premises, personnel, documents and assets which they consider necessary for the purposes of their work.

- Working with the appointed External Auditors and Inspectors and advising the Audit Committee, Cabinet, Directors and Heads of Service on their responsibilities in relation to external audit and inspection.

- Ensuring there is effective communication between External and Internal Audit.

Directors and Heads of Service

Each Director and Head of Service is responsible for:

- Establishing sound arrangements for planning, appraising, authorising and controlling their operations, in accordance with the Code of Corporate Governance and the Annual Governance Statement.

- Achieving continuous improvement, economy, efficiency and effectiveness within services.

- Implementing processes to check that established controls are being complied with and to evaluate their effectiveness.

- Reviewing existing controls and establishing new controls where necessary, in order to reflect changes within the council. They shall consult with Internal Audit on any proposed new systems, before implementation.

- Ensuring that Internal Auditors are given access to all records and assets of the authority, in accordance with their authority as set out above.

- Ensuring that all External Auditors and Inspectors are given access at all reasonable times to premises, personnel, documents and assets which they consider necessary for the purposes of their work.

- Considering and responding promptly to recommendations in audit reports. Implementing agreed actions arising from audit recommendations in a timely and efficient fashion.

- Notifying the Section 151 Officer and the Head of Internal Audit immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources.

- Ensuring that, as far as possible, the same officer is not responsible for receiving or paying money and rendering accounts or issuing receipts for the same.

Preventing Fraud and Corruption

The council has an Anti-Fraud and Corruption Policy and maintains a culture which will not tolerate fraud or corruption. The council's expectation of propriety and accountability is that Members and all Officers at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices.

The council also expects that individuals and organisations (e.g. service providers, contractors and suppliers) that it comes in contact with, will act towards the council with integrity and without thoughts or actions involving fraud and corruption.

The Section 151 Officer is responsible for the development and maintenance of an Anti-Fraud, Corruption and Whistle-blowing Policy.

The Monitoring Officer is responsible for ensuring that all legislation, including the Public Interest Disclosure Act 1988 and Fraud Act 2006, is adhered to.

Each Director and Head of Service is responsible for ensuring that the systems operated within his or her control seek to prevent or minimise the opportunity for fraud, corruption or irregularity to arise. And that all staff are aware of and comply with the council's anti-fraud and whistle blowing policies.

Whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores or other property of the council, or any suspected irregularity in the exercise of the functions of the council, the Director or Head of Service has a duty to immediately notify the Section 151 Officer and the Monitoring Officer, who shall take such steps as they consider necessary by way of investigation and report.

All Members and Employees must be aware of the maintenance of the Register of Interests and ensure that any offer of hospitality or gifts must be recorded, whether accepted or refused.

Ex-Gratia / Maladministration Payments

A payment is sometimes made to compensate someone for loss or damage incurred through no fault of the council. Most usually, this is to an employee who has suffered loss or damage in the course of their duties but can be to a member of the public for a minor loss within the influence of the council (such as thefts from secured lockers at Leisure Centres) This is funded through the council's insurance arrangements.

Compensation payments under the local complaints procedure up to £5,000 shall only be made following an investigation by the Section 151 Officer and a Director or Head of Service and/or the Monitoring Officer, and with the approval of at least two of those employees.

Compensation payments in excess of £5,000 shall only be made with the approval of the most appropriate Cabinet Member, following a report from one of the three employees named in Financial Rule xx, above.

F: ASSETS

Introduction

The council holds assets in the form of property, vehicles, equipment, furniture, cash and other items worth many millions of pounds. It is important that assets should be safeguarded and used efficiently in the delivery of services. Assets should be used to achieve the approved policies and objectives of the council with the minimum of waste, inefficiency or loss.

This involves ensuring that appropriate assets are acquired, in line with the Council's Procurement Strategy; that they are recorded and kept securely and are disposed of effectively and economically when no longer required.

Full Council

Full Council is responsible for deciding the extent of the Property Portfolio and for agreeing acquisitions and disposals. Approval is delegated to Cabinet for amounts up to £500,000 (for Social Housing) and £250,000 (for other land or property). ***(Legal to check)***

Cabinet

The Cabinet is responsible for approving terms for land / property acquisitions or disposals up to the following financial limits:

- £500,000 for Social Housing ***(chelt –want same limits –say £500k)***
- £250,000 for other land or Property

Chief Executive (or other delegated Officer)

The Chief Executive is responsible for:

- Determining applications for the assignment of leases and granting sub-leases and under-leases and other applications for consent required by leases.
- Signing contracts for the sale or purchase of land, for which the disposal/acquisition has been agreed by the Cabinet or Full Council.

Director or Head of Property Services (or other delegated Officer)

The Director or Head of Property Services is responsible for:

- Maintaining a terrier / asset register of all properties and assets owned by the council, in a form approved by the Section 151 Officer. This shall record the purpose for which the property is held, its location, its extent and plan reference, purchase details, particulars of nature of interests and rents payable and particulars of tenancies granted.

- Advising Members, the Section 151 Officer, Cabinet, Council and other Officers on property-related issues.

- Processing all authorised acquisitions and disposals of land and property.

- The maintenance of council-owned property including open-spaces. Such maintenance work to be carried out within the terms of contracts for responsive maintenance to Council properties.

- in the case of non-housing capital building contracts, consulting with the relevant Cabinet Member and the Section 151 Officer, where the contingency sum in the contract is likely to be exceeded. Financial Rules in respect of budget approval and /or virement are to be followed.

The Director or Head of Property Services (or other delegated Officer) has authority to sell surplus equipment, in consultation with the Section 151 Officer, to a maximum value of £10,000, on receipt of bids where appropriate.

Monitoring Officer

The Monitoring Officer, in consultation with the relevant Cabinet Members and relevant Ward Member(s) and the relevant Director, has authority, in the case of the resale of former Council houses, to give the Council's consent in all cases under Section 157(1) of the Housing Act 1985 where consent is obligatory and in other cases approved by the Cabinet; and authority to approve applications for the sale of former Council houses in Areas of Outstanding Natural Beauty.

The Monitoring Officer, in consultation with the relevant Ward Member(s) and a 48 hour period being allowed for any response to such consultation, has authority to approve all transactions relating to the council's properties (except residual housing land) within their existing classifications; including:

- New leases granted by the Council
- Determination of applications for the Council's consent as landlord, required under leasehold covenants, including assignments, sub-letting and alterations/improvements

- Rent reviews
- Lease terminations (including surrenders);
- Lease renewals
- Institution of proceedings for breach of any leasehold covenant (including recovery of rent arrears and forfeiture) and enforcement of any resultant Court Order or Warrants for Possession (in consultation with the Head of Property Services)

- Licences regulating the use or occupation of council property.

Such approval (where appropriate) is to be on terms recommended by the District Valuer, or an independent Valuer.

The Monitoring Officer, in consultation with the relevant Cabinet Member and the relevant Ward Member(s), has authority to agree the sale of Council-owned land on terms recommended by the District Valuer, or an independent Valuer, where the following conditions are fulfilled:

- The sale price of the land and easements does not exceed £50,000 and easements up to £25,000 per annum

- The terms of the sale are not unusual or contentious.

- The Cabinet Member and the Ward Member(s) have no objection to the sale.

The Monitoring Officer has similar delegated authority in relation to land purchases and easements, as set above.

The Monitoring Officer, in consultation with the appropriate Director and Head of Property Services, has authority to approve the granting of way leaves, licences and other rights of use in respect of Council property.

The Monitoring Officer has the authority to instigate any investigations he/she considers necessary in particular cases regarding the lease of Council-owned commercial premises.

The Monitoring Officer shall have custody of all title deeds under secure arrangements agreed with the Chief Executive.

Section 151 Officer

The Section 151 Officer is responsible for:

- Ensuring that an asset register is maintained in accordance with good practice for all fixed assets with a value in excess of £10,000. The purpose of an asset register is to provide the Council with information about fixed assets so that they are safeguarded, used efficiently and effectively and are adequately maintained.

- Ensuring that assets are valued in accordance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

- Maintaining a property database for all land, properties, plant and machinery, and moveable assets currently owned and used by the Council.

- Managing the risk implications of the Property Portfolio, particularly in terms of insurance cover.

- Co-ordinating the security of the council's administrative and operational offices.

Directors, Heads of Service and Budget Holders

Directors, Heads of Service and Budget Holders are responsible for:

- Ensuring that records and assets are properly maintained.

- Drawing up contingency plans for the security of assets and continuity of service in the event of disaster or system failure.

- Ensuring that lessees and other prospective occupiers of council land or property are not allowed to take possession or enter the land until a lease or agreement has been established. The lease or agreement should be in a form approved by the Head of Property Services, in consultation with the Section 151 Officer and the Monitoring Officer, where appropriate.

- Ensuring the proper security and safe custody of all buildings, vehicles, equipment, furniture, stock, stores, money and other property belonging to the council.

- Where land or buildings are surplus to requirements, preparing a report containing a recommendation for the disposal of the land, in consultation with the Head of Property Services and the Section 151 Officer.

- Passing title deeds of council property to the Monitoring Officer who is responsible for the custody of all title deeds.

- Maintaining an inventory of moveable assets (all furniture, fittings and equipment, plant and machinery) above the value of £500, held within his or her areas of responsibility. The Director or Head of Information Community Technology shall also maintain a register of all ICT equipment above the value of £250 owned by the council, including its location and serial number.

- Ensuring that council assets are not taken, borrowed or used by a Member or Employee for their personal use without proper authority.
- Ensuring, in accordance with arrangements agreed by the Section 151 Officer that all assets are correctly identified and insured.
- Notifying the Section 151 Officer and the Director or Head of Property Services of any proposals to acquire or dispose of council property.
- Arranging for the valuation of assets for accounting purposes to meet requirements specified by the Section 151 Officer.
- Ensuring that all Employees under their management are aware that they have a personal responsibility with regard to safeguarding the council's assets and information, including the requirements of the Data Protection Acts and software copyright legislation. This should include confidentiality of information, whether held in manual or computerised records.

Information and Communication Technology (ICT)

All ICT equipment, irrespective of its individual value, shall be procured by, or with the prior approval of the Director or Head of Service responsible for ICT Services (or his or her delegated Officer), particularly where the equipment has a strategic value or requires network access.

This Director or delegated Officer shall maintain a register of all ICT equipment above the value of £250 owned by the council, including its location and serial number.

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Certain equipment to be determined by the Director or Head of Service responsible for Information Communication Technology, such as cameras, blackberries, etc shall be procured by him or her and recorded in the ICT inventory.

The Council's internal IT policy and guidance should be followed, and in particular, no unofficial or unlicensed software shall be used on the council's computer equipment, under any circumstances.

Computer games supplied as part of licensed software shall not be played in council time.

Stocks and Stores

Disposable items such as stationery, goods for sale or materials may be held in store. They should be properly controlled and accounted for to ensure they are used only for council purposes.

Stocks shall not be in excess of normal requirements except in special circumstances, with the approval of the Director or Head of Service, who shall keep a written record and justification of such circumstances.

Each Director or Head of Service shall be responsible for the care and custody of the stocks and stores within his or her service(s).

Directors or Heads of Service shall arrange for periodical test examinations of stocks and ensure that all stocks are checked at least once a year. This is to be under the supervision of persons without direct responsibility for the custody of the stocks or stores being checked.

The Section 151 Officer shall be entitled to receive from each Director or Head of Service such information as he or she requires in relation to stocks or stores, for the accounting, costing and financial records at the financial year end.

Budget holders are responsible for investigating discrepancies and pursuing them to a satisfactory conclusion. Where this is not possible or the amount is over £250, this should be reported to the Section 151 Officer and Head of Internal Audit.

Adjustments in respect of stock deficiencies and surpluses shall be subject to the approval of the Section 151 Officer, or in the case of major items, the Cabinet.

Private individuals or companies shall not be permitted to purchase items previously acquired by the council unless they:

- Are sold through a retail outlet incidental to the provision of a specific service (e.g. Leisure centre or Museum shop), or

- Are obsolete or surplus to requirements and are sold as a means of disposal, in accordance with the council's disposal policies.

Individual Members and Employees of the council must not use the auspices of the council to purchase works, goods or services for their personal use.

Write-offs

Limit of the council to write off and/or dispose of obsolete stock, per individual item:

- Estimated residual value up to £250 - Directors or Heads of Service.

- Estimated residual value over £250 - Section 151 Officer.

At any one time up to £5,000 may be written out of stock records with the Section 151 Officer approval. If the accumulated amount to be written out exceeds £10,000 during the financial year, a report detailing the facts must be made to Cabinet.

Petty Cash and Cash Floats

Maximum limits for cash holdings shall be agreed with the Section 151 Officer and shall not be exceeded without his or her express permission.

The Section 151 Officer may provide petty cash advance accounts or cash floats for such Employees as may need them for the purpose of defraying petty cash or other expenses. Petty cash accounts shall be maintained in the imprest system and shall be controlled by the Employee designated by the Director concerned.

Payments from any such account shall be limited to minor individual items of expenditure up to a maximum of £50. The Section 151 Officer has discretion to allow larger payments in exceptional circumstances.

All payments shall normally be supported by a receipted voucher and proper VAT receipts where appropriate. However, the Section 151 Officer has discretion to allow payments to be obtained without obtaining receipts in exceptional circumstances.

Payments in reimbursement of travelling or subsistence expenses shall not be paid out of petty cash accounts.

An employee responsible for a petty cash or cash float shall, if so requested, give the Section 151 Officer a certificate as to the state of such a float.

Change floats are not to be used for any other purpose than for providing change.

When an Employee responsible for such an account leaves the employment of the council, or ceases to be entitled to hold an advance, his or her Director or Head of Service shall ensure that he or she accounts to him for the amount advanced.

Intellectual Property

Intellectual Property is a generic term that includes inventions and writing. If these are created by an Employee during the course of employment, as a general rule they belong to the Employer. There is a variety of legislation covering different types of intellectual property.

Certain activities undertaken by the council may give rise to items which are patentable e.g. the development of software. These are collectively known as Intellectual Property.

The Monitoring Officer, in conjunction with Section 151 Officer shall determine a policy and procedure guidance relating to intellectual property of the Council.

Directors and Heads of Service are responsible for implementing the council's intellectual property procedures and for putting controls in place to ensure that Officers do not carry out private work in the council's time.

Officers should be made aware of the Employer's rights with regard to intellectual property.

G: TREASURY MANAGEMENT

Introduction

Many millions of pounds pass though the council's books each year and must be carefully managed in a way which balances risk with return, but with the overriding consideration being the security of the council's funds.

The general policy objective is that the council should invest prudently the surplus funds held on behalf of the community, giving priority to security and liquidity of the funds.

The council has adopted CIPFA's Code of Practice for Treasury Management in Local Authorities. All of the council's borrowings and investments are carried out in accordance with this code.

Full Council

Full Council is responsible for approving the Treasury Management Policy Statement, proposed by the Cabinet, setting out the matters detailed in CIPFA's Code of Practice for Treasury Management in Local Authorities.

Cabinet

The Cabinet is responsible for:

- Proposing the Treasury Management Policy Statement to the Council, in accordance with advice from the Section 151 Officer.
- Decisions relating to Treasury Management within the Policy Statement.
- Deciding an annual Treasury Management Strategy Statement and Annual Investment Strategy.
- Implementing and monitoring performance against the Treasury Management Policy Statement.
- Delegating responsibility for borrowing, investment and financing to the Section 151 Officer.

Section 151 Officer

The Section 151 Officer is responsible for:

- Controlling all money in the hands of the council.

- Acting in accordance with the CIPFA's Code of Practice for Treasury Management in Local Authorities.

- Reporting to the Cabinet a proposed Treasury Management Strategy for the coming financial year at or before the start of the financial year.

- Implementing and monitoring the council's Treasury Management Statement.

- Reporting to the Full Council twice in each financial year on treasury management activity and prudential indicators and the exercise of his or her delegated treasury management authority. One such report will comprise an annual report on treasury management outturn, for presentation by 30th September of the succeeding financial year.

- Ensuring that all investment and borrowing is made in the name of the council.

- Ensuring that all securities that are the property of the council and the title deeds of all property in the council's ownership are held securely.

- Acting as the council's registrar of stocks, bonds and mortgages and maintaining records of all borrowing and investment of money by the council.

- Arranging for all trust funds to be held, where possible, in the name of the council. All Officers acting as Trustees by virtue of their official position, shall deposit securities, etc. relating to the trust with the Section 151 Officer unless the deed otherwise provides.

- Where funds are held on behalf of third parties, arranging for their secure administration, approved by the Section 151 Officer, and maintaining written records of transactions.

- Ensuring that all trust funds are operated within any relevant legislation and the specific requirements of each trust.

Banking Arrangements

The Section 151 Officer is responsible for:

- Operating bank accounts as he/she considers necessary. No bank accounts may be opened in the council's name, or closed, without the prior approval of the Section 151 Officer.

- Instructing the council's bankers to prohibit an overdrawn position on the aggregate bank accounts of the council beyond the level set out in the facilities agreement between the council and its bankers.

- Ensuring that an up to date list of all authorised bank signatories on the council's bank accounts is maintained and made available to the council's bankers.

  Designated Officers from within GO Shared Services are permitted to act as authorised bank signatories for each of the councils being served by the Shared Services.

- Ensuring that an up to date list of Officers holding Business Charge Cards on behalf of the council is maintained, showing individual approved credit limits.

- Advising on secure arrangements for banking and cash handling.

- Authorising the provision of change floats at the request of the Directors or Heads of Service (see Petty Cash Financial Rules).

- Ensuring that designated Officers within GO Shared Services are given access to the bank account details of each of the councils being served by the Shared Service, to facilitate transactional processing and other finance related work, as required.

Directors and Heads of Service are responsible for:

- Ensuring that banking and cash handling is carried out in accordance with Financial Rules.

- Ensuring that Officers are properly trained and aware of their responsibilities.

- Ensuring that Officers are personally protected against risk.

- Ensuring that loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without the approval of the Council, following consultation with the Section 151 Officer.

Budget Holders are responsible for:

- Ensuring that all Officers are aware of the controls required over banking and cash handling and follow instructions thereon.

- Ensuring that cash held on the premises is kept to a minimum, held securely, and is always within the limits agreed with the council's insurers. Cash in excess of these limits should be banked before the end of the day. Cash should not be held at an Officer's home as this may negate the Council's insurance cover.

- Holding change floats issued to the service by the Section 151 Officer and accounting for them when required to do so.

- Ensuring that keys to safes and other receptacles used for holding cash are kept secure by the person of those responsible at all times. Loss of keys must be reported to the Section 151 Officer as soon as possible.

- Ensuring that, where money passes from one Officer to another, there are procedures in place to evidence the transfer, the amount and the certification of the Officers involved.

- Ensuring that Council money is not kept with or confused with unofficial funds, e.g. tea, lottery or pools funds.

- Ensuring that payments are not made from cash received.

- Implementing documented procedures for recording, receipting and banking money. Banking should be carried out as frequently as is necessary to keep the amount of money within insurance limits. Each deposit to the bank should be accompanied by a properly completed bank paying-in slip showing:

  - the name and title of the Officer making the banking.
  - the total deposited, analysed in denominations of cash and cheques.
  - the name of the cheque payees and a debtors reference, where this is available, on the reverse of the slip (also on the reverse of the cheque where payment is by cheque).

N.B. Cheques received to a value in excess of £10,000 must be banked on the day of receipt.

- Reconciling income records to the Council's financial information system, checking that all money received has reached the correct budget head. Discrepancies should be investigated and corrected immediately.

BACS Payments and Cheques

The payment of all monies from the council, with the exception of sums payable from advance accounts or business credit cards, shall be by BACS or other instrument drawn on the council's bank account by the section 151 Officer, including cheques when payment by BACS is not possible or appropriate.

All BACS transmissions, irrespective of value, will be supported by an authorisation form signed by the Officer responsible for producing the payment, plus either the Section 151 Officer or another authorised bank signatory.

All individual BACS payments and cheques drawn for an amount in excess of £25,000 shall be countersigned by another authorised Employee, who shall be an authorised bank signatory to the bank account.

All cheque stocks shall be ordered only on the authority of the Section 151 Officer, who shall make proper arrangements for their safe custody.

All cheques drawn on the council's main bank accounts shall bear the facsimile signature of the Section 151 Officer or other employee authorised to do so.

All manually prepared cheques for an amount in excess of £5,000 shall be countersigned by another authorised employee, who shall be an authorised bank signatory to the bank account.

H: FINANCIAL SYSTEMS AND ACCOUNTING PROCEDURES

Introduction

Sound systems and procedures are essential to an effective framework of accountability and control. They are needed to ensure that accounting records can be relied upon to present a true and fair view of the council's financial activity and that management information is appropriate, accurate and timely.

The council must operate within legal requirements and adopt best practice guidance. The council will follow the CIPFA Code of Practice on Local Authority Accounting and the Service Reporting Code of Practice for Local Authorities.

Section 151 Officer

The Section 151 Officer has a statutory and professional responsibility for ensuring that the council's financial systems are sound and for making arrangements for the proper administration of the council's financial affairs, including:-

- Selecting suitable accounting policies that comply with legislation and best practice guidance, and ensuring that they are applied consistently.
- Determining the accounting systems and procedures, form of accounts and supporting financial records.
- Ensuring that delegated Officers within the GO Shared Services are given access to the financial records of each of the councils being served by the Shared Service, to facilitate transactional processing and other finance related work, as required.
- Issuing advice, guidance and procedures for Officers and others acting on the council's behalf.
- Establishing arrangements for the audit of the council's financial affairs.
- Approving any new financial system to be introduced and any changes to be made to existing financial systems.
- Producing timetables for accounting tasks such as the production of budgets and final accounts and the collection or submission of other financial information for processing (e.g. Accounts Payable deadlines).
- Ensuring that all suspense and holding accounts are controlled and reconciled on a monthly basis.

- Ensuring that all bank accounts are controlled and reconciled to the main accounting system regularly (at least monthly) to confirm that all transactions have been processed into the Council's accounts.

The Section 151 Officer has a statutory responsibility for ensuring that the annual Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting and the Service Reporting Code of Practice for Local Authorities.

Directors, Heads of Service and Budget Holders

Each Director or Head of Service shall ensure that all financial and computerised systems for which he or she is responsible are adequately controlled and comply with the requirements laid down by the Section 151 Officer. Any proposed changes to these systems / procedures or any new systems / procedures must be also approved by the Section 151 Officer.

Directors, Heads of Service and Budget Holders are responsible for:-

- The proper operation of financial processes in their areas of responsibility and ensuring that all Officers under their management are aware of, and properly operate, the financial systems relevant to their area of work.

- Establishing and maintaining sound financial processes within their areas of management.

- Documenting systems and ensuring that Officers are properly trained in their use.

- Ensuring that financial transactions are recorded in a timely and accurate manner, and are processed into the main accounting system using correct accounting codes. Transactions should not be processed to incorrect accounting codes as a way of avoiding virement rules.

- Using only their own accounting codes unless they have the express written permission of another Budget Holder to use theirs.

- Properly recording the nature and value of income, expenditure and assets and referring to original documentation where possible.

- Ensuring that income and expenditure are accounted for separately and are not set off against each other.

- Accounting for revenue and capital income and expenditure separately.

- Maintaining a complete audit trail allowing financial transactions to be traced from the accounting records to the original documentation and vice versa.

- Ensuring that vouchers and documents with financial implications are not destroyed, except in accordance with arrangements under Data Protection legislation, approved by the Section 151 Officer.

- Implementing organisational structures that provide adequate segregation of duties to minimise the risk of fraud, error or other malpractice. In particular, ensuring that Employees charged with the duty of examining and checking the amounts of cash transactions (or cash equivalents) shall not themselves be engaged in any of these transactions.

- Establishing an effective scheme of delegation, identifying Officers authorised to act on their behalf in respect of financial transactions, determining the limits of their authority and ensuring that the scheme operates effectively.

- Supplying a written record of authorised Officers within his or her area of responsibility, with specimen signatures and delegated limits, to the Section 151 Officer, and ensuring they are maintained up-to-date. Directors shall still remain responsible for the activities of delegated functions.

- Implementing and documenting effective contingency arrangements in a disaster recovery plan, including back-up procedures, to allow systems to resume operation quickly in the event of an interruption in service. Wherever possible, back-up information should be securely retained in a fireproof location, preferably off-site, or in an alternative location within the building.

- Ensuring that computer and other systems are registered in accordance with Data Protection legislation and that staff are aware of their responsibilities under this and the Freedom of Information legislation.

- Carrying out accounting tasks to meet the standards and timescales set by the Section 151 Officer or his delegated Deputy.

Employees

Each nominated employee shall ensure that all financial and finance related systems are reconciled to the council's main financial management system quarterly, unless more frequent reconciliation is required by the Section 151 Officer.

Any amendments to a prime record should be made in ink and initialled by the Employee making it. Correcting fluid, or any other means of obliteration, shall not be used to amend prime financial records.

Orders for Work, Goods and Services

Requisitions and official orders shall, in addition to any requirement under the Contracts Procedure Rules, be in a form approved by the Section 151 Officer and are to be authorised only be Employees designated for that purpose.

Requisitions and official orders shall be issued for all works, supplies or services to be supplied to the council, except for supplies of public utility services, periodical payments such as rent or business rates, for petty cash purchases or such other exceptions as the Section 151 Officer may approve.

Requisitions or official orders shall clearly indicate the nature and quantity of the work or services required and any relevant contract or agreed prices.

Each requisition and order shall conform with the directions of the council with respect to central purchasing and the standardisation of supplies and materials (or the council's Procurement Strategy).

All ICT equipment, irrespective of its individual value, shall only be procured by, or with the prior approval of the Director responsible for ICT Services (or his or her delegated Officer), particularly where the equipment has a strategic value or requires network access.

Prior to placing an order Employees shall ensure that provision has been made in the budget for the cost of the works, goods or services to be supplied. Where applicable, these should comply with European Community Directories and prescribed procedures.

Payment of Accounts

The payment of all monies from the council, with the exception of sums payable from advance accounts or business credit cards, shall be by BACS or other instrument drawn on the council's bank account by the section 151 Officer, including cheques when payment by BACS is not possible or appropriate.

Each Director or delegated Officer is responsible for the examination, verification and certification of all invoices, payment vouchers or accounts arising from sources in their area of responsibility, in accordance with written delegations and procedures.

Each Director or Head of Service will agree the appropriate approval limit for individual Officers within their service with the Section 151 Officer or Deputy Section 151 Officer, based on their level of responsibility and/or their budget amounts. The approval limits will be assigned in accordance with the following levels of authority:-

- Authorised Budget Holder –Up to £10,000, subject to individual approved limit
- Budget Holder or Manager –£10,001 to £50,000, subject to individual approved limit
- Manager or Director or Head of Service– £50,001 to £100,000, subject to individual approved limit
- Director or Head of Service or Section 151 Officer or Deputy Section 151 Officer – £100,001 to £250,000
- Section 151 Officer or Deputy Section 151 Officer– Amounts over £250,000

Before authorising a payment, the certifying Officer shall have satisfied him/herself that:-

- The goods have been received, examined and approved as to quality and quantity, that the work has been done satisfactorily, and that the orders have been complied with.
- The expenditure is within the estimate or is covered by special financial provision approved by the Section 151 Officer.
- The prices, calculations, trade discounts, other allowances and credits are correct. A tolerance level of 1% or £25 (whichever is greater) is acceptable for approval.
- A valid tax invoice has been received with the correct rate of VAT applied.
- Proper entries have been made in the inventories or stores records, where appropriate.
- The account has not been previously passed for payment and is a proper liability of the council.

Accounts for payment shall be certified and passed for payment without undue delay, especially where discounts are involved. The Head(s) of Finance for GO Shared Services shall ensure that all accounts passed for payment are paid promptly for all accounts which he or she is satisfied are in order.

VAT invoices must not be altered. If the amount of the invoice is incorrect, either a replacement or a credit note shall be requested.

Photocopies of accounts will not be paid unless the payment has not previously been made and the original invoice has never been received or has been destroyed. The certifying Employee must state and sign in ink on the photocopy that the above checks have been applied.

Payment will not be made on the basis of a statement or a reminder account.

Prepayment for goods and services should be avoided where possible, in order to minimise risk to the council. If a prepayment is unavoidable then it should be approved by the GO Shared Services.

Payments shall be made within 30 days of receipt by the council or within any mutually agreed terms, in order to avoid the possibility of penalty interest becoming payable.

Any penalty interest becoming payable under the Late Payment of Commercial Debts (Interest) Act 1998 shall be charged back to the appropriate budget head unless, in the view of the Section 151 Officer, unreasonable delays were occasioned by another Employee.

A Director must consult with the Section 151 Officer before entering into any mutual payment terms with a supplier. All such agreements must be made in writing.

Payments to Employees and Members

The interpretation and application of pay scales, conditions of service and other related matters shall be the responsibility of the Head of Paid Service (Chief Executive), with whom Directors shall confer, as necessary, in connection with their application to employees in their areas of responsibility.

The Section 151 Officer is responsible for ensuring that budget provision exists for all existing and new employees and for making all payments of salaries and wages to all staff and Members, in accordance with agreed terms and conditions and timescales.

The Section 151 Officer is responsible for the maintenance of proper national insurance, income tax and other statutory pay records and for the accurate and timely payment of pension contributions and other deductions to third parties.

The Head of Human Resources for GO Shared Services, in consultation with the Section 151 Officer, shall approve and control the arrangements for payments of salaries and wages to all staff, including the process for payments for overtime and for payment of allowances to Members.

Directors and/or Managers must notify the GO Shared Services, as early as possible of all appointments, dismissals, resignations, absences from duty, transfers and proposed changes of employees, together with such other information as is necessary to maintain adequate personnel records for the council.

No new appointments or changes to arrangements for existing employees are permitted without adequate budget provision. All appointments shall be made in accordance with the council's rules and approved establishments, grades and scales of pay.

Directors and/or budget holders are responsible for the monitoring of spending against approved employee-related budgets, ensuring that the manpower budget is not exceeded without appropriate authority and that it is managed to enable the agreed level of service to be provided.

All Employees and Members shall notify the GO Shared Services, Human Resources Service of any discrepancy between what they expected to be paid and what they have received, including payments made in error. In the event of an overpayment the recipient will normally be asked to refund the council over the same time period for which the error was made. If the council makes an underpayment it will be corrected as soon as is reasonably practical, each case being agreed individually. Failure to report an overpayment may result in disciplinary action.

Travel and Subsistence Claims:-

Claims for payment of allowances, travelling and subsistence following the process approved by the Head of Human Resources for GO Shared Services, in consultation with the Section 151 Officer.

Claims shall normally be submitted monthly and always by the end of April following the financial year end. Employees are responsible for ensuring that journeys made and expenses claimed have been properly incurred and supporting VAT receipts are obtained. All claims to be authorised by an employee's line manager.

The council reserves the right not to pay any travel and/or expense claims that are not submitted in a timely manner, without good reason. Line Managers are responsible for approving or not approving all claims. In the case of any queries, line Managers should consult with their Director or Head of Service.

Value Added Taxation

The Section 151 Officer is responsible for advising Directors and Heads of Service and Members, in the light of guidance by appropriate bodies and relevant legislation as it applies, on all taxation issues that affect the council. Written advice shall be made available to all relevant Employees.

The Section 151 Officer is responsible for maintaining the council's tax records, making all tax payments, receiving tax credits and submitting tax returns by their due date as appropriate.
The Section 151 Officer or his authorised representative shall be responsible for liaising with HM Revenue and Customs on all VAT related matters and for submitting and signing the necessary returns/claims in a timely manner.

VAT on Expenditure –

VAT must be correctly claimed on expenditure (Input Tax) and valid tax invoices retained by the council. Invoice certification must include checks on VAT to ensure that:-

- Transactions where no VAT is payable are correctly identified as being zero-rated, exempt or outside the scope of the tax.
- There is a valid tax invoice.
- The correct VAT indicator is used on the invoice certification.
- The VAT is correctly calculated.

VAT on Income –

VAT must be correctly charged on works, goods and services supplied by the council (Output Tax) and a valid VAT invoice or VAT receipt issued to any party outside the council, in accordance with the form approved by the Section 151 Officer.

Private purchases –

Under no circumstances shall an Officer or Member use the auspices of the council to purchase goods or services for their own private purposes to avoid paying VAT. To do so may result in disciplinary action.

Trading Accounts / Business Units

It is the responsibility of the Section 151 Officer to advise on the establishment and operation of trading accounts and business units. These shall be accounted for in accordance with CIPFA's Service Reporting Code of Practice.

The Section 151 Officer shall be consulted if a business unit wishes to enter into a contract with a third party, where the contract exceeds the remaining life of their main contract with the council. In general, such contracts should not be entered into unless they are capable of being terminated within the main contract period without penalty.

A service designated as a trading service may increase expenditure estimates approved by the Council, in consultation with the relevant Director and Cabinet Member and the Section 151 Officer as a result of increased income, in line with the virement rules set out in the Financial Rules.

A trading account or business unit for the provision of sports, recreation or cultural activities may increase its fees and charges during the year in order to remain in line with competitors and demand, in consultation with the relevant Cabinet Member.

Journals

All journal entries and other daily input into the Financial Management system (Agresso) may only be processed by authorised Employees, with the approval of the Section 151 Officer. This will normally be restricted to Officers within the GO Shared Services, Financial Services.

Journals shall only be processed within the general ledger of the council. No journals are permitted between different company / council general ledgers.

The Head(s) of Finance for GO Shared Service is responsible for ensuring that a daily report of all journals raised on the finance system is produced and retained for audit purposes. This report shall be checked and signed as agreed by a delegated senior Officer within GO Shared Services.

I: INCOME

Introduction

The council seeks to maximise its income to enable it to meet its financial objectives. The Local Government Act 2003 enables authorities to charge for discretionary services. Sources of income need to be identified and fees and charges authorised at an appropriate level.

Cabinet

The Cabinet is responsible for:-

- Setting fees and charges for services, approved as part of the annual budget setting meeting

- Approving procedures for the write off of bad debts.

- Approving the write off of bad debts in excess of the approved Section 151 Officer limit. (para xx)

Statutory fees and charges shall be set in accordance with the relevant legislation and the prescribed notice period for changes to fees and charges shall be given.

Non statutory fees and charges may be increased or reduced during the year by the Director or Budget Holder, in order to remain in line with competitors and demand, in consultation with the relevant Cabinet Member.

Section 151 Officer

The Section 151 Officer is responsible for:-

- Agreeing arrangements made for the collection of income due to the council and approving the procedures, systems and documentation for its collection.

- Ensuring that all claims for funds, including grants are made by the due date

- Agreeing the arrangements for ordering and supplying all receipt forms, books or similar items and satisfying him/herself regarding the arrangements for their control.

- Operating the approved procedures for the write off of bad debts (para xx).

Directors and Heads of Service

Each Director or Head of Service is responsible for:-

- Recommending to Cabinet the fees and charges to be set for goods or services falling within their control, apart from those charges fixed on a statutory or nationally agreed basis.

  This shall not apply to ad-hoc charges of a minor nature where a flexible pricing policy has been agreed, charges associated with partnership working which are set on a cost recovery basis, or rechargeable works.

- Seeking the Cabinet's approval (at least annually) for the charging policy for the supply of goods or services and reviewing it regularly in line with corporate policies.

- Informing the Section 151 Officer and relevant Cabinet Member of the particulars of all new sources of income arising from the work of their service, as soon as it becomes known.

- The identification, prompt collection, control and monitoring of all income due to the council within their area of responsibility.

Budget Holders

Budget Holders are responsible for:-

- Identifying all activities in their areas of management for which charges should be made, to whom, when, how much and whether VAT should be added.

- Maximising income within the council's policies and legislation.

- Maintaining a record of all income due to the council, including details of contracts, leases, grants and other arrangements.

- Ensuring that all income generated by their service is accounted for and that proper records are maintained, using systems and documentation approved by the Section 151 Officer.

- Ensuring that all Employees under their management are aware of, and operate, the internal controls that exist in their area.

- Where money is to be collected by debtor account, ensuring that the details of work done, goods supplied, services rendered or other amounts due, are correctly recorded and the debtor accounts rendered promptly.

- Assisting in the collection of debts that they have originated by providing further information requested by the debtor and by pursuing the debt on the Council's behalf and taking prompt action to recover debts, in conjunction with the Section 151 Officer, whilst having regard for the cost of collection. Debtor accounts should be reviewed regularly to identify unpaid accounts and recovery action required.

- Where responsibility for the collection of a debt has not been passed to the Section 151 Officer, establishing and initiating appropriate recovery procedures, including legal action, where necessary, for debts which have not been paid promptly.

- Ensuring that at least two employees are present when post is opened so that money received by post is properly identified, recorded and accounted for.

- Securing all income to safeguard against loss or theft and ensuring the security of cash handling.

- Ensuring that income is paid fully and promptly into the appropriate Council bank account in the form in which it is received and that appropriate details are recorded on the paying-in slip to provide a complete audit trail.

- Ensuring that no expenditure is paid from income received.

- Reconciling income systems with the council's main accounting system monthly to ensure that all income received has reached the correct budget head and investigating where there is a discrepancy.

- Monitoring levels of income received and outstanding to establish trends and anomalies which should be investigated.

- Notifying the Section 151 Officer of outstanding income relating to the previous financial year as soon as possible after 31st March, in line with the financial year end timetable.

Employees

Personal cheques must not be cashed from Council money nor cash advances taken against credit card transactions out of any money held on behalf of the Council.

Accounts Receivable (Debtors invoices)

A Budget Holder or delegated Officer must authorise all debtors' invoices and/or credit notes for amounts less than £5.00.

VAT must be properly recorded. Failure to do so may result in the council being unable to reclaim VAT and, in some circumstance, a penalty payment imposed by HM Customs and Excise.

Cash payments must be checked on receipt. In situations where electronic receipting is not available, an official, sequentially numbered receipt must be issued for a cash payment at the time of its receipt. A receipt must be issued for other forms of payment if requested by the payer. The transfer of all money between officers must be documented and the recipient should sign a receipt.

Payments received in “Full and Final Settlement” shall only be accepted and accounted for if they are sufficient to clear fully the appropriate debt, unless with the approval of the Section 151 Officer and the Monitoring Officer.

Debt Recovery Procedures

Once raised, a debtor’s invoice may not be cancelled except by full payment, the issue of a credit note or by its formal writing off. A credit note can only be issued to correct a factual inaccuracy or administrative error in the calculation and/or billing of the original debt, or to recognise that an overpayment of housing benefit is being recovered from an on-going benefit entitlement.

There must be proper documented systems for the payment of outstanding debtors’ invoices, including milestones and timelines, which shall be followed by delegated Officers.

Outstanding debtors that are to be chased through legal proceedings are to be dealt with following the council’s debt recovery procedures.

Interest can be charged on unpaid debts, in accordance with the debt recovery procedures.

Solicitor fees incurred in the recovery of unpaid debt can be charged to the debtor, in accordance with debt recovery procedures.

Write off of unrecoverable Debts

The limits on the council to write off individual debts are:-

- The Section 151 Officer can write off any debt for which a bankruptcy or liquidation notice has been received.
- The Section 151 Officer can write off any debt of a deceased person who has a nil estate.

- The Section 151 Officer can write off any other individual debt to a maximum amount of £5,000, where the amount is unlikely to be recovered or where proceedings are inappropriate or unjustified. This authority cannot be delegated.

- All other individual debts, in excess of £5,000 can only be written off with the approval of Cabinet or other delegated Committee.

The value of unrecoverable debts written off will be charged back against the cost centre / service from which the original invoice was raised, thus canceling the original credit to the service. This can be overwritten in exceptional circumstances, with the approval of the Section 151 Officer.

A record will be maintained by the Section 151 Officer of all bad debts written off under delegated approval given by Financial Rules above.

The Director or Head of Service responsible for Car Parking can waive standard off-street car park charge notices and shall maintain records detailing the reason and amounts waived.This authority cannot be delegated.
(to be confirmed -cotswold)

J: COUNCIL TAX AND NON-DOMESTIC RATES

Introduction

The council collects large amounts of money for its own purposes, for other authorities and, in the case of Non-Domestic Rates, for the Government.

The rules that apply to the collection of these sums are set out in legislation, regulation and good practice guidance.

There are documented procedures and a timetable for tax calculation, billing, refunds, recovery and enforcement that accord with statutory requirements and the council's own regulations.

Section 151 Officer

The Section 151 Officer is responsible for the collection and recovery of Council Tax and Non-Domestic Rates. He or she should ensure that accounting procedures are in place to support the correct treatment and presentation of transactions in the council's accounts.

Head of Revenues and Benefits

The Head of Revenues and Benefits is responsible for the day to day management of the Council Tax and Non-Domestic Rates systems. He or she should ensure that:-

- All transactions, records and accounts are calculated accurately, completely and promptly. They should be supported by evidence and handled only by authorised staff.

- Adequate separation of duties is in place to enable the work of one Officer to be subject to check by another.

- Accounting procedures reflect the correct treatment and presentation of transactions in the Council's accounts.

K: COUNCIL TAX BENEFIT and HOUSING BENEFIT

Introduction

The council is responsible for paying Council Tax Benefit and Housing Benefit to entitled claimants. It is also responsible for guarding against fraud and investigating where it is suspected. The council receives subsidy from the Government to pay for most of the Benefits. It has to demonstrate sound administration and accurate payment to prove its entitlement to subsidy.

All benefit transactions must be legitimate, appropriate and in accordance with relevant verification framework regulations.

Section 151 Officer

The Section 151 Officer is responsible for the payment of Council Tax Benefit and Housing Benefit. He or she should ensure that accounting procedures are in place to support the correct treatment and presentation of transactions in the Council's accounts and subsidy claims.

Head of Revenues and Benefits

The Head of Revenues and Benefits is responsible for the day to day management of the Council Tax Benefit and Housing Benefit systems. He or she should ensure that:-

- All transactions, records and accounts are calculated accurately, completely and promptly. They should be supported by evidence and handled only by authorised staff.
- Adequate separation of duties is in place to enable the work of one Officer to be subject to check by another.
- Overpayments are dealt with in accordance with the Council's policy and recovery is efficient and effective.
- All fraud prevention and detection is in accordance with statute, professional guidance and the council's financial rules and other policies.

L: EXTERNAL ARRANGEMENTS

PARTNERSHIPS

Introduction

The council provides a distinctive leadership role for the community and brings together the contributions of a variety of stakeholders. It must also act to achieve the promotion or improvement of the economic, social and environmental well-being of its area.

Partnerships play a key role in delivering community strategies and delivering the shared vision of services, based on user needs.

A partner is defined as being either an organisation (public or private) undertaking, part funding or participating in a project or a body whose nature or status gives it a right or obligation to support the project.

This section of the Financial Rules sets out the financial implications of working in partnership with external organisations.

Cabinet

The Cabinet is responsible for approving delegations, including frameworks for partnerships. The Cabinet is the focus for forming partnerships with other local public, private, voluntary and community sector organisations to address local needs.

The Cabinet can delegate functions, including those relating to partnerships, to Officers. These are set out in the Scheme of Delegation that forms part of the council's Constitution. Where functions are delegated, the Cabinet remains accountable for them to full Council.

The Chief Executive or delegated Officer shall represent the council on partnership and external bodies, in accordance with the Scheme of Delegation.

Section 151 Officer

The Section 151 Officer is responsible for:-

- Ensuring that the accounting arrangements to be adopted relating to partnerships and joint arrangements are satisfactory.

- Promoting and maintaining the same high standards of conduct with regard to financial administration in partnerships that apply throughout the council.

- Considering the overall corporate governance arrangements and legal issues when arranging contracts with external bodies.

- Ensuring that the risks have been fully appraised before agreements are entered into with external bodies. He or she should advise on effective controls to ensure that resources are used efficiently and effectively.

- Ensuring that all funding notified by external bodies is received and properly recorded in the council's accounts.

Directors and Heads of Service

Directors and Heads of Service are responsible for:-

- Ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to work with external bodies.

- Carrying our risk management appraisals, prior to entering into an arrangement with an external body, in accordance with procedures specified by the Section 151 Officer.

- Ensuring that partnership agreements do not impact adversely on the services provided by the council.

- Ensuring that partnership agreements and arrangements are properly documented and information provided to the Section 151 Officer to enable a note to be entered into the council's Statement of Accounts concerning material items.

- Maintaining a register of all contracts entered into with external bodies, in accordance with procedures specified by the Section 151 Officer.

EXTERNAL FUNDING

Introduction

External funding can be an important source of income to the council, but funding conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the council.

The council shall seek to maximise its resources by attracting external funding where appropriate. However, in some instances, available funding may be linked to tight specifications and may not be sufficiently flexible to link to the council's strategies.

Section 151 Officer

The Section 151 Officer is responsible for:-

- Ensuring that any match funding requirements are considered prior to entering into an external agreement and that adequate future revenue budgets are in place to meet these requirements.

- Ensuring that all funding notified by external bodies is received and properly recorded in the council's accounts.

- Ensuring that all audit requirements are met.

Directors and Heads of Service

Directors and Heads of Service are responsible for ensuring that:-

- Funds are acquired only to meet the priorities approved in the policy framework by the council.

- Any match funding requirements are considered prior to entering into an external agreement and consulting with the Section 151 Officer to ensure that adequate future revenue budgets are in place to meet these requirements.

- Key conditions of funding and any statutory requirements are complied with and that the responsibilities of the Accountable body are clearly understood.

- All claims for funds are made by the due date and income received in accordance with the agreement.

- The project progresses in accordance with the agreed project outline and that all expenditure is properly incurred and recorded in the council's accounts.

WORK FOR THIRD PARTIES

Introduction

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Current legislation enables the council to provide a range of services to other bodies. Such work may enable a Service area to maintain economies of scale and existing expertise. Arrangements should be in place to ensure that any risks associated with this work are minimised and that such work is within current legislation.

Contracts for the work should be drawn up using guidance provided by the Monitoring Officer and the Section 151 Officer to the council. The proposals should be costed properly in accordance with guidance provided by the Section 151 Officer.

Guidance with regard to the financial aspects of third party contracts and the maintenance of the contracts register should be followed.

Cabinet

The Cabinet is responsible for approving contractual arrangements for any work carried out by the council for third parties or external bodies in addition to the normal business. This responsibility can be delegated to the Senior Leadership Team (Directors) of the council.

Section 151 Officer

The Section 151 Officer is responsible for issuing guidance with regard to the financial aspects of third party contracts and the maintenance of the contract register.

Directors and Heads of Service

Directors and Heads of Service are responsible for ensuring that:-

- Approval is obtained before any negotiations for the work are concluded.
- Contracts operate to the benefit of the council and do not impact adversely upon the services provided for the council.
- No contract is subsidised by the council.
- The Service area has the appropriate expertise to deliver the contract.
- Appropriate insurance arrangements are put in place.

- Wherever possible, payment is received in advance of the delivery of the service to the third party.

- The council is not put at risk from any bad debts.

- All contracts are properly documented and appropriate information given to the Section 151 Officer to enable a note to be entered into the Statement of Accounts.

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Financial Rules Reference	Description	Existing Authority Financial Rules: Cotswold District	Cheltenham Borough	Forest of Dean District	West Oxfordshire District	New Financial Rules - GO Shared Service	
Financial Status	Formal review of Financial and Contract rules by S151 Officer	Every 5 years				Every 5 years	
Financial Status	Directors or Heads of Services to obtain S151 approval for material matters affecting council's finances	In excess of £5,000	In excess of £10,000		In excess of £50,000	In excess of £10,000	Woxf to confirm
Financial Status	Exemption from Financial Rules can be made		By Full Council	By Section 151 Officer		By full Council on written advice of the Section 151 Officer	
Budgeting	Medium Term Financial Strategy to be reported	Over 5 year period	Over 5 year period		Over 10 year period	Over a minimum of 5 year period	
Budget Monitoring	Budget monitoring reports to be submitted to Cabinet		Quarterly			Quarterly	
Budget Monitoring	Significant variances to budgets to be included in Budget Monitoring reports to Cabinet		Variances in excess of £10,000 or 10%, whichever is the greater, on income or expenditure		Variances in excess of £10,000 on a revenue or capital budget of more than £10,000, or 5%, whichever is the greater.	Variances in excess of £10,000 on income or expenditure	Woxf to confirm
Budget Monitoring	Reconciliation of financial and finance systems to the council's main financial management system		Monthly or more frequently as appropriate			Monthly or more frequently as appropriate	

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		Existing Authority Financial Rules					
Financial Rules Reference	**Description**	**Cotswold District**	**Cheltenham Borough**	**Forest of Dean District**	**West Oxfordshire District**	**New Financial Rules - GO Shared Service**	
Treatment of year end balances	Carry forward of any budget **overspend** at the year end			Overspend can be carried forward at the discretion of the Section 151 Officer, to be first call against following financial year's estimates		Rule deleted	
Treatment of year end balances	Carry forward of any budget underspend needed in next financial year		Can be approved by Section 151 Officer, if needed for same purpose as intended	Can be approved by Section 151 Officer, if needed for same purpose as intended. To report to Cabinet any amounts between £2,500 and upper limit of £15,000		Can be approved by Section 151 Officer, if needed for same purpose as intended. All carry forwards reported to Full Council as part of outturn report.	
One-Off Revenue Budgets	One -Off additional Revenue funding up to £100,000					Approval by Cabinet	to confirm
One-Off Revenue Budgets	One -Off additional Revenue funding over £100,000					Approval by Council	to confirm
Capital Expenditure	"de minimus"level, below which all expenditure is classed as revenue expenditure	£5,000	£10,000			£10,000	
Capital Expenditure	Additional financing of Capital Schemes by Cabinet	Up to £100,000	Up to £50,000			Up to £100,000	Chelt/Woxf to confirm
Capital Expenditure	Additional financing of Capital Schemes by Council	Over £100,000	Over £50,000			Over £100,000	Chelt/Woxf to confirm

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Financial Rules Reference	Description	Existing Authority Financial Rules				New Financial Rules - GO Shared Service
		Cotswold District	Cheltenham Borough	Forest of Dean District	West Oxfordshire District	
Virements	Variations to approved virement limits	Approval by Cabinet	Approval by Full Council			Approval by Full Council
Virements	Budget variations within a Service	Approval by Director, in consultation with service manager	Approval by relevant Director			Approval by Service Manager or Budget Holder, in consultation GO Shared Services
Virements	Revenue Budget Virements up to £5,000		Approval by Director. Section 151 Officer to be informed.			virement level removed
Virements	Revenue Budget Virements not in excess of £10,000	Approval by Section 151 Officer, in consultation with relevant portfolio holder (for all amounts up to £10,000)	Approval by Director, in consultation with Section 151 Officer	Approval by Group Manager in consultation with Section 151 Officer (for all amounts up to £10,000)	Approval by Section 151 Officer, in consultation with relevant Director (for all amounts up to £10,000 or 5%, of the total budget, whichever is greater)	Approval by relevant Director(s) or Head of Service(s). Section 151 Officer to be informed
Virements	Revenue Budget Virements over £10,000, not in excess of £25,000	Approval by Cabinet (for all amounts in excess of £10,000)	Approval by Director, in consultation with Section 151 Officer, after advance approval from relevant Cabinet Member	Approval of Section 151 Officer	Approval by Full Council (for all amounts in excess of £10,000 or 5% of the total budget, whichever is the greater)	Approval by relevant Director(s) or Head of Service(s) and the Section 151 Officer. Cabinet member to be informed to be informed
Virements	Revenue Budget Virements over £25,000, not in excess of £50,000	*See above - all amounts in excess of £10,000 need Cabinet approval)*	Approval of Cabinet, following joint report by Section 151 Officer and Director	Approval of Cabinet, following joint report by Section 151 Officer and Director (for all amounts above £25,000)	See above - all amounts in excess of £10,000 or 5% of total budget, whichever is the greater,need Full Council approval)	Approval of Cabinet Member, in consultation with Section 151 Officer

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		Existing Authority Financial Rules				
Financial Rules Reference	**Description**	**Cotswold District**	**Cheltenham Borough**	**Forest of Dean District**	**West Oxfordshire District**	**New Financial Rules - GO Shared Service**
Virements	Revenue Budget Virements over £50,000, not in excess of £100,000	*See above - all amounts in excess of £10,000 need Cabinet approval)*	Approval by Full Council	See above - all amounts above £25,000 require Section 151 and Group Manager approval	See above - all amounts in excess of £10,000 or 5% of total budget, whichever is the greater,need Full Council approval)	Approval by Cabinet
Virements	Revenue Budget Virements over £100,000	*See above - all amounts in excess of £10,000 need Cabinet approval)*	See above - all amounts over £50k need approval by Full Council	See above - all amounts above £25,000 require Section 151 and Group Manager approval	See above - all amounts in excess of £10,000 or 5% of total budget, whichever is the greater,need Full Council approval)	Approval by Full Council
Virements	Capital Budget Virements up to £10,000		Approval by relevant Director, with agreement of Section 151 Officer	Cabinet can approve cost increases up to £5,000 or 5%, whichever is less, to be met from virement elsewhere within capital programme		virement level removed
Virements	Capital Budget Virements over £10,000, not in excess of £50,000		Approval of Cabinet			virement level removed
Virements	Capital Budget Virements in excess of £50,000		Approval by Full Council			Approval by Cabinet
Virements	Capital Budget Virements in excess of £100,000					Approval by Full Council
Risk Management	Approval of council's Risk Management Policy and Strategy	by Audit Committee	by Cabinet			by Audit Committee

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Financial Rules Reference	Description	Existing Authority Financial Rules: Cotswold District	Cheltenham Borough	Forest of Dean District	West Oxfordshire District	New Financial Rules - GO Shared Service
Risk Management	Preparation of council's Risk Management Policy & Strategy	by the Section 151 Officer	by the Chief Executive			by the Section 151 Officer
Internal Controls and Audit	Ex-Gratia / maladministration compensation payments authorised by		Approved by Section 151 Officer and Director and/or Monitoring Officer, for amounts up to £1,000		Director to a maximum of £100.	Approved by Section 151 Officer and Director and/or Monitoring Officer, for amounts up to £5,000
Internal Controls and Audit	Ex-Gratia / maladministration compensation payments authorised by		Overview & Scrutiny Committee, for amounts in excess of £1,000			Cabinet Member, for amounts in excess of £5,000
Assets	Asset Register to record all fixed assets with a value	in excess of £5,000	in excess of £10,000			in excess of £10,000
Assets	Directors to maintaining inventory of all moveable assets in their service area(s)	greater than £50 and all items below £50 that are desirable / portable	Above the value of £250	Above the value of £500	Above the value of £1,000	Above the value of £500
Assets	Inventory of all ICT equipment to be maintained by ICT Director or Head of Service	greater than £50 and all items below £50 that are desirable / portable	Above the value of £100			Above the value of £250
Assets	Approval for acquisition and disposal of land and property	Cabinet approval up to £500,000 for Social Housing; £250,000 for other land and buildings	Cabinet Member approval up to £250,000. Cabinet approval for amounts in excess of £250,000			Cabinet approval up to £500,000 for Social Housing; £250,000 for other land and buildings. Council approval for higher amounts.

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Financial Rules Reference	Description	Existing Authority Financial Rules: Cotswold District	Cheltenham Borough	Forest of Dean District	West Oxfordshire District	New Financial Rules - GO Shared Service
Assets	Approval for additional expenditure on non-housing capital building contracts, if contingency likley to be exceeded	Up to £25,000 for individual amounts or £10,000 per item where the contingency sum is to be exceeded.				Head of Property Services to consult with Section 151 Officer and Cabinet Member and follow Budget and Virement financial rules
Assets	Head of Property Services (or Delegated Officer) authority for sale of surplus equipment	To maximum value of £2,500				To maximum value of £10,000, in consultation with the Section 151 Officer.
Stocks and Stores	Limit above which discrepancies in stocks and stores should be reported to the Section 151 Officer and Head of Internal Audit	£250				£250
Stocks and Stores	Write off or disposal of obsolete stock	By Directors up to £250 estimated residual value			By Section 151 Officer and Director jointly, to a maximum of £1,000 residual value	By Directors up to £250 estimated residual value
Stocks and Stores	Write off or disposal of obsolete stock	By Section 151 Officer over £250 estimated residual value			By Section 151 Officer and Director jointly, to a maximum of £1,000 residual value	By Section 151 Officer over £250 estimated residual value
Assets	Maximum amount to be written out of asset records	By Directors up to £2,500 residual value. By Section 151 Officer over £2,500 estimated residual value	Up to £2,000 at any one time by Section 151 Officer, with report to council if total amount exceeds £10,000 in a financial year.	Up to £10,000 for any one item, with approval of Section 151 Officer.		Approval by Section 151 Officer for amounts up to £5,000 at any one time, with report to council if total amount exceeds £10,000 in a financial year.

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Financial Rules Reference	Description	Existing Authority Financial Rules: Cotswold District	Cheltenham Borough	Forest of Dean District	West Oxfordshire District	New Financial Rules - GO Shared Service
Assets	Higher write off of asset - amounts to be approved by Cabinet		Amounts in excess of £2,000 at any one time	Cabinet approval needed for amounts in excess of £10,000.		Amounts in excess of £5,000 at any one time
Petty Cash	Payments from Petty cash floats limited to a maximum per transaction		£50 maximum per transaction			maximum of £50 per transaction
Treasury	Report on treasury activity		At least twice a year to Cabinet	At least twice a year to Audit Committee		At least twice a year to Cabinet and/or Audit Committee
Cheque and BACS payments	All computerised cheques drawn and/or BACS payments to be countersigned by another authorised bank signatory, for amounts		in excess of £50,000		in excess of £10,000	in excess of £25,000
Cheque and BACS payments	All manual cheques drawn to be countersigned by another authorised bank signatory, for amounts					in excess of £5,000
Payments	Authorisation of invoices by authorised Officers	Up to £5,000				see below
Payments	Authorisation of invoices	As defined by Director, to a maximum of £50,000	As defined by Director, to a maximum of £50,000			see below
Payments	Authorisation of invoices - over £50,000	By Section 151 Officer	By Section 151 Officer			see below
Payments	Authorisation of purchase requisitions and invoices - to £10,000					by Budget Holder, subject to individual approved limit

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Financial Rules Reference	Description	Existing Authority Financial Rules: Cotswold District	Cheltenham Borough	Forest of Dean District	West Oxfordshire District	New Financial Rules - GO Shared Service
Payments	Authorisation of purchase requisitions and invoices £10,001 to £50,000					by Budget Holder or Manager, subject to individual approved limit
Payments	Authorisation of purchase requisitions and invoices - £50,001 to £100,000					by Manager or Director or Head of Service, subject to individual approved limit
Payments	Authorisation of purchase requisitions and invoices - £100,001 to £250,000					by Director or Head of Service or Section 151 Officer or Deputy Section 151 Officer
Payments	Authorisation of purchase requisitions and invoices over £250,000					By Section 151 Officer or Deputy Section 151 Officer
Payments	Certification of purchase invoice as correct for payment					Tolerance level of 1% or £25, whichever is greater.
Payments	All certified accounts for payment to be paid within	30 days of receipt by the council.	25 days of receipt by the council.	30 days of receipt by the council.	30 days of receipt by the council.	30 days of receipt by the council.
Payments	Pre-payment for goods and services			if unavoidable, to have prior approval of Section 151 Officer for an amount in excess of £2,500		if unavoidable, to have prior approval of GO Shared Services
Debtors invoices and Credit notes						Invoices raised for amounts less than £5 to be approved by Director of Head of Service

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Financial Rules Reference	Description	Existing Authority Financial Rules: Cotswold District	Cheltenham Borough	Forest of Dean District	West Oxfordshire District	New Financial Rules - GO Shared Service	
Bad Debt	Write off of a bad debt by the Section 151 Officer, for an amount	Not exceeding £2500	Not exceeding £2000	Not exceeding £10,000	£350	Not exceeding £5,000	
Bad Debt	Write off of a bad debt by the relevant Cabinet Member, for an amount	Between £2,500 and £10,000				see below	
Bad Debt	Write off of a bad debt by Cabinet , for an amount	In excess of £10,000	In excess of £2000	In excess of £10,000		In excess of £5,000	
Bad Debt	Accumulated value of waived standard off-street car park charge notices, waived by the relevant Director, to be reported to Section 151 Officer		every 6 months			every 6 months	chelt /cotswold to confirm

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Cheltenham Borough Council

Audit Committee – 21st September 2011

Statement of Accounts 2010/11

Report of the Section 151 Officer

1.1 The issue

1.2 The purpose of this report is to seek Audit Committee's approval of the Council's Financial Statements for 2010/11.

1.3 I therefore recommend that Audit Committee:

1.3.1 Approve the Statement of Accounts for 2010/11 at Appendix 1, including the Annual Governance Statement for 2010/11.

1.3.2 Authorise the chair of the Audit Committee to sign the Statement of Accounts in order to formally signify the Council's approval of the accounts.

1.4 Summary of implications

1.4.1 Financial	This report sets out the Financial Statement of Accounts for 2010/11. **Contact officer: Mark Sheldon** **E-mail: mark.sheldon@cheltenham.gov.uk** **Tel no: 01242 264123**
1.4.2 Legal	This report adopts relevant guidance issued in the Accounts and Audit Regulations 2003 and 2011. **Contact officer: Peter Lewis** **E-mail: Peter.Lewis@tewkesbury.gov.uk** **Tel no: 01684 272012**

1.5 Implications on corporate and community plan priorities

1.5.1 None identified.

1.6 Statement on Risk

1.6.1 There are no risks arising from this report which need to be brought to the attention of members.

2. Introduction

2.1 The Accounts and Audit Regulations 2011 set out the legal requirements for the annual statement of accounts to be prepared by 30th June of each year. The Section 151 Officer must sign and date the draft statement of accounts and certify that they present a true and fair view of the financial position of the council, by 30th June of each year.

2.2 The Accounts and Audit Regulations 2011 set out the Government requirement for the audited annual statement of accounts to be considered and approved by way of Committee by 30th September of each year. The Section 151 Officer must re-certify the final statements of accounts prior to this meeting. Following approval by the Committee, the statement of accounts is to be signed and dated by the person presiding at the meeting.

2.3 There should be a period of public inspection of the accounts of 20 working days. Public notice should be given not later than 14 days before the commencement of the inspection period.

2.4 Full Council has delegated authority to the Audit Committee to review and approve the audited statement of accounts, at its meeting on 28th June 2010.

2.5 The Audit Committee review should specifically consider whether appropriate accounting policies have been followed, the conclusion of the audit of the statements, and whether there are any issues that need to be brought to the attention of the Council.

3. Background

3.1 In compliance with the above requirements, the audited Financial Statements include the following, attached at Appendix 1.

- Explanatory Foreword
- Statement of Responsibilities for the Statement of Accounts
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Movement in Reserves Statement
- Cash Flow Statement
- Notes to the Accounts
- Group Accounts and Notes
- Housing Revenue Account and Notes
- Collection Fund and Notes
- Annual Governance Statement
- Independent Auditor's Report.

3.2 The council has reviewed its accounting policies during the year and revised them in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 Accounts (the Code). This incorporates International Financial Reporting Standards (IFRS), so that the accounts are now compliant with these standards. This has resulted in some major changes to the presentation of the financial statements The main presentational changes include:-

- The Income and Expenditure Account has been renamed the Comprehensive Income and Expenditure Statement as it now incorporates (at the bottom) the previous Statement of Recognised Gains and Losses (STRGL), so that it shows the total gains and losses incurred by the Authority in the year.

- Changes have been made to the service groupings (as recommended by the Service Reporting Code of Practice (SeRCOP) 2011/12) and the items below cost of services have been grouped together, supported by detailed notes.

- On the Balance Sheet, Fixed Assets (other than Investment Property and Intangible Assets) have been reclassified as Property, Plant and Equipment (PPE).

- Capital Grants Deferred have been transferred to the Capital Adjustment Account and Capital Grants Unapplied included as part of usable reserves. Reserves have been classified as either Usable (if they represent available resources) or Unusable (if they cannot be used).

- New categories for debtors and creditors, analysing payments in advance, provisions for bad debts and receipts in advance across the various categories.

3.3 The layout and content of the financial statement of accounts is in accordance with a national standard format which assists in making inter-authority comparisons. This presentation differs from that used in the Council's own management accounts and documents circulated to members.

3.4 Regulations require that the Council combine the accounts of the Gloucestershire Airport Limited, of which both Gloucester City Council and Cheltenham Borough Council have a 50% share and those of Cheltenham Borough Homes into Group Accounts. These therefore combine both assets and liabilities of Cheltenham Borough Council, Gloucestershire Airport Limited and Cheltenham Borough Homes.

3.5 The Financial Statements are signed by the Director of Resources in his capacity as Section 151 Officer.

4. Accounts and Audit Regulations 2011

4.1 In producing the statements for 2010/11, the Council has adopted the Accounts and Audit regulations 2011 guidance and timetable for the preparation and approval of the statement of accounts.

4.2 The Financial Services Division met the 30th June 2011 deadline for the preparation of the accounts, including the consolidation of the accounts for Gloucestershire Airport and Cheltenham Borough Homes.

4.3 The draft financial statements were signed as approved by the Section 151 Officer on

30th June 2011.

4.4 The inspection period operated from 12th July to 8th August 2011 and a public notice to that effect was placed in the Gloucestershire Echo on 15th June 2011.

4.5 The final, audited financial statements were signed as approved by the Section 151 Officer on 13th September 2011.

5. 2010/11 Audit

5.1 The council's external auditors, KPMG LLP, have conducted a full audit of the financial statements and have issued a 'Report to those charged with governance (ISA 260) for 2010/11' and have given an unqualified audit opinion.

5.2 The auditor must appoint a date on which local government electors for the area to which the accounts relate may exercise their rights under regulation 15 and 16 of the Audit commission Act 1998 to question the auditor about or make objections to the accounts. The date appointed by the auditor was 9th August 2011.

6. Annual Governance Statement

6.1 The council has a statutory duty to prepare an annual governance statement (AGS) to be approved as part of the annual statement of accounts. The annual governance statement indicates how the council is complying with the code of corporate governance including internal control arrangements. The Audit Committee need to satisfy themselves that the AGS fairly reflects the arrangements within the council and that the suggested action plan will address the significant governance issues identified by the review.

6.2 Each March, assurance statements and evidence tables are issued to Directors and Service Managers for completion. The evidence tables act as internal control checklists which confirm/review the existence and adequacy of governance and control arrangements, and any significant absence of, or weakness in, the control. The areas covered by the checklist are not exhaustive and any other significant weaknesses must be reported in the Certificate of Assurance. Assistant Directors have the responsibility for the completion of the Certificates, which are signed off by the Assistant Director and lead Cabinet member.

6.3 Once complete, the evidence tables and the Certificates are reviewed by the Directors, the Audit Partnership Manager and the Policy Officer (Governance) to identify need for governance or control improvement to be included in the action plan for the forthcoming year. They also draw on evidence from internal and external audit reports, and other evidence sources. The annual governance statement is considered by the board of directors and the Corporate Governance Group before it is submitted to this committee ahead of its consideration for approval as part of the Statement of Accounts.

6.4 The Audit Committee has had the opportunity to understand in more detail the review process and assure its members that the evidence has been considered in a robust manner.

7. Capital determinations for the financial year 2010/11.

7.1 Under provisions in the Local Government and Housing Act 1989, the Council must charge all expenditure to a revenue account unless it has the authority to treat it as capital expenditure. This authority can be obtained by financing such expenditure from capital grants, credit approvals or usable capital receipts.

7.2 As part of the preparation of the Statement of Accounts, Council officers make decisions in respect of the methods of financing capital expenditure incurred during the year. In accordance with recommended practice these decisions should be reported to Council in the form of capital determinations

7.3 The Council must state the total capital expenditure for 2010/11 it has financed from such sources and the level of minimum revenue provision as set out in the table below:

		£000's
7.3.1	Section 42(2) (g) - Capitalisation of expenditure which is reimbursed or met out of money provided by any other person	1,647
7.3.2	Section 56 (1) (a) - The use of credit approvals to authorise capitalisation of expenditure	-
7.3.3	Section 60 (2) (a) - Application of usable capital receipts to meet expenditure incurred for capital purposes	500
7.3.4	Section 63 (1) - Minimum Revenue Provision (MRP) set aside in the revenue accounts. *	645

* The Minimum revenue provision (MRP) is the prescribed amount that the Council must set aside from its revenue account for debt repayment each year.

8. Consultation

8.1 Director of Commissioning, Cabinet Member for Community Development and Finance.

Background Papers

Statement of Accounts 2010/11

External Audit Working paper files 2010/11

Code of Practice on Local Authority Accounting in the UK 2010/11 Accounts

Service Reporting Code of Practice 2011/12

Report to those charged with governance (ISA 260) for 2010/11

Accounts and Audit Regulations 2003

Accounts and Audit Regulations 2011

Report Author Mark Sheldon, 01242 264123, mark.sheldon@cheltenham.gov.uk

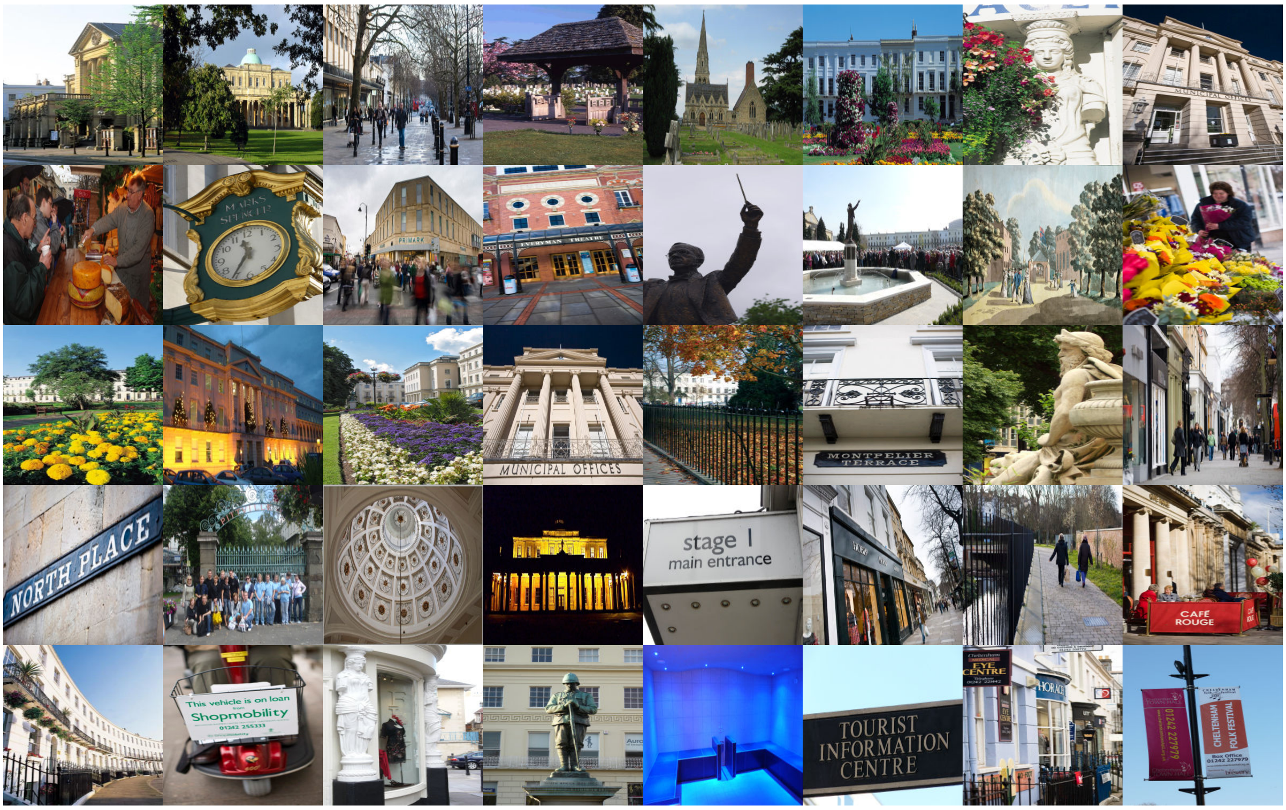
Accountability Cabinet Member for Community Development and Finance

Scrutiny Function Audit Committee

CHELTENHAM BOROUGH COUNCIL

Statement of Accounts

2010/11



CHELTENHAM
BOROUGH COUNCIL

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INTRODUCTION TO CHELTENHAM BOROUGH COUNCIL

Address and Telephone Number	
Address:	Municipal Offices, Promenade, Cheltenham, Gloucestershire, GL50 9SA
Telephone (All Departments):	01242 262626
Fax (All Departments):	01242 227131
Website:	www.cheltenham.gov.uk
Mayor and Deputy Mayor in the 2010/11 Municipal Year	
Mayor:	Councillor A Regan
Deputy Mayor:	Councillor B Driver
Cabinet in 2010/11	
Leader of the council	Councillor S Jordan
Cabinet Member Corporate Services	Councillor C Hay
Cabinet Member Sport and Culture	Councillor A McKinlay
Cabinet Member Built Environment	Councillor J Rawson
Cabinet Member Finance and Community Development	Councillor J Webster
Cabinet Member Housing and Safety	Councillor K Sudbury
Cabinet Member Sustainability	Councillor R Whyborn
Chairman of Committees in 2010/11	
Licensing Committee	Councillor D Seacome
Planning Committee	Councillor L Surgenor
Economy and Business Improvement Overview and Scrutiny Committee	Councillor M Stennett
Environment Overview and Scrutiny Committee	Councillor P Hall
Social and Community Overview and Scrutiny Committee	Councillor D Smith
Audit Committee	Councillor A Wall
Appointments Committee	Councillor R Hay
Standards Committee	Mr S. Lainé (Independent Member)
Chief Officers in 2010/11	
Chief Executive	Mr. A North
Strategic Director	Mr. G Lewis
Strategic Director	Mrs. P Pratley
Director of Resources (Section 151 Responsible Officer)	Mr. M Sheldon
Monitoring Officer / Borough Solicitor	Ms. S Freckleton
External Auditor in 2010/11	
Appointed Auditor:	KPMG LLP
Address:	100 Temple Street, Bristol,BS1 6AG
Bankers in 2010/11	
Bankers:	Lloyds TSB
Address:	130 High Street, Cheltenham, GL50 1EW

CHELTENHAM PROFILE

Cheltenham is one of Britain's finest spa towns, set in a sheltered position between the rolling Cotswold Hills and the Severn Vale. It has a population of 116,242 and with its architectural heritage, educational facilities and quality environment, Cheltenham is an attractive place to live, work and play.

Cheltenham is home to a number of festivals that take place throughout the year which include the world-renowned Jazz, Music, Science and Literature Festivals. Cheltenham Racecourse hosts sixteen days of racing over 8 events every year including the Gold Cup Festival.

The borough also plays host to the Everyman Theatre and the Playhouse Theatre, both of which offer a rich and varied programme of professional and amateur performing arts. Cheltenham Art Gallery and Museum has national recognition as a museum with an outstanding collection and funding has now been secured to build a new extension that will open in April 2013.

However, despite Cheltenham being a relatively affluent place, this wealthy image can obscure the fact that we have areas of poverty and deprivation. The Indices of Deprivation 2010 show a band of deprivation that runs East/West from Springbank, Hesters Way, St. Peters, St. Pauls and Oakley with the three deprivation hotspots of Hesters Way, St. Marks and St. Pauls.

The council was one of the first local authorities to gain the Investors in People award in 1995 and has retained it for 16 years and considers itself to be an employer of choice. It has an extensive apprenticeship scheme helping to develop its workforce. It also has a Leadership Development programme for directors and senior managers to help deliver the organisational change.

The council is a member of the Cheltenham Strategic Partnership and has aligned its corporate strategy to the sustainable community strategy. It has extensive links with numerous community partnerships.

There are a number of challenges facing Cheltenham including bridging the funding gap, delivery of our town centre regeneration aspirations, service improvement and service commissioning. However the council is innovative and has put in place extensive plans to ensure that we get the most out of our services at a reasonable cost.

The council has an extensive property portfolio including a number of listed buildings that are operated by the council including the Town Hall, Pittville Pump Room and Art Gallery and Museum. It also has a share in the Regent Arcade shopping centre. These properties help provide the council with a funding stream to support its services provided to the public.

POLITICAL STRUCTURE

The council has 40 elected members and holds elections every two years for which 50% of the seats are put up for re-election. Following the elections in May 2010 overall political control went to the Liberal Democrats.

The council is chaired by the Mayor and is responsible for setting the budget and policy framework within which decisions are made. The cabinet consists of the Leader and up to seven Councillors appointed by the council. When major decisions are to be discussed or made, these are published in the cabinet's Forward Plan in so far as they can be anticipated. If these decisions are to be discussed with council officers at a meeting of the cabinet, this will generally be open for the public to attend except where personal or confidential matters are being discussed.

PERFORMANCE MANAGEMENT

The council's vision as set out in Cheltenham's Sustainable Community Strategy as the basis of its framework has adopted the twenty year vision for Cheltenham:

We want Cheltenham to deliver a sustainable quality of life, where people, families, their communities and businesses thrive; and in a way which cherishes our cultural and natural heritage, reduces our impact on climate change and does not compromise the quality of life of present and future generations.

Applying this twenty year vision, Cheltenham Borough Council has developed an overarching message designed to inspire employees and members to contribute effectively towards ensuring that the borough of Cheltenham remains successful, to set the ethos and culture of the council and to focus all officers and members efforts on a common goal. Our overarching message is simply:

"Working together to create a great future for Cheltenham"

Our Corporate Strategy 2010-2015 was agreed in March 2010 and its associated action plan for 2011/12 was agreed in March 2011. This sets out the council's objectives for the next three years:

- Enhancing and protecting our environment
- Strengthening our economy
- Strengthening our communities
- Enhancing the provision of Arts & Culture
- Provide value for money services that effectively meet the needs of our customers.

The importance of performance management

Performance management is a critical element of the council's management processes. The council is committed to a joined up approach to performance management that involves members and employees working together to ensure that the council keeps on delivering on the issues that matter most to local people and keeps on improving the quality of services at all levels. Our performance management system helps the council to identify what does and does not work and the factors that support or hinder economic, efficient and effective service delivery.

The annual report provides an assessment of our performance against our business plan targets as set out in "Our plans for 2010/11".
The report also includes reference to our use of resources assessment and our annual audit letter, all of which provide a useful summary of progress over the past year.

Overall the council performed well during 2010/11. We continued to get recognition for our high standards, good performance, sound financial management and value for money. The external auditors carried out a Value for Money audit in respect of financial resilience and concluded that it provided good assurance on the council's arrangements to secure value for money on its use of resources.

The Annual Report should be read in conjunction with the Annual Accounts to give you a balanced view of the council's work and finances. If there is anything that you would like to tell us so that we can improve things further, then please do not hesitate to contact us.

Performance during 2010/11

In the 2010/11 business plan we identified 43 milestones to track our progress. We completed 86% of our business plan actions with only 6 (14%) not being completed in the year, all of which will be deferred into 2011/12.

In the 2010/11 business plan we identified 41 key indicators to track our progress. Out of these 66% were on or above target. Overall we perform well, deliver value for money and monitor our performance well. The increasing pressures on our resources and the impact of the recession mean that we have been unable to deliver improvements consistently across all of our service areas. We have therefore moved to fewer high-level objectives and are clearer about our priorities, that reflect community needs and provide a framework for community outcomes. Some of these outcomes will be delivered by the council, but for many will involve working in partnership with other organisations.

The purpose of this explanatory forward is to provide electors, local taxpayers, members of the authority and other interested parties with an easy to understand guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the authority's financial position and assists in the interpretation of the accounting statements, including the Group Accounts. The statements should inform readers of the cost of services provided by the council in the year 2010/11 and the council's assets and liabilities at the year end.

INTRODUCTION

The Accounts for the year ending 31st March 2011 have been prepared and published in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 Accounts (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This incorporates International Financial Reporting Standards (IFRS), so that the accounts are now compliant with these standards.

The following statements are included:

Statement of Responsibilities for the Statement of Accounts	Sets out the respective responsibilities of the authority and the Director of Resources for the accounts.
Comprehensive Income and Expenditure Statement	This reports the net cost for the year of ***all*** the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers. This now incorporates the previous Statement of Recognised Gains and Losses.
Balance Sheet	This summarises the overall financial position of the council at 31st March 2011, showing its assets, liabilities and reserves.
Movement in Reserves Statement	This details the movement in the year of all the authority's' reserves and replaces the Statement of Movement in General Fund Balance.
Cash Flow Statement	This summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
Group Accounts	These bring together the accounts of Cheltenham Borough Council, Cheltenham Borough Homes and Gloucestershire Airport Ltd, in which the council has a 50% shareholding.
Housing Revenue Account	A separate account, required by law, which shows income and expenditure associated with the provision of council housing.
Collection Fund	Reflects the statutory requirement to maintain a separate Collection Fund which shows the transactions in relation to non-domestic business rates and the council tax, indicating how the amounts collected are distributed to Gloucestershire County Council, Gloucestershire Police Authority and Cheltenham Borough Council.
Annual Governance Statement	This sets out how the council is meeting its obligations and the improvements it intends to make to its systems of internal control and corporate governance arrangements.

These accounts are supported by notes to the accounts which include accounting policies, and a glossary of terms to provide readers with further information.

COUNCIL SPENDING

Cheltenham Borough Council is a large organisation employing over 600 people. The activities vary widely and include the provision and upkeep of council housing, collection of refuse, leisure and recreation, car parking, cemeteries and crematoria, environmental health and many other services.

GENERAL FUND REVENUE BUDGET

In February 2010, the council set a net budget of £16.731m for spending on General Fund Services (excluding spending on council housing), of which £1.118m was to be financed by government grant, £7.701m from non domestic rates and £7.912m from local council tax payers. The table below compares the financial outturn with the budget as detailed in the council's budget book, followed by a brief explanation of the financial aspects of the council's activities, drawing attention to the main characteristics of the council's financial position. This represents the council's management accounts that are included in the Comprehensive Income and Expenditure Statement on page 21, in accordance with the Code.

SERVICES	**Original Budget 2010/11 £**	**Revised Budget 2010/11 £**	**Outturn 2010/11 £**	**Variance 2010/11 £**
Strategic Management	406,050	374,900	238,935	(135,965)
Assistant Chief Executive	3,496,300	3,092,800	2,908,373	(184,427)
Built Environment	31,200	1,407,900	1,495,292	87,392
Business Change	17,000	755,400	647,102	(108,298)
Community Services	387,300	1,218,400	1,217,371	(1,029)
Customer Access & Service Transformation	562,400	342,500	335,229	(7,271)
Financial Services	1,385,400	1,350,000	1,325,824	(24,176)
Human Resources & Organisation Dev'pment	(33,200)	0	(11,280)	(11,280)
Operations	7,217,300	6,142,600	5,749,482	(393,118)
Programmed Maintenance (revenue)	811,000	751,600	510,179	(241,421)
Wellbeing & Culture	4,108,000	4,973,800	4,770,867	(202,933)
Bad debt provision	40,000	40,000	45,626	5,626
Target savings	(520,000)	(50,000)	0	50,000
TOTAL NET SERVICE EXPENDITURE	**17,908,750**	**20,399,900**	**19,233,000**	**(1,166,900)**
Capital charges	(757,600)	(1,838,700)	(1,838,841)	(141)
Interest and investment income	293,600	(72,700)	(2,477,932)	(2,405,232)
Use of balances and reserves	(685,353)	(1,717,303)	1,854,942	3,572,245
Area Based Grant	(28,500)	(40,300)	(40,283)	17
NET BUDGET	**16,730,897**	**16,730,897**	**16,730,886**	**(11)**
FINANCED BY:				
Business Growth Incentive Scheme (LABGI)				
Revenue Support Grant	(1,118,206)	(1,118,206)	(1,118,206)	0
National Non-Domestic Rate	(7,700,653)	(7,700,653)	(7,700,653)	0
Collection Fund Contribution	(33,500)	(33,500)	(33,489)	11
Council Tax	(7,878,538)	(7,878,538)	(7,878,538)	0
	(16,730,897)	**(16,730,897)**	**(16,730,886)**	**11**

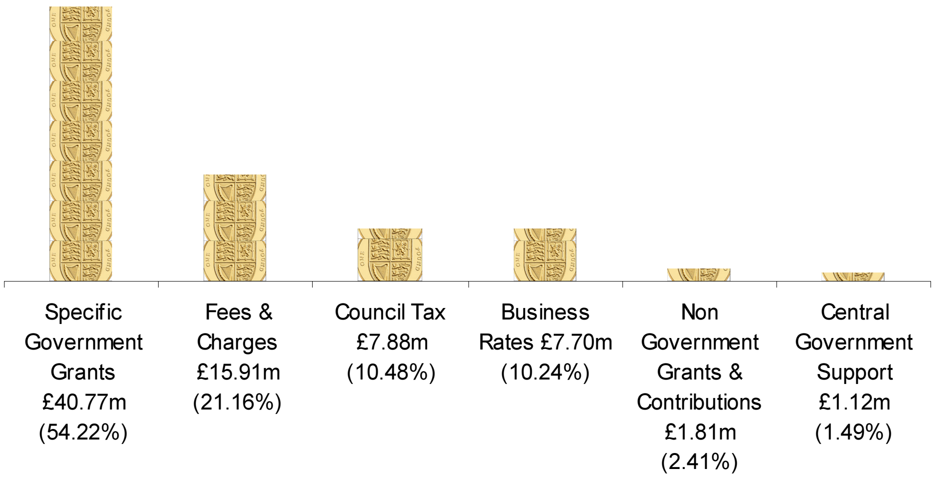
The council is required to analyse the expenditure for the year 2010/11 in a standard way in order to enable comparisons to be made between different local authorities and other organisations. This representation of the above position is contained in the form of the Comprehensive Income and

Expenditure Statement. The council has its own management arrangements and presents budgets and monitoring statements to cabinet and council which are grouped according to these local arrangements.

During 2010/11 the council continued with the process of formal monitoring of budgets which are reported to cabinet on a quarterly basis in line with best practice and on the recommendation of the Audit Commission. This has assisted in strengthening the sound management of the council's finances and provides a mechanism to ensure that any budgetary problems are identified and rectified as soon as possible during the year.

WHERE THE MONEY CAME FROM

The following chart provides an analysis of our main sources of income this year for the General Fund (i.e. it excludes income in respect of the Housing Revenue Account). The Government provides our main source of income in the form of general and specific grants. The Government also determines the amount of business rates we receive through pooling arrangements (total collected 2010/11 £47.8m, of which £7.7m is retained as part of the council's accounts).



BUDGET SAVINGS

The council's track record of strong financial management was maintained during 2010/11 which resulted in council services being delivered within revised budget, with an overall residual saving made in 2010/11 of £174,086. The budget saving has been transferred to general balances and is included in the "use of balances and reserves" line in the Financial Outturn table on page 8. The following summary identifies the major variances between the revised budget and the actual outturn as follows:

	Overspend / (Underspend) £
Shortfall of Income	360,655
Additional Employee costs	4,873
Other expenditure savings	(590,477)
Treasury Management –Shortfall of interest	50,863
Net Saving	**(174,086)**

WHERE THE MONEY WENT

The following table is a summary of General Fund spend based on the council's key priorities (which excludes the Housing Revenue Account).

GROUP DIRECTORATES	Original Budget 2010/11 £	Revised Budget 2010/11 £	Outturn 2010/11 £	Variance 2010/11 £
Priority 1 – Enhancing & Protecting our Environment	7,143,500	6,864,100	6,246,797	(617,303)
Priority 2 – Strengthening our Economy	710,500	783,850	717,870	(65,980)
Priority 3 – Strengthening our Communities	3,405,100	5,150,000	4,964,375	(185,625)
Priority 4 – Enhancing the Provision of Arts & Culture	2,431,800	2,824,100	2,676,551	(147,549)
Priority 5 – Ensuring we provide Value for Money Services that effectively meet the needs of our Customers	4217,850	4,777,850	4,627,407	(150,443)
TOTAL NET SERVICE EXPENDITURE	**17,908,750**	**20,399,900**	**19,233,000**	**(1,166,900)**
Capital charges	(757,600)	(1,838,700)	(1,838,841)	(141)
Interest and investment income	293,600	(72,700)	(2,477,932)	(2,405,232)
Use of balances and reserves	(685,353)	(1,717,303)	1,854,942	3,572,245
Area Based Grant	(28,500)	(40,300)	(40,283)	17
NET BUDGET	**16,730,897**	**16,730,897**	**16,730,886**	**(11)**
FINANCED BY:				
Revenue Support Grant	(1,118,206)	(1,118,206)	(1,118,206)	0
National Non-Domestic Rate	(7,700,653)	(7,700,653)	(7,700,653)	0
Collection Fund Contribution	(33,500)	(33,500)	(33,489)	11
Council Tax	(7,878,538)	(7,878,538)	(7,878,538)	0
	(16,730,897)	**(16,730,897)**	**(16,730,886)**	**11**

However the above summary does not show how the money was used to deliver our 5 key priorities. Below we explain spend in terms of the services you see for the council tax you pay:

Priority 1 - Enhancing & Protecting our Environment
Total net spend of £6.25m
Core net spending included:
- £840k on Parks & Gardens
- £82k on Allotments
- £1.25m on Refuse Collection
- £843k on Street Cleansing
- £785k on Recycling Schemes
- £210k on Strategic Planning
- £221k on provision of Public Conveniences
- £1.696m on Concessionary Travel Schemes (£2.17m gross)
- £85k on Shopmobility
- £1.69m surplus on Off-Street Parking
- £116k on Food Safety
- £136k on Pollution Control
- £76k on Pest Control
- £49k on Animal Welfare
- £380k on Health & Safety at Work

Priority 2 – Strengthening our Economy
Total net spend of £0.72m.
Core net spending included:
- £356k on Tourist Information Centre
- £195k on Business and Economic Development
- £32k on Town Centre Management
- £38k on Twinning
- £45k on Christmas in Cheltenham

Priority 3 – Strengthening Our Communities
Total net spend of £4.96m.
Core net spending included:
- £64k on Disabled Facilities Grants
- £338k on Homelessness
- £241k on Housing Standards
- £98k on Housing Grants
- £164k on Single Advice Contract with the Citizen's Advice Bureau
- £135k on Community Planning
- £44k on Community Pride
- £37k on Youth Initiatives
- £110k on the Holiday Recreation Programme
- £1.699m on Leisure Services
- £56k Healthy Lifestyles
- £1.16m on Sports & Open Spaces
- £87k on Sports Development
- £279k on Crime and Disorder
- £135k on CCTV and Town Centre safety

Priority 4 - Enhancing the Provision of Arts & Culture
Total net spend of £2.68m.
Core net spending included:
- £821k on Art Gallery & Museum
- £845k on Town Hall
- £342k on Pittville Pump Room
- £169k on Everyman Theatre
- £189k on Arts Grants / Enabling

Priority 5 - Ensuring we provide Value for Money Services that effectively meet the needs of our customers
Core net spending included:
- £1.13m on Corporate Management
- £598k on Council Tax Collection
- £641k on Democratic Processes
- £370k on Election Expenses
- £101k on Civic Expenses

TREASURY MANAGEMENT / BORROWING FACILITIES

Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and this Council has adopted the Code and complies with its requirements, one of which is the receipt by Cabinet and Council of an Annual Review Report after the financial year end.

The council manages the cash-flow for the provision of all council services and it uses the money market to invest daily cash-flow surpluses and borrows to fund cash-flow deficits.

In October 2008, a number of local authorities had deposits in various Icelandic banks with a range of payment due dates. In the week beginning 6th October 2008, a number of Icelandic banks went into administration. Cheltenham Borough Council had £11m invested with three of these banks, the full details of which are shown in Note 27 of the notes to the Financial Statements on pages 64 to 69.

Interest rates have remained constant throughout the year at 0.5%, with no Bank of England interest rate changes during the period 1st April 2010 to 31st March 2011.

The conclusion of the year's activity was that the council paid £1,209,976 in borrowing costs which was £2,624 less than budgeted for the year; earned £228,577 on investments which was £7,477 more than budgeted (this excluded interest on the written down value of the Icelandic investments, details of which are shown in note 27) and received £441,736 from the Housing Revenue Account for the use of its balances, which was £60,964 less than budgeted. The overall impact was an additional cost to the General Fund of £50,863 compared to the revised budget.

However, when taking into account the accounting transactions required in respect of Icelandic investments, the overall treasury management position for 2010/11 is favourable to the council's general fund by £252,404 when compared to the 2010/11 revised budget. The under spend has been credited to an earmarked reserve, pending the final decision by the Icelandic Supreme Court on the priority status of local authority deposits. Should the decision confirm that such deposits do have priority status then this reserve will be used in future years to repay debt or alternatively, should they ultimately be deemed not to have such status, meet the resulting increased impairment charge.

PENSION LIABILITY

The council is required to account for retirement benefits when committed, even if this is many years in the future, in accordance with International Accounting Standard 19 (IAS 19). This provides a reflection of the economic relationship between the council and the pension fund. It represents the council's pension commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced future employer contributions) from a surplus in the pension scheme.

The council's net liability, according to the actuarial assessment at 31st March 2011, was £38,071,000, which was a decrease of £32,334,000 over the figure for 31st March 2010 of £70,405,000. This is principally due to the fact that the financial assumptions as 31st March 2011 are more favourable than they were at 31st March 2010. The mortality assumptions have also been strengthened to reflect improvements in life expectancy. All else being equal, these factors serve to decrease the value of the liabilities and thus have a positive impact on the IAS19 pension position.

BUSINESS GROWTH INCENTIVE SCHEME

The Business Growth Incentive scheme is a grant, which is not ring-fenced, that is awarded to councils that have successfully encouraged enterprise and employment in their areas. In 2009/10, the council received £55,197, used for community development and supporting the local economy. This scheme has now finished, with no further funding received in 2010/11.

ACCOUNTING POLICIES

The council has reviewed its accounting policies during the year and revised them in accordance with the 2010/11 Code of Practice in Local Authority Accounting. The policies are detailed in note 1 to the accounts (pages 25 to 37) and the changes in accounting policies are detailed in note 1(xxvii) on pages 37 to 38.

In addition a number of presentational changes have been made:

- The Income and Expenditure Account has been renamed the Comprehensive Income and Expenditure Statement as it now incorporates (at the bottom) the previous Statement of Recognised Gains and Losses (STRGL), so that it shows the total gains and losses incurred by the Authority in the year.

- Changes have been made to the service groupings (as recommended by the Service Reporting Code of Practice (SeRCOP) 2011/12) and the items below cost of services have been grouped together, supported by detailed notes.

- The Balance Sheet Fixed Assets (other than Investment Property and Intangible Assets) have been reclassified as Property, Plant and Equipment (PPE).

- Capital Grants Deferred have been transferred to the Capital Adjustment Account and Capital Grants Unapplied included as part of usable reserves. Reserves have been classified as either Usable (if they represent available resources) or Unusable (if they cannot be used).

- New categories for debtors and creditors, analysing payments in advance, provisions for bad debts and receipts in advance across the various categories.

CHANGES IN STATUTORY FUNCTIONS

Duty to involve local people

The new statutory duty to involve came into force on 1st April 2009, and is set out in Part 7 section 138 of the Local Government and Public Involvement in Health (LGPIH) Act 2007. The duty applies to all best value authorities in England except police authorities. The duty requires councils to take any steps they consider appropriate to involve representatives of local persons in the exercise of any of their functions, where they consider that it is appropriate to do so. It specifies the three ways of involving:

Informing - providing information about the exercise of the particular function;
consulting - about the exercise of the particular function; and/or
involving - in another way.

Petitions

The new statutory duty to respond to petitions and to establish, publicise and comply with a scheme for handling petitions (including electronically through websites) came into force on 15 June 2010 and e-petition requirements came into force on 15 December 2010. This is set out in Part 1, Chapter 2, of the Local Democracy, Economic Development and Construction Act 2009. The 2009 Act requires councils to establish a scheme for responding to the petitions they receive. Under the scheme anyone who lives, works or studies in the district can sign or organise a Petition and trigger a response from the council.

Additional powers to regulate venues

The Policing and Crime Act 2009 came into effect on 6th April 2010. Among other measures it will allow local authorities in England to adopt additional powers to regulate lap dancing clubs and similar venues. The council has adopted the amended provisions that introduced a new category of sex establishment, namely Sexual Entertainment Venues (SEV).

CAPITAL EXPENDITURE

In 2010/11 the council spent £6.960m on capital projects and grants, compared with the revised budget of £7.115m.

Included in the expenditure for the year was £2.623m on major repairs and maintenance of council houses, £0.350m on disabled adaptations within the council housing stock, £0.630m on private sector disabled facility grants and adaptation support grants, £0.375m on other grants mainly for private sector housing improvements, and £0.110m on housing enabling through partnership working with Registered Social Landlords (RSL's) and Cheltenham Borough Homes (CBH) which included the Brighton Road redevelopment scheme.

The major variances between the revised budget and outturn position are in respect of the new dry stone walling project on Leckhampton Hill which is being financed from external contributions, the ongoing procurement of the replacement cremators, and delays in progress of the transformational improvement programme at St Pauls and the Neighbourhood works programme at Scott and Edward Wilson Houses due to the financial failure of two contractors.

Like most local authorities, the council has been paying for a proportion of its capital expenditure from the proceeds of the sale of its assets. As a result of the downward trend in the economy and housing market specifically, this source of financing has been significantly reduced and only £0.485m of capital receipts were available to finance capital expenditure in 2010/11. The remaining sources of finance were Government Grants £0.844m, developer contributions and partnership funding £0.894m, with the £3.811m coming from revenue financing.

During 2010/11 the council committed to take out £0.926m of new borrowing to finance the investment required in the Green Waste Scheme (e.g. bins, vehicles etc.). It also continues to 'internally' borrow from cash balances and reserves to fund the capitalisation direction as detailed above.

During the year the council sold 5 dwellings under the 'right to buy' scheme, 2 properties were sold on the open market for redevelopment and 7 properties plus land at Brighton Road, and land at St. Pauls, was disposed to Cheltenham Borough Homes for redevelopment following Secretary of State approval.

The council plans to continue to fund capital from a range of sources including revenue reserves, developer contributions and capital receipts and will make further use of prudential borrowing to support the council's approved major capital schemes.

FUTURE PLANS

The council has a number of ambitious plans for the town including the following:

Commissioning

The council has a number of projects in progress since a "commissioning way of working" was adopted in 2010, and the senior management structure re-configured to align behind the approach. These projects include the Art Gallery and Museum refurbishment, Leisure and Culture commissioning review of services (to improve current delivery), Joint Waste (a project to join up waste functions across the county, and more specifically for Cheltenham a potential shared waste company with a partner district council). GO Shared Services (an ERP system and HR, Payroll, Finance, Procurement functions shared with Cotswold DC, Forest of Dean DC, West Oxfordshire DC). Other major projects include the Joint Core Strategy, Built Environment, and the Cheltenham Development Task Force. These provide the opportunity to work together to create a great future for Cheltenham, as well as making a significant contribution to the council's financial gap. A commissioning programme has been proposed moving forward, with two more potential projects to include Green Environment and Housing. Sequencing projects and programmes to ensure optimum use of skills and resources will be critical.

Civic Pride

The establishment of the Cheltenham Development Task Force in January 2010 has resulted in a step change in the progressing of key sites, identified in the Central Area Ambition leaflet.
Key amongst these sites has been North Place & Portland Street. Whilst the adopted design principles were very laudable the detailed requirements were proving undeliverable from a financial appraisal perspective so it was decided to revisit the brief to generate greater flexibility but at the same time maintain the high standards demanded by the public through the consultation process. The revised Supplementary Planning Document incorporating these changes was approved by full council in December 2010 and in parallel with this works had been undertaken to reduce or eliminate known site risks. This included investigations into ground conditions and archaeological evaluation exercises.
This suite of detailed information enabled CBC to promote the 5 acre site to the market in January 2011.
The process is complex and regulated by European legislation but suffice to say that significant interest has been received and the programme should see a preferred bidder identified by the end of 2011.

This will deliver a scheme consisting of a minimum 300 space car park, at least 100 accommodation units (of which 40% will be affordable), a bus node and public square. In addition it is anticipated to yield a financial receipt that can be re-invested (subject to council approval) in implementing further steps, such as Boots Corner.

In addition to this major scheme a range of other initiatives have been progressing with both investor and public partner led schemes. These include a bid to the Department of Transport for funding to close Boots Corner to through traffic; proposals to connect the Brewery to the High Street; initial discussions relating to future improvements to St. Mary's churchyard and other public realm improvements

The expressions of investor interest as shown by Jamie Oliver's new restaurant, the new office proposal at Honeybourne Place and other schemes suggest that the council can be optimistic in its future plans.

Gloucestershire Airport – runway project

In the autumn of 2009, the council agreed to facilitate borrowing to finance the runway safety project at Gloucestershire Airport. This will provide a safer runway with a computerised instrument landing system

(ILS) which will enable the airport to attract more profitable corporate business, increase the profitability for the airport and the council, a shareholder in the company.

Various legal issues delayed the start of the project; these were all resolved by April 2011 and the building contractors began on site at the end of the same month. The construction works are progressing well, with ongoing monitoring by the shareholders. It is anticipated the project with be completed by February 2012, with the ILS installation planned for the summer of 2012.

Bridging the Gap

The council's Medium Term Financial Strategy (MTFS) is a five year projection of its longer term finances which indicates a funding gap between the income raised through council tax and government support and the cost of providing services at current levels.

In response to the economic crisis, the coalition Government indicated that the public sector will see a significant reduction in government support in order to reduce the level of national debt. So far, the council has been notified of a cash cut of £1.7m (c24%) over the 2 year period 2011/12 and 2012/13. The council's MTFS is now predicted to be in excess of £5.3m over the period 2011/12 to 2016/17.

In response to this, the council has created a programme of activity called 'Bridging the Gap (BtG)' which develops ideas for meeting the funding gap. So far, the 'Bridging the Gap' programme has been very successful and delivered savings and additional income to bridge the £1.2m funding gap in 2010/11 and £2.8m for 2011/12.

The council has entered into shared service arrangements with Tewkesbury Borough Council to provide legal services and building control services as well as working in partnership with Cotswold District Council and West Oxford District Council in the management of audit services. In addition, having gone through a joint recruitment process, the council is in the process of building an Enterprise Resource Planning System with Cotswold, West Oxford and the Forest of Dean district councils which will provide a single finance, payroll, HR and procurement system. This will deliver significant savings, reduce duplication of effort, provide service resilience and will facilitate the creation of a shared service covering finance, payroll, HR and procurement between the councils. The aim is to streamline how we do things, make better use of technology and deliver savings so that these services can cost as little as possible whilst at the same time being as efficient as possible.

The council has reduced the costs of its property portfolio through increasing income and reducing costs through energy efficiency programmes; reviewed the level of fees and charges and disposed of properties it no longer needs to provide services.

Through its commissioning programme, the council is looking at alternative delivery models for providing services including the third sector, creation of separate trading companies and Trusts.

The average level of council tax paid by Cheltenham's residents for services provided by the council (based upon a band D equivalent in 2010/11) was £187.12. Given the impact of the financial climate on residents, the ability to significantly raise council tax to maintain services is limited. Therefore, the BtG programme has enabled the council to drive down costs and maintain services and make a contribution to helping to keep its share of the overall level of council tax increases to a minimum.

Art Gallery & Museum redevelopment scheme

In July 2008 the council made a commitment to contribute £2 million to the redevelopment of the Art Gallery & Museum (in addition to the £0.5 million earmarked from the sale of the former Axiom building). The new development will transform Cheltenham Art Gallery & Museum by greatly increasing its exhibition and display space and other facilities. Notable features include a large temporary exhibition gallery, additional space for collections, and for the first time, a dedicated space for the Art Gallery & Museum's extensive education, outreach, lifelong learning and arts development work. The design also includes improved and fully-accessible visitor facilities, including lifts, shop and café and the re-location of the Tourist Information Centre. Phase I & II of the fundraising campaign has resulted in fundraising for the project reaching £5.38m which includes £750k from the Heritage Lottery Fund. Whilst the council has underwritten the current funding shortfall of £919k Phase 3 of the fundraising campaign was launched in May in order to reach the projects total funding target of £6.3m. The AG&M was shut on 1st April for decanting, ahead of work due to commence on site in July 2011. The new AG&M is scheduled to re-open in the spring of 2013.

St. Paul's Regeneration and other social housing schemes

In April 2009, the council confirmed Cheltenham Borough Homes (CBH) as a new development partner for the construction of new social housing. CBH is recognised as providing excellent management services to the tenants of the council and has been accredited as an investment partner by the Homes and Communities Agency (HCA). Secretary of State approval was secured and land at Brighton Road and St Paul's was transferred to CBH in 2010/11 for the development of new affordable housing. These developments commenced during the year with financial support from both the HCA and the council. CBH have also bid for further HCA funding, as part of the Bromford Housing Consortium, to progress the redevelopment of St Pauls Phase 2 and other sites.

HRA Self Financing

The government has confirmed that the HRA subsidy system will be scrapped in April 2012 and replaced by a self financing regime. This change will be enabled by a one-off debt settlement for each local authority still owning housing stock. Cheltenham will take on additional debt but cease to pay negative subsidy to the government. It is anticipated that this change will be beneficial to the authority, giving additional resources to address local housing needs, including the improvement of existing stock and the development of new units.

Flood relief work

The council considers it important, even in the current economic downturn, that it continues to act on the lessons learned in the great Gloucestershire flood of July 2007. Consequently the council has used the Flood Alleviation Fund to support a number of initiatives aimed at reducing flooding risk, including building a bund to protect Leisure@. It has also committed a contribution of £100,000 towards the much-needed Prestbury Flood Prevention Scheme.

In addition, the council has obtained Defra funding to carry out a number of other flood risk management schemes:

- £820k grant aid - Warden Hill Flood Relief Works. These works are nearing completion and will provide an improved standard of protection to over 130 properties.
- £102k grant aid – Property level flood protection (Whaddon area). This recently awarded funding will go towards the cost of flood protection of up to 24 properties in Whaddon. This type of funding is used where major engineering schemes are unlikely to occur in the near future or are not currently feasible.
- £59k grant aid – Hearne Brook catchment study. This funding has enabled the flooding problem to be analysed and potential solutions proposed and costed. Consequently, an application for further Defra funding (£641k) is currently being prepared which may lead to further works in 2012/2013.

The council is also working in partnership with the County Council in the production of a Cheltenham Surface Water Management Plan. The plan has identified a number of surface water flooding "hot spots" for a more detailed analysis and will be looking at the various flood risk management options. This may lead to future funding opportunities.

The council has also set aside £90,000 from the Flood Restoration Grant to spend over three years on maintenance of our watercourses, streams and ditches which are not classified as 'main river' and thus help prevent future flooding.

Everyman theatre

The Everyman Theatre is a grade 2 listed building and the earliest surviving example of the theatre architect Frank Matcham, and of national importance. It is a part of the early night-time economy and an attraction of the town centre. The theatre management approached the council in 2009 with a request to secure funding towards the refurbishment of the theatre.

At the budget setting meeting in February 2010, the council approved a one-off capital grant of £250,000, funded from the capital reserve in 2011/12, subject to a reduction in annual grant over a 6 year period and the granting of a new lease, plus a £1m loan with interest subject to a robust business case. This provides an opportunity to reduce longer term funding for the theatre by enabling it to become a more attractive venue with a more resilient business case for its long term survival. During 2010/11, the business case was signed off and the details of the loan mechanism were agreed by the councils section 151 officer.

EXCEPTIONAL ITEMS

Former Managing Director v Council dispute

Expenditure of £187k was incurred during 2009/10 in respect of the dispute between the council and the former Managing Director, Mrs Laird, including £95k for the subsequent independent public interest report prepared by KPMG LLP. During January to April 2009 the council's case against its former Managing Director, Mrs Christine Laird, for damages for negligent and/or fraudulent misrepresentation was heard in the High Court. On 15th June 2009 the Court dismissed the council's claim and also Mrs. Laird's counter-claim for damages and entitlement to benefits received by the council. The council was instructed to pay 65% of Mrs. Laird's costs and a provision of £520,000 was set aside in 2009/10 to cover the future payment of these costs. A £150,000 payment on account was made to Mrs Laird in 2009/10, leaving a provision of £370,000, pending the final bill from Mrs Laird.

In 2010/11 a payment of £342k was made to Mrs Laird, in settlement of the court costs, leaving unused provision of £28k. This unused provision has been transferred from the provision to form part of the Comprehensive Income and Expenditure Statement and is included in the Exceptional Items net income of £25k.

Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki Islands Hf, Kaupthing and Glitnir Hf collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer & Friedlander went into administration. The authority had £11 million deposited across three of these banks with varying maturity dates and interest rates. All amounts invested with these banks are currently subject to the respective administration and receivership processes. Consequently the authority recognised an impairment charge of £5.035 million in its Income and Expenditure account for 2008/09, to reflect the estimated losses, including interest lost from the date of collapse to the dates repayments are estimated to be received. Taking advantage of government regulations, however, the impact of this charge on the general fund balance was deferred until 2009/10, so the amount (less any interest not received) was initially charged to the Financial Instruments Adjustment Account.

In 2009/10, based on revised information relating to the likely amounts to be recovered from the banks and the likely repayment dates, a further impairment charge of £0.335 million was made.

In January 2010 the authority was successful in its application to the Government for a capitalisation direction of £4.430 million for 2009/10. This allowed the council to treat the impairment charge (excluding interest due but not received) as capital expenditure, spreading the loss over a number of years. Consequently the impairment charge and the interest transferred to the Financial Instruments Adjustment Account in 2009/10 were reversed to the General Fund in that year, offset wholly by a credit for revenue expenditure charged to capital.

At 31st March 2011 the position was reassessed and an impairment adjustment of £2.714 million was credited to the Comprehensive Income and Expenditure Statement for 2010/11. This reduction in the impairment arose mainly as a result of the decision by an Icelandic court that local authority deposits in Glitnir bank hf were deemed to have priority status, resulting in a 100% likely recovery rate. (The authority had previously assumed such deposits did not have priority status, in line with the decision of the winding up board, resulting in a recovery rate of just 29%). The decision is however subject to appeal to the Icelandic Supreme Court.

Of the impairment credit, £230,000 has been used to reduce the council's borrowing (Capital Financing Requirement), which had increased with the use of the capitalisation direction. The remaining £2.484 million, together with the interest due of £0.303 million has been credited to an earmarked reserve, pending the final decision by the Icelandic Supreme Court on the priority status of local authority deposits. Should the decision confirm that such deposits do have priority status then this reserve will be used in future years to repay debt or alternatively, should they ultimately be deemed not to have such status, meet the resulting increased impairment charge.

Of the original amounts invested, repayments of £1.628 million were received by 31st March 2011, with a further £154,000 being received in May 2011.

EVENTS AFTER THE BALANCE SHEET DATE

The decision made by the Icelandic court that local authority deposits in Glitnir Bank Hf have priority status was made on 1st April 2011. As the decision related to the authority's investments in the bank that existed on 31st March 2011 the accounts have taken this decision into account, as outlined above.

The concessionary fares function transferred to the control of Gloucestershire County Council on 1st April 2011. All future costs associated with this scheme will be included in the accounts for the County Council from this date. Consequently the cost of the scheme for 2009/10 and 2010/11 has been shown separately on the face of the Comprehensive Income and Expenditure Account.

FURTHER INFORMATION

Further information about the accounts is available from the Financial Services Division, Cheltenham Borough Council, Municipal Offices, Promenade, Cheltenham. This is part of the council's policy of providing full information about the council's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed. The accounts were available for inspection by appointment between 12th July and 8th August 2011 at the Municipal Offices and the appointed day whereby local government electors for the area may exercise their rights under Sections 15 and 16 of the Audit Commission Act 1998 to question the auditor about or make objections to the accounts for the year ended 31st March 2011 was designated as 9th August 2011.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities:

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Resources.

- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- to approve the statement of accounts

Director of Resources (Section 151 Officer):

The Director of Resources is responsible for the preparation of the authority's Statement of Accounts which, in terms of the Code, is required to give a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31st March, 2011.

In preparing this Statement of Accounts, the Director of Resources has:-

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with the Code of Practice.

The Director of Resources has also:-

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts for 2010/11 provides a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31st March 2011.

.... Mark Sheldon Date:..........................

Director of Resources (Section 151 Officer)

……………………………. Date:………………….

Chair of Audit Committee, 21 September 2011

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the 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; and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009/10 Restated				2010/11		
Gross expenditure £'000	**Gross income £'000**	**Net expenditure £'000**		**Gross expenditure £'000**	**Gross income £'000**	**Net expenditure £'000**
			Continuing Operations			
9,318	(8,337)	981	Central Services to the public	9,743	(8,482)	1,261
22,901	(3,180)	19,721	Cultural and related services	10,604	(3,737)	6,867
8,764	(3,588)	5,176	Environment & Regulatory services	7,724	(4,231)	3,493
3,291	(1,926)	1,365	Planning services	3,630	(1,657)	1,973
6,383	(5,835)	548	Highways and Transport services	4,814	(6,174)	(1,360)
24,044	(17,228)	6,816	Local Authority housing (HRA)	60,565	(17,057)	43,508
33,585	(32,109)	1,476	Other housing services	34,068	(33,167)	901
3,054	(422)	2,632	Corporate & Democratic core	2,668	(311)	2,357
1,964	(150)	1,814	Non Distributed costs	(11,026)	(150)	(11,176)
113,304	**(72,775)**	**40,529**	**Total Cost of Continuing Operations excluding Concessionary Fares transferred to Gloucestershire County Council 1 April 2011**	**122,790**	**(74,966)**	**47,824**
2,167	(540)	1,627	Concessionary Fares	2,337	(642)	1,695
115,471	**(73,315)**	**42,156**	**Cost of Services**	**125,127**	**(75,608)**	**49,519**
480	(298)	182	Other operating expenditure *(note 13)*	1,328	(281)	1,047
8,201	(6,220)	1,981	Financing and Investment Income and Expenditure *(note 14)*	4,492	(1,350)	3,142
335	-	335	Exceptional item- Impairment losses on Icelandic bank deposits *(note 9)*	(2,714)	-	(2,714)
187	-	187	Exceptional item - CBC v. Laird case *(note 9)*	(25)	-	(25)
-	(17,336)	(17,336)	Taxation and non-specific grant income *(note 15)*	-	(17,519)	(17,519)
124,674	**(97,169)**	**27,505**	**(Surplus) or Deficit on the provision of services**	**128,208**	**(94,758)**	**33,450**
		30,322	(Surplus) / Deficit on revaluation of non-current assets (*note 34)*			(1,265)
		32,097	Actuarial (gains) losses on pension fund assets / liabilities *(note 42)*			(21,417)
		62,419	**Other Comprehensive Income and Expenditure**			**(22,682)**
		89,924	**Total Comprehensive Income and Expenditure**			**10,768**

BALANCE SHEET

This statement shows the value as at the balance sheet date of the assets 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 may only be used to fund capital expenditure or repay debt).

The second category of reserves comprises those that the authority is not able to use to provide services. This category includes reserves that held 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 Movements in Reserves Statement Line 'Adjustments between accounting basis and funding basis under the regulations.'

31 March 2009 Restated £'000	31 March 2010 Restated £'000		Note	31 March 2011 £'000
334,535	282,220	Property, Plant & Equipment	22	231,147
25,501	22,608	Investment Property	23	22,223
315	234	Intangible Assets	25	448
12,978	10,560	Long Term Investments	27	3,793
232	201	Long Term Debtors	27	183
373,561	**315,823**	**Long Term Assets**		**257,794**
7,144	2,368	Short term Investments	27	12,301
-	-	Assets held for sale	26	3,084
102	117	Inventories	28	124
7,277	6,009	Short term Debtors	29	4,679
17	22	Cash and cash equivalents	30	914
14,540	**8,516**	**Current assets**		**21,102**
(164)	(464)	Bank overdraft	30	(1,022)
(20,447)	(17,912)	Short term borrowing	27	(13,607)
(11,766)	(7,100)	Short term creditors	31	(8,945)
(690)	(535)	Provisions	32	(96)
(33,067)	**(26,011)**	**Current Liabilities**		**(23,670)**
(26,900)	(26,900)	Long term borrowing	27	(26,900)
(189)	(83)	Capital grants receipts in advance	20	(83)
(37,081)	(70,405)	Other long term liabilities	42	(38,071)
(64,170)	**(97,388)**	**Long term liabilities**		**(65,054)**
290,864	**200,940**	**Net Assets**		**190,172**
(16,794)	(14,989)	Usable Reserves	33	(19,546)
(274,070)	(185,951)	Unusable Reserves	34	(170,626)
(290,864)	**(200,940)**	**Total Reserves**		**(190,172)**

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year in 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 reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different to the statutory amount required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent purposes. The net increase or decrease before transfers to earmarked reserves line shows the statutory general fund balance and housing revenue account balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	**Total Usable Reserves £'000**	Unusable Reserves £'000	**Total Reserves £'000**
Balance at 31 March 2009	2,717	12,961	311	-	-	805	**16,794**	274,070	**290,864**
Movement in Reserves during 2009/10									
Surplus or (deficit) on the provision of services	(21,352)	-	(6,153)	-	-	-	**(27,505)**	-	**(27,505)**
Other comprehensive Income & expenditure							**-**	(62,419)	**(62,419)**
Total comprehensive Income & Expenditure	(21,352)	-	(6,153)	-	-	-	**(27,505)**	(62,419)	**(89,924)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	18,382	-	7,423	-	-	(105)	**25,700**	(25,700)	**-**
Net decrease before transfers to reserves	(2,970)	-	1,270	-	-	(105)	**(1,805)**	(88,119)	**(89,924)**
Transfers to/from earmarked reserves (Note 33)	2,699	(2,699)	-	-	-	-	**-**	-	**-**
Increase / (decrease) in 2009/10	(271)	(2,699)	1,270	-	-	(105)	**(1,805)**	(88,119)	**(89,924)**
Balance at 31 March 2010	**2,446**	**10,262**	**1,581**	**-**	**-**	**700**	**14,989**	**185,951**	**200,940**
Movement in Reserves during 2010/11									
Surplus or (deficit) on the provision of services	11,279		(44,729)				**(33,450)**		**(33,450)**
Other comprehensive Income & expenditure							**-**	22,682	**22,682**
Total comprehensive Income & Expenditure	11,279	-	(44,729)	-	-	-	**(33,450)**	22,682	**(10,768)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(10,276)		46,821	1,162	300	-	**38,007**	(38,007)	
Net decrease before transfers to reserves	1,003	-	2,092	1,162	300	-	**4,557**	(15,325)	**(10,768)**
Transfers to/from earmarked reserves (Note 33)	(782)	782					**-**		
Increase / (decrease) in 2010/11	221	782	2,092	1,162	300	-	**4,557**	(15,325)	**(10,768)**
Balance at 31 March 2011	**2,667**	**11,044**	**3,673**	**1,162**	**300**	**700**	**19,546**	**170,626**	**190,172**

CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash 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 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 flows 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.

2009/10 Restated £'000		**2010/11 £'000**	**£'000**
	Operating activities		
(7,017)	Council Tax receipts	(7,148)	
(1,646)	Revenue Support Grant	(1,118)	
(7,129)	National non-domestic rate receipts from national pool	(7,701)	
(38,283)	DWP grants for benefits	(39,534)	
(847)	Other government grants	(870)	
(6,654)	Rents (after rebates)	(6,761)	
(19,352)	Sales of goods and rendering of services	(21,351)	
(646)	Interest receipts	(50)	
(25)	Dividends received	(25)	
(81,599)	**Cash inflows generated from operating activities**		(84,558)
18,785	Cash paid to and on behalf of employees	18,174	
19,443	Housing Benefit paid	20,246	
153	Precepts paid	160	
238	Payments to the Capital Receipts Pool	-	
31,942	Cash paid to suppliers of goods and services	30,051	
1,269	Interest paid	1,293	
10,746	Other payments for operating activities	6,620	
82,576	**Cash outflows generated from operating activities**		76,544
977	**Net cashflows from operating activities**		(8,014)
	Investing activities		
5,053	Purchase of property, plant and equipment, investment property and intangible assets	5,591	
(663)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,101)	
(7,065)	Proceeds from the sale of short and long term investments	(118)	
(544)	Other receipts from investing activities	3	
(3,219)	**Net cashflows from Investing activities**		3,375
	Financing activities		
(173,190)	Cash receipts of short and long term borrowing	(110,545)	
175,727	Repayments of short- and long-term borrowing	114,850	
2,537	**Net cash flows from financing activities**		4,305
295	**Net increase (-) / decrease in cash and cash equivalents**		**(334)**
(147)	Cash and cash equivalents at beginning of the year		(442)
(442)	**Cash and cash equivalents at the end of the year (note 30)**		**(108)**

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i) GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the 2010/11 financial year and its position at the year-end of 31st March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 (as amended), which require the accounts to be prepared in accordance with proper accounting practice. The Statement has been prepared primarily in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (The 'Code') and the Service Reporting Code of Practice 2011 (SERCOP),* supported by International Financial Reporting Standards (IFRS).

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

ii) ACCOUNTING CONCEPTS

Except where specified in the Code of Practice, or in specific legislative requirements, it is the authority's responsibility to select and regularly review its accounting policies, as appropriate.

These accounts are prepared in accordance with a number of fundamental accounting principles:

- Relevance
- Reliability
- Comparability
- Materiality

Additionally three further concepts play a pervasive role in the selection and application of accounting policies:

Accruals of Income and Expenditure

The financial statements, other than the cash flow statement, are prepared on an accruals basis, i.e. transactions are reflected in the accounts in the year in which they take 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.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- 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.

- All income and expenditure is credited and debited to the Comprehensive Income and Expenditure Statement, unless it comprises capital receipts or capital expenditure.

Going Concern

The accounts are prepared on the assumption that the council will continue its operations for the foreseeable future. This means in particular that the Comprehensive Income and Expenditure Statement and balance sheet assume no intention to significantly curtail the scale of operations.

Primacy of legislative requirements

The council derives its powers from statute and its financial and accounting framework is closely controlled by primary and secondary legislation. Where legislative requirements and accounting principles conflict, legislative requirements take precedence.

iii) 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 or amount 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 as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when 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 carried 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 be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

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.

Statutory arrangements allow any settlements for back pay arising from discriminatory payments, incurred before the council implemented its equal pay strategy, to be financed from the General Fund in the year that payments actually take place. No provision is included in the accounts as all back claims were settled in the year.

iv) RESERVES

The council sets aside specific amounts as earmarked usable 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 form part of the Surplus or Deficit in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. The purpose of each of these earmarked reserves is explained in Note 33 to the financial statements on page 76.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits, and they do not represent usable resources for the council – these reserves are known as unusable reserves and are explained in the relevant policies below.

v) 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, or it is reasonably certain that they shortly will be, satisfied. Conditions are stipulated that specify that the grants or contributions are required to be consumed by the recipient as specified, or they must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors or Capital Grants Received in Advance. 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 ringfenced 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.

vi) EMPLOYEE BENEFITS

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave 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 (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits 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. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is committed to the termination of the employment of an officer or group of officers.

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 standards. In the Movement on 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 pensioners and any such amounts payable but unpaid at the year end.

vii) Post Employment Benefits

Employees of the council are members of the Local Government Pension Scheme, administered by Gloucestershire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council and is accounted for as a defined benefits scheme:

- The liabilities of the Gloucestershire pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate, based on the indicative rate of return on the adoption of the AA-rated corporate bond basis.

- The assets of the Gloucestershire pension fund attributable to the council are included in the balance sheet at their fair value:
  - quoted securities – current bid value
  - unquoted securities – professional estimate of fair value
  - unitised securities – current bid price
  - property – market value.

- The change in the net pension liability is analysed into seven components:

  - Current service cost: the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

  - Past service cost: the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

  - Interest cost: the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

  - Expected return on assets: the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

  - Gains/losses on settlements and curtailments: the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

  - Actuarial gains and losses: changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.

  - Contributions paid to the Gloucestershire pension fund: cash paid as employer's contributions to the pension fund, in settlement of liabilities.

Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pension 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 any amounts payable to the fund 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.

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 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.

Further information on pension costs and the accounting arrangements can be found in Note 42 to the financial statements on pages 84 to 89.

vii) 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.

viii) OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA SeRCOP 2011/12. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Charges are based on a variety of methods including allocations according to officers' use of time resources, charge per unit of service and administrative building costs according to area occupied.

ix) 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 to reflect the pattern of consumption of benefits.

Internally generated assets are capitalised where it can be demonstrated that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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 (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

x) PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis are classified as Property, Plant and Equipment.

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 for more than one financial year and the cost of the item can be measured reliably. This excludes expenditure on routine repairs and maintenance, which is charged direct to service revenue accounts when it is incurred.

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. The authority does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Dwellings – fair value, using the basis of existing use value for social housing (EUV-SH)
- Infrastructure, community assets and assets under construction - depreciated historical cost.
- All other assets – fair value, based on the amount that would be paid for the asset in its existing use (EUV).

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

In the case of non-property assets that have short useful lives or low values (or both) e.g. vehicles, plant and equipment, depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued where there have been material changes in the value, and as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value 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 the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment 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 the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) 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.

Disposals and Asset 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. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale, except in the year in which they were classified for sale. Right to Buy dwellings become surplus on the day that the transfer to the tenant takes place (completion of the sale), and therefore are deemed operational until they are sold.

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 as asset is disposed of, or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) 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 (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received from a disposal 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 from the General Fund Balance in the Movement of Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserve Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Council dwellings – depreciated on the basis of the Major Repairs Allowance, a measure of the "wearing out" of the stock, provided by the government.
- Other buildings – straight-line allocation over the life of the property as estimated by the valuer; generally 50 years
- Vehicles, plant and equipment – straight-line allocation over 4 to 10 years, depending on the enhanced life of the asset.
- Infrastructure – straight-line allocation over 40 years.

Newly acquired assets are depreciated from the year following that in which they were acquired, although assets in the course of construction are not depreciated until they are brought into use.

Where a Property, Plant and Equipment asset has major components whose cost is significant in relation to the total asset portfolio with different estimated useful lives, these are depreciated separately. An asset is deemed significant if its building element gross book value exceeds the de minimis level of £872,100, as per the council's draft componentisation policy.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets with 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.

Assets disposed of during the year are depreciated in the year of disposal or in the case of Assets Held for Sale, in the year they were classified for sale.

xi) CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (known as Minimum Revenue Provision) equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by a contribution from the General Fund Balance, by way of an adjusting transaction to the Capital Adjustment Account in the Movement of Reserves Statement.

xii) REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

This represents expenditure that may be capitalised under statutory provisions but does not result in the creation of non-current assets for the authority. Such expenditure incurred during the year is charged to the relevant service line in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account reverses the charge, so that there is no impact on council tax.

xiii) 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 does not have any finance leases as lessee or lessor under the criterion set out in International Financial Reporting Standards (IFRS).

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 and equipment. Charges are made to Service revenue accounts on a straight-line basis over the life of the lease.

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained on 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 (e.g. there is a premium paid at the commencement of the lease). 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 the rental income.

xiv) FINANCIAL INSTRUMENTS

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority become a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in 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. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest, 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 and Expenditure 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 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.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over a number of years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid, subject to the maximum or minimum number of years specified in the regulations. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.

- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised cash flows, discounted at the asset's original effective interest rate.

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

Available-for-sale financial Assets

Available-for-sale financial assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Assets are maintained in the Balance Sheet at fair value, or amortised cost. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis;
- Equity shares with no quoted market prices – independent appraisal of company valuations or amortised cost.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain or loss is recognised in the Surplus or Deficit on the Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

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

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available-for-Sale Reserve.

xv) INVENTORIES AND LONG TERM CONTRACTS

Inventories (previously known as stocks and work-in-progress) held in stores are included on the Balance Sheet at the latest price paid, with an allowance made for obsolescent and slow-moving items. This is a departure from the requirements of the Code, which require inventories to be shown at the lower of cost and net realisable value. The effect of the different treatment is immaterial. All other inventories held have been valued at the lower of cost and net realisable value. All work in progress is charged to service accounts by the year end so there is a nil value held on the Balance Sheet.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

xvi) ESTIMATION TECHNIQUES

Estimation techniques are the methods adopted to assess the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their precise value. Unless specified in the Code or in legislative requirements, the method of estimation will generally be the one that most closely reflects the economic reality of the transaction.

xvii) CASH AND 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 investments that mature in no more than 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.

xviii) EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

xix) 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 either it 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 Balance Sheet but disclosed in a note to the accounts.

xx) CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxi) **PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

xxii) **EVENTS AFTER THE BALANCE SHEET DATE**

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 when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that arose after the reporting period – the Statement of Accounts is adjusted to reflect such events.
- 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 effort.

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

xxiii) **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 or is held for sale.

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 parties at arm's-length. Properties are not depreciated but are revalued annually as necessary according to market conditions in the year. 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.

Rentals 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 (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xxiv) **JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant and equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Such operations and assets, not being separate entities, are accounted for in the Authority only accounts and are not separate entities for Group account purposes.

xxv) INTERESTS IN COMPANIES AND OTHER ENTITIES – GROUP ACCOUNTS

The council has material interests in companies and other separate entities that have the nature of being subsidiaries and joint ventures and require it to prepare Group Accounts. In the council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Basis of Consolidation

The Group Accounts bring together the council's accounts with those of Gloucestershire Airport, in which the council has a 50% shareholding (the remaining 50% of shares are owned by Gloucester City Council) and Cheltenham Borough Homes (CBH) in which the council has 100% shareholding. The accounts of CBH include those of Cheltenham Borough Homes Services Ltd, a wholly owned subsidiary of Cheltenham Borough Homes Limited. Gloucestershire Airport has been treated as a jointly controlled entity (joint venture) and CBH a subsidiary company.

Accounting Policies

The financial statements in the Group Accounts are prepared in accordance with the policies set out above, with the following additions and exceptions:-

The financial statements for Cheltenham Borough Homes (CBH) and Gloucestershire Airport have been prepared under the historical cost convention in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

Property, Plant and Equipment held by Gloucestershire Airport and CBH are valued at historic cost. For the purposes of the Group Accounts, the airport's PPE have been revalued at current value in order to bring them in line with the council's accounting policies. A formal valuation with a valuation date of 1st April 2007 was undertaken by an external valuer in 2007/08.

Depreciation on assets held by CBH and Gloucestershire Airport have been calculated so as to write off the cost of Property, Plant and Equipment over their expected useful lives using the following rates, which are different to those used by the council.

	CBH	Airport
(a) Freehold Property		2% per annum of cost
(b) Plant & Machinery	20% straight line allocation	10% per annum of cost
(c) Office Equipment		10% per annum of cost
(d) Motor Vehicles	20% straight line allocation	10% per annum of cost
(e) Computer Equipment	33% straight line allocation	20% per annum of cost
(f) Taxiway / Runway		4% per annum of cost
(g) Fixtures & Fittings, Tools & Operational Equipment	33% straight line allocation	
(f) Leasehold Buildings	Over the life of the lease	

Leasing – Assets acquired under finance leases or hire purchase contracts by Gloucestershire Airport are capitalised and depreciated in the same manner as other Property, Plant and Equipment.

Equity dividends proposed by the Board of Directors of the Airport are not recorded in the council's financial statements until they are approved by the Shareholders at the annual general meeting. Equity dividends paid are dealt with as a movement on retained profits.

xxvi) INTEREST ON INVESTMENT AND BORROWING

Interest is credited or debited to the General Fund and the Housing Revenue Account based on the level of their Usable Reserves. The amounts are calculated using the average rate or a consolidated rate of interest earned by the council, in accordance with statutory provisions.

xxvii) CHANGES IN ACCOUNTING POLICIES

The 2010/11 Code incorporates changes to accounting policy so that the accounts are for the first year fully IFRS compliant.

The specific changes in policies for 2010/11 are as follows:

- Accrual in Income and Expenditure of the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end. This charge is reversed out in the Movement in Reserves statement to a new account, the Accumulating Compensated Absences Adjustment Account.
- Leases have been reassessed and reclassified (as required) in accordance with IFRS criteria.
- Capital grants and contributions have been credited to the Comprehensive Income and Expenditure Statement where any conditions attached to them have been, or are reasonably certain to be met, or if not to Capital Grants Receipts in Advance. Previously they were credited directly to Capital Grants Unapplied if not used or to Capital Grants Deferred if used, from where they were amortised to the Income and Expenditure Account.
- Any assets classified as for sale have been transferred from Property, Plant and Equipment to a current or non-current Assets Held for Sale Account on the Balance Sheet.
- Investment property has been separated from Property, Plant and Equipment. Impairments and gains and losses arising on revaluation of Investment property are charged or credited to the Comprehensive Income and Expenditure Statement (Financing and Investment Income and Expenditure line) and reversed out in the Movement in Reserves Statement to the Capital Adjustment Account. Previously gains were credited to the reserve or to income and expenditure.
- Cash equivalents now include deposits with less than three months to maturity, which were previously included in Short Term Investments.

Prior year adjustments to 2009/10 have been made to reflect the changes in accounting policy. In the case of the Balance Sheet prior year adjustments have also been made to the 31st March 2009 figures, representing the opening balances for 2009/10.

2. Transition to International Financial Reporting Standards (IFRS)

The statement of accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based code has resulted in the restatement of some of the amounts presented in the Statement of Accounts for 2009/10. The material differences are as follows.

Short term accumulating compensated absences

These refer to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the authority. They comprise holiday pay and excess hours built up under the flexitime system operated by some employees.

Employees build up an entitlement to paid holidays as they work. Under the code the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the authority is required to accrue for any leave earned but not taken at 31st March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean that local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulating Compensated Absences account until the benefits are used.

Accruing for short term absences has resulted in the following changes being made to the 2008/09 and 2009/10 financial statements.

Opening 1st April 2009 Balance Sheet

	2008/09 Statement £'000	**Adjustments made £'000**	**2008/09 Restated £'000**
Short term Creditors	(11,674)	(93)	(11,767)
Accumulated Absences Account	-	93	93

31st March 2010 Balance Sheet

	2009/10 Statement £'000	**Adjustments made £'000**	**2009/10 Restated £'000**
Short term Creditors	(7,019)	(81)	(7,100)
Accumulated Absences Account	-	81	81

2009/10 Comprehensive Income and Expenditure Statement

Cost of services	**2009/10 Statement - Gross expenditure £'000**	**Adjustments made £'000**	**2009/10 Gross Expenditure Restated £'000**
Central Services to the Public	9,106	(1)	9,105
Cultural, Environmental, regulatory and Planning Services	38,682	-	38,682
Highways and Transport services	8,486	1	8,487
Local Authority Housing (HRA)	24,044	-	24,044
Other housing services	33,789	-	33,789
Corporate and Democratic Core	3,017	(12)	3,005
Non Distributed Costs	1,964	-	1,964
Total	**119,088**	**(12)**	**119,076**

Leases

Under the code leases of property are accounted for as separate leases of land and buildings. Previously each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease, or as a finance lease where it was previously treated as an operating lease.

Similarly under IFRS the criteria for the classification of operating and finance leases has changed and it is possible leases of property, plant and equipment previously treated as operating leases are finance leases under the code.

The government has issued regulations and statutory guidance in relation to accounting for finance leases. Under these arrangements, the annual charge to the general fund (where the authority is the lessee) will be unchanged. Where the authority is the lessor the regulations allow the authority to continue to treat any income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

The authority does not have any leases where the accounting treatment has changed and all leases at 1st April 2009 have been deemed to be operating leases.

Government Grants

Under the code grants and contributions for capital schemes are recognised as income when they become receivable. Previously grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31st March 2009 has been transferred to the Capital Adjustment Account in the opening 1st April 2009 balance sheet.
- Amounts of government grants deferred were previously recognised as income in 2009/10 in line with the depreciation charge for the asset. These have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- Usable grants (i.e. those either where no conditions applied or where the conditions have been met) received in 2009/10 have been credited to the Comprehensive Income and Expenditure Statement. Previously no income was recognised in respect of these grants, which were shown within the Grants Unapplied Account on the balance sheet.
- Following the change in accounting policy the grants have been recognised in full and transferred from the Comprehensive Income and Expenditure Statement to the Capital Adjustment Account (where used to finance capital expenditure) or to the Capital Grants Unapplied Account (where yet to be used).
- The capital grants unapplied account has been reclassified as a usable reserve. Previously it was shown as a long term liability on the balance sheet. Those grants classified as capital grants Receipts in Advance remain on the balance sheet as long or short term liabilities (i.e. creditors).

This has resulted in the following changes to the 2009/10 financial statements:

Opening 1st April 2009 balance sheet

	2008/09 statement £'000	**Adjustments made £'000**	**2008/09 Restated £'000**
Government grants deferred Account	(8,724)	8,724	-
Capital Adjustment Account	(269,739)	(8,724)	(278,463)

31st March 2010 balance sheet

	2009/10 statement £'000	Adjustments made £'000	2009/10 Restated £'000
Government grants deferred Account	(8,583)	8,583	-
Capital Adjustment Account	(237,232)	(8,583)	(245,815)

Comprehensive Income and Expenditure Statement 2009/10 comparative figures

	2009/10 Statement Gross Income £'000	Removal of grants deferred £'000	Removal of REFCUS* grants £'000	Removal of previous years' grants £'000	Usable Grants received and used in 2009/10 Including REFCUS grants £'000	Usable Grants received but not used in 2009/10 £'000	2009/10 Restated Gross Income £'000
Central Services to the Public	8,285						8,285
Cultural, Environmental, regulatory and Planning Services	9,402	(577)		(23)			8,802
Highways and Transport services	6,339	(14)					6,325
Local Authority Housing (HRA)	17,228	-	(293)		293		17,228
Other housing services	32,443	(13)	(982)	(70)	777		32,155
Corporate and Democratic Core	422						422
Non Distributed Costs	150						150
Financing and Investment income	852						852
Taxation and non-specific grant income	16,680				259	397	17,336
Total	**91,801**	**(604)**	**(1,275)**	**(93)**	**1,329**	**397**	**91,555**

* REFCUS – Revenue Expenditure Financed from Capital Under Statute

Changes in fair values of Investment Properties

Previous accounting policy required revaluations of Investment Property to be adjusted through the Revaluation Reserve in the first instance. The code requires changes to fair value to be taken to surplus or deficit on the provision of services (and then reversed out to the Capital Adjustment Account). In 2009/10 all downward revaluations were taken to the provision of services in the Comprehensive Income and Expenditure Statement, so no restatement was required in respect of these.

Upward revaluation of Investment properties were however originally credited to the Revaluation Reserve in 2009/10. The Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement for 2009/10 and Revaluation Reserve balance have therefore been restated to take of these, which totalled £4.67 million. Of these £1.232 million related to the Housing Revenue Account, so the HRA has also been restated to take account of the gains in 2009/10.

These adjustments have resulted in an additional credit to the Comprehensive Income and Expenditure Statement and HRA in 2009/10. However, because the credit cannot for statutory reasons be credited to the General Fund or HRA balance, it has been reversed out to the Capital Adjustment Account via the Movement in Reserves Statement.

The opening balance sheet for 2009/10 (at 31st March 2009) has also been restated, removing £0.211 million of revaluation gains on investment properties in 2008/09 from the Revaluation Reserve to the Capital adjustment Account.

Service Reporting Code of Practice (SeRCOP)

The Best Value Code of Practice (BVACOP) has been updated and expanded for 2011/12 and renamed the Service Reporting Code of Practice (SeRCOP). Under the code, the council's services are analysed in the Comprehensive Income and Expenditure Statement on the basis of the SeRCOP. This has been adopted for 2010/11, with 2009/10 comparative figures, to provide a more detailed breakdown of the costs included in the Comprehensive Income & Expenditure Statement. The 2009/10 comparative figures, as updated for the changes in accordance with International Financial Reporting Standards (IFRS), shown above, are further updated in accordance with the SeRCOP, as shown in the table below.

2009/10	Gross expenditure under IFRS (see above) £'000	Gross income under IFRS (see above) £'000	Net expenditure under IFRS (see above) £'000	Gross expenditure Restated under SeRCOP £'000	Gross income Restated under SeRCOP £'000	Net expenditure Restated under SeRCOP £'000
Central Services to the public	9,105	(8,285)	820	9,318	(8,337)	981
Cultural, environment & planning	38,682	(8,802)	29,880	-	-	-
Cultural and related services	-	-	-	22,901	(3,180)	19,721
Environment & Regulatory services	-	-		8,764	(3,588)	5,176
Planning services	-	-		3,291	(1,926)	1,365
Highways and Transport services	8,487	(6,325)	2,162	8,550	(6,375)	2,175
Local Authority housing (HRA)	24,044	(17,228)	6,816	24,044	(17,228)	6,816
Other housing services	33,789	(32,155)	1,634	33,585	(32,109)	1,476
Corporate & Democratic core	3,005	(422)	2,583	3,054	(422)	2,632
Non Distributed costs	1,964	(150)	1,814	1,964	(150)	1,814
Cost of Services	**119,076**	**(73,367)**	**45,709**	**115,471**	**(73,315)**	**42,156**
Other Operating Expenditure:						
(Surpluses) / deficits on trading operations	651	(1,001)	(350)	290	(298)	(8)
(Gains) / losses on the disposal of fixed assets	(201)		(201)	(201)		(201)
Parish council precepts	153	-	153	153		153
Contribution to the housing capital receipts pool	238	-	238	238		238
Financing and Investment Income and Expenditure:						
Interest payable and similar charges	1,271	-	1,271	1,271		1,271
Interest and investment income	-	(852)	(852)		(852)	(852)
Investment properties	(4,666)		(4,666)	3,913	(5,368)	(1,455)
Pensions interest costs and return on assets	3,017	-	3,017	3,017		3,017
			-			-
Impairment Losses	335	-	335	335		335
Exceptional item - CBC v. Laird case	187	-	187	187		187
Taxation and non-specific grant income	-	(17,336)	(17,336)	-	(17,336)	(17,336)
Deficit on provision of services	**120,061**	**(92,556)**	**27,505**	**124,674**	**(97,169)**	**27,505**

3. Accounting Standards that have been issued but have not yet been adopted

Heritage assets

The Code of Practice on Local Authority Accounting 2011/12 (the Code) has introduced a change in accounting policy in relation to heritage assets, which will need to be fully adopted by the authority in 2011/12. However, the authority is required to make disclosure of the estimated effect of the new standard in the 2010/11 statements.

Heritage assets are assets that are held by the authority principally for their contribution to knowledge or culture. The heritage assets held by the authority are the collections of assets and artefacts either exhibited or stored at Cheltenham Art Gallery and Museum, the Pittville Pump Room, the Holst Birthplace Museum, the Municipal Offices and the Town Hall. The four principal collections are

- Fine Art
- Decorative Arts
- Social History and Ethnography
- Archaeology

None of the above are currently recognised in the financial statements as no information is held on the cost of the assets, although detailed records are kept by the curators of the museum, including insurance valuations.

The authority anticipates that it will be able to recognise its heritage assets on the balance sheet from 2011/12 using as its base the detailed insurance valuations (which are based on market values) for the collections. The authority is unlikely to be able to recognise the archaeological collection as obtaining valuations for these would involve a disproportionate cost of obtaining the information – this exemption is permitted by the Code. Further to this, the commencement of the construction works on the Art Gallery and Museum redevelopment has meant that the collections are currently being de-canted thus restricting access.

The authority estimates the value of the collections (excluding the archaeological collection) at 1st April 2009 at £14.54 million. As these assets have not yet been recognised in the balance sheet this will require a corresponding increase in the Revaluation Reserve. The authority considers that the assets will have indeterminate lives and does not consider it appropriate to charge depreciation.

Community Assets

Community assets mainly comprise parks, gardens and open spaces. The Code added the option for authorities to extend the measurement and disclosures required by heritage assets to community assets. The authority has so far not adopted to change its accounting policy in this way as it does not currently have the management information to make reasonable valuation estimates of community assets, which are held at historic cost on the balance sheet, where known. This means in most instances the assets are currently held at nil value.

4. Critical judgements used in applying accounting policies

In applying the accounting policies set out on pages 25 to 38, the authority has had to make certain judgments about balances and transactions which may be uncertain depending on future events. The only material critical judgement relates to the impairment of investments in Icelandic banks. It has been assumed that deposits with the Icelandic banks Glitnir and Landsbanki will have priority status, however this is subject to appeal to the Icelandic Supreme Court (note 27, pages 64 to 69 provides further information).

Leases have been reassessed and classified (as required) in accordance with the IFRS criteria. In making this assessment the council has deemed all existing leases as being operating leases.

The classification of non-current assets has been assessed and judgements made as to those held for investment purposes. As a result, there are no changes made to the classification compared to last year.

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

The accounts contain estimated figures that are based on assumptions made by the authority about future events that are uncertain. Estimates are made taking into account professional advice, historical experience, current trends and other factors.

The items in the balance sheet at 31st March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Long and short term Investments – deposits in the Icelandic banks Glitnir Hf and Landsbanki Hf	The recoverable amounts shown on the balance sheet assume that the deposits have priority status on the winding up of the banks, consistent with a decision made by an Icelandic court on 1st April 2011. However this decision is subject to appeal to the Icelandic Supreme Court, which may decide the deposits do not have priority status.	If the appeal is successful the recoverable amounts shown on the balance sheet for these investments will be reduced by an estimated £4.8 million, with a corresponding impairment charge to the General Fund Balance. However the Authority has set aside a reserve of £2.8 million earmarked to cushion such a charge. A capitalisation direction would be sought to allow the remaining £2 million to be treated as capital expenditure, should this be necessary.
Assets Held for Sale	The assets are carried on the balance sheet at existing use value, however their use *may* be changed as part of the sale process, subject to planning approval.	A change in the assets' use may have a significant effect on their fair value and on the sale proceeds receivable, resulting in a revaluation gain. This cannot be quantified at this stage.

6. Material Items of Income and Expenditure not disclosed on the face of the statements

A credit pension adjustment in respect of past service costs of £12,414,000 is included within the non-distributed costs included in the cost of services within the Comprehensive Income & Expenditure Statement for 2010/11 (see pension note 42, page 84).

Impairments and investment losses of £18,112k in 2009/10 (£83k 2010/11) are included in the cost of services and the Financing and Investment income lines within the Comprehensive Income and Expenditure Statement.

7. Adjustments between Accounting Basis and Funding Basis under regulations

This note details the adjustments that have been made to the total comprehensive income and expenditure so that it equals the resources generated in the year which are available, under statutory provisions, to the Authority to meet future capital and revenue expenditure.

7. Adjustments between accounting basis and funding basis under the regulations

2009/10							2010/11					
General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
						Adjustments to / from the Capital Adjustment Account						
						Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
(2,860)	(3,167)				6,027	Charges for depreciation and impairment of non-current assets	(2,754)	(3,212)				5,966
(18,448)	(9,746)				28,194	Revaluation losses on Property, Plant and Equipment	84	(46,062)				45,978
3,634	1,032				(4,666)	Movements in the market value of Investment Properties	-	-				-
(101)					101	Amortisation of Intangible Assets	(106)					106
563				105	(668)	Capital grants and contributions	589				136	(725)
(620)	283				337	Revenue Expenditure Funded from Capital Under Statute	(188)	(6)			(121)	315
(250)	(212)				462	Amounts of non-current assets written off on sale as part of the gain/loss on disposal	(385)	(2,580)				2,965
						Insertion of items not debited or credited to Comprehensive Income and Expenditure Statement						
441					(441)	Statutory provision for the financing of capital investment (Minimum Revenue Provision)	645					(645)
-					-	Voluntary provision for the financing of capital	230					(230)
311	951				(1,262)	Capital expenditure charged against the General Fund and HRA balances	852	133			(15)	(970)
(4,430)					4,430	Capitalisation of Revenue Expenditure	-					-
						Adjustments to / from the Capital Receipts Reserve						
337	326	(663)				Transfer of sale proceeds credited as part of the sale of non-current assets	653	1,828	(2,516)			35
		425			(425)	Use of capital receipts to fund capital		(32)	528			(496)
(238)		238				Contribution from capital receipts to finance payments to capital receipts pool	(415)		415			
		-			-	Use of capital receipts to fund premiums			411			(411)
(21,661)	(10,533)	-	-	105	32,089	**Carried forward**	(795)	(49,931)	(1,162)	-	-	51,888

2009/10 General Fund Balance £'000	2009/10 Housing Revenue Account £'000	2009/10 Capital Receipts Reserve £'000	2009/10 Major Repairs Reserve £'000	2009/10 Capital Grants Unapplied £'000	2009/10 Unusable Reserves £'000		2010/11 General Fund Balance £'000	2010/11 Housing Revenue Account £'000	2010/11 Capital Receipts Reserve £'000	2010/11 Major Repairs Reserve £'000	2010/11 Capital Grants Unapplied £'000	2010/11 Unusable Reserves £'000
(21,661)	(10,533)	-	-	105	32,089	**Brought forward**	(795)	(49,931)	(1,162)	-	-	51,888
						Adjustments to / from the Major Repairs Reserve (MRR)						
	3,101		(3,101)			Reversal of Major Repairs Allowance credited to the HRA		3,101		(3,101)		
			3,101		(3,101)	Use of the MRR to finance capital expenditure				2,801		(2,801)
						Adjustments to the Pensions Reserve						
(4,944)					4,944	Reversal of items relating to retirement benefits debited to the Comprehensive Income and Expenditure Statement	7,597					(7,597)
3,717					(3,717)	Employers' pension contributions and payments direct to pensioners in the year	3,320					(3,320)
						Adjustments to / from the Financial Instruments Adjustment account						
221	9				(230)	Amount by which finance costs charged to Comprehensive Income and Expenditure Statement are different from those chargeable according to statute	146	9				(155)
4,285					(4,285)	Impairment of Financial Instruments	-					-
						Adjustments to the Collection Fund Adjustment Account						
(12)					12	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from that calculated according to statute	-					-
						Adjustments to / from the Accumulating Compensated Absences Adjustment Account						
12					(12)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement is different from that chargeable according to statute	8					(8)
(18,382)	**(7,423)**	**-**	**-**	**105**	**25,700**	**Total Adjustments**	**10,276**	**(46,821)**	**(1,162)**	**(300)**	**-**	**38,007**

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8. Changes in Operations and Discontinued Operations

During 2009/10 the council entered into shared service arrangements with Tewkesbury Borough Council to provide legal services and building control services, and with Cotswold District Council for the provision of internal audit services. These arrangements continued for the whole of 2010/11. Since these operations were set up as a means of sharing expenses they are classified as jointly controlled operations, and are accounted for in the authority-only accounts and are not entities for Group accounts purposes.

During 2010/11 the council, in partnership with Cotswold, Forest of Dean and West Oxfordshire District Councils and Cheltenham Borough Homes (CBH) purchased an Enterprise Resource Planning System, providing a single finance, payroll, Human Resources, and procurement system. This system is due to be implemented during 2011/12, with a move to a shared service for financial services for all five organisations from 2012/13. It is anticipated that that this may deliver significant savings, reduce duplication of effort, provide service resilience and lead to the potential for sharing other 'back office' services between the councils.

There were no discontinued operations during the year.

9. Exceptional Items

Former Managing Director v Council dispute

Expenditure of £187k was incurred during 2009/10 in respect of the dispute between the Council and the former Managing Director, Mrs Laird, including £95k for the subsequent independent public interest report prepared by KPMG LLP. During January to April 2009 the council's case against its former Managing Director, Mrs Christine Laird, for damages for negligent and/or fraudulent misrepresentation was heard in the High Court. On 15th June 2009 the Court dismissed the council's claim and also Mrs. Laird's counter-claim for damages and entitlement to benefits received by the council. The council was instructed to pay 65% of Mrs. Laird's costs and a provision of £520,000 was set aside in 2009/10 to cover the future payment of these costs. A £150,000 payment on account was made to Mrs Laird in 2009/10, leaving a provision of £370,000, pending the final bill from Mrs Laird.

In 2010/11, a payment of £342k was made to Mrs Laird, in settlement of the court costs, leaving unused provision of £28k. This unused provision has been transferred from the provision to form part of the Comprehensive Income and Expenditure Statement and is included in the Exceptional Items net income of £25k.

Icelandic Banks – Impairment Adjustment:

Early in October 2008, the Icelandic banks Landsbanki Islands Hf, Kaupthing and Glitnir Hf collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer & Friedlander went into administration. The authority had £11 million deposited across three of these banks with varying maturity dates and interest rates. The current situation with regards to the recovery of the sums deposited varies between each bank. Based on the latest information available, the authority considered it appropriate to make impairment adjustments to the carrying value of the investments on the balance sheet in 2008/09, 2009/10 and 2010/11. Full details are given in note 27, pages 64 to 69.

10. Trading Operations

The council is involved in a number of trading activities; the surplus/(deficit) of which is included in the Comprehensive Income and Expenditure Statement. An analysis of the trading activity is as follows:

2009/10 Restated						2010/11				
Income	Expenditure	Net (surplus)/ deficit	Contrib- ution to Revenue	(Surplus) / deficit		Income	Expenditure	Net (surplus)/ deficit	Contrib- ution to Revenue	(Surplus) / deficit
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
					Included within Net cost of Services					
(1,544)	812	(732)		(732)	Town Hall / pump room	(1,512)	741	(771)		(771)
(1,389)	4,092	2,703		2,703	Leisure@Cheltenham	(1,461)	3,049	1,588		1,588
(1,401)	1,676	275		275	Cemetery and Crematorium	(1,436)	812	(624)		(624)
(4,952)	4,912	(40)		(40)	Car Parks	(4,942)	3,226	(1,716)		(1,716)
(9,286)	**11,492**	**2,206**	**-**	**2,206**	**Total**	**(9,351)**	**7,828**	**(1,523)**	**-**	**(1,523)**
					Other Trading Activities					
(298)	290	(8)		(8)	Glos CC (schools)	(281)	239	(42)		(42)
(67)	31	(36)	36	-	TIC shop / agency	(76)	45	(31)	31	-
(30)	17	(13)	13	-	Art gallery/museum shop	(22)	8	(14)	14	-
(395)	**338**	**(57)**	**49**	**(8)**	**Total**	**(379)**	**292**	**(87)**	**45**	**(42)**

The net cost of corporate properties was previously included in culture, environment and planning services within the former Income & Expenditure account in the 2009/10 Statement of Accounts. The restated 2009/10 net costs under IFRS are now included as Investment Properties within the Financing and Investment income and expenditure line in the 2009/10 comparative Comprehensive Income and Expenditure Statement for 2010/11. This cost no longer forms part of Other Trading Activities in the above note.

Other trading activities generated a net surplus of £42k for 2010/11 (£8k net surplus 2009/10), which is included in Other Operating Expenditure within the Comprehensive Income & Expenditure Statement (see note 13, page 49).

Town Hall & Pump Room and Leisure@ Cheltenham trading operations are included within the Culture and related services cost of services in the Comprehensive Income and Expenditure Statement.

Cemetery & Crematorium trading operations are included within the Environment and Regulatory services cost of services in the Comprehensive Income and Expenditure Statement.

Car Parking trading operations are included within the Highways and Transport services cost of services in the Comprehensive Income and Expenditure Statement.

11 Expenditure on Publicity

Set out below, under the requirements of section 5(1) of the Local Government Act 1986, is the council's spending on publicity.

	2010/11	2009/10
	£'000	£'000
Recruitment advertising	2	31
Other advertising	202	145
Information relating to regional government	-	-
Event promotion	83	97
TOTAL	**287**	**273**

12. Agency Services

The council has agency agreements with Gloucestershire County Council, whereby the council is responsible for maintaining highway verges and trees within the Borough and enforcing on-street parking regulations under the provisions of the Civil Parking Enforcement Regulations. The County Council reimburses the council for the works, including a contribution towards administrative costs.

A summary of expenditure incurred in respect of these activities, which is included in the Comprehensive Income and Expenditure Statement, is as follows:-

2009/10 Expenditure	2009/10 Income	2009/10 Net Expenditure		2010/11 Expenditure	2010/11 Income	2010/11 Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
7	-	7	Routine Maintenance	-	-	-
317	195	122	Verges and highway trees	275	185	90
970	970	-	Car parking (on-street)	1,446	1,446	-
-	-	-	Enmainment works	-	-	-
569	499	70	Administrative costs	164	125	39
1,863	**1,664**	**199**	**Total**	**1,885**	**1,756**	**129**

13. Other operating Expenditure

2009/10 £'000		2010/11 £'000
(201)	(Gains) / losses on the disposal of fixed assets	516
(8)	(Surpluses) / deficits on trading operations	(42)
153	Parish council precepts	158
238	Contribution to the housing capital receipts pool	415
182	Total	1,047

14. Financing and Investment income and expenditure

2009/10 £'000		2010/11 £'000
1,271	Interest payable and similar charges	1,293
(852)	Interest and investment income	(620)
(1,455)	Income and Expenditure on Investment properties and changes in their fair value	164
3,017	Pensions interest costs and return on assets	2,305
1,981	Total	3,142

15. Taxation and non specific grant income

The council received general government grants totalling £1,159k for 2010/11 (£1,724k for 2009/10). These are included in the Comprehensive Income and Expenditure Statement and are not attributable to specific services.

2009/10 £'000		2010/11 £'000
(7,827)	Demand on the collection fund	(8,070)
(1,724)	General government grants	(1,159)
(7,129)	Non domestic rates	(7,701)
(656)	Capital grants and contributions	(589)
(17,336)		(17,519)

16. Members' Allowances

In 2010/11 the council paid £323,100 (2009/10 £326,603) in allowances to its 40 members. The expenditure reflects members' allowances approved by council for 2010/11. Full details of the Members' Allowances scheme for 2010/11 can be found on the council's website.

17. Officers' Emoluments

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was:

Remuneration Band	No of Employees 2010/11		No of Employees 2009/10
	Total	Left during year	
£50,000 - £54,999 (note 2 below)	1	-	-
£55,000 - £59,999	-	-	6
£60,000 - £64,999	5	-	-
£65,000 - £69,999	2	-	1
£70,000 - £74,999	-	-	-
£75,000 - £79,999	-	-	-
£80,000 - £84,999	-	-	1
£85,000 - £89,999	1	-	3
£90,000 - £94,999 (note 1 below)	3	1	-
£95,000 - £99,999	-	-	-
£100,000 - £104,999	-	-	-
£105,000 - £109,999	-	-	-
£110,000 - £114,999	-	-	1
£115,000 - £119,999	-	-	-
£120,000 - £124,999	1	-	-
Total	**13**	**1**	**12**

Note 1: Band £90,000 - £94,999 - includes one employee who has fallen into this band as a result of redun

Note 2: 2010/11 includes an employee who has moved into the £50,000 - £54,999 bracket during the year.

The following tables set out the remuneration disclosures for Senior Officers whose salary is less than £150,000 but equal to or more than £50,000 per year.

2010/11 Senior Officers emoluments – Salary between £50,000 and £150,000 per year

Post holder information	Salary	Expenses Allowances	Compensation for loss of office	Benefits in Kind e.g. car allowance	Other payments	Total remuneration excluding pension contributions 2010/11	Pension contributions	Total Remuneration inc. pension contbns 2010/11
	£	£	£	£	£	£	£	£
Chief Executive	108,083	1,347		1,267	10,061	120,758	17,308	138,066
Assistant Director – Customer Access & Service Transformation	66,104	318	26,401	1,033		93,856	7,449	101,305
Executive Director	89,104	732		1,239		91,075	13,054	104,129
Executive Director	89,104	699		1,239		91,042	13,054	104,096
Civic Pride Managing Director	84,070	779		1,239		86,088	12,316	98,404
GO Shared ERP Programme Manager	65,391	308		909		66,608	9,580	76,188
Director Operations	63,533	552		1,239		65,324	8,571	73,895
Director Resources	62,437	571				63,008	9,078	72,086
Director People OD & Change	61,019	344		1,239		62,602	8,939	71,541
Director Commissioning	61,019	209		1,239		62,467	8,939	71,406
Director Built Environment	61,019			1,239		62,258	8,939	71,197
Director Wellbeing & Culture	58,505	683		1,239		60,427	8,571	68,998
ICT Infrastructure Manager	50,081	920		1,239		52,240	7,324	59,564
TOTAL	**919,469**	**7,462**	**26,401**	**14,360**	**10,061**	**977,753**	**133,122**	**1,110,875**

Note 1: 'Other payments' relate to Returning Officer fees paid in respect of elections
Note 2: Assistant Director – Customer Access & Service Transformation – left during 2010-11. The whole time salary is £58,505; additional payments in respect of paid leave.
Note 3: GO Shared ERP Programme Manager – jointly funded by CBC, Cotswold District Council, West Oxfordshire District Council and Forest of Dean District Council.

2009-10 Senior Officers emoluments – Salary between £50,000 and £150,000 per year

Post holder information	Salary	Expenses Allowances	Compensation for loss of office	Benefits in Kind e.g. car allowance	Other payments	Total remuneration excluding pension contributions 2009/10	Pension contributions	Total Remuneration inc. pension contbns 2009/10
	£	£	£	£	£	£	£	£
Chief Executive	108,083	2,213		1,126	378	111,800	15,890	127,690
Strategic Director – Environment	85,107	742		1,170		87,019	12,502	99,521
Strategic Director – Corporate Services	85,107	714		1,126		86,947	12,502	99,449
Group Director – Social & Community	21,300	237	45,249	11,008	11,257	89,051	4,770	93,821
Chief Finance Officer	70,474	576		8,958		80,008	9,000	89,008
Assistant Director – Operations	55,988			10,128		66,116	8,202	74,318
Assistant Director – Customer Access & Service Transformation	58,505	272		1,170		59,947	8,571	68,518
Assistant Director – Built Environment	58,505	272		1,170		59,947	8,571	68,518
Assistant Director – HR & Organisational Dvlpt	58,505	280		1,126		59,911	8,605	68,516
Assistant Chief Executive	58,505	117		1,126		59,748	8,571	68,319
Assistant Director – Community Services	58,505	94				58,599	8,571	67,170
Assistant Director – Wellbeing & Culture	55,988	749		1,126		57,863	7,525	65,388
Civic Pride Managing Director	19,618			283		19,901	2,874	22,775
TOTAL	**794,190**	**6,266**	**45,249**	**39,517**	**11,635**	**896,857**	**116,154**	**1,013,011**

Note 1: 'Other payments' relate to Returning Officer fees paid in respect of European and Local elections.
Note 2: Group Director – Social and Community retired during 2009-10.
Note 3: Civic Pride Managing Director started his employment during 2009-10. The equivalent annual salary is £81,089.

18. Related Party Transactions

The council 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 council. Out of 50 Third Party Declaration forms issued to relevant members and officers, 50 were received. This equates to a 100% return rate (100% in 2009/10).

Central Government

Central Government has effective control over the general operations of the council - it is responsible for providing the statutory framework, within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits).

Members and Officers

Members of the council have direct control over the council's financial and operating policies. No member or officer has declared an interest with any outside commercial organisation. Several Members serve officially on bodies that receive major grants from the council and these are listed below.

Assisted organisations

The council provided financial assistance to 32 local bodies (35 in 2009/10) and voluntary organisations totalling £1,488,955 (£1,727,298 in 2009/10). It is the council's best value policy to have a Service Level Agreement in place for all grants exceeding £10,000, referred to as Conditional Offers of Grants.

Council employees are eligible to be members of the Local Government Pension Scheme, administered by Gloucestershire County Council. The total employer's contributions into the superannuation fund by the council were £3,320,000 in 2010/11 (£3,717,000 in 2009/10).

The total grants over £35,000 made during 2010/11 are as follows, together with the number of members who are officially appointed to serve on those organisations:

	Cash Grant £	Support Costs £	Total Grant £	No's of Members
Cheltenham Festivals Ltd	126,700	131,300	258,000	1
Everyman Theatre	148,800	26,073	174,873	1
Citizens Advice Bureau	154,931	8,700	163,631	
Cheltenham Arts Council	10,000	95,471	105,471	
Community Development	1,820	96,448	98,268	
Business & Economic Development Grants	74,969	0	74,969	
Playhouse Theatre	69,299	3,406	72,704	2
Racial Equality	6,639	46,513	53,152	
Care & Repair	35,400	15,217	50,617	
Whaddon Lynworth & Priors Neighbourhood	42,200	1,400	43,600	
Hester's Way Neighbourhood Project	42,200	1,400	43,600	
GCVS (Cheltenham Community & Voluntary Action Group)	34,000	4,300	38,300	
Youth Affairs	15,329	21,966	37,295	
	762,287	**452,194**	**1,214,480**	

Companies and joint ventures

The council has a 50% share in Gloucestershire Airport. The accounts have been consolidated into the Group Accounts, which are shown on pages 90 to 99. One member serves on the Airport's Board of Directors, over which the council has no control.

Gloucestershire Airport purchased goods and services from the council totalling £23,717 during 2010/11 (£22,531 in 2009/10). At 31st March 2011 £11,997 was owed by the Airport to the council (£11,437 at 31st March 2010).

The council has an Arm's Length Management Organisation (Cheltenham Borough Homes). The accounts for this company have been consolidated into the Group Accounts, which are shown on Pages 90 to 99. Four councillors serve on the company's Board of Directors.

The council procured supplies and services totalling £8,995,324 from Cheltenham Borough Homes during 2010/11 (£8,261,464 in 2009/10), £307,200 (£832,399 in 2009/10) of which is included in the council's Balance Sheet and excluded from the Group Balance Sheet (see pages 90 to 99 and Note 43 to the Group Accounts on Page 95).

Cheltenham Borough Homes procured supplies and services from Cheltenham Borough Council of £841,517 during 2010/11 (£688,481 in 2009/10), £96,641 (£69,077 in 2009/10) of which is included in the council's Balance Sheet and adjusted for within the Group Balance Sheet (see pages 90 to 99 and Note 43 to the Group Accounts on Page 95).

On 31st March 2011, the council had 4 councillors who were members of the following parish councils:

Leckhampton with Warden Hill	1
Up Hatherley	1
Prestbury	1
Charlton Kings	1

19. External Audit Costs

The total audit fees payable to the council's external auditor and the Audit Commission in 2010/11 was £138,014 (£237,485 in 2009/10), made up as follows:

	2010/11	2009/10
	£	£
Certification of grant claims and returns	26,232	25,185
Statutory inspection	(1,881)	8,320
Audit of accounts		
(including whole of government accounts)	68,903	67,176
Other work provided by the appointed auditor:		
- Use of resources / value for money work	37,460	37,874
- Consideration of public questions	*5,000	98,930
- National Fraud Initiative	2,300	0
Total	**138,014**	**237,485**

* The £5,000 spent on consideration of public questions was in respect of the follow up to the public enquiry into the former Managing Director's dispute (see note 9, page 47).

20. Grant Income

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

	2009/10 £'000	2010/11 £'000
Credited to Taxation and Non Specific grant income		
Revenue Support Grant	(1,646)	(1,118)
Local Authority Business Growth Incentive Scheme	(55)	-
Area Based Grant	(23)	(40)
Non Domestic Rates	(7,129)	(7,701)
Capital Grants and Contributions	(656)	(589)
Total	**(9,509)**	**(9,448)**
Credited to Services		
Planning Delivery Grant	(482)	-
Civic Pride Grant	(160)	-
Flood defence grants	(181)	(320)
Election grants	(186)	(105)
Concessionary Transport Scheme grant	(537)	(640)
Homelessness grants	(352)	(268)
Housing Benefits subsidy & Administration grants	(30,527)	(31,438)
Council Tax Benefits subsidy & Administration grants	(7,244)	(7,440)
NNDR – Cost of Collection grants	(203)	(198)
Recycling grants	-	(109)
Contaminated Land Grants	(191)	(148)
Art Gallery & Museum Grants	(26)	(99)
Other Grants	(265)	(131)
Other partnership funding and contributions	(306)	(331)
Total	**(40,660)**	**(41,227)**

No grants were credited during 2009/10 or 2010/11 to Capital Grants Receipts in Advance on the balance sheet.

21. Amounts reported for Resource Allocation Decisions (Segmental Reporting)

The analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SeRCOP) 2011/12. However decisions about resource allocations are taken by the council's Cabinet on the basis of budget reports analysed across divisions headed by Assistant Directors. These reports are prepared on a different basis from the accounting policies used in these financial statements. Specifically:

- charges for depreciation, revaluation and impairment of assets are excluded
- the cost of retirement benefits is based on the employer's pensions contributions paid rather than the current service cost of benefits accrued in the year
- revenue expenditure funded from capital under statute is excluded.

The income and expenditure of Assistant Directorates recorded in the budget reports for the year, together with a reconciliation to the figures shown in the Comprehensive Income and Expenditure Statement, is shown below.

Segmental Analysis - General Fund Services 2010/11	Employees Costs	Other Service Expenses	Support Service Service	Total Expenditure	Fees & Other income	Gov't Grants	Total Income	Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Strategic Management	706	473	(607)	572	(13)	(320)	(333)	239
Assistant Chief Executive	992	2,096	423	3,511	(470)	(133)	(603)	2,908
Built Environment	2,637	7,493	(41)	10,089	(7,946)	(648)	(8,594)	1,495
Community Services	911	776	2	1,689	(203)	(268)	(471)	1,218
Financial Services	1,877	289	(598)	1,568	(242)	0	(242)	1,326
CAST	2,856	39,021	(1,936)	39,941	(528)	(39,078)	(39,606)	335
Wellbeing and Culture	3,144	4,397	656	8,197	(3,376)	(50)	(3,426)	4,771
Human Resources & Org. Developmt	521	71	(565)	27	(38)	0	(38)	(11)
Operations	6,078	3,733	1,016	10,827	(4,803)	(275)	(5,078)	5,749
Programmed Maintenance (Revenue)	0	510	0	510	0	0	0	510
Business Change	81	88	580	749	(102)	0	(102)	647
Bad debt provision	0	46	0	46	0	0	0	46
	19,803	**58,993**	**(1,070)**	**77,726**	**(17,721)**	**(40,772)**	**(58,493)**	**19,233**

Segmental Analysis - General Fund Services 2009/10 comparative figures	Employees Costs	Other Service Expenses	Support Service Service	Total Expenditure	Fees & Other income	Gov't Grants	Total Income	Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Strategic Management	1,129	376	(1,062)	443	(104)	(85)	(189)	254
Assistant Chief Executive	1,433	2,074	1,206	4,713	(409)	(87)	(496)	4,217
Built Environment	2,514	5,791	893	9,198	(7,491)	(1,188)	(8,679)	519
Community Services	1,957	1,204	(1,035)	2,126	(617)	(104)	(721)	1,405
Financial Services	1,940	289	(597)	1,632	(244)	0	(244)	1,388
CAST	2,826	37,879	(1,749)	38,956	(556)	(37,974)	(38,530)	426
Wellbeing and Culture	3,209	4,434	759	8,402	(3,306)	(112)	(3,418)	4,984
Human Resources & Org. Developmt	521	76	(619)	(22)	0	0	0	(22)
Operations	5,501	3,954	1,980	11,435	(4,619)	(231)	(4,850)	6,585
Programmed Maintenance (Revenue)	0	844	0	844	0	0	0	844
Business Change	67	317	0	384	(177)	0	(177)	207
Bad debt provision	0	38	0	38	0	0	0	38
	21,097	**57,276**	**(224)**	**78,149**	**(17,523)**	**(39,781)**	**(57,304)**	**20,845**

Reconciliation of Assistant Director Income & Expenditure to Cost of Services in the Comprehensive Income & Expenditure Statement

2009/10 £000		2010/11 £000
20,845	**Net expenditure in the Segmental Service Analysis**	**19,233**
5,079	Net expenditure of services and support services not included in service analysis	30,294
87	Amounts included in analysis not included in cost of services in Comprehensive Income & Expenditure Statement	-113
16,145	Amounts in the Comprehensive Income & Expenditure Statement not reported to management in the segmental analysis	105
42,156	**Cost of services in Comprehensive Income & Expenditure Statement**	**49,519**

Reconciliation to Subjective Analysis 2009/10 Comparative / **Reconciliation to Subjective Analysis 2010/11**

2009/10: Service Analysis £000	2009/10: Services & Support Services not in analysis £000	2009/10: Amounts not included in I & E statement cost of services £000	2009/10: Amounts not reported in management decision making £000	2009/10: Cost of Services £000	2009/10: Corporate Amounts £000	2009/10: Deficit on provision of services £000		2010/11: Service Analysis £000	2010/11: Services & Support Services not in analysis £000	2010/11: Amounts not included in I & E statement cost of services £000	2010/11: Amounts not reported in management decision making £000	2010/11: Cost of Services £000	2010/11: Corporate Amounts £000	2010/11: Deficit on provision of services £000
21,097				21,097		21,097	Employees costs	19,803				19,803		19,803
57,276				57,276		57,276	Other service exps	58,993				58,993		58,993
(224)				(224)		(224)	Support service costs	(1,070)				(1,070)		(1,070)
	53			53		53	Allocation of recharges		8			8		8
	(1,790)			(1,790)	3,017	1,227	Pension adjustments re IAS 19		(13,222)			(13,222)	2,305	(10,917)
		(187)		(187)	187	0	Exceptional items			25		25	(25)	0
	6,816			6,816		6,816	HRA Deficit		43,508			43,508		43,508
					153	153	Parish council precepts						158	158
					238	238	Contribution to the housing capital receipts pool						415	415
					1,271	1,271	Interest payable and similar charges						1,293	1,293
78,149	**5,079**	**(187)**	**0**	**83,041**	**4,866**	**87,907**	**Total Expenditure**	**77,726**	**30,294**	**25**	**0**	**108,045**	**4,146**	**112,191**
(17,523)				(17,523)		(17,523)	Fees & Other Income	(17,721)				(17,721)		(17,721)
(39,781)				(39,781)		(39,781)	Government Grants	(40,772)				(40,772)		(40,772)
			14,918	14,918		14,918	Impairments				(84)	(84)		(84)
			337	337		337	Revenue funded from capital under statute				189	189		189
			890	890		890	IFRS Adjustments					0		0
		(12)		(12)	(8)	(20)	Trading operations			33		33	(42)	(9)
		286		286	(1,455)	(1,169)	Investment properties			(171)		(171)	164	(7)
					(201)	(201)	Gains / (losses) on the disposal of fixed assets						516	516
					335	335	Investment losses						(2,714)	(2,714)
					(852)	(852)	Interest and investment income						(620)	(620)
					(17,336)	(17,336)	Taxation and non-specific grant income						(17,519)	(17,519)
(57,304)	**0**	**274**	**16,145**	**(40,885)**	**(19,517)**	**(60,402)**	**Total income**	**(58,493)**	**0**	**(138)**	**105**	**(58,526)**	**(20,215)**	**(78,741)**
20,845	**5,079**	**87**	**16,145**	**42,156**	**(14,651)**	**27,505**	**Deficit on the provision of services**	**19,233**	**30,294**	**(113)**	**105**	**49,519**	**(16,069)**	**33,450**

22. Property, Plant & Equipment

2009/10									2010/11							
Council dwellings	Other Land and buildings	Vehicles, Plant and equipment	Infra-structure assets	Community assets	Surplus assets	Assets under construction	Total		Council dwellings	Other Land and buildings	Vehicles, Plant and equipment	Infra-structure assets	Community assets	Surplus assets	Assets under construction	Total
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
								Cost or valuation								
255,507	87,651	3,261	8,236	61	406	85	355,207	At 1 April	259,220	78,387	3,419	7,690	226	25	137	349,104
3,800	146	430	514	6	-	137	5,033	Additions	2,884	186	1,574	627	-	-	-	5,271
-	(543)	-		-	-	-	(543)	Revaluation increases / (decreases) recognised in the Revaluation Reserve	1,062	99	-	-	-	-	-	1,161
-	(9,648)	-	-	95	-	-	(9,553)	Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services	(108,549)	-	-	-	-	-	-	(108,549)
(179)	(250)	-	-	-	-	-	(429)	Derecognition - disposals	(2,580)	-	-	-	-	-	-	(2,580)
-	-	-	-	-	-	-	-	Assets reclassified to held for resale	-	(3,404)	-	-	-	-	-	(3,404)
92	1,031	(272)	(1,060)	64	(381)	(85)	(611)	Other Reclassifications	-	-	-	137	-	-	(137)	-
-	-	-	-	-	-	-	-	Other movements	-	105	-	-	-	-	-	105
259,220	**78,387**	**3,419**	**7,690**	**226**	**25**	**137**	**349,104**	**At 31 March**	**152,037**	**75,373**	**4,993**	**8,454**	**226**	**25**	**-**	**241,108**
								Accumulated Depreciation and Impairment								
(16,662)	(2,065)	(1,158)	(421)	-	(366)	-	(20,672)	At 1 April	(62,487)	(1,968)	(1,789)	(640)	-	-	-	(66,884)
(3,035)	(1,994)	(688)	(245)	-	-	-	(5,962)	Depreciation charge	(3,101)	(1,992)	(613)	(232)	-	-	-	(5,938)
-	-	-	-	-	-	-	-	Depreciation written out to the Revaluation Reserve	-	103	-	-	-	-	-	103
-	2,004	-	-	-	-	-	2,004	Depreciation written out to the surplus/ deficit on the provision of services	62,487	-	-	-	-	-	-	62,487
(33,123)	-	-	-	-	-	-	(33,123)	Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
(9,667)	-	-	-	-	-	-	(9,667)	Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services	(28)	-	57	27	-	-	-	56
-	-	-	-	-	-	-	-	Derecognition - disposals	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	Assets reclassified to held for resale	-	320	-	-	-	-	-	320
-	87	57	26	-	366	-	536	Other Reclassifications	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	Other movements	-	(105)	-	-	-	-	-	(105)
(62,487)	**(1,968)**	**(1,789)**	**(640)**	**-**	**-**	**-**	**(66,884)**	**At 31 March**	**(3,129)**	**(3,642)**	**(2,345)**	**(845)**	**-**	**-**	**-**	**(9,961)**
196,733	**76,419**	**1,630**	**7,050**	**226**	**25**	**137**	**282,220**	**Net Book Value at 31 March**	**148,908**	**71,731**	**2,648**	**7,609**	**226**	**25**	**-**	**231,147**

Depreciation

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

- Council dwellings - depreciation is deemed equivalent to the Major Repairs Allowance provided by the Government, as permitted by the Code and statutory guidance
- Other Land and Buildings - 50 years
- Vehicles, Plant, Furniture and Equipment- between 4 – 10 years, depending on the estimated life of the asset
- Infrastructure - 40 years

Revaluations

The Authority re-values its land and buildings every five years, the last formal revaluation for non-dwelling land and buildings being completed in 2009/10 with a re-valuation date of 1st April 2009. Valuations were carried out externally by GVA Grimley. Valuations of land and buildings were carried out using the methodologies and bases of estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The last formal revaluation for dwellings was completed in 2010/11 with a revaluation date of 1st April 2010. The revaluation was carried out internally by the council's property section, headed by David Roberts MRICS.

Vehicles, plant and equipment are not re-valued, in accordance with the council's accounting policies and are carried at depreciated historic cost as a proxy for fair value. Similarly Infrastructure, community assets and assets under construction are not re-valued, and are carried at historic cost.

Effects of changes in Estimates

In 2010/11 the authority re-valued its dwelling stock at 1st April 2010, with the result that its net book value was reduced by £46 million. As there was no balance on the revaluation reserve for these assets, all of the reduction in value has been charged to the Housing Revenue Account (HRA) and Comprehensive Income and Expenditure Statement. The valuation takes into account the social housing use of the stock (to reflect the secure tenancies), and the downward revaluation is wholly due to a reduction in the discount factor for social housing from 44% to 31%, as recommended by the latest government valuation guidance.

Componentisation

Under the Code, the Authority is required to account separately for expenditure on major building components incurred from 1st April 2010, so that they can be depreciated over their respective useful lives. During the year the council enhanced the Burial Chapel at the Crematorium, however this has not been treated as a separate component as the expenditure is below the de minimis level set by the Authority for components.

Capital Expenditure and 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 by the Authority that has been financed by borrowing. The CFR is analysed in the second part of the note.

	2010/11 £'000	2009/10 £'000
Opening Capital Financing Requirement	**45,437**	**41,448**
Capital Investment		
Intangible Assets	320	20
Property, Plant and Equipment	5,270	5,033
Investment Properties	-	-
Revenue Expenditure Funded from Capital under Statute	1,250	1,398
	6,840	**6,451**
Capitalisation of Revenue Direction	-	4,430
Sources of Finance		
Capital Receipts	(500)	(414)
Government Grants	(844)	(810)
Capital Contributions and Partnership Funding	(803)	(929)
Lottery Funding	-	-
Revenue Financing		
Minimum Revenue Provision (MRP)	(645)	(441)
Voluntary Revenue Provision	(230)	-
HRA	(118)	(951)
Major Repairs Reserve	(2,797)	(3,036)
Revenue Reserves	(852)	(311)
	(6,789)	**(2,462)**
Closing Capital Financing Requirement	**45,488**	**45,437**
Explanation of movement in year		
Increase in underlying need to borrowing (supported by Government financial assistance)	-	-
Increase in underlying need to borrowing (unsupported by Government financial assistance)	926	4,430
MRP	(645)	(441)
Voluntary Revenue Provision	(230)	-
Increase in Capital Financing Requirement	**51**	**3,989**

<u>*Commitments under capital contracts*</u>

At 31st March 2011 the council was committed to completing all schemes within its capital programme. This included contractual commitments at 31st March 2011 of £1.58 million for works on properties (£1.044 million at 31st March 2010), £0.241 million for works on cycle paths and other infrastructure (£0.372 million), £15,000 for insulation works (£50,000), £11,000 for CCTV in car parks (£11,000) and £12,000 for digital TV connection upgrades in council houses (£12,000), a total of £1.859 million (£1.489 million at 31st March 2010). Most of this is anticipated to be incurred by 31st March 2012.

23. Investment Properties

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

2009/10 £'000		2010/11 £'000
702	Rental income from Investment Property	729
4,666	Gain on revaluation	-
(3,913)	Direct Operating Expenses	(893)
1,455	**Net gain / (loss)**	**(164)**

There are no restrictions on the authority's ability to realise the value inherent in its investment property or on its right to the remittance of income and the proceeds of disposal. The authority has no contractual obligations to purchase, construct, enhance or develop investment property, however some lease agreements require the council to repair and maintain properties.

2009/10 £'000		2010/11 £'000
25,501	**Balance at 1st April**	**22,608**
	Additions:	
-	Purchases	-
-	Subsequent expenditure	-
-	Disposals	(385)
(2,968)	Net gains / (losses) from fair value adjustments	-
75	Transfers	-
-	Other changes	-
22,608	**Balance at 31st March**	**22,223**

All the properties were recently re-valued during 2009/10 with a re-valuation date of 1st April 2009, so the carrying value approximates to their fair value. Valuations were carried out externally by GVA Grimley, using the methodologies and bases of estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

24. Assets held under leases

The Authority as Lessee

The council's policy in the past has been to acquire vehicles, plant and equipment through leasing arrangements. In 2010/11 recycling vehicles, caddies and bins were not leased but purchased and funded by prudential borrowing and revenue contributions.

Leases can fall into one of two categories:

(i) Finance Leases
No new finance lease arrangements were entered into and no leasing payments were made in 2010/11 or 2009/10.

(ii) Operating Leases
Leasing payments, which all relate to vehicles, plant and equipment leased before 2010/11, amounted to £367,374 (£503,720 in 2009/10). Outstanding obligations as at 31st March 2011 amounted to £570,623 (£929,236 as at 31st March 2010). Further details are shown below.

Operating lease payments (including Buyouts) committed as at 31st March, 2011	£'000
2011/12	240
2012/13	184
2013/14	87
2014/15	44
2015/16	16
Total	**571**

The Authority as Lessor

The council seeks to obtain income from property it owns but does not need for its own occupation, either by selling the freeholds or granting leases. Where the council grants leases it does so at best consideration unless it wishes to support the tenant financially (e.g. tenants who provide a service to the community).

Where the council wishes to support a tenant financially it needs to be satisfied that the use of the property supports the Corporate Plan objectives and is not otherwise commercially viable. The council uses a system where the tenant pays a rent equivalent to best consideration and enters into a service agreement linked to the lease which includes a grant in lieu of some or all of the rent depending on the service provided from the property.

Under the Code of Practice for Local Authority Accounting 2010/11 leases of property are accounted for as separate leases of land and buildings. Previously each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated single lease, or as a finance lease where it was previously treated as an operating lease.

Similarly under IFRS the criteria for the classification of operating and finance leases has changed and it is possible leases of property, plant and equipment previously treated as operating leases are finance leases under the code.

The authority does not have any leases where the accounting treatment has changed and all leases in existence from 1st April 2010 onwards have been deemed to be operating leases. In restating the 2009/10 financial statements under IFRS, leases in place from 1st April 2009 have also been reviewed and determined to continue to be classed as operating leases, as defined by the Code.

The council received £1,291,175 in rental income in 2010/11 on its granted leases from commercial and Housing Revenue Account land and buildings (£1,155,533 in 2009/10).

The future minimum lease payments receivable under non-cancellable leases in future years are £5.3m.

25. Intangible Assets

Intangible Assets are defined as ‘non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights’. All of the intangible assets held relate to computer software.

Software licenses are held for a number of the council’s main software packages e.g. the Financial Management System. The balance is amortised to the relevant service revenue account over the useful life of the software on a straight line basis, to reflect the pattern of consumption of benefits (generally five years). Newly acquired intangibles are amortised from the year in which they are used.

The movement in Intangible asset balances during the year is as follows:

2009/10 Restated		**2010/11 Software**

Software £'000		£'000
	Balance at 1st April :	
447	- Gross carrying amounts	466
(132)	- Accumulated amortisation	(232)
315	**Net carrying amount at start of year**	**234**
20	Expenditure in year	320
(101)	Amortisation in Year	(106)
234	**Balance at 31st March**	**448**
	Comprising:	
466	- Gross carrying amounts	786
(232)	- Accumulated amortisation	(338)
234		**448**

During 2010/11 the council, in partnership with Cotswold, Forest of Dean and West Oxfordshire District Councils and Cheltenham Borough Homes (CBH) purchased an Enterprise Resource Planning System, providing a single finance, payroll, Human Resources, and procurement system. This system is due to be implemented during 2011/12, with a 'go live' date for Cheltenham of 1st April 2012. Expenditure of £0.212 million was incurred during the year, being Cheltenham's share of the ongoing cost of procurement and development.

There were no disposals, revaluations, reclassifications or impairment of intangible assets during the year.

26. Assets Held for Sale

	Current	
	31st March 2011	**31st March 2010**
	£'000	**£'000**
Balance outstanding at start of year	-	-
Assets newly classified as held for sale		
- Property, Plant and Equipment	3,084	-
- Intangible Assets	-	-
- Investment Property	-	-
Revaluation losses	-	-
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as held for sale	-	-
Fair value of assets sold	-	-
Other movements	-	-
Balance outstanding at year end	**3,084**	**-**

The assets held for sale at 31st March 2011 mainly comprise car parks designated for redevelopment. They are carried at their existing use value and were re-valued during 2009/10.

During the year the authority sold £2.376 million in Housing Revenue Account (HRA) land and property for housing development. Of this, £1.076 million was transferred to Cheltenham Borough Homes (CBH) at Nil value (as permitted by the Secretary of State) for the provision of social housing. Consequently this amount has been charged to the HRA and Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement as a loss on disposal. Since CBH is a wholly owned company of the council there is no loss shown in the Group Accounts.

There are no non-current assets held for sale at 31st March 2011.

27. Financial Instruments

Overall Investments

Categorised according to the period remaining to maturity or until payment is received	31st March 2011 £'000	31st March 2010 Restated £'000
Long Term (over 1 year)		
Loans and Receivables – Icelandic banks	3,357	5,292
– Other banks	1	4,833
	3,358	10,125
Available-for-sale financial assets	-	-
Unquoted equity investments	435	435
Financial assets at fair value through profit and loss	-	-
	3,793	**10,560**
Current or Short Term (less than 1 year)		
Loans and Receivables – Icelandic banks	4,757	357
– Other banks	7,544	2,011
	12,301	2,368
Available-for-sale financial assets	-	-
Unquoted equity investments	-	-
Financial assets at fair value through profit and loss	-	-
	12,301	**2,368**

The loans and receivables comprise deposits in UK and Icelandic–owned banks. Their fair values equate approximately to the carrying values at the balance sheet date, which are shown at amortised cost. The amortised cost of the investments represents their cost, less any impairment charges. Impairment adjustments have been made to the deposits with the Icelandic-owned banks, which are detailed below.

The unquoted equity investment of £435,222 (shown at cost), consists of shares held in Gloucestershire Airport (see Group Accounts, pages 90 to 99), for which a fair value cannot reliably be measured. This is because the range of reasonable fair value estimates could be significant due to the runway development project, currently underway. There are no current plans to dispose of the shares.

Investments in Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki Islands Hf, Kaupthing and Glitnir Hf collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer & Friedlander went into administration. The authority had £11 million deposited across three of these banks with varying maturity dates and interest rates as follows:

Bank	Date invested	Maturity date	Amount invested	Interest

			£'000	rate (%)
Kaupthing, Singer & Friedlander	18/07/06	20/07/09	2,000	5.30
Kaupthing, Singer & Friedlander	14/12/07	15/12/08	1,000	5.86
Landsbanki Islands Hf	19/07/06	19/07/10	2,000	5.29
Landsbanki Islands Hf	19/07/06	19/07/11	2,000	5.31
Landsbanki Islands Hf	14/12/06	14/12/09	1,000	5.40
Glitnir Bank Hf	14/12/06	15/12/08	3,000	5.56

All amounts invested with these banks are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the council will be determined by the administrators and receivers. Of the original amounts invested, repayments of £1.628 million have been received to 31st March 2011 (see section on Kaupthing, Singer & Friedlander below).

The current situation with regards to the recovery of the sums deposited varies between each bank. In 2008/09 the authority made impairment adjustments for the deposits, based on the latest information available at the time. The impairment charges were reviewed at 31st March 2010 and again at 31st March 2011, based on the latest information and guidance, and as a result further adjustments were made in 2009/10 and 2010/11. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators and receivers, it is likely that further adjustments will be made to the accounts in future years.

Kaupthing, Singer and Freidlander Ltd (KS&F)

Kaupthing, Singer & Friedlander is a UK registered bank, in administration under English Law. The company was placed in administration on 8th October 2008 and the administrators are partners of Ernst & Young LLP.

The latest creditor progress report issued by the administrators in April 2011 indicate a return to creditors in the range of 78p to 86p in the £. Claims are based on the principal and interest accrued up to 7th October 2008. To 31st March 2011 payments of 53p in the £ (comprising principal and interest) have been received as follows:

Date	Distribution p in the £	Amount £'000
July 2009	20	614
December 2009	10	307
April 2010	5	154
July 2010	10	307
December 2010	8	246
	53	**1,628**

A further distribution of 5p in the £ (£154,000) was received in May 2011.

In 2008/09 the authority decided to recognise impairments based on it recovering 60p in the £ (the minimum indicated amount at the time) in equal annual instalments up to October 2012 (the date at the time up to when the High Court had permitted the administration to be extended).

In 2009/10 the estimated recoverable amount increased to between 65p to 78p in the £, so for the purpose of calculating the impairment adjustment for that year the authority assumed the mid-point in the range (i.e. 71p in the £), in accordance with accounting guidance at the time. It was assumed repayments would be received evenly at six monthly intervals, from July 2010 to January 2013.

For the purpose of calculating the impairment adjustment in 2010/11 the authority has assumed the mid point in the range of 78p to 86p in the £ (i.e. 82p), in accordance with current accounting guidance. As 53p in the £ had already been received by 31st March 2011, with a further 5p in May 2011, it has been assumed the remaining 24p will be received evenly at six monthly intervals, from January 2012 to January 2013. The increase in the recoverable amount, together with no significant change in the repayment profile, results in a reduced impairment adjustment for these deposits in 2010/11 of £0.327 million.

The administrators' statements and further information can be found at www.kaupthingsingers.co.uk

Landsbanki Islands Hf

This bank is an Icelandic institution. Following steps taken by the Icelandic government in early October 2008, its domestic assets and liabilities were transferred to a new bank (Landsbanki), with the management of the affairs of the previous bank being placed in the hands of a resolution committee or winding up board under Icelandic law.

The winding up board recognised local authority claims as having priority status under Icelandic law, however other creditors filed objections to this decision. The Reykjavik District Court subsequently issued a judgement verdict on 1st April 2011 confirming that local authorities' claims qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. However this decision is subject to appeal to the Icelandic Supreme Court, with a final decision expected in the Autumn of 2011.

The latest administrators' report and other relevant information continue to indicate a recovery of 94.85% for claims that have priority status. Claims are based on principal and interest accrued up to 22nd April 2009, in accordance with Act 44/2009, which has recently been passed in Iceland. As the loans matured after 22nd April 2009, interest can only be claimed up to that date at the contractual rate.

Recovery is subject to the following uncertainties and risks:

- *Confirmation on appeal that deposits (including those made by local authorities) have preferential creditor status. Local authorities' legal advice is that the deposits have priority status under Icelandic law.
- *The impact of exchange rate fluctuations on the value of assets recovered and on the settlement of the authority's claim, which may be denominated in currencies other than sterling (although at present the effect of this is not expected to be material).

The authority decided to recognise an impairment in 2008/09 based on it recovering 88p in the £ (the latest information at the time). In the absence of further information, it was assumed repayments would be divided equally between December 2010, December 2011 and December 2012.

In 2009/10 more up to date information indicated a recovery rate of 94.85%, assuming the deposits had priority status. Repayments were expected to be made at annual intervals between October 2011 and October 2018 (with nearly 20% in 2018). The significant extension in the repayment profile, offset partly by the increased recovery rate, resulted in an increased impairment adjustment for the deposits in 2009/10.

For 2010/11 a recovery rate of 94.85% has again be used, again assuming the deposits have priority status, with repayments assumed to be made between December 2011 and December 2018. The slight extension of the repayment profile has resulted in an increased impairment adjustment for the deposits of £35,600 for 2010/11.

Failure to ultimately secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the bond remains at its current value. Therefore if preferential creditor status is not ultimately achieved the recoverable amount may only be around 38p in the £ and the impairment charged to the Comprehensive Income and Expenditure Statement would be significantly greater, increasing by around £2.4 million, based on current information.

The resolution committee's presentations and further information can be found at www.lbi.is

Glitnir Bank Hf

Glitnir Bank Hf is also an Icelandic entity. Following steps taken by the Icelandic government in early October 2008, its domestic assets and liabilities were transferred to a new bank (Glitnir), with the management of the affairs of the previous bank being placed in the hands of a resolution committee or winding up board under Icelandic law.

In contrast to the decision made by the Landsbanki winding up board, the Glitnir resolution committee recognised local authority claims as general unsecured claims, rather than priority claims under the Icelandic Banking Act. This indicated an expected recovery rate of around 29% for claims that did not have priority status. However The Reykjavik District Court (the 'Court') subsequently issued a verdict on 1st April 2011 confirming that local authorities' claims qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. This indicates a recovery rate of 100% for local authorities, with repayments anticipated to be in December 2011. The court decision is however subject to appeal to the Icelandic Supreme Court, with a final decision expected in the Autumn of 2011.

Under Act 44/2009, which recently came into force in Iceland, claims can include interest up to 22nd April 2009, and at a penalty rate in cases where the maturity date of the investment was before 22nd April 2009. However the Court has deemed this penalty rate to be the contractual rate of interest.

As with Landsbanki Islands HF, recovery on the above basis is subject to the following uncertainties and risks:

*Confirmation on appeal that deposits (including those made by local authorities) have preferential creditor status. The affected local authorities have received legal advice that the deposits have priority status under Icelandic law.

*The impact of exchange rate fluctuations on the value of assets recovered and on the settlement of the authority's claim, which may be denominated in currencies other than sterling (although at present the effect of this is not expected to be material).

The authority decided to recognise an impairment in 2009/10 based on it recovering 31% of the principal and interest due up to 22nd April 2009 (including interest at a penalty rate of 22%). In the absence of further information at the time, a repayment date of July 2010 was assumed.

For the purpose of calculating the impairment adjustment in 2009/10, the authority assumed a recovery rate of 29%, again assuming the deposit did not have priority status in accordance with the view taken by the winding up board. Based on the time required to realise investments and allowing for court cases to be heard regarding priority status, it was assumed repayments would be paid evenly at annual intervals between October 2011 and October 2015. Given the absence of further information on the penalty rate to apply from the maturity date to 22nd April 2009, interest was calculated at the contractual rate. The reduction in the recoverable amount and interest due, together with the extension in the repayment profile, resulted in an increased impairment adjustment for the deposit in 2009/10.

For 2010/11 the authority has recognised the decision of the Court and assumed that local authority deposits have priority status, giving a recovery rate of 100%, with repayment assumed to be December 2011. This results in a reduced impairment adjustment of £2.423 million for this deposit in 2010/11.

Failure to ultimately secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. If preferential creditor status is not ultimately achieved the recoverable amount is likely to be around 29p in the £ and the impairment charged to the Comprehensive Income and Expenditure Statement would be significantly greater, increasing by around £2.4 million, based on current information. In any event, interest accruing from 23rd April 2009 until repayment would rank as an unsecured claim and is unlikely to be recoverable.

The resolution committee's presentations and further information can be found at www.Glitnirbank.com

The accounting entries made in respect of the banks are therefore as follows. All impairments have been recognised as at the balance sheet date of 31st March 2011.

Bank	Interest rate %	Amount invested £'000	Add Interest due to 31st March 2011 £'000	Less Impairments 2008/09 -2009/10 £'000	Less Repayments (including interest) to 31st March 2011 £'000	Less Impairment 2010/11 £'000	Carrying amount at 31st March 2011 £'000
Kaupthing, Singer & Friedlander	5.30	2,000	150	740	1,072	-215	553
Kaupthing, Singer & Friedlander	5.86	1,000	119	389	556	-111	285
Landsbanki Islands Hf	5.29	2,000	242	628	-	14	1,600
Landsbanki Islands Hf	5.31	2,000	243	630	-	14	1,599
Landsbanki Islands Hf	5.40	1,000	158	329	-	7	822
Glitnir Bank Hf	5.56	3,000	486	2,654	-	-2,423	3,255
Total		**11,000**	**1,398**	**5,370**	**1,628**	**-2,714**	**8,114**

The carrying amounts have been classified as short or long term according to the profile of expected repayments. Those amounts expected to be repaid within twelve months, which total £4.757 million, have been classified as short term, leaving £3.357 million recoverable in the long term.

The impairment losses recognised in the Comprehensive Income and Expenditure Statement have been calculated by discounting the estimated repayments at the effective interest rate of the original deposits, in order to recognise the anticipated loss of interest to the authority until the funds are recovered. The carrying amounts therefore represent the present value of the amounts likely to be recovered.

Interest credited to the Comprehensive Income and Expenditure Statement (included in Interest and Investment income) in respect of the investments is as follows:

Bank	Amount invested £'000	Interest rate %	Interest credited in 2007/08 £'000	Interest credited in 2008/09 £'000	Interest credited in 2009/10 £'000	Interest credited in 2010/11 £'000	Total interest credited £'000
Kaupthing, Singer & Friedlander	2,000	5.30	-	75	44	31	150
Kaupthing, Singer & Friedlander	1,000	5.86	17	59	25	18	119
Landsbanki Islands Hf	2,000	5.29	-	73	86	83	242
Landsbanki Islands Hf	2,000	5.31	-	74	86	83	243
Landsbanki Islands Hf	1,000	5.40	16	54	45	43	158
Glitnir Bank Hf	3,000	5.56	216	166	59	45	486
Total	**11,000**		**249**	**501**	**345**	**303**	**1,398**

In 2008/09 the authority made use of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2009 to defer the impact of the impairments on the General Fund, and the impairment of £5,035 million charged to the Comprehensive Income & Expenditure Statement in that year was reversed out to the Financial Instruments Adjustment account. Under the regulations the authority had to transfer the loss back to the General Fund no later than 31st

March 2011. As the authority received a capitalisation direction in 2009/10, allowing it to spread the cost over a number of years, the loss (less interest) was transferred back to the General Fund in 2009/10.

The reversal of the £5.035 million loss (less the £0.750 million interest) to the General Fund was wholly offset in 2009/10 by the capitalisation direction received of £4.430 million, which allowed the net loss to be spread over a number of years.

In 2010/11 the reduced impairment adjustment of £2.714 million, together with the interest receivable of £300k, has been credited to the Comprehensive Income and Expenditure Statement, in accordance with proper accounting practice. Since it represents an adjustment to the impairments previously charged to capital and financed by borrowing, £230,000 of this credit has been used to repay debt via a Voluntary Revenue Provision. The remaining £2.484 million has been transferred to an earmarked reserve, pending the final decision by the Icelandic Supreme Court on the priority status of local authority deposits. Should the decision confirm that such deposits do have priority status then this reserve will be used in future years to repay debt or alternatively, should they ultimately be deemed not to have such status, meet the resulting increased impairment charge.

Legislation does not permit an impairment of an investment to be charged to the Housing Revenue Account (HRA).

Debtors

	Short term		**Long term**	
	31st March 2011 £'000	**31st March 2010 £'000**	**31st March 2011 '£'000**	**31st March 2010 £'000**
Loans and Receivables	4,679	6,009	183	201

Further details of short term debtors are given in note 29, page 74. Long term debtors include mortgages for house purchase loans and car loans to staff.

Borrowing

	Range of Interest Rates Payable %	31st March 2011 £'000	31st March 2010 £'000
Long Term (over 1 year)			
Financial liabilities at amortised cost			
- Public Works Loan Board (PWLB) loans	4.35% - 4.875%	11,000	11,000
- Bank loans	3.82% - 4.95%	15,900	15,900
Financial liabilities at fair value through profit and loss		**-**	**-**
		26,900	**26,900**

Analysis of PWLB loans by maturity:		
2-5 years	2,000	2,000
6-10 years	-	-
More than 10 years	9,000	9,000
	11,000	**11,000**
Analysis of Bank loans by maturity		
2-5 years	-	-
6-10 years	-	-
More than 10 years	15,900	15,900
	15,900	**15,900**

Current or Short term (less than 1 year)		
Financial liabilities at amortised cost		
- Bank loans	245	244
- Building Society loans	5,002	1,200
- Other local authority loans	8,006	15,809
- Other temporary borrowing	354	659
Total financial liabilities at fair value through profit and loss	**-**	**-**
	13,607	**17,912**

Creditors

	Short term		Long term	
	31st March 2011 £'000	31st March 2010 £'000	31st March 2011 £'000	31st March 2010 £'000
Financial liabilities at amortised cost	8,945	7,100	-	-

Further details of short term creditors are given in note 31, page 75.

Reclassifications

There were no reclassifications of financial instruments during the year.

Income, Expense, gains and losses

	2010/11 Financial Liabilities measured at amortised cost	2010/11 Financial Assets: Loans and receivables	2010/11 Total	2009/10 Financial Liabilities measured at amortised cost	2009/10 Financial Assets: Loans and receivables	2009/10 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	1,210	-	1,210	1,220	-	1,220
Impairment losses	-	(2,714)	(2,714)	-	335	335
Fee expense	10	37	47	15	15	30
Total expense in Surplus or Deficit on the Provision of Services	**1,220**	**(2,677)**	**(1,457)**	**1,235**	**350**	**1,585**
Interest Income	-	(229)	(229)	-	(462)	(462)
Interest Income accrued on impaired financial assets	-	(303)	(303)	-	(345)	(345)
Total income in Surplus or Deficit on the Provision of Services	**-**	**(532)**	**(532)**	**-**	**(807)**	**(807)**
(Net gain)/loss for the year	**1,220**	**(3,209)**	**(1,989)**	**1,235**	**(457)**	**778**

Fair Value of assets and liabilities carried at amortised cost

Financial assets and liabilities represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values have been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised
- where an instrument will mature in the next twelve months, the carrying amount is assumed to approximate to fair value
- the fair value of trade and other payables and receivables is taken to be the invoiced or billed amount.

The fair values of the long and short term investments equate approximately to their carrying values at the balance sheet date. The investments with Icelandic banks have been impaired so that their carrying values, representing the present value of the likely amounts to be recovered, would equate to their expected fair value. All other loans will mature within the next twelve months.

As regards borrowing, the fair value of PWLB loans held at 31st March 2011 is £12,041,926 (£11,777,266 at 31st March 2010) compared to the carrying value of £11,000,000 at 31st March 2011 (£11,000,000 at 31st March 2010). The fair value is higher than the carrying amount because the authority's portfolio includes fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the authority would have to pay if it requested early repayment of the loans.

For all other long term borrowing the fair value equates to £15,835,439 at 31st March 2011 (£15,878,950 at 31st March 2010) compared to the carrying value of £15,900,000 at 31st March 2011 (£15,900,000 at 31st March 2010).

The fair value of all short term borrowing is equal to its carrying value (amortised cost).

Short term debtors and creditors are carried at amortised cost as this is a fair approximation of their value.

Nature and extent of risks arising from financial instruments

The council has adopted CIPFA's *Treasury Management in the Public Services: Code of Practice* and has set treasury management prudential indicators to control key financial instrument risks in accordance with CIPFA's prudential code.

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

- credit risk – the risk that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the council might not have funds available to meet its commitment to make payments

- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates

The authority's overall risk management is carried out by the central treasury team under policies approved by the council in the treasury management strategy approved in February 2010. The council provides written policies for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the authority's customers. Deposits during the 2010/11 were made with financial institutions that were rated independently with all three agencies, Fitch, Moody's and Standard & Poor's credit rating and met the council's lending criteria as approved in its Investment Policy 2010/11.

The policy dictates the maximum amount of lending that can be held with any one institution, set in accordance with the institutions' credit rating and the guidance of the council's treasury advisors, Arlingclose. The maximum investment that can be made with an approved counterparty was £7 million in 2010/11. No credit limits were exceeded during the year.

Liquidity risk

As the authority has ready access to borrowings from the Public Works Loans 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 portion of its borrowings at a time of unfavourable interest rates. This risk is reduced by working towards a rolling programme to ensure the maturity of loans is spread over a period of time.

Market risk

The authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. By way of illustration, if interest rates were 1% higher in 2010/11, this would have had the following effect:

	Amount outstanding (weighted average) in year	**Average actual interest rate**	**Actual Interest paid / (receivable)**	**Projected interest rate**	**Projected interest paid / (receivable)**	**Variation**
	£'000	**%**	**£'000**	**%**	**£'000**	**£'000**
Borrowing						
Fixed rate	26,900	4.32	1,162	4.32	1,162	-
Variable rate	11,800	0.44	48	1.44	170	122
	38,700	**3.13**	**1,210**	**3.44**	**1,332**	**122**
Lending						
Fixed rate	2,600	5.93	(154)	5.93	(154)	-
Variable rate	4,800	1.47	(75)	2.47	(119)	(44)
	7,400	**3.04**	**(229)**	**3.69**	**(273)**	**(44)**

Net loss / (gain) on surplus / deficit for year	**981**	**1,059**	**78**

Due to the large proportion of borrowing held at fixed rates the impact on interest payable is limited. Conversely, the higher proportion of lending at variable rates allows the authority to benefit from any increase in interest rates in the future.

Borrowings and investments are not carried at fair value, so nominal gains and losses would not impact on the Comprehensive Income and Expenditure Statement or the Movement in Reserves. However, changes in interest payable and receivable on variable rate borrowings and investments, as illustrated above, will affect income and expenditure and the general fund balance.

The authority has a number of strategies for managing interest risk. The policy is to aim to keep a maximum of 50% of borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

Foreign exchange risk

The authority has no financial assets or liabilities denominated in foreign currencies so has no exposure to loss arising from movements in exchange rates. However the recoverable amount relating to the impaired Icelandic bank deposits may be affected by exchange rate fluctuations, since the assets of the banks may not be denominated in Sterling. The impact is not deemed material, however the deposits with Landsbanki Islands Hf have a higher risk to movements in exchange rates as the repayments are expected to be received over a longer period than Glitnir Bank Hf deposits.

28. Inventories

	Consumable Stores		**Maintenance materials**		**Total**	
	31st March 2011 £'000	**31st March 2010 £'000**	**31st March 2011 £'000**	**31st March 2010 £'000**	**31st March 2011 £'000**	**31st March 2010 £'000**
Balance outstanding at start of year	**87**	**82**	**30**	**20**	**117**	**102**
Purchases	807	743	57	41	864	784
Recognised as expenses in year	(791)	(737)	(65)	(31)	(856)	(768)
Written off balances	(1)	(1)	-	-	(1)	(1)
Reversals of write offs in previous years	-	-	-	-	-	-
Balance outstanding at year end	**102**	**87**	**22**	**30**	**124**	**117**

29. Short Term Debtors

	31st March 2011 £'000	**31 March 2010 Restated £'000**
Amounts falling due in one year		
Central Government Bodies	1,206	1,533

Other Local Authorities	865	1,064
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals-		
- Council Taxpayers	157	137
- Cheltenham Borough Homes	97	69
- Housing Rents	225	234
- Sundry Debtors	2,129	2,972
Total	**4,679**	**6,009**

Each line is presented net of any impairments or provision for bad debts.

30. Cash / Cash Equivalents and Bank Overdraft

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

	31st March 2011 £'000	31st March 2010 £'000
Cash held by the Authority	14	22
Bank current accounts	-	-
Short term deposits	900	-
Cash and cash equivalent assets	**914**	**22**
Cash and cash equivalent liabilities - bank overdraft	**(1,022)**	**(464)**
Net Cash and cash equivalents per Cash flow Statement	**(108)**	**(442)**

The bank overdraft represents the bank figure within the council's accounts and differs from the actual bank balance by cash in transit and cheques and BACS payments outstanding.

31. Short Term Creditors

	31st March 2011 £'000	31st March 2010 Restated £'000
Central Government Bodies	2,847	829
Other Local Authorities	1,497	1,310
NHS bodies	-	-
Public corporations and trading funds	386	223
Other entities and individuals-		
- Council Taxpayers	72	67
- Cheltenham Borough Homes	307	832
- Housing Rents	117	95
- Sundry Creditors	3,719	3,744
	8,945	**7,100**

32. Provisions

	Balance at 1st April £'000	Additional provisions made in Year £'000	Amounts used in Year £'000	Unused Amount Reversed £'000	Balance at 31st March £'000

General Fund Insurance	165	-	69	-	96
Legal claims	370	-	342	28	-
2010/11	**535**	**-**	**411**	**28**	**96**
2009/10	**690**	**-**	**155**	**-**	**535**

The Insurance Provision was established to fund the cost of claims from third parties against the council under insurance policy excesses. The provision represents the value of an assessment of the council's liability in respect of the current insurance claims outstanding with the council's insurers. Transfers between the Insurance Provision and the Insurance Reserve are made in order to provide adequate funding for the outstanding claims liability notified by the insurance company.

The insurance reserve is used to fund losses for which the council does not carry insurance cover, fluctuations in insurance premiums and corporate risk management strategy implementation.

The Legal Claims provision was set up in 2009/10 to cover additional court costs and legal fees arising from the judgement made by the High Court against the council in the Cheltenham Borough Council v. Mrs Laird case. The final claim has now been settled and the unused amount of the provision has been transferred to the Comprehensive Income and Expenditure Statement, included in Exceptional Items.

33. Usable Reserves and transfers to / from Earmarked Reserves

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement on page 23. Movements in the earmarked reserves shown on the statement are detailed below.

	Balance at 31 March 2009 £'000	Transfers out 2009/10 £'000	Transfers in 2009/10 £'000	Balance at 31 March 2010 £'000	Transfers out 2010/11 £'000	Transfers in 2010/11 £'000	Balance at 31 March 2011 £'000
Earmarked Reserves							
General Fund							
Capital Reserve	**3,055**	(36)		**3,019**	(2,326)	1,111	**1,804**
Equalisation Reserves	**928**		315	**1,243**	(1,133)	2,931	**3,041**
Repairs & Renewals Reserve	**1,901**	(371)		**1,530**	(920)	858	**1,468**
Reserves for Commitments	**1,209**	(951)		**258**	(258)	303	**303**
Other earmarked reserves	**5,868**	(1,656)		**4,212**	(1,350)	1,566	**4,428**
	12,961	**(3,014)**	**315**	**10,262**	**(5,987)**	**6,769**	**11,044**
HRA							
Housing Repairs Account	-	(3,621)	3,621	-	(3,769)	3,769	-
Other earmarked reserves	-	-	-	-	-	-	-
	-	**(3,621)**	**3,621**	**-**	**(3,769)**	**3,769**	**-**

Purpose of reserves

Capital Reserve – to finance the general fund capital programme and new initiatives.

Equalisation Reserves – to smooth out fluctuations in expenditure from year to year as a result of cyclical events, for example bi-annual local elections. Also to cushion the impact of fluctuating activity levels (for example Benefit payments) or movements in interest rates. Includes £2.787 million held pending a final decision on the preferential status of local authority deposits in Icelandic banks (see note 27 on pages 64 to 69).

Repairs and Renewals Reserves – to meet the cost of planned and reactive repairs to buildings and infrastructure and to fund the renewals programme for computer equipment.

Reserves for Commitments – to cover the cost of budget commitments where spending did not take place in the year approved, but is planned to take place in the following year.

Other earmarked reserves – sums built up to cover the future costs of planned expenditure, for example redevelopment of the Art Gallery and Museum, risk management initiatives, vehicles and equipment, and Civic Pride match funding.

34. Unusable Reserves

The council keeps a number of reserves in the Balance Sheet, which do not represent usable resources for the authority as they are required to be held for statutory reasons or to comply with proper accounting practice.

Reserve	31st March 2009 Restated £'000	31st March 2010 Restated £'000	31st March 2011 £'000	Purpose of Reserve
Revaluation Reserve	40,230	8,933	8,836	Store of gains on revaluation of non-current assets not yet realised through sales
Capital Adjustment Account	278,674	250,693	202,577	Store of capital resources set aside to meet past expenditure
Financial Instruments Adjustment Account	(7,969)	(3,454)	(2,889)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments
Collection Fund Adjustment Account	105	93	93	Balancing account to allow for differences in statutory requirements and proper accounting practices for council tax surpluses/deficits
Pensions Reserve	(37,081)	(70,405)	(38,071)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet
Deferred Capital Receipts Reserve	204	172	152	Capital receipts to be received in future years e.g. from mortgage repayments

Accumulating Compensated Absences Adjustment Account	(93)	(81)	(72)	Balancing account to allow for differences in statutory requirements and proper accounting practices for staff leave and additional hours not taken at the year end
Total Unusable Reserves	**274,070**	**185,951**	**170,626**	

Revaluation Reserve

	2010/11 £'000	2009/10 £'000 Restated
Balance at 1st April	**8,933**	**40,230**
Revaluation gains on non-current assets	1,265	3,343
Downward revaluation of assets and impairments	-	(33,666)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**10,198**	**9,907**
Difference between fair value and historic cost depreciation	(298)	(974)
Accumulated gains on assets sold	(1,064)	-
Amount written off to the Capital Adjustment Account	**(1,362)**	**(974)**
Balance at 31st March	**8,836**	**8,933**

The Revaluation Reserve contains gains 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, depreciated or disposed of. The Reserve formally came into existence at midnight on 1st April 2007 with a Nil balance. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

The balance on the reserve therefore represents the amount by which the fair values of non-current assets carried on the Balance Sheet are greater because they are carried at re-valued amounts rather than at depreciated historical cost.

Capital Adjustment Account

	2010/11 £'000	2009/10 £'000 Restated
Balance at 1st April	**250,693**	**278,674**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
• Charges for depreciation and impairment of non-current assets	(5,966)	(5,961)
• Revaluation losses on Property, Plant and Equipment	(45,979)	(24,291)
• Amortisation of intangible assets	(106)	(101)
• Revenue expenditure funded from capital under statute	(1,250)	(1,408)
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,965)	(430)
• Revenue expenditure charged to capital – Capitalisation Direction for Icelandic bank losses	-	(4,430)
	194,427	242,053
Adjusting amounts written out of the Revaluation Reserve	1,362	974

Net written out amount of the cost of non-current assets consumed in the year	**195,789**	**243,027**
Capital Financing applied in the year:		
• Use of Capital Receipts Reserve to finance new capital expenditure	500	425
• Use of the Major Repairs Reserve to finance new capital expenditure	2,797	3,035
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing and application of grants to capital financing from the Capital Grants Unapplied Account	1,646	1,739
• Statutory provision for the financing of capital investment charged against the General Fund Balance	645	441
• Voluntary provision for the financing of capital investment charged against the general fund balance	230	-
• Capital expenditure charged against the general fund and HRA balances	970	1,262
	202,577	249,929
Movements in the market value of Investment properties debited or credited to the Comprehensive Income and Expenditure Statement	-	764
Balance at 31st March	**202,577**	**250,693**

The Capital Adjustment Account accumulates, on the debit side, the write-down of the historical cost of non-current assets as they are consumed by depreciation and impairments, or written off on disposal. On the credit side it accumulates the resources that have been set aside to finance capital expenditure. The balance on the Account thus represents timing differences between the historical cost of non-current assets that have been consumed and the cost financed in accordance with statutory requirements.

The Account also contains accumulated gains and losses on Investment properties that have yet to be consumed by the Authority and revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Financial Instruments Adjustment Account	**2010/11 £'000**	**2009/10 £'000**
Balance at 1st April	**(3,454)**	**(7,969)**
Premiums / discounts incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-
Premiums / discounts incurred in previous years charged against the General Fund Balance	154	230
Repayment of premiums from capital receipts	411	-
Impairment of Icelandic banks	-	5,035
Interest from Icelandic banks	-	(750)
Balance at 31st March	**(2,889)**	**(3,454)**

This 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 according to statutory provisions.

Where premiums and discounts arising on the early repayment of loans are required to be charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over a number of years. The council has a policy of spreading the gain or loss over the period that was remaining on the loan when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge made against the General Fund

Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movements in Reserves Statement.

In 2010/11 two outstanding premiums were extinguished using capital receipts received from asset sales, thus reducing the annual charge to the General Fund Balance.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2009 allowed authorities to defer the impact on the General Fund Balance of the impairment of investments in Icelandic banks (see note 27), which the authority decided to take advantage of in full in 2008/09. The regulations also require, however, that where an investment is impaired, any related interest credited to the Comprehensive Income and Expenditure Statement, but not received, must be reversed out in determining the movement on the general fund balance for the year. These adjustments were managed by transfers to the Financial Instruments Adjustment Account from the General Fund Balance in the Movement in Reserves Statement in 2008/09.

Under the regulations the authority must transfer the impairment, together with the interest credit, back to the General Fund Balance no later than 31st March 2011. As the authority received a capitalisation direction in 2009/10, allowing it to spread the cost of the impairment over a number of years, the items were transferred back to the General Fund Balance in 2009/10.

Collection Fund Adjustment Account

This account reflects the difference between the rate at which collection fund surpluses or deficits are released to the council's General Fund Balance according to proper accounting practice, and the rate at which they are released according to statute. Proper accounting practice requires the surpluses or deficits generated in the year to be included in the Comprehensive Income and Expenditure Statement for the year, whereas statute does not allow these to be released to the general fund balance until the following year. The balance on this account therefore represents the surplus available to be released to the general fund balance in the future.

The balance at 1st April 2009 was created as a prior year adjustment from the Collection Fund Balance, representing the council's share of the Balance at 31st March 2009.

	2010/11 £'000	2009/10 £'000
Balance at 1st April	**93**	**105**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-	(12)
Balance at 31st March	**93**	**93**

Accumulating Compensated Absences Adjustment Account

This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for staff absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account via the Movement in Reserves Statement.

	2010/11 £'000	2009/10 £'000

Balance at 1st April		**(81)**		**(93)**
Settlement or cancellation of accrual made at the end of the preceding year	81		93	
Amounts accrued at the end of the year	(72)		(81)	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from that chargeable in the year according to statutory requirements		9		12
Balance at 31st March		**(72)**		**(81)**

Pensions Reserve

Further information is shown within Note 42, pages 84 to 89.

Deferred Capital Receipts Reserve

This represents capital receipts receivable in future years, for example from mortgage repayments, which are not usable until they are received.

35 Impairment Losses

At 31st March 2011 the situation with regard to the recovery of deposits placed with Icelandic banks was reassessed based on the latest information and guidance. Mainly as a result of a court decision made in Iceland on 1st April 2011 that these deposits have priority status, a credit adjustment of £2.714 million was made to the exceptional items - impairment losses line on the face of the Comprehensive Income and Expenditure Statement in 2010/11, reducing the impairment losses made in previous years. The carrying value of the financial assets (classified as long and short term investments) has consequently been increased by the same amount to reflect the increased estimated recoverable amounts for these deposits. Note 27 on pages 64 to 69 gives further details.

In 2010/11 the authority re-valued its dwelling stock as at 1st April 2010, with the result that its net book value was reduced by £46 million. As there was no balance on the revaluation reserve for these assets, all of the loss on revaluation has been charged to the Housing Revenue Account (HRA) and Comprehensive Income and Expenditure Statement. As such a loss cannot by statute be charged to the HRA Balance, it has been reversed out to the Capital Adjustment Account in the Movement in Reserves Statement.

36. Termination Benefits

The Authority terminated the contracts of 19 employees in 2010/11 (9 in 2009/10) as part of a rationalisation within a number of service areas. Total costs incurred were £326,307 (£610,201 in 2009/10), of which £250,343 (£529,320) related to early retirement costs and £75,964 (£80,881) redundancy payments. These costs have been charged to the relevant service line shown within the Comprehensive Income and Expenditure Statement.

37. Contingent Liabilities

The council has a potential liability in respect of the run off of Municipal Mutual Insurance to the value of £474,018.56 (£474,018.56 at 31st March 2010). This will only materialise if the assets of the company do not cover the insurance claims yet to be settled, the likelihood and timing of which is unknown at this stage.

The council has impaired its investments with Landsbanki Islands Hf and Glitnir Hf to reflect the likely amounts to be recovered. However it has been assumed in both cases that local authority deposits have preferential creditor status under Icelandic law. Although this was confirmed by Reykjavik District Court on 1st April 2011, the decision is subject to appeal to the Icelandic Supreme Court.

Failure to ultimately secure preferential creditor status would have a significant impact upon the amount of the deposits that is recoverable, and the impairment charge to the Comprehensive Income and Expenditure Statement, which would increase by around £4.8 million based on current information. To mitigate against this risk the authority has earmarked £2.788 million to cover any resulting increased impairment in future years.

On 17th August 2010 statutory instrument 2010 No.1812 came into force, amending the existing local land charges rules by removing the ability for authorities to charge for personal searches in respect of one or more parcels of land. As such a fee was incompatible with the Environmental Information Regulations 2004(a), which came into force in January 2005, potentially this might result in back claims for overpaid amounts in previous years.

38. Contingent Assets

There are no known material contingent assets at this time.

39. Authorisation of Accounts for issue

IAS 10 *Events after the Balance Sheet Date* requires the establishment of a date after which events will not have been recognised in the Statement of Accounts. For the audited accounts this is the date the accounts are signed by the Chief Finance Officer. On this basis, the date beyond which there can be no reasonable expectation that events could have been taken into account by the authority is 13th September 2011. This is the date after which any events are not recognised in the audited accounts for the year 2010/11.

40. Events after the Balance Sheet Date

The decision made by the Reykjavik District Court in Iceland that local authority deposits in Glitnir Bank Hf have priority status was made on 1st April 2011. As the decision related to the authority's investments in the bank that existed on 31st March 2011 the accounts have taken this decision into account, resulting in an impairment credit adjustment to the Comprehensive Income and Expenditure Statement. Further details are given in note 27 on pages 64 to 69.

The concessionary fares function transferred to the control of Gloucestershire County Council on 1st April 2011. All future costs associated with this scheme will be included in the accounts for the County Council from this date. Consequently the cost of the scheme for 2009/10 and 2010/11 has been shown separately on the face of the Comprehensive Income and Expenditure Statement.

41. Trust Funds

The council acts as trustee for legacies left by inhabitants of the Borough.

	Balance at 1st April 2010	Receipts in Year	Payments in Year	Balance at 31st March 2011
	£	£	£	£
Captain Wild	63,739	-	-	63,739
Major Mason	444	8	-	452
Miss Privett	14,720	65	(7,456)	7,329
Phyllis Kay	1,861	-	-	1,861
Leslie Young	1,425	-	-	1,425
Garden of Remembrance	17,701	548	(7,517)	10,732
	99,890	**621**	**(14,973)**	**85,538**

The purpose of each of the funds is as follows:

- Captain Wild — To fund the acquisition of objects for the Art Gallery and Museum and books to facilitate the study of the contents of the Art Gallery and Museum
- Major Mason — To fund the maintenance of parks in Charlton Kings.
- Miss Privett — To fund the maintenance and upkeep of Charlton Kings cemetery.
- Phyllis Kay — To fund the acquisition of paintings created in the last 100 years for the Art Gallery and Museum, but not abstract works of art.
- Leslie Young — To fund the acquisition of objects for the Art Gallery and Museum.
- Garden of Remembrance — Donations from the public to fund the enhancement of the garden of remembrance at the cemetery.

In addition to the above, four other trust funds are maintained outside of the council's accounts, the financial activity for which is summarised below:

	Balance at 1st April 2010	Receipts in Year	Payments in Year	Balance at 31st March 2011	Capital Value of fund at 31st March 2011
	£	£	£	£	£
Turner Long	11,324	2,275	(2,900)	10,699	65,093
Caroline Strickland	11,349	17,434	(11,882)	16,901	61,402
Hay Trust	16,335	42,171	(27,500)	31,006	111,392
Walker Memorial	2,709	745	(1,200)	2,254	19,765
	41,717	**62,625**	**(43,482)**	**60,860**	**257,652**

The capital value of the Trust funds is based on the share values at 31st March 2011. The purpose of each of the funds is as follows:

• Turner Long	Annuities to indigent men and women over 50 years of age
• Caroline Strickland	Support to Almshouses - Hales Road
• Hay Trust	Support to Almshouses - Naunton Park
• Walker Memorial	Annuities to indigent men and women over 50 years of age

42. Defined Benefit Pension Scheme

Participation in the Pensions Scheme

As part of the terms and conditions of employment of its officers and other employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS), which is categorised as a defined benefit scheme and administered by Gloucestershire County Council, who are required to act in the best interest of the fund's beneficiaries. It is a funded scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets. The retirement benefits are determined independently of the investors of the scheme and the council has an obligation to make extra contributions where assets are insufficient to meet employee benefits.

Transactions Relating to Post-Employment Benefits

In accordance with the requirements of International Accounting Standard 19 – *Employee Benefits* (IAS19), the operating costs of providing retirement benefits to employees are included in the Comprehensive Income and Expenditure Statement. The costs of retirement benefits are recognised in the 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 in the Movement in Reserves Statement.

The employers' contributions to the pension fund of £3,320,000 (£3,717,000 in 2009/10) have been replaced by the current service (pensions) costs, being the increase in the present value of the defined benefit scheme's liabilities expected to arise from employee service in the current period. These are included in the cost of services and total £2,464,000 for 2010/11 (£1,346,000 in 2009/10).

Past service costs represent discretionary benefits awarded on early retirement, to include added years and unreduced pension benefits awarded under the rule of 85. The total past service costs are negative £12,414,000 for 2010/11 (£96,000 costs in 2009/10) and are included in the cost of services as non-distributed costs.

The effect of the change in the use of the retail prices index (RPI) to the Consumer Prices index

(CPI) in calculations on future pension increases has resulted in a negative past service cost item in the Comprehensive Income and Expenditure Statement in 2010/11.

Curtailments show the cost of the early payment of pensions benefits of employees made redundant in the previous financial year. These are included in the cost of services as non-distributed costs and total £48,000 for 2010/11 (£485,000 for 2009/10).

The expected return on employer assets is based on the long-term future expected investment return on assets as at 31st March 2011. This is £5,013,000 for 2010/11, representing 41.3% of pensionable pay (£3,059,000 in 2009/10, being 24.5%) and is included in the Financing and investment income and expenditure within the Comprehensive Income and Expenditure Statement.

The interest charged on pension scheme liabilities reflects the expected increase during the period in the present value of the scheme liabilities because the benefits are one year closer to settlement. This is £7,318,000 for 2010/11, representing 60.3% of pensionable pay (£6,076,000 for 2009/10, being 48.6%) and is included in the Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.

The overall effect on the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year is summarised in the following table:-

Comprehensive Income and Expenditure Statement	**2010/11 £'000**	**2009/10 £'000**
Cost of Services:		
current service cost	(2,464)	(1,346)
past service costs	12,414	(96)
curtailments	(48)	(485)
Financing and Investment income and Expenditure:		
expected return on scheme assets	5,013	3,059
interest on pension scheme liabilities	(7,318)	(6,076)
Total post employment benefit charged to the deficit on the provision of services	**7,597**	**(4,944)**
Movement in Reserves Statement:		
reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with IAS 19	7,597	4,944
Actual amount charged against the General Fund Balance for pensions in the year:		
employer contributions payable to scheme	(3,320)	(3,717)

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial gains of £21,417,000 (£32,097,000 losses in 2009/10) are included in Other Comprehensive Income and Expenditure, within the Comprehensive Income and Expenditure Statement. The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement to 31st March 2011 is £22,048,000 (£43,465,000 cumulative losses to 31st March 2010).

Assets and Liabilities in relation to Post-Employment Benefits

In accordance with IAS 19, the council has to disclose its share of assets and liabilities related to pension schemes for its employees. The underlying assets and liabilities for retirement benefits attributable to the authority at 31st March are as follows:

	31st March 2011 £'000	31st March 2010 £'000	Net Increase /(Decrease) £'000
Fair value of scheme Assets (A)	**70,405**	**72,946**	**(2,541)**
Present value of Scheme Liabilities	(106,958)	(141,452)	34,494
Present value of Unfunded Liabilities	(1,518)	(1,899)	381
Total value of Liabilities (B)	**(108,476)**	**(143,351)**	**34,875**
Net Pension Asset/(Liability) (A-B)	**(38,071)**	**(70,405)**	**32,334**

(A) Fair value of scheme Assets	31st March 2011 £'000	31st March 2010 £'000	Net Increase /(Decrease) £'000
1st April	**72,946**	**51,561**	**21,385**
Expected return on assets	5,013	3,059	1,954
Contributions by members	818	830	(12)
Contributions by the employer	3,320	3,717	(397)
Actuarial gains / (losses)	(7,073)	17,730	(24,803)
Unfunded benefits paid	(94)	(90)	(4)
Benefits paid	(4,525)	(3,861)	(664)
Closing fair value of assets	**70,405**	**72,946**	**(2,541)**

(B) Present value of Liabilities	31st March 2011 £'000	31st March 2010 £'000	Net Increase /(Decrease) £'000
1st April	**143,351**	**88,642**	**54,709**
Current service cost	2,464	1,346	1,118
Interest on obligation	7,318	6,076	1,242
Contributions by members	818	830	(12)
Past service costs	(12,414)	96	(12,510)
Losses (gains) on curtailments	48	485	(437)
Actuarial losses / (gains)	(28,490)	49,827	(78,317)
Estimated Unfunded benefits paid	(94)	(90)	(4)
Estimated Benefits paid	(4,525)	(3,861)	(664)
Closing value of liabilities	**108,476**	**143,351**	**(34,875)**

Expected returns on assets reflect long term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £5,748,000 (2009/10 £27,789,000).

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. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the fund being based on the latest full valuation of the scheme as at 1st April 2010.

The main assumptions used in their calculations, agreed with the council, are shown in the table below:

	31st March 2011	31st March 2010
Mortality Assumptions:		
Longevity at 65 for current pensioners - men	21.7	22.7
Longevity at 65 for current pensioners - women	23.6	26.1
Longevity at 65 for future pensioners - men	23.5	24.8
Longevity at 65 for future pensioners - women	25.8	28.3
Rate of inflation (CPI)	2.8%	3.8%
Pension increase rate	2.8%	3.8%
Rate of increase in salaries	4.6%	5.3%
Rate of discounting scheme liabilities	5.5%	5.5%
Expected return on assets	6.7%	6.9%
Take-up of option to convert annual pension into retirement grant for pre April 2008 service	50.0%	50.0%
Take-up of option to convert annual pension into retirement grant for post April 2008 service	75.0%	75.0%

Cheltenham Borough Council's share of assets in the LGPS, valued at bid value, consists of the following categories, by proportion of the total assets held by the fund:

Assets at 31st March 2011				Restated Assets at 31st March 2010		
Value		Expected long term return		Value		Expected long term return
£'000	%	%		£'000	%	%
47,876	68	7.5	Equities	48,874	67	7.8
16,897	24	4.9	Bonds	17,507	24	5.0
4,224	6	5.5	Property	4,377	6	5.8
1,408	2	4.6	Cash	2,188	3	4.8
70,405	**100**		**Total**	**72,946**	**100**	

It must be recognised that pension fund investments are made for the long term, and that market values and net fund liabilities at a given point in time, are only indicative of the position of the fund at that date.

Scheme History

Amounts for current and previous accounting periods	Year to 31st March 2011 £'000	Year to 31st March 2010 £'000	Year to 31st March 2009 £'000	Year to 31st March 2008 £'000	Year to 31st March 2007 £'000
Fair value of employers assets	70,405	72,946	51,561	65,549	69,438
Present value of liabilities	(108,476)	(143,351)	(88,642)	(90,626)	(104,277)
Surplus / (Deficit)	**(38,071)**	**(70,405)**	**(37,081)**	**(25,077)**	**(34,839)**

The liabilities show the underlying commitments that the council has in the long-term to pay retirement benefits. The net liability of £38.1m has a substantial impact on the net worth of the council as recorded in the Balance Sheet, although the overall balance remains positive at £200.9m. Statutory arrangements for funding the pension deficit mean that the financial position of the Authority remains healthy.

The deficit on the LGPS will be made good by increased contributions over the remaining working life of the employees, as assessed by the scheme's actuary.

The total contributions expected to be made to the Local Government Pension Scheme in 2011/12 is £3,108,000.

History of Experience Gains and losses

The actuarial gains identified as movements on the pension reserve in 2010/11 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2011:

Amounts for current and previous accounting periods	Year to 31st March 2011 £'000	Year to 31st March 2010 £'000	Year to 31st March 2009 £'000	Year to 31st March 2008 £'000	Year to 31st March 2007 £'000
Experience gains / (losses) on Assets	(7,073)	17,730	(19,148)	(8,548)	(80)
Actuarial gains / (losses) on Assets	(7,073)	17,730	(19,148)	(8,548)	(80)
Fair value of employers assets	70,405	72,946	51,561	65,549	69,438
Experience gains / (losses) as a percentage of fair value of Assets	**(10.0)%**	**24.3%**	**(37.1%)**	**(13.0%)**	**(0.1%)**
Actuarial gains / (losses) as a percentage of fair value of Assets	**(10.0)%**	**24.3%**	**(37.1%)**	**(13.0%)**	**(0.1%)**

Amounts for current and previous accounting periods	Year to 31st March 2011 £'000	Year to 31st March 2010 £'000	Year to 31st March 2009 £'000	Year to 31st March 2008 £'000	Year to 31st March 2007 £'000
Experience Gains/(Losses) on Liabilities	13,268	(53)	(55)	1,657	(1)
Actuarial gains / (losses) on liabilities	28,490	(49,827)	7,951	18,488	6,053
Present value of liabilities	(108,476)	(143,351)	(88,642)	(90,626)	(104,277)
Experience gains / (losses) as a percentage of present value of Liabilities	**12.2%**	**(0.0%)**	**(0.1%)**	**1.8%**	**(0.0%)**
Actuarial gains / (losses) as a percentage of present value of Liabilities	**26.3%**	**(34.7%)**	**9.0%**	**20.4%**	**5.8%**

GROUP ACCOUNTS

The Group Accounts bring together the council's accounts with those of Gloucestershire Airport Limited, in which the council has a 50% shareholding (the remaining 50% of shares are owned by Gloucester City Council), and Cheltenham Borough Homes (CBH), a company limited by guarantee whereby the council is the sole member.

The purpose of the Group Accounts is to reflect the full value of the council's investments in companies within the council's financial statements, since the council's shareholdings may not fully reflect its share of the companies' assets and liabilities.

Cheltenham Borough Homes Limited has been categorised as a subsidiary company of Cheltenham Borough Council and its interests have been consolidated in accordance with IAS 27.

IAS 27 requires income and expenditure, assets and liabilities to be consolidated on a line-by-line basis. The operating income and expenditure has been included within the local authority housing (HRA) line before net cost of service. Taxation has been disclosed as a separate line before net operating expenditure, although it should be noted that Cheltenham Borough Homes has been granted exemption from Corporation Tax.

The Group Balance Sheet has been prepared by combining Cheltenham Borough Homes' assets and liabilities with those of the council on a line by line basis, eliminating inter-organisation debtors and creditors.

Gloucestershire Airport Limited has been categorised as a joint venture company as the decisions regarding the operating and financial policies of the company require the consent of all parties. Its assets and liabilities have been consolidated with the council's in accordance with IAS 31.

IAS 31 requires the Gross Equity Method to be used when consolidating joint ventures. Under this method, the council's share of the operating result of the Airport is reported gross (i.e. gross turnover and expenditure) as a separate line before net cost of service within the Group Comprehensive Income and Expenditure Statement. Taxation has been disclosed as a separate line before net operating expenditure.

In the Group Balance Sheet the council's share of the gross assets and liabilities are included as a long-term investment. The council's share of the Airport's reserves are also included.

PRIOR YEAR ADJUSTMENTS

The Group accounts have been restated to take into account the changes made in the council's single entity accounts as a result of changes in accounting policy, mainly as a result of the full implementation of International Financial Reporting Standards (IFRS) (see accounting policies, page 37).

STATEMENT OF ACCOUNTING POLICIES FOR THE GROUP ACCOUNTS

These are set out on pages 25 to 37 and note 1(xxv) page 37.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the cost in the year of providing Group 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; and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009/10 Restated				2010/11		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£'000	£'000	£'000		£'000	£'000	£'000
			Continuing Operations			
9,318	(8,337)	981	Central Services to the public	9,743	(8,482)	1,261
22,901	(3,180)	19,721	Cultural and related services	10,604	(3,737)	6,867
8,764	(3,588)	5,176	Environment & Regulatory services	7,724	(4,231)	3,493
3,291	(1,901)	1,390	Planning services	3,630	(1,657)	1,973
6,383	(5,835)	548	Highways and Transport services	4,814	(6,174)	(1,360)
23,834	(17,228)	6,606	Local Authority housing (HRA)	60,594	(17,057)	43,537
33,585	(32,109)	1,476	Other housing services	34,068	(34,151)	(83)
3,054	(422)	2,632	Corporate & Democratic core	2,668	(311)	2,357
1,964	(150)	1,814	Non Distributed costs	(11,026)	(150)	(11,176)
113,094	**(72,750)**	**40,344**	**Total Cost of Continuing Operations excluding Concessionary Fares transferred to Gloucestershire County Council 1 April 2011**	**122,819**	**(75,950)**	**46,869**
2,167	(540)	1,627	Concessionary Fares	2,337	(642)	1,695
115,261	**(73,290)**	**41,971**	**Cost of Services**	**125,156**	**(76,592)**	**48,564**
480	(298)	182	Other operating expenditure *(note 52)*	252	(281)	(29)
8,377	(6,224)	2,153	Financing and Investment Income and Expenditure	4,596	(1,354)	3,242
335	-	335	Exceptional item- Impairment losses on Icelandic bank deposits *(note 9)*	(2,714)	-	(2,714)
187	-	187	Exceptional item - CBC v. Laird case *(note 9)*	(25)	-	(25)
-	(17,336)	(17,336)	Taxation and non-specific grant income *(note 15)*	-	(17,519)	(17,519)
124,640	**(97,148)**	**27,492**	**(Surplus) or Deficit on the provision of services**	**127,265**	**(95,746)**	**31,519**
		74	Share of Surplus or deficit of Joint Ventures			(362)
		(14)	Tax expenses of Joint ventures			17
		27,552	**Group (Surplus) or Deficit**			**31,174**
		30,331	(Surplus) / Deficit on revaluation of non-current assets			(1,283)
		37,829	Actuarial (gains) losses on pension fund assets / liabilities *(note 49)*			(28,431)
		-	Share of other comprehensive income and expenditure of Joint Ventures			-
		68,160	**Other Comprehensive Income and Expenditure**			**(29,714)**
		95,712	**Total Comprehensive Income and Expenditure**			**1,460**

GROUP BALANCE SHEET

This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the Group. The net assets of the Group (assets less liabilities) are matched by reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Group 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 may only be used to fund capital expenditure or repay debt). The second category of reserves comprises those that the Group is not able to use to provide services. This category includes reserves that held 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 Movements in Reserves Statement Line 'Adjustments between accounting basis and funding basis under the regulations.'

31 March 2009 Restated £'000	31 March 2010 Restated £'000		Note	31 March 2011 £'000
334,675	282,492	Property, Plant & Equipment	48	234,315
25,501	22,608	Investment Property	23	22,223
315	234	Intangible Assets	25	448
12,543	10,125	Long Term Investments	50	3,358
22,176	21,368	Investments in Joint Ventures	50	22,052
284	249	Long Term Debtors	27	233
395,494	**337,076**	**Long Term Assets**		**282,629**
7,144	2,368	Short term Investments	27	12,301
-	-	Assets held for sale	26	3,084
102	117	Inventories	28	124
7,290	6,064	Short term Debtors	45	4,916
161	96	Cash and cash equivalents	46	1,976
14,697	**8,645**	**Current assets**		**22,401**
(164)	(464)	Bank overdraft	46	(1,022)
(20,447)	(17,912)	Short term borrowing	27	(13,607)
(11,618)	(6,983)	Short term creditors	47	(10,753)
(690)	(535)	Provisions	32	(96)
(32,919)	**(25,894)**	**Current Liabilities**		**(25,478)**
(26,900)	(26,900)	Long term borrowing	27	(26,900)
(189)	(83)	Capital grants receipts in advance	20	(83)
(38,479)	(76,852)	Other long term liabilities	49	(38,037)
(65,568)	**(103,835)**	**Long term liabilities**		**(65,020)**
311,704	**215,992**	**Net Assets**		**214,532**
(16,030)	(8,445)	Usable Reserves	51	(20,122)
(295,674)	(207,547)	Unusable Reserves	53	(194,410)
(311,704)	**(215,992)**	**Total Reserves**		**(214,532)**

GROUP STATEMENT OF MOVEMENT IN RESERVES

This statement shows the movement in the year in the different reserves held by the Group, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the authority’s services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement.

	Total Authority Usable Reserves	Authority's share of Usable Reserves of subsidiaries and Joint Ventures	**Total Group Usable Reserves**	Total Authority Unusable Reserves	Authority's share of Unusable Reserves of subsidiaries and Joint Ventures	**Total Group Unusable Reserves**	**Total Group Reserves**
	£'000	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Balance at 31 March 2009	**16,794**	**(764)**	**16,030**	**274,070**	**21,604**	**295,674**	**311,704**
Movement in Reserves during 2009/10							
Surplus or (deficit) on the provision of services	(27,505)	(47)	(27,552)	-		-	(27,552)
Other comprehensive Income & expenditure	-		-	(62,419)	(5,741)	(68,160)	(68,160)
Total comprehensive Income & Expenditure	(27,505)	(47)	(27,552)	(62,419)	(5,741)	(68,160)	(95,712)
Adjustments between company reserves (Note 52)		(5,733)	(5,733)		5,733	5,733	-
Adjustments between accounting basis and funding basis under regulations (Note 7)	25,700		25,700	(25,700)		(25,700)	-
Net decrease before transfers to reserves	(1,805)	(5,780)	(7,585)	(88,119)	(8)	(88,127)	(95,712)
Transfers to/from earmarked reserves (Note 33)	-			-			-
Increase / (decrease) in 2009/10	(1,805)	(5,780)	(7,585)	(88,119)	(8)	(88,127)	(95,712)
Balance at 31 March 2010	**14,989**	**(6,544)**	**8,445**	**185,951**	**21,596**	**207,547**	**215,992**
Movement in Reserves during 2010/11							
Surplus or (deficit) on the provision of services	(31,280)	106	(31,174)			-	(31,174)
Other comprehensive Income & expenditure	-		-	22,682	7,032	29,714	29,714
Total comprehensive Income & Expenditure	(31,280)	106	(31,174)	22,682	7,032	29,714	(1,460)
Adjustments between company and authority reserves (Note 52)	(2,170)		(2,170)		2,170	2,170	-
Adjustments between company reserves (Note 52)		7,014	7,014		(7,014)	(7,014)	-
Adjustments between accounting basis and funding basis under regulations (Note 7)	38,007		38,007	(38,007)		(38,007)	-
Net decrease before transfers to reserves	4,557	7,120	11,677	(15,325)	2,188	(13,137)	(1,460)
Transfers to/from earmarked reserves (Note 33)	-						
Increase / (decrease) in 2010/11	4,557	7,120	11,677	(15,325)	2,188	(13,137)	(1,460)
Balance at 31 March 2011	**19,546**	**576**	**20,122**	**170,626**	**23,784**	**194,410**	**214,532**

GROUP CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the Group during the reporting period. The statement shows how the Group generates and uses cash 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 operations of the Group are funded by way of taxation and grant income or from the recipients of services provided by the Group. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the Group'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.

2009/10 Restated £'000		2010/11 £'000	2010/11 £'000
	Operating activities		
(7,017)	Council Tax receipts	(7,148)	
(1,646)	Revenue Support Grant	(1,118)	
(7,129)	National non-domestic rate receipts from national pool	(7,701)	
(38,283)	DWP grants for benefits	(39,534)	
(847)	Other government grants	(1,604)	
(6,654)	Rents (after rebates)	(6,761)	
(17,558)	Sales of goods and rendering of services	(19,946)	
(650)	Interest receipts	(54)	
(25)	Dividends received	(25)	
(79,809)	**Cash inflows generated from operating activities**		(83,891)
23,509	Cash paid to and on behalf of employees	23,105	
19,443	Housing Benefit paid	20,246	
153	Precepts paid	160	
238	Payments to the Capital Receipts Pool	-	
25,259	Cash paid to suppliers of goods and services	22,645	
1,269	Interest paid	1,293	
10,746	Other payments for operating activities	6,510	
80,617	**Cash outflows generated from operating activities**		73,959
808	**Net cashflows from operating activities**		**(9,932)**
	Investing activities		
5,293	Purchase of property, plant and equipment, investment property and intangible assets	7,505	
(663)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,101)	
(7,065)	Proceeds from the sale of short and long term investments	(118)	
(544)	Other receipts from investing activities	(981)	
(2,979)	**Net cashflows from Investing activities**		**4,305**
	Financing activities		
(173,190)	Cash receipts of short and long term borrowing	(110,545)	
175,727	Repayments of short- and long-term borrowing	114,850	
2,537	**Net cash flows from financing activities**		**4,305**
366	**Net increase (-) / decrease in cash and cash equivalents**		**(1,322)**
(2)	Cash and cash equivalents at beginning of the year		(368)
(368)	**Cash and cash equivalents at the end of the year (note 46)**		**954**

NOTES TO THE GROUP ACCOUNTS

These notes follow on from those of the council's single entity accounts above, since many of these are also applicable to the group accounts. Notes that are unique to the group accounts are shown below.

43. Cheltenham Borough Homes Limited

Cheltenham Borough Homes (CBH Ltd) is a company limited by guarantee and is governed by its memorandum and articles of association. The liability in respect of the guarantee is set out in the memorandum of association and is limited to £1 per member of the company, the sole member being Cheltenham Borough Council. The company commenced on 1st April 2003 with a seven year contract with the council to manage and maintain its social housing stock. The contract was renewed at 1st April 2010 for a further ten years. The registered name of the company is Cheltenham Borough Homes Limited (Registration No. 04587658).

During 2010/11 the company commenced the construction of new rented housing stock that will be owned and managed by the company. To facilitate this process the company set up a wholly owned subsidiary during 2009/10, the registered name of which is Cheltenham Borough Homes Services Ltd (CBHS Ltd) (Registration No. 07118944). The principal activity of CBHS is the supply of construction services to CBH.

The draft group accounts for CBH Ltd (including CBHS Ltd) show net assets at 31st March 2011 of £529,273 (net liabilities of £5,880,173 at 31st March 2010) and a trading loss of £283,554 in the year to 31st March 2011 (compared to a profit of £38,248 in the year to 31st March 2010). The net liabilities have reduced mainly due to the acquisition of assets under construction (part funded by social housing grant and land donated by Cheltenham Borough Council), resulting in increased tangible fixed assets of £0.7 million, and a reduced pension liability of £6.4 million, resulting mainly from actuarial gains.

The net assets of Cheltenham Borough Homes are valued at cost (in accordance with company accounting rules) and may not therefore reflect their market value. The directors consider it appropriate to prepare the accounts on a going concern basis which assumes the company will be able to meet its liabilities as they fall due. The accounts of the company do not show any contingent liabilities or assets at 31 March 2011. The council's commitment to meet losses is limited to the shares that it holds.

The accounts of Cheltenham Borough Homes Ltd and Cheltenham Borough Homes Services Ltd for the year ending 31st March 2011 can be obtained from the Company Secretary at the company's registered office – Cheltenham House, Clarence Street, Cheltenham, Gloucestershire, GL50 3RD.

The council's group accounts combine those of Cheltenham Borough Homes Ltd. (including CBHS Ltd) with the council's own ('single-entity') accounts and the authority's share of Gloucestershire Airport Ltd, adjusting for differences in accounting policy (these are detailed in the accounting policies on pages 25 to 37 and note 1(xxv) on page 37). CBH Ltd has been treated as a wholly-owned subsidiary of the council, so has been consolidated on a line by line basis, in accordance with IAS 27. Inter-organisation debtors and creditors have been eliminated.

44. Gloucestershire Airport Limited

Gloucestershire Airport Limited is a wholly owned airport company which was voluntarily established during 1992/93 by Cheltenham Borough Council together with Gloucester City Council, using powers available to them under the Airports Act (1986). This replaced the previous joint committee arrangements for the airport. The shares allotted were divided equally between the two councils. The market value of the shares is unknown as they are not quoted shares.

They are classified within the council's individual accounts as Available-for-Sale financial assets – unquoted equity investments.

The registered name of the airport company is Gloucestershire Airport Ltd (Registration No. 2774189). The audited accounts of the company show net assets at 31st March 2011 of £876,338 (compared to net liabilities of £457,031 at 31st March 2010) and an after tax profit of £690,369 for the year to 31st March 2011 (loss of £120,386 to 31st March 2010). The main reason net liabilities have reduced is due to a significant decrease in the net pension deficit, resulting mainly from an actuarial gain of £0.643 million.

The accounts have received an unqualified audit opinion and do not show any contingent liabilities or assets at 31 March 2011. The council's commitment to meet losses is limited to the shares that it holds.

The following table discloses the council's share of the Airport's net assets as follows:

	Gloucestershire Airport Limited	**Council's share of the Airport's assets**
	£	**£**
	2010/11	**2010/11**
Turnover	3,984,547	1,992,273
Profit on ordinary activities before taxation	725,597	362,798
Tax on profit on ordinary activities	35,228	17,614
Profit for the financial year after taxation	690,369	345,184
	31 March 2011	**31 March 2011**
Fixed Assets	2,112,913	1,056,456
Current Assets	1,055,827	527,913
Liabilities due within one year	627,402	313,701
Liabilities due after one year	-	-

The net assets of the Airport Company are valued at cost (in accordance with company accounting rules) and may not therefore reflect their market value. The value of the Airport company could, therefore, be significantly different to that suggested by the stated net assets of the company or the share capital issued.

The Airport did not pay any dividends in the year to 31st March 2011. Equity dividends proposed by the Board of Directors of the Airport are not recorded in the Airport's financial statements until they are approved by the shareholders at the annual general meeting and are recorded as a movement on retained profits.
.
The accounts of Gloucestershire Airport Ltd for the year ending 31st March 2011 can be obtained from the Managing Director at the company's registered office - The Tower Building, Staverton, Nr Cheltenham, Gloucestershire, GL51 6SR.

The council's group accounts combine its share of the Airport's accounts with those of CBH Ltd and the council's own ('single-entity') accounts, adjusting for differences in accounting policy (these are detailed in the accounting policies on pages 25 to 37 and note 1(xxv) on page 37). For the purposes of the group accounts Gloucestershire Airport has been treated as a jointly controlled entity (or Joint Venture) and has been consolidated in accordance with IAS 31.

The Group Balance Sheet has been prepared by combining the council's 50% share of the Airport's assets and liabilities as a long-term investment, eliminating the share capital. Since the Airport's accounts show fixed assets at historic cost, they have been re-valued and shown in the group balance sheet at fair value, to bring them in line with the council's accounting policies:

- Operational assets added at leasehold existing use value (50% share) total £15.810 million.
- Non-operational assets added at leasehold market value (50% share) total £6.5 million.

This upward revaluation results in an increase in Unusable Reserves in the group accounts compared to the council's own accounts of £21.6 million, of which £15.1 relates to operational property (so included in the Revaluation Reserve) and £6.5 million investment property (so included in the Capital Adjustment Account). If the Airport charged depreciation on the operational element of the re-valued assets the charge would be around £0.5 million, based on a life of 30 years.

There is no requirement to adjust for transactions carried out and balances held between the council and Gloucestershire Airport Limited. The cash flows of the Airport are also not required to be included in the Group Cash flow Statement.

In the autumn of 2009, the council agreed to facilitate borrowing to finance the runway safety project at Gloucestershire Airport. This will provide a safer runway with a computerised instrument landing system (ILS) which will enable the airport to attract more profitable corporate business, increase the profitability for the airport and the council, a shareholder in the company. Various legal issues delayed the start of the project; these were all resolved by April 2011 and the building contractors began on site at the end of the same month. The construction works are progressing well, with ongoing monitoring by the shareholders. It is anticipated the project with be completed by February 2012, with the ILS installation planned for the summer of 2012.

45. Short term debtors

These are as stated in note 29 to the single entity statements, with the addition of CBH debtors (excluding those with the council). All of the CBH external debtors are sundry debtors.

46. Cash and Cash Equivalents

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

	31st March 2011 £'000	31st March 2010 £'000
Cash held by the Authority and subsidiaries	14	22
Bank current accounts of the Authority and subsidiaries	1,062	74
Short term deposits	900	-
Cash and cash equivalent assets	**1,976**	**96**
Cash and cash equivalent liabilities - bank overdraft	**(1,022)**	**(464)**
Net Cash and cash equivalents per Cash flow Statement	**954**	**(368)**

47. Short term Creditors

	31st March 2011 £'000	31st March 2010 £'000
Central Government Bodies	3,245	1,121
Other Local Authorities	1,497	1,310
NHS bodies	-	-
Public corporations and trading funds	1,091	223
Other entities and individuals-		
- Council Taxpayers	72	67
- Housing Rents	117	95
- Sundry Creditors	4,731	4,167
	10,753	**6,983**

48. Group Property, Plant & Equipment

2009/10									2010/11							
Council dwellings	Other Land and buildings	Vehicles, Plant and equipment	Infra-structure assets	Community assets	Surplus assets	Assets under construction	Total		Council dwellings	Other Land and buildings	Vehicles, Plant and equipment	Infra-structure assets	Community assets	Surplus assets	Assets under construction	Total
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
								Cost or valuation								
255,507	87,803	3,761	8,236	61	406	85	355,859	At 1 April	259,220	78,552	3,967	7,690	226	25	282	349,962
3,800	159	512	514	6	-	282	5,273	Additions	2,884	192	1,628	627	-	-	2,930	8,261
-	(543)	-		-	-	-	(543)	Revaluation increases / (decreases) recognised in the Revaluation Reserve	1,062	99	-	-	-	-	-	1,161
-	(9,648)	-	-	95	-	-	(9,553)	Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services	(108,549)	-	-	-	-	-	-	(108,549)
(179)	(250)	(34)	-	-	-	-	(463)	Derecognition - disposals	(2,580)	-	(17)	-	-	-	-	(2,597)
-	-	-	-	-	-	-	-	Assets reclassified to held for resale		(3,404)	-	-	-	-	-	(3,404)
92	1,031	(272)	(1,060)	64	(381)	(85)	(611)	Other Reclassifications	-	-	-	137	-	-	(137)	-
-	-	-	-	-	-	-	-	Other movements	-	105	-	-	-	-	-	105
259,220	**78,552**	**3,967**	**7,690**	**226**	**25**	**282**	**349,962**	**At 31 March**	**152,037**	**75,544**	**5,578**	**8,454**	**226**	**25**	**3,075**	**244,939**
								Accumulated Depreciation and Impairment								
(16,662)	(2,172)	(1,563)	(421)	-	(366)	-	(21,184)	At 1 April	(62,487)	(2,103)	(2,240)	(640)	-	-	-	(67,470)
(3,035)	(2,022)	(768)	(245)	-	-	-	(6,070)	Depreciation charge	(3,101)	(1,999)	(700)	(232)	-	-	-	(6,032)
-	-	-	-	-	-	-	-	Depreciation written out to the Revaluation Reserve	-	103	-	-	-	-	-	103
-	2,004	-	-	-	-	-	2,004	Depreciation written out to the surplus/ deficit on the provision of services	62,487	-	-	-	-	-	-	62,487
(33,123)	-	-	-	-	-	-	(33,123)	Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
(9,667)	-	-	-	-	-	-	(9,667)	Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services	(28)	-	57	27	-	-	-	56
-	-	34	-	-	-	-	34	Derecognition - disposals	-	-	17	-	-	-	-	17
-	-	-	-	-	-	-	-	Assets reclassified to held for resale	-	320	-	-	-	-	-	320
-	87	57	26	-	366	-	536	Other Reclassifications	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	Other movements	-	(105)	-	-	-	-	-	(105)
(62,487)	**(2,103)**	**(2,240)**	**(640)**	**-**	**-**	**-**	**(67,470)**	**At 31 March**	**(3,129)**	**(3,784)**	**(2,866)**	**(845)**	**-**	**-**	**-**	**(10,624)**
196,733	**76,449**	**1,727**	**7,050**	**226**	**25**	**282**	**282,492**	**Net Book Value at 31 March**	**148,908**	**71,760**	**2,712**	**7,609**	**226**	**25**	**3,075**	**234,315**

49. Other Long term liabilities

These comprise the group pension fund liabilities of Cheltenham Borough Council and Cheltenham Borough Homes Ltd. Further details of the council's liabilities are included in note 42 on pages 84 to 89 and for CBH in their accounts. Due to an actuarial gain of £6.7 million during the year the CBH accounts show a pension asset at 31st March 2011 of £34,000 (liability of £6.446 million at 31st March 2010).

50. Long term investments

These differ from note 27 in the single entity accounts by the shares in Gloucestershire Airport of £0.435 million, which are replaced in the group accounts by a long term investment in the Airport of £22.052 million.

51. Usable Reserves

These are detailed in the Group Movement in Reserves Statement.

52. Group Movements in the Movement in Reserves Statement

Adjustments are required between company and authority usable and unusable reserves for

- a transfer of land valued at £1.076 million from the council to CBH at nil value for social house building. Shown as a loss on disposal in the single entity Comprehensive Income and Expenditure Statement (other operating expenditure line) this has been removed from the equivalent line in the Group statement
- the receipt by CBH of social housing capital grant. This has been credited to the Other Housing Services line within the Group Comprehensive Income and Expenditure Statement and transferred to the Capital Adjustment Account in the Group Balance Sheet, as it has been used to finance new housing properties under construction by CBH
- a capital grant of £110,000 from the council to CBH to finance housing new build. This has been removed in the Group Comprehensive Income and Expenditure Statement as it is internal to the Group.

In addition transfers are required between the company usable and unusable reserves to reflect the classification of the pension reserves by the companies as usable reserves, as part of their profit and loss reserve.

53. Unusable Reserves

Reserve	**31st March 2009 Restated £'000**	**31st March 2010 Restated £'000**	**31st March 2011 £'000**
Revaluation Reserve	55,334	24,029	23,950
Capital Adjustment Account	285,174	257,193	211,247
Financial Instruments Adjustment Account	(7,969)	(3,454)	(2,889)
Collection Fund Adjustment Account	105	93	93
Pensions Reserve	(37,081)	(70,405)	(38,071)
Deferred Capital Receipts Reserve	204	172	152
Accumulating Compensated Absences Adjustment Account	(93)	(81)	(72)
Total Unusable Reserves	**295,674**	**207,547**	**194,410**

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

The Housing Revenue Account (HRA) deals with the provision and maintenance of council houses and flats. There is a statutory requirement to keep this account separate from those for other housing activities.

	2010/11 £'000	2009/10 £'000
Expenditure		
Repairs and maintenance	(3,770)	(3,621)
Supervision and management	(5,919)	(5,768)
Rents, rates, taxes and other charges	(36)	(54)
Negative HRA Subsidy payable	(1,119)	(1,162)
Depreciation and impairment of non-current assets	(49,274)	(11,615)
Debt management costs	(46)	(43)
Movement in the allowance for bad debts	(139)	(193)
Revenue expenditure charged to capital under statute	(6)	(11)
Rent rebates subsidy limitation	(130)	(218)
Total Expenditure	**(60,439)**	**(22,685)**
Income		
Dwelling rents	15,824	15,812
Non-dwelling rents	421	346
Charges for services and facilities	503	461
Contributions towards expenditure	309	609
Total Income	**17,057**	**17,228**
Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	**(43,382)**	**(5,457)**
HRA services' share of Corporate and Democratic Core	(126)	(127)
Net Cost for HRA Services	**(43,508)**	**(5,584)**
HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
Gain/(Loss) on sale of HRA non-current assets	(784)	114
Interest payable and similar charges	(525)	(529)
Interest and investment income	88	46
Deficit for the year on HRA Services	**(44,729)**	**(5,953)**

MOVEMENT ON THE HRA STATEMENT

This reconciliation statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989:

2009/10 £'000		2010/11 £'000
(5,953)	Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	(44,729)
7,223	Adjustments between accounting basis and funding basis under statute	46,821
1,270	**Net Increase in year on the HRA**	**2,092**
311	**Balance on the HRA at the end of the previous year**	**1,581**
1,581	**Balance on the HRA at the end of the current year**	**3,673**

NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)

1. Note of reconciling items for the Movement on the HRA Statement

2009/10 £'000		2010/11 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the Movement on the HRA Statement	
(9)	Amortisation of premiums and discounts	(9)
9,746	Impairment losses	46,090
(1,232)	Revaluation gains on Investment Property	-
(294)	Capital grants	-
11	Revenue expenditure charged to capital under statute	6
(114)	(Gain)/Loss on sale of HRA fixed assets	784
8,108		**46,871**
	Items not included in the HRA Income and Expenditure Account but included in the Movement on the HRA Statement	
66	Transfer from Major Repairs Reserve	83
(951)	Capital expenditure funded by the HRA	(133)
7,223	**Net adjustments between accounting basis and funding basis under regulations**	**46,821**

A prior year adjustment has been made to the 2009/10 figures for revaluation gains on investment property, which under IFRS are credited to the Income and Expenditure statement instead of the Revaluation Reserve. Since this is not a statutory item in the HRA it has been reversed out to the Capital Adjustment Account in the Movement in the HRA statement above.

2. Housing Stock

An analysis of the number and types of dwellings is detailed below:-

Type	1st April 2010	Additions	Sales	Conversion	31st March 2011
Houses & Bungalows	2,224		(14)		2,210
Flats	2,378			(2)	2,376
Shared Ownership (flats)	19				19
Total Stock	**4,621**	**-**	**(14)**	**(2)**	**4,605**

3. HRA Fixed Assets

The balance sheet valuation of HRA fixed assets is shown in the following table:-

	1st April 2010 £'000	Revalue £'000	Additions £'000	Impairment £'000	Disposals £'000	Depreciate £'000	31st March 2011 £'000
Dwellings	196,733	1,062	2,883	(46,090)	(2,580)	(3,101)	148,907
Garages	744	202	86			(24)	1,008
Infrastructure	2,271		87			(59)	2,299
Investment Property	3,727						3,727
Total net fixed assets	**203,475**	**1,264**	**3,056**	**(46,090)**	**(2,580)**	**(3,184)**	**155,941**

The charges for impairment relate to revaluation losses following a full stock valuation at 1st April 2010 undertaken in accordance with Government guidance. This values the dwellings at existing use – social housing, which in the south west region is deemed to be 31% of vacant possession value. The previous valuation guidance used a factor of 44% of vacant possession value and this change accounts for the significant impairment charge in year.

4. Dwelling Valuation

The vacant possession value of dwellings within the HRA at 1st April 2010 was £ 481,799,290. This valuation and the lower Balance Sheet valuation show the economic cost to Government of providing council housing at less than open market rents.

5. Major Repairs Reserve

An analysis of movements on the reserve is shown below:

	£'000
Balance 1st April 2010	-
Transfer to reserve	3,184
Transfer from reserve to HRA	(83)
Finance of HRA capital expenditure	(2,801)
Balance 31st March 2011	**300**

6. Housing Repairs Account

An analysis of movements on the account is shown below:

	£'000
Balance 1st April 2010	-
Contribution from HRA	3,770
Repairs & Maintenance expenditure	(3,770)
Balance 31st March 2011	**-**

7. HRA Capital Expenditure

A summary of capital expenditure and sources of finance is shown in the following table:

Sources of Finance HRA Capital Expenditure	**Total Expenditure £'000**	**Major Repairs Allowance £'000**	**Revenue £'000**	**Capital Receipts £'000**
Major Repairs & Improvements	2,837	2,786	46	5
Garages	86			86
Infrastructure	87		87	
Repurchase of shared ownership flats	46			46
Total	**3,056**	**2,786**	**133**	**137**

8. HRA Capital Receipts

An analysis of HRA capital receipts realised during the year is shown below:

	2010/11 £'000	2009/10 £'000
Sale of Dwellings	453	208
Mortgage Principal	21	21
Discounts repaid on former council dwelling sales	14	32
Sale of Shared Ownership Flats	75	65
Land	1,300	-
Total	**1,863**	**326**

9. Revenue Expenditure Funded from Capital Under Statute

Expenditure amounted to £5,795 in 2010/11 (£10,707 in 2009/10) and related to grants to third parties. This has been wholly written off to the HRA within the year.

10. HRA Subsidy

The council's entitlement to HRA subsidy in 2010/11 is calculated in accordance with the subsidy determination for the year and is analysed into its component elements below:

	2010/11 £'000	2009/10 £'000
Management Allowance	2,814	2,721
Maintenance Allowance	5,441	5,227
Charges for Capital	9	9
Major Repairs Allowance	3,101	3,035
ALMO Allowance	2,515	2,515
Guideline Rent Income	(14,949)	(14,614)
Interest on Receipts	(50)	(61)
Adjustment re previous year		6
Total Net Subsidy Payable	**(1,119)**	**(1,162)**

11. Rent Arrears

Rent arrears at 31st March 2011 amounted to £516,719 (£578,465 as at 31st March 2010) and the Balance Sheet includes a bad debt provision of £292,000 relating to those arrears (£344,984 as at 31st March 2010).

12. Rent Rebates Subsidy Limitation

The Secretary of State has directed that the additional cost of rent rebates granted to tenants which arises from council rents being in excess of the specified limit should be charged to the HRA and credited to the General Fund. In 2010/11 this amounted to £129,671 (£218,336 in 2009/10), a figure which will reduce in future years as government policy on rent restructuring is implemented.

13. Interest and investment income

This is made up of £4,984 mortgage interest and £83,220 on notional cash balances (£5,700 and £40,178 respectively in 2009/10).

THE COLLECTION FUND - INCOME AND EXPENDITURE ACCOUNT

	2010/11 £'000	2009/10 £'000
INCOME		
Council Taxpayers	55,591	54,002
Transfers from General Fund		
Council Tax Benefits	7,075	6,832
Income Collectable from Business Ratepayers	47,784	48,244
Bad and Doubtful Debts		
Decrease / (increase) in provision	135	(75)
Total Income	**110,585**	**109,003**
EXPENDITURE		
Precepts and Demands from County and District Councils	62,358	60,620
Business Rates		
Payment to National Pool	47,182	47,353
Costs of Collection	190	188
Interest on Repayments	58	55
Bad and Doubtful Debts		
Write Offs	529	615
Surplus Distribution	265	265
Total Expenditure	**110,582**	**109,096**
(Deficit) / Surplus for the Year	**3**	**(93)**
Balance of Fund as at 1st April	721	814
Fund Balance as at 31st March	**724**	**721**

NOTES TO THE COLLECTION FUND

1. INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for uniform business rates, the council collects Non-Domestic Rates for its area, which are based on local rateable values multiplied by a uniform rate set by the government. Certain reliefs are available and the figure shown is net of these reliefs. The total amount collected, less deductions for the cost of collection and bad and doubtful debts, is paid to a central pool (NNDR pool) managed by central government, which in turn pays back to authorities their share of the pool based on a standard amount per head.

The total non-domestic rateable value at 31st March 2011 was £136.953m (£117.426m at 31st March 2010) and the national non-domestic multiplier for 2010/11 was 41.40p (48.5p in 2009/10), resulting in gross income before cost of collection and provision for bad debts and interest of approximately £47m. The income shown in the Collection Fund of £47.8m is net of these adjustments.

2. CALCULATION OF COUNCIL TAX

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund Account.

From 1st April 1993, Community Charge was replaced by Council Tax and from the same date these accounts were consolidated with the council's accounts.

Council Tax is a property based tax with 25% reduction being made for single occupancy and 100% for void. The District Valuer has valued all domestic property in the area and has placed them into one of eight bands. A factor is then applied to each band so that the tax base can be expressed as a "Band D" equivalent (see below).

Band	Estimated Number of Properties in each Band (adjusted for discounts)	Ratio	Band "D" Equivalents
A	7021.90	6/9	4681.27
B	10513.65	7/9	8177.29
C	11818.05	8/9	10504.94
D	7674.45	1	7674.45
E	4182.70	11/9	5112.19
F	2295.15	13/9	3315.22
G	1754.50	15/9	2924.17
H	67.55	2	135.10
			42,524.63

Less adjustment for collection rates and for anticipated changes during the year for successful appeals against valuation bandings, demolitions, disabled persons' relief and exemptions, plus adjustments for new properties. (This amounts to 1.00% of the tax base).	(421.33)
Council Tax Base for 2010/11	**42,103.30**

3. PRECEPTS

The precepts on the Collection Fund are as follows:-

	2010/11 £'000	2009/10 £'000
Gloucestershire County Council	45,914	44,682
Cheltenham Borough Council	7,879	7,652
Gloucestershire Police Authority	8,408	8,132
Charlton Kings Parish Council	45	43
Leckhampton Parish Council	25	25
Prestbury Parish Council	55	54
Swindon Village Parish Council	9	9
Up Hatherley Parish Council	23	23
	62,358	**60,620**

In practice, Cheltenham Borough Council precepts for its own requirements and for the parishes. The parishes' requirements are in turn paid out of Cheltenham's General Fund.

4. FUND BALANCE

The balance of the Fund is to be shared between the council and its major precepting authorities in 2012/13 (Gloucestershire County Council and Gloucestershire Police Authority). The amounts are transferred to the council's general fund and the County Council and Police Authority funds.

The respective authorities' share of the balances is as follows:

	CBC share £'000	County share £'000	Police share £'000	Total £'000
Balance at 1st April 2010	93	531	97	721
Increase in the Year	-	2	1	3
Balance at 31st March 2011	**93**	**533**	**98**	**724**

Annual Governance Statement 2010/11

Scope of responsibility

Cheltenham Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Cheltenham Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Cheltenham Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.

Cheltenham Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government.

You can download a copy of the Local Code of Corporate Governance (pdf)
or a copy can be obtained from the Municipal Offices, Promenade, Cheltenham Gloucestershire GL50 9SA

This statement explains how Cheltenham Borough Council has complied with the code and also meets the requirements of regulation 4(3) and (4) of The Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework 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 risks to the achievement of Cheltenham Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework, which was revised and approved by the Audit Committee in January 2010 and approved by council March 2010. It has been in place for the year ended 31st March 2011 and up to the date of approval of the annual report and statement of accounts.

The governance framework

The code of governance identifies a number of principles that underpin the effective governance of the council, and these have been used when assessing the adequacy of its governance arrangements. The main elements that contribute to these arrangements are set out below:

Focusing on the purpose of the council and on outcomes for the community, including citizens

and service users and creating and implementing a vision for the local area.

The council agreed in March 2010 a 5 year Corporate Strategy (2010 -15) that included an action plan for the 2010-11 which clearly articulates how the council will deliver better outcomes for the community either directly or in partnership. This was based on the sustainable community strategy – a document which was drawn up following extensive public consultation (Cheltenham 20:20) on key issues and priorities for the town and which sets out a long term vision for Cheltenham. The action plan also took on board advice and comment from the Improvement and Development Agency following a peer review.

The Corporate Strategy is updated on an annual basis to reflect new priorities and any issues which have arisen since it was approved to provide a clear work programme based on priorities for the council. This document is approved by council. Monitoring reports are considered by the senior leadership team and taken to meetings of the overview and scrutiny committees to ensure that the council's objectives are progressing as planned.

The Cabinet agrees a Medium Term Financial Strategy which is in line with the priorities as set out in the council's business plan and identifies any expenditure which may need to be incurred to meet new legislation or changes in service provision. In order to address year on year budget shortfalls, efficiency savings and new or improved income, the council has described within its Medium Term Financial Strategy how it will broadly achieve the budget gap target while keeping council tax at a reasonable level. Each year the council looks to areas where it can make its efficiency savings, budget cuts or additional income, which will not impact on its ability to deliver in priority areas.

The budget monitoring during 2010-11 predicted a £2.4m budget shortfall for 2011-12 because of expected central government cutbacks and reduced income. To address this shortfall a series of 21 consultation events and citizen panels were undertaken at a number of venues across the borough. These events involved staff, elected members, members of the public and community groups to decide which services could be protected, reduced or stopped. The results were used by officers and elected members to help formulate a prioritised budget.

The council has a well established web site with many services online, including a "report it" tool which was used 591 times during the year to tell us about issues of concern. We also took steps to improve the interactive nature of the website by developing systems that allow improved access to council services and information.

The council makes significant use of the local media including face book, twitter and You Tube in order to get across key messages and to receive feedback. Staff and members are also made aware of issues that have been discussed in the media through monthly briefings.

The council has been working with the police and county council on a neighbourhood-based approach to helping local residents tackle and resolve local problems. There are 14 neighbourhoods in Cheltenham with coordination groups that meet every 3 months to agree local priorities, councillors and officers take part in the group meetings to help co-ordinate agreed courses of action.

The Government cancelled the Place survey in the October 2010 as part of its agenda to decentralise government controls. The council continues to undertake service specific user surveys as well as using customer feedback from its corporate complaints and comments system to improve service quality. It also makes use of other sources of information and needs analysis from national, regional and county organisations to formulate its own priorities.

The leader and chief executive of the council sit on the Cheltenham Strategic Partnership (CSP) which supports the delivery of the sustainable community strategy. Cabinet members sit on the six thematic partnerships which support the CSP in the delivery of the vision and each partnership has a part-time partnership officer. The council also supports partnership work at a county level to ensure that the vision and aspirations of Cheltenham are supported through Leadership Gloucestershire. The CSP has an agreed work plan which is published on its website that identifies its priorities and the progress being made.

The Cheltenham Strategic Partnership and its thematic partnerships have agreed governance arrangements, including terms of reference, membership and identification of partnership risk. Partnership structures are currently being reviewed and new governance arrangements will be brought forward.

Members of Executive Board have each agreed to take a lead on one of the thematic partnerships, and along with the relevant Cabinet member are able to ensure that the council's views are fully represented at partnership meetings.

Members and officers working together to achieve a common purpose with clearly defined functions and roles.

The council's constitution defines and documents the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The Cabinet has executive powers and make decisions within the overall policy framework (5 year Corporate Strategy and budget) as set by the council.

There are three overview and scrutiny committees which hold the Cabinet to account and assist with policy formulation. The council has two committees which deal with governance, internal control and ethical arrangements, (Audit Committee and Standards Committee), as well as a Staff and Support Services Committee which dealt with employee related matters until it was discontinued on the 15th February 2011. In addition there are two quasi judicial committees which deal with licensing and planning. The council's constitution is approved by council, and is subject to periodic review.

Having considered the KPMG Public Interest Report relating to the Council's decision-making process for the council's High Court Action against its former Managing Director, the council approved an Action Plan to respond to the recommendations in the report. The Action Plan has been monitored on a quarterly basis by the Audit Committee. A number of requirements of the Action Plan led to amendments to the council's Constitution which, following consideration of a report by a Working Group of Members (Constitution Working Group), were approved by the council in December 2010. One of the changes to the Constitution is that the Staff and Support Services Committee was discontinued with effect from the 15th February 2011. A comprehensive review of the Constitution is underway and is due to be completed in October 2011.

The council's Audit Committee meets four times per year and its terms of reference are set out in the council's constitution. The council's external auditors have access to the committee, and the committee also has responsibility for overseeing the risk management process. A review of the Risk Management Policy took place in March 2011 to ensure that it reflected the changes brought about by the Senior Officer restructure, the recommendations within the Public Interest Report and amendments to the Corporate Risk Register template. The Audit Committee also receive routine information papers on the work of the Corporate Governance Group which monitors Significant Issues arising from the Annual Governance Statement.

The council has a Chief Executive who is the Head of Paid Service as defined within the Local Government and Housing Act 1989. The Chief Executive co-ordinates the councils activities, including its management structure, the number of staff employed and their salary grades.

The council has also appointed a monitoring officer (to ensure decisions comply with legislation and that the council has robust procedures in place to prevent maladministration) and a section 151 officer (to ensure that the council's financial arrangements are sound), these are both statutory appointments.

The Senior Leadership Team provides guidance and advice to Members on policy options and implications. All reports identify options, the financial, legal and HR implications, any risks associated with the matter, as well as how it addresses priorities within the Corporate Strategy.

The council has an internal audit function which reports to the council's audit committee. During 2009/10 the council agreed to the establishment of an audit partnership with Cotswold District Council, with a shared audit management post. The new arrangements have resulted in a more resilient audit service and the ability to create trainee posts which may assist with succession planning.

The council has external inspection and audit undertaken by KPMG, the external auditors appointed by the Audit Commission, and their annual management letter is presented to Members.

In September 2010 KPMG published its report to those charged with governance (ISA 260) where they confirmed that the wording of the 2009/10 Annual Governance Statement accords with their understanding. They also concluded that the council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Corporate Governance Group chaired by the Chief Executive reviews the effectiveness of the council's internal controls and reports the results to the Audit Committee. The council has a treasury management panel with cross party support from Members that oversees the council's treasury management strategy and an asset management working group that oversees the way in which the council manages it property assets.

The council's policies are easily accessible to employees and Members on the intranet and runs update/briefing seminars as appropriate.

Promoting the values of the council and demonstrating the values of good governance through behaviour.

In 2004 the council adopted a series of nine values that underpin everything it does these are promoted to staff and Members on the intranet.

The code of corporate governance was reviewed during 2009 and a revised code adopted by council in January 2010. This code clearly sets the aspirations of the council in ensuring that there are effective governance arrangements.

All Members and officers are subject to a member and officer code of conduct, and periodically training sessions are held. Both Members and officers must declare interests and a register of interests is maintained. The council's monitoring officer and standards committee are responsible for ensuring that reported breaches of the code are investigated appropriately.

The Chief Executive and other members of the Senior Leadership Team routinely promote good governance messages to employees and Members through the employee blog and Twitter.

Members of staff are encouraged to shadow the Chief Executive to promote their understanding of the wider aspects of the councils work. They are then given the opportunity to be a guest on the Chief Executives blog to provide their views on the experience to other staff.

The council has a complaints process and quarterly reports analysing the nature and type of complaint are considered by the senior leadership team.

There is a competency framework for its employees who are assessed through the annual appraisal process and these competencies reflect the core values of the council which underpin good governance arrangements.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

In December 2010 the council considered its obligation to adopt new executive arrangements; either a new style strong leader and cabinet model or a directly elected Mayor and cabinet model. Following a period of public consultation and a debate at full council it was decided that a new style strong leader and cabinet model be adopted to take effect from May 2012. As the council already operates executive style arrangements the main differences with the new model are that the leader is appointed for a 4 year term (but may be removed earlier by council) and the leader must appoint a deputy leader.

The leader can delegate their executive functions to members of the Cabinet or to officers and this is set out in the council's constitution. All meetings of cabinet are held in public, agendas are published in advance and the minutes of the meetings are available on the council's web site or for public view in libraries and the council offices. Decisions made by the cabinet must be in accordance with the policy framework which is approved by council.

Arrangements are in place for other council committees with published agendas and minutes. For all meetings of the council the public are able to ask questions (with advance notice).

There are three overview and scrutiny committees which hold the cabinet to account and have (subject to criteria) the ability to call in decisions of the cabinet.

In March 2010 the council agreed a 5 year Corporate Strategy (2010-2015) alongside an action plan for 2010-11. The senior leadership team has collective ownership in ensuring that the Corporate Strategy and it's supporting actions are monitored and delivered.

The council has a performance monitoring system which provides up to date information as to how the council is performing against a number of performance measures and milestones including those set out in the corporate strategy and action plan. The use of this system was reviewed in 2010 and new more informative quarterly reports were presented to the Senior Leadership Team and overview and scrutiny committees.

The council also prioritises expenditure based on need and provides scrutiny and Cabinet with quarterly budget monitoring reports. The council has an appraisal process where all employees are set objectives for the coming year which meet the business plan priorities.

The council approves the council's standing orders, financial rules and scheme of delegation and these are periodically reviewed to ensure that they are still relevant and appropriate. The staff and support services committee played an important role in reviewing the council's constitution ensuring that changes are considered in greater detail ahead of their consideration by council. The council has a risk management policy which was revised and approved by the audit committee in March 2011 and clearly identifies roles and responsibilities for both Members and staff.

The senior leadership team is responsible for the management of Corporate risks. The corporate risk register which includes the risk, mitigating actions and responsible officers is updated and reported to them on a monthly basis. These risks are also reported to Economy and Business Improvement overview and scrutiny committee and the Cabinet. Divisional risks are the responsibility of Directors and individual service managers. Any divisional risk that has corporate implications and scores 16 or over is escalated to the senior leadership team for consideration.

During 2009/10 the council received a public interest report from its auditors in relation to the decision making process on a legal case. The report was considered by the council including a number of recommendations; an action plan was developed to address the issues raised. Progress reports on implementing the recommendations reported to Audit Committee throughout the year and published on the council's website.

The council has a whistle blowing policy which was revised in July 2010 and an anti-fraud and anti-corruption policy. These documents are available on the council web site, and accessible to Members and employees from the intranet site.

The Office of Surveillance Commissioners carried out an inspection of the council's procedures for complying with the requirements of RIPA during April 2010. The report made a number of recommendations which were addressed at the Economy and Business Improvement Overview &

Scrutiny Committee in July 2010. Following the report processes were revised and all staff with the potential for becoming involved in surveillance or its management attended professional training. These powers were not used during 2010-11.

The council has an Information Management Group that routinely reviewed information management and data protection procedures and processes. Internal auditors reviewed the Corporate Governance arrangements following the 2009/10 assurance check which led to a number of further improvements to the process and reporting protocols.

The council's budget is set annually and agreed by council. Monitoring reports are presented to Cabinet and an outturn report and annual statement of accounts is approved by the council.

The council manages its budgets through cost centre managers who are responsible for the day to day management of their income and expenditure in line with financial rules. The council reports how it intends to balance its budget when the council approves the budget proposals each February and reports progress in the quarterly Budget Monitoring Reports to Cabinet.

Developing the capacity and capability of members and officers to be effective.

There is a People and Organisational Development Strategy that sets out the council's longer term aspirations for member and officer development, together with an annual action plan. There is a member training programme, which is supported by both the human resources division and democratic services. Generic training needs for Members are identified in consultation with Members and group leaders. All Members have personal learning accounts on the council's Learning Gateway, to log training needs and record training undertaken.

During the course of the year the council's external auditors identified the need to review the way in which the council delivers training to its Members and this has resulted in a greater input from the human resources division, better usage of the council's learning gateway system and proposals for supporting new Members following the election (e.g. "buddying" new Members with officers to help them orientate themselves into the council). A new on-line risk management training module for Members and staff has been developed which is available through the learning gateway.

Officer training needs are identified through the appraisal process, and the Senior Leadership Team and service managers have recently completed a senior leadership development programme, and are trialling use of the "balanced scorecard". The council has adopted a coaching relationship for strategic directors, assistant directors, and service managers within the organisation.

The council has adopted a programme and project management approach to its key change programmes and has released capacity for programme and project support. This approach has enabled the better use of resources to focus on the key delivery issues.

Following the May 2010 elections certain Members were appointed to represent the council on outside bodies i.e. companies, charities and unincorporated associations. The council' constitution includes guidance to officers and Members who take an active part in these organisations. This guidance was reviewed and updated to reflect best practice and changes to the CBC Code of Members' Conduct. The Guidance includes a checklist of issues that should be considered in the event of being nominated to an outside body.

Engaging with local people and other stakeholders to ensure robust public accountability

Council, cabinet and committee meetings are open to the public with agendas and minutes being publicly available. Members of the public are able to ask questions at such meetings. The council has an adopted equality policy which recognises the need to engage with different sections of the community and has a community engagement strategy.

The council has a complaints and comments system for members of the public. There is a three stage complaint system which gives divisions an opportunity to resolve a complaint at the first point of contact, but if a complainant is still unhappy they are entitled for the matter to be investigated on behalf of the chief executive. Complainants may also refer matters to the local government ombudsman for investigation once they have been through the council's complaint system.

The council publishes a leaflet with its council tax demands which summarises performance and at the end of each financial year also publishes an annual report.

In July 2010 the council agreed and published guidance and procedures for the way in which it deals with petitions from members of the public which may include a debate at council or the matter being considered by one of the overview and scrutiny committees.

The government introduced a legal requirement for reporting remuneration of senior employees to increase transparency and accountability in local government. They also made a commitment for all local authorities to publish data on its spending on goods and services over £500. The council published senior officer remuneration as part of its annual accounts and as of the 31st October in line with government guidelines. There are plans to include and publish information on contracts and tenders in the next 12 months which will be linked to the expenditure data.

Delivery through third parties

The council delivers its housing management responsibilities through Cheltenham Borough Homes (CBH) an arms length management organisation and wholly owned company of the council. CBH has its own internal control procedures and arrangements which are subject to internal and external audit as well as independent inspection. Annually, the Internal Audit Partnership review the procedures and policies and report on the adequacy of arrangements. The company policy is overseen by a board of directors which includes tenants and CBH also has an audit committee.

A resources committee oversees CBH finances, manages HRA finances and reports to the board of directors. The board receives quarterly reports on performance. CBH has a service level agreement with the council and the management fee and level of service is agreed on an annual basis. Monthly monitoring meetings are held to discuss performance. Payroll and payments services are administered by CBC on behalf of CBH and the company shares the council's financial ledger system. CBH completes an annual assurance certificate to confirm compliance with the agreed governance arrangements.

The council is a shareholder of Gloucestershire Airport, which is a company limited by shares, and is subject to the requirements set by the Companies Act. There is a board of directors which monitors the company's performance and is responsible for internal control activities. The airport has a commercial director and company secretary as well as an airport director. The statutory accounts are audited each year by a private firm of accountants, and presented to the board and to the shareholders, and are approved at the AGM in September. The council's Director of Resources or designated representative receives regular management accounts for the airport, and either he or the strategic director attends the monthly airport programme board meetings. The company secretary completes an annual assurance certificate to confirm compliance with the agreed governance arrangements.

Review of effectiveness

Cheltenham Borough Council has responsibility under the local Government Act 2011 for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control and the arrangements for the management of risk. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the audit partnership manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. This year it also draws on the public interest report that it received from KPMG.

The effectiveness of the governance framework draws on evidence from:

Internal and external audit and inspection

Statutory officers group

Financial controls

Risk and performance management

Assurance statements from each division

Legal standards

Code of corporate governance

The council approved the code of corporate governance and it has established a Corporate Governance Group which oversees the review of the effectiveness of the code of corporate governance and internal control. All directors have to complete an annual statement of assurance which outlines the key control areas to which the division should comply.

The Corporate Governance Group reviews the statements to identify common themes which need to be reflected in any action plan. Individual Directors are expected to take forward any specific control improvements within their own service plan. These certificates along with evidence from other sources such as audit letters, internal audit reports, corporate controls and the code of corporate governance are reviewed by the Director of Resources, audit partnership manager and the policy officer governance who identify governance and control issues to be included in the annual governance significant issues action plan for the forthcoming year.

The audit committee approves the Annual Governance Statement as part of the statement of accounts. The audit committee are then responsible for monitoring progress against the actions taken, or proposed, to deal with significant governance issues.

Although internal control procedures are the responsibility of officers, major service issues, budgets and risks are discussed with the relevant Cabinet member. There is also a Cabinet member who has responsibility within their portfolio for corporate governance, internal audit and risk. Regular briefings are held with the Cabinet member so that they are aware of any issues.

Significant governance issues

The Senior Leadership Team and the Audit Committee have been advised on the implications of the result of the review of the effectiveness of the governance framework, and an action plan to address weaknesses and ensure continuous improvement of the system is in place.

Control issue and source April 2009-10	Action	Lead officer
The new management structure, partnership working and recommendations from the PIR necessitate a revision of the Constitution and Financial Rules	Review ongoing to be reported to Council during 2011	Monitoring officer Director of Finance
Planned constitutional and Financial rule changes and the restructuring of the Senior Leadership Team necessitate a review of the Annual Assurance process to ensure that it remains effective	Provide a report to SLT by September 2011 the proposals for the annual assurance review for 2011-12	Director Resources
The current audit of payroll highlights that controls could be put at risk due to anticipated short term resource constraints in the payroll team. Audit Assurance report carried forward from 2010-11 SIAP	Payroll resilience is being addressed through temporary recruitment of expertises as required. In addition the GO partnership project will address resilience issues in the longer term.	Director People OD and Change
The Business Continuity Group identified the need for a robust test of back-up ICT systems	Upgrade back up systems and install new equipment to migrate the key business systems. A series of assurance tests are planned to take place between July and September 2011	Graham Lewis Strategic Director
CBC needs to comply with the general equality duty to meet new obligations being placed on all public sector organisations under the Equality Act 2010 and ensure that current processes are embedded within the organisation	Review and refresh the Equality and Diversity processes and the Project Initiation Document template	Director of Commissioning
Some routine audits have identified examples of non adherence to the financial rule requiring monthly reconciliations of systems to the main finance system.	In consultation with GO partners, review the financial rules to determine a whether a more appropriate level and frequency of reconciliation should be considered. Review processes undertaken by service managers and within the future GO shared services. Target September 2011.	Director Resources

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements which were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed: Leader of Council

……….................…………………………………Councillor Steve Jordan

and Chief Executive

……….................…………………………………Andrew North

on behalf of Cheltenham Borough Council

GLOSSARY OF TERMS

Accounting Period The period of time covered by the accounts, normally a period of twelve months, commencing on 1st April for local authority accounts.

Accounts A generic term for statements setting out details of income and expenditure or assets and liabilities or both, in a structured manner. Accounts may be categorised either by the type of transactions they record, e.g. revenue account, capital account or by the purpose they serve, e.g. management accounts, final accounts, balance sheets.

Accruals Sums included in the final accounts to cover income or expenditure attributable to the accounting period but for which payment has not been made/received at the balance sheet date.

Actual Actual, as opposed to budget, expenditure and income directly attributable to an accounting period, generally referred to as ‘actuals’.

Amortised cost Financial instruments are shown on the balance sheet at amortised cost, being the principal amount of the loan plus or minus the balance of any premium or discount associated with that loan, plus any interest accrued at the balance sheet date.

Audit An independent examination of an organisation's activities, either by internal audit or the organisation's external auditor.

Balances Working balances are reserves needed to finance expenditure in advance of income from debtors, precepts and grants. Any excess may be applied, at the discretion of the authority, to reduce future demands on the Collection Fund or to meet unexpected costs during the year. Balances on holding accounts and provisions are available to meet expenditure in future years without having adverse effect on revenue expenditure.

Budget A statement of the income and expenditure policy plan of the council over a specified period. The most common is the annual Revenue Budget expressed in financial terms and including other physical data, e.g. manpower resources.

Capital Financing The raising of money to finance capital expenditure. In the past the cost of capital assets was usually met by borrowing, but capital expenditure may also be financed by other means such as leasing, contributions from revenue accounts, the proceeds from the sale of capital assets, capital grants and contributions from developers or others.

Capital Financing Requirement The capital financing requirement measures the authority's underlying need to borrow for capital purposes.

Capital Grants Government grant towards capital expenditure on a specific service or project.

Cash & Cash equivalents Cash in hand plus deposits in banks or building societies, repayable on demand or within 24 hours, and deposits maturing within 3 months of the date taken out.

Cash Limit A method of expenditure control which restricts the amount available for spending for a particular purpose to a specified cash amount, regardless of the effects of inflation.

Collection Fund This is a statutory fund kept separate from the main accounts of the council. It records all income due from the council Tax, National Non Domestic Rates and Revenue Support Grant and shows the precept payments due to Gloucestershire County Council and the Gloucestershire Police Authority.

Contingent Asset An asset which exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events, for example, a claim for compensation that an authority is pursuing through the due legal process, where the outcome will only be decided by the decision of the courts.

Contingent Liability A liability which exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events, for example, the default by a borrower on a loan from a third party for which the authority has given a guarantee.

Creditors Amounts owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment was not made at the balance sheet date.

Current Assets	Assets which can be expected to be consumed or realised during the next accounting period.
Current Liabilities	Amounts which will become due or could be called upon during the next accounting period.
Debtors	An amount due to an organisation within the accounting period not received at the balance sheet date.
Deferred Liabilities	This represents the liability for principal repayments on finance leases.
Depreciation	The theoretical loss in value of an asset, owing to age, wear and tear, deterioration, or obsolescence.
Effective Interest Rate (EIR)	The interest rate that can be applied to a loan to take account of all discounted cash flows during the life of the loan, to include any changes to actual interest rates and any premiums or discounts paid or received.
Employee Costs	These include salaries, wages and allied national insurance and superannuation costs payable by the Borough Council, together with training expenses and charges relating to the index-linking of pensions of former employees.
Final Accounts	Accounts prepared for an accounting period, usually in a summarised form. These accounts show the net surplus (profit) or deficit (loss) on individual services and a balance sheet is prepared for them. They are produced as a record of stewardship and are available to interested parties. Local authorities are required to publish each year a Statement of Accounts (final accounts and balance sheet), as specified in the Accounts and Audit Regulations 1993 (as amended).
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.
Financial Year	The local authority financial year commences 1st April and finishes 31st March the following year.
Fixed Asset	Assets which can be expected to be of use or benefit to the Authority in providing its service for more than one accounting period.
Government Grants	Payments by central government towards local authority expenditure. They must be specific e.g. Housing Benefits, or general e.g. Revenue Support Grant.
Housing Investment Programme (HIP)	Annual submission that housing authorities make to government which details their capital expenditure plans and the strategy proposed to meet local housing requirements.
Impairment	A loss in value of an asset as a result of damage or other event or as a result of a reduction in market value.
Interest	An amount received or paid for the use of a sum of money when it is invested or borrowed.
Inventories	Items of raw materials and stores an authority has procured to use on a continuing basis which it has not used.
Joint Venture	An entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more entities under a

contractual or other binding agreement.

Minimum Revenue Provision The minimum amount which must be charged to an authority's revenue accounts as a contribution towards the reduction in its overall borrowing requirement. The amount represents that which the authority considers to be prudent, taking into account the period over which the borrowing was taken, which is usually equivalent to the life of the asset.

National Non Domestic Rates (NNDR) An NNDR poundage is set annually by central government and collected by Charging Authorities. The proceeds are redistributed by the government between Local Authorities in proportion to their adult population.

Operating Lease A lease under which the ownership of the asset remains with the lessor; for practical purposes it is equivalent to contract hiring.

Precepts The amount which a Precepting Authority (e.g. a County Council) requires from a Charging Authority to meet its expenditure requirements.

Receivables An amount due to an organisation within the accounting period not received at the balance sheet date.

Renovation Grants Statutory or discretionary payments that local authorities make to home-owners to provide basic amenities and enable them to bring dwellings up to modern standards. The maximum amounts payable are determined by government, which reimburses the authority for part of the cost it incurs in providing the grants.

Repairs & Renewals Fund A fund which an authority can establish to meet the cost of repairing, maintaining, replacing and renewing its buildings, vehicles, plant and equipment.

Revenue Expenditure charged to capital under statute Expenditure which can by law be financed from capital resources (e.g. capital receipts) but which does not result in a fixed asset, e.g. renovation grants.

Revenue Support Grant A grant paid by government to meet a proportion of the local authority expenditure necessary to provide a standard level of service throughout the country.

Subsidiary An entity is a subsidiary of the reporting authority if the authority is able to exercise control over the operating and financial policies of the entity, and is able to gain benefits from the entity or is exposed to the risk of potential losses arising from this control.

Value for Money An expression describing the benefit obtained (not just in financial terms) for a given input of cash. The phrase is widely used within public bodies, but there are many difficulties in its use because value, as such, is a subjective measure and there are rarely supporting objective measures. The council's external auditor, appointed by the Audit Commission, is required to consider value for money with the three objectives of economy of input, efficiency of operation and effectiveness of output in service provision.

Work in Progress The cost of work done on an uncompleted project at a specified date which has not been recharged to the appropriate account at that date.

Independent auditor's report to the members of Cheltenham Borough Council

We have audited the financial statements of Cheltenham Borough Council for the year ended 31 March 2011. The financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes on pages 21 to 107. The financial statements have been prepared under applicable law and the accounting policies set out in the Statements of Accounting Policies.

This report is made solely to the members of the Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Council, as a body, 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 members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources Responsibilities, set out on page 20, the Director of Resources is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Council's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Director of Resources; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Group and of the Council as at 31 March 2011 and of the Group's and the Council's expenditure and income for the year then ended; and

have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the governance statement set out on pages 108 to 117 does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11(3) of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

Conclusion on Cheltenham Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's responsibilities

The Council is responsible for putting in place proper arrangements to secure 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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011. We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Cheltenham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

We certify that we have completed the audit of the financial statements of Cheltenham Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Ian Pennington (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

21 September 2011

cutting through complexity™

Report to those charged with governance (ISA 260) 2010/11

Cheltenham Borough Council

September 2011

Contents

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This report is addressed to the Council and has been prepared for the sole use of the Council . We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the appointed engagement lead to the Council , who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction

This report summarises:

- **the key issues identified during our audit of Cheltenham Borough Council's ('the Council's) financial statements for the year ended 31 March 2011; and**
- **our assessment of the Council's arrangements to secure value for money (VFM) in its use of resources.**

We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2010/11*, presented to you in June 2011, which summarised our planning and interim audit work

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our *Interim Audit Report 2010/11* issued in June 2011

This report focuses on the final two stages: substantive procedures and completion. It also includes any additional findings in respect of our control evaluation that we have identified since we issued our *Interim Audit Report 2010/11.*

Our final accounts visit on site took place between 4th July and 22nd July 2011. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2010/11 VFM conclusion. This included work to address the specific risk areas identified in our *Audit Fee Letter 2010/11*.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2010/11 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2011. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has identified only two potential audit adjustments. Both adjustments were in relation to classification and as such has no impact on the net assets reported or the council's net expenditure. This result demonstrates the high level of care and resource that the finance team put into preparing the financial statements and the working papers for audit. We have included details of the above audit adjustments at Appendix 3. These were adjusted by the Council.
Critical accounting matters	We have worked with officers throughout the year to discuss specific risk areas. The Council addressed the issues appropriately.
Accounts production and audit process	The quality of the accounts and the supporting working papers provided to us was again excellent. Officers dealt efficiently with audit queries and the audit process has been completed to the planned timescales. It should be noted that this has been achieved whilst coping with the transition to the International Financial Reporting Standards (IFRS), which resulted in a significant amount of additional work for officers, who were also preparing for 'GO'. The Council has implemented the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.
Completion	At the date of this report our audit of the financial statements is complete. Before we can issue our opinion we require a signed management representation letter and to confirm there are no events after the balance sheet date that require to be included within the accounts. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.
VFM conclusion	We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
VFM risk areas	We have considered the specific VFM risks we set out in our Audit Fee Letter 2009/10 namely: • Follow up of the Public Interest Report • GO partnership

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2011.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements. We identified two issues that have been adjusted by management, these are detailed in appendix 3.

The tables on the right shows the Authority's movements on the general fund for 2010/11 and the balance sheet as at 31 March 2011 as the same for both pre and post audit.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Movements on the General Fund 2010/11	£m
	Pre and Post-audit
Surplus or (deficit) on the provision of services	11.3
Adjustments between accounting basis & funding basis under regulations	(10.3)
Transfers to/ from earmarked reserves	(0.8)
Increase/(decrease) in General Fund	**0.2**

Balance Sheet as at 31 March 2011	£m
	Pre and Post-audit
Property, plant and equipment	231.1
Other long term assets	26.7
Current assets	21.1
Current liabilities	(23.7)
Long term liabilities	(65.1)
Net assets	**190.1**
General Fund	2.6
Other reserves	187.5
Total reserves	**190.1**

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Critical accounting matters

We have worked with officers throughout the year to discuss specific risk areas. The Council addressed the issues appropriately.

In our Financial Statements Audit Plan 2010/11, presented to you in January, we identified the key risks affecting the Council's 2010/11 financial statements.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
IFRS Conversion Process	**IFRS Conversion process** • The transition to IFRS represents the largest change in accounting for a number of years. The Council will require a lot of planning and resources to ensure a smooth and successful transition to IFRS.	• Following on from our work carried out at interim we reviewed the Council's approach to component accounting and disclosures around less complex areas such as provisions and leases. • We did not identify any issues. • The Council provided detailed working papers to explain the transition.
Valuation of Investments	**Valuation of Investments** • We will review the CBC valuation to ensure that it is consistent with LAAP 82 'Guidance on the Impairment of Icelandic Banks'. • We will assess valuation assumptions for appropriateness.	• We note that the valuation of Icelandic Investments has been undertaken in line with LAAP 82 update 4 'Guidance on the impairment of investment banks'. • Latest indications are that councils will be treated as priority creditors of Landsbanki and Glitnir Bank Hf. As a result the council has reversed £2.7 million of previous impairments. • As a matter of prudence, the council has transferred £2.5 million to an earmarked reserve to manage the risk of the investment not being repaid and so at the current time the Council are maintaining their capitalisation directive. • We have reviewed this accounting treatment and we are satisfied with its accounting appropriateness.

Critical accounting matters (continued)

Key audit risk	Issue	Findings
RPI to CPI change	**RPI to CPI pension change** • In its June 2010 budget, the government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). • As CPI is generally expected to be lower than RPI in the long term this should in turn lead to lower pension increases in deferment as well as payment. Furthermore the cost of benefit accrual will also be correspondingly lower. • The Urgent Issues Task Force (UITF) issued Abstract 48 on 20 December which provides additional guidance on the accounting treatment. The Abstract states that an entity must identify whether its existing obligation is to pay benefit increases based on RPI ("an RPI obligation") or more generally inflation-linked increases. An RPI obligation may be within the formal terms of the scheme or a constructive obligation arising from a public statement or past practice which has created a valid expectation in members of RPI increases.	• If an entity has an RPI obligation and changes it, this is a benefit change and any reduction in scheme liabilities is accounted for as a past service cost in accordance with IAS 19. • We have confirmed that this is how the actuary has treated the move from RPI to CPI. We have also confirmed with Gloucestershire County Council (the pension fund administrator) that the inflation rate of RPI was not referred to in the scheme terms and conditions however RPI has been referred/inferred to in the past in correspondence with members. • Therefore we agree with the treatment of the change from RPI to CPI as a change in assumed benefits and for the negative past service cost of £12m in Non distributable costs . • The year end pension liability has reduced from £70m to £38m.

Critical accounting matters (continued)

Key audit risk	Issue	Findings
	**Local taxes/rent arrears** • We will review the Council's processes for collecting and recovering outstanding balances in relation to council tax, national non-domestic rates (NNDR) and rent arrears. • We will critically review the level of bad debt provisioning at the year end. We will perform a trend analysis of the level of balances over the last financial year.	• We reviewed the levels of tax and rent arrears and bad debt provisioning at year-end and there do not appear to be any significant issues with recoverability of debt or with the completeness of bad debt provision.

Accounts production and audit process

We have noted that the accounts and the supporting working papers were well prepared and of an excellent standard.

Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

The Council has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Council's accounting practices and financial reporting.

We also assessed the Council's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Council has a structured financial reporting process which provides reasonable assurance that the accounts are prepared to a strong standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30th June 2011.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 19th April 2011 and discussed with Sarah Didcote, set out our working paper requirements for the audit. The quality of the working papers provided was excellent. The working papers requested by KPMG as part of the accounts audit protocol were all provided by Finance on time. The working papers were clearly referenced and a good trail existed.
Response to audit queries	Staff were available when required throughout the audit. All additional audit queries were resolved in a reasonable time.

Prior year recommendations

In our *Interim Audit Report 2010/11* we commented on the Council's progress in addressing the recommendations in our ISA 260 Report 2009/10.

The Council has now implemented all of the recommendations in our ISA 260 Report 2009/10 relating to the financial statements.

Appendix 2 provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Cheltenham Borough Council for the year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Cheltenham Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix 5. We have provided a template to Mark Sheldon (the Section 151 Officer). We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. Issue's relating to fraud, compliance with laws and regulations, subsequent events etc.);
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

New VFM audit approach

We followed a new VFM audit approach this year.

Our VFM conclusion considered how the Council secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Overview of the new VFM audit approach

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

Appendix 1: New issues and recommendations

We included a number of recommendations in our June 2011 interim report. This appendix includes recommendations we have identified since then.

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	*Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	*Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	(two)	**Issue – access to Live Environment not restricted for Open Revenues and Icon** When organisations develop and test new IT applications, they usually do so in a part of the system ("the Development Environment") that can only be accessed by the IT development team. When the development team has checked the new application for errors and bugs, they release the application for general use by council staff in "the Live Environment". Staff should not be able to make changes to applications in the Live Environment, or there is a risk of programming errors creating errors in transactions. We identified that all users have the ability to access network folders containing the Open Revenues and Icon live environment files, which increases the risk of the application files being accidentally or otherwise overwritten or deleted. **Recommendation** The Council should review access rights to live environment folders and ensure that they are restricted appropriately for all systems including the new Agresso system when it is introduced in 2012.	**Responsible officer** – Paul Woolcock, ICT Infrastucture Manager Applications may require access to the program files held on a shared drives. Permissions are being checked on shared and folders, as some applications will only run with 'full control' access. ICT will get clarification with the Agresso suppliers on folder and file permissions prior to going live in 2012.

Appendix 1: New issues and recommendations (continued)

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
2	(two)	**Issue – Lack of evidence of review of Benefits payments run.** The Benefits System automatically generates a list of payments due each week. Benefits Officers have the ability to suspend payments to individuals for a range of reasons for example if it is suspected that the individual is not entitled to the benefit they are claiming. As part of the control process, the system produces a Suspended Payment Report and these reports are reviewed. However the reports are not printed out and therefore no audit trail exists of the management review which is an important part of the control process. **Recommendation** The suspended payments reports are signed and dated as evidence of the review process.	Responsible officer - Paul Aldridge, Housing Benefit Manager The Benefit service have put into place processes for staff to ensure the printing, checking and validating of reports (signature and date) before payments are made. Hard copies will be kept on file

Appendix 1: New issues and recommendations (continued)

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
3	(three)	**Issue – Lack of evidence of review of journals** A journal is a mechanism used in accounting systems for making adjustments and corrections. If not used carefully, there is a risk that they can create errors. In order to control this risk, it is best practice that journals should be reviewed and signed off by a more senior staff member. The higher the financial value on the journal, the more senior should the sign off be. We noted that currently there is no formal review of journals. A system of secondary authorisation/approval at least for higher value journals would provide assurance that only genuine journals are being posted. We recognise that the Council has high level budgetary controls in place as a compensating control but do no feel that this is at the right level to pick up journal errors. Currently the Council has a proven and trusted finance team in place however in moving forwards to GO shared services the secondary authorisation of journals will become more imperative. **Recommendation** Higher value journals are authorised and evidence of this authorisation is maintained.	**Responsible officer** - Paul Jones, Head of Financial services In 2011/12 it is agreed that all Journals exceeding £100,000 are countersigned by the Head of Financial Services or the Director of Resources. All journal entries into the new Financial Management system (Agresso) which is due to go 'live' on 1st April 2012, may only be processed by authorised employees with the approval of the Section 151 Officer. The Head(s) of Finance for GO Shared Services will be responsible for ensuring that a daily report of all journals raised on the new finance system is produced and retained for audit purposes. This report will be checked and signed as agreed by a delegated senior officer within GO Shared Services.

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Appendices

Appendix 2: Follow up of prior year recommendations

The Council has implemented all of the recommendations in our *ISA 260 Report 2009/10.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2009/10* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	4
Implemented in year or superseded	4
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
1	● (two)	**Lack of evidence of review of bank reconciliation** The monthly bank reconciliation review is currently not evidenced by a signature and date and therefore no audit trail exists of the management review which is an important part of the control processes. **Recommendation** The bank reconciliations are signed and dated as evidence of the monthly review process.	Paul Jones September 2010	**Completed** All bank reconciliations are now signed and dated.
2	● (two)	**Lack of high level monthly payroll review** We noted that currently there is no high level review of the payroll before authorisation and payment each month. There is limited payroll exception reporting with the current payroll system and this high level overview would provided added assurance until a new payroll system is introduced. **Recommendation** A monthly high level review examining any significant monthly variances would give additional assurances of the completeness and accuracy of the payroll payment which is one of the most significant costs of the council.	Paul Jones September 2010	**Completed** The payroll and BACS authorisation form and supporting papers are now reviewed and signed off by a manager independent of the payroll input team.

Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
3	(two)	**Lack of evidence of review of income reconciliations** There was a lack of evidence of the review of the income reconciliation of the debtors system to the cash receipting system using the daily ASH reports, as the reconciliation is not signed or dated. **Recommendation** The income reconciliations are signed and dated as evidence of review which leaves a clear audit trail of the completion of the control.	Revenues Manager September 2010	**Completed** Income reconciliations are now initialled and dated to evidence the monthly review.
4	(two)	**Lack of documentation of the NNDR reconciliation** There was a lack of evidence of the review of the reconciliation between the NNDR and the IBS reports. **Recommendation** The reconciliations between the NNDR and IBS reports are signed and dated to evidence that the control is operating effectively.	Revenues Manager September 2010	**Completed** A spreadsheet is completed which documents the reconciliation, this file is initialled and dated as prepared and reviewed on a monthly basis.

Appendix 3: Audit differences

No significant audit adjustments were identified during the course of the audit.

Only two immaterial adjustments were identified.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Council's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Cheltenham Borough Council's financial statements for the year ended 31 March 2011. These have been adjusted in the final set of financial statements.

Uncorrected audit differences

There are no uncorrected audit differences.

Impact					Basis of audit difference
Income and expenditure statement	Adjustments accounting basis & statute	Assets	Liabilities	Reserves	
		Dr Assets held for sale £1,314k			Council dwellings disposed of during the year have been disclosed as assets held for sale at year end and then removed from fixed assets as part of the revaluation. They should have been disclosed as an in year disposal. This is a classification adjustment and therefore has no impact on the total of fixed assets.
		Cr Disposals £1,314k			
No net impact on the reported outturn	-	-	-	-	On the 1st April the concessionary fares function was transferred to the control of Gloucestershire County Council. This was disclosed as an event after the balance sheet date however this should have been separately disclosed on the face of the Income and expenditure statement. This is a classification adjustment and therefore has no impact on the reported outturn.
£0	-	**£0**	-	-	**Total impact of adjustments**

Appendix 4: Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Council .

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Director and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Cheltenham Borough Council for the financial year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and the Cheltenham Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 5: Management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Cheltenham Borough Council ("the Council"), for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

i) give a true and fair view of the financial position of the Group and of the Council as at 31 March 2011 and of the Group's and the Council's expenditure and income for the year then ended; and

ii) have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Council confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Council confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Council has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

- give a true and fair view of the financial position of the Group and of the Council as at 31 March 2011 and of the Group's and the Council's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 require adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Council has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from the Council for the purpose of the audit; and
- unrestricted access to persons within the Council and Group from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. The Council acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Council acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

   The Council has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud. Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

Appendix 5: Draft management representation letter

7. The Council has disclosed to you all information in relation to:

(a) Fraud or suspected fraud that it is aware of and that affects the Council and its Group and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

(b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

8. The Council has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Council has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

9. The Council has disclosed to you the identity of the Council's and its Group's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Council understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

10. On the basis of the process established by the Council and having made appropriate enquiries, the Council is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

11. The Council further confirms that:

a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 21 September 2011.

Yours faithfully,

Councillor A Wall.

Chair of the Audit Committee

Mark Sheldon

Director of Resources

Appendix 5: Draft management representation letter

Appendix A to the Management Representation Letter of Cheltenham Borough Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when a Council applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local Council is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

A housing authority shall present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority shall present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue, and

b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Appendix 5: Draft management representation letter

Related party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (ie subsidiaries);

b) associates;

c) joint ventures in which the Council is a venture;

d) an entity that has an interest in the Council that gives it significant influence over the Council;

e) key management personnel, and close members of the family of key management personnel; and

f) post-employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the Council and other persons having the Council and responsibility for planning, directing and controlling the activities of the Council, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11:

a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an Council by virtue only of those dealings; and

b) an entity with which the relationship is solely that of an agency.

Related party transaction

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the Council or the government of which it forms part.

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Cheltenham Borough Council

Audit Committee – 21 September 2011

Enhancement of Audit Partnership Governance

Accountable member	**Cabinet Member Corporate Services - Councillor Colin Hay**
Accountable officer	**Audit Partnership Manager – Robert Milford**
Accountable scrutiny committee	**Economy and Business Improvement**
Ward(s) affected	**All**
Key Decision	**No**
Executive summary	The Audit Partnership (AuditCotswolds) has been reviewed by the Audit Partnership Board to ascertain if the partnership and the service has been successful and should move to a more robust governance arrangement. This report provides the Audit Committee with an assessment of the internal audit and partnership effectiveness and identifies if it has met the original business case objectives. The report also provides the Audit Committee the opportunity to comment on the effectiveness of the service received. If satisfied then the Audit Committee can support the recommendation that the partnership moves to a more robust governance arrangement. The governance arrangement agreed in the original business case was that of a Section 101 (delegation of functions) of the Local Government Act 1972.
Recommendations	**That the Audit Committee supports the recommendation to Cabinet and Council that the Internal Audit Service is delegated to Cotswold District Council under a Section 101 agency agreement.**

Financial implications	The original business case delivered savings for both Cheltenham Borough and Cotswold District councils as well as providing a more resilient and effective service for the future. There are no further financial implications arising from the widening of the partnership although, over time, there may be opportunities to generate more fee income from external work. **Contact officer: Mark Sheldon, Chief Finance Officer** **mark.sheldon@cheltenham.gov.uk,** **01242 264123**

Legal implications	The Council has various powers to facilitate shared services including s101 (delegation of functions) and s113 (secondment of staff) of the Local Government Act 1972. The original business case indentified in the report set out a staged approach to the expansion of the existing Internal Audit Shared Service to include West Oxfordshire District Council. For the interim period, October 2010 to October 2011 there would be an expanded version of the Memorandum of Understanding, with the expectation that a further report would be presented to Council regarding the full transfer. If a full transfer is agreed by all the partner Councils, the Memorandum of Understanding would be replaced by a formal, legally binding, s101 agency agreement. **Contact officer: Shirin Wotherspoon,** **shirin.wotherspoon@tewkesbury.gov.uk, 01684 272017**
HR implications (including learning and organisational development)	The Audit team and the recognised Trade Unions have been kept advised about the development of the project on an informal basis but full formal consultation will be required to be undertaken as soon as full details about the potential transfer are available. Any Transfer Undertakings (Protection of Employment) Regulations 2006 (TUPE) issues will be dealt with in accordance with appropriate employment legislation. **Contact officer: Julie McCarthy, HR Operations Manager,** **julie.mccarthy@cheltenham.gov.uk, 01242 264355l**
Key risks	The Memorandum of Understanding is only designed to provide a short term governance solution for a shared service due to its reliance on secondment agreements. The move to a S101 agency agreement would provide a longer term solution. Failure to move to a longer term solution could be regarded as TUPE avoidance.
Corporate and community plan Implications	The audit shared service helps the Council to deliver cashable savings and also through the work of the service helps the Council achieve its objectives.
Environmental and climate change implications	Officers will be required to move between sites but work schedules minimise the travel.

1. Background

1.1 In September 2009 the Audit & Assurance Services for Cheltenham Borough Council entered into a partnership with the Internal Audit Services at Cotswold District Council. Due to the success of this partnership, and also in light of developing partnerships, the partnership was expanded to include West Oxfordshire District Council.

1.2 As part of this expansion to include West Oxfordshire District Council, it was recognised in the business case that the partnership governance, consisting of a Memorandum of Understanding (MoU) and supporting secondments, would only be a short term arrangement. This would enable the partners to assess if the arrangement across the three authorities could be successfully implemented and ascertain if it should then move to a more robust governance framework. Therefore to ensure there was an opportunity to assess the partnership the MoU was limited to one year.

1.3 This report provides the Audit Committee with an assessment of the internal audit and partnership effectiveness and if it has met the original business case objectives. It also identifies if it is appropriate to move to the originally recommended Section 101 agreement form of governance. It also provides the Audit Committee with the opportunity to comment on the effectiveness of the service received to date.

2. Reasons for recommendations

2.1 The Audit Partnership Board which includes the Director of Resources as Cheltenham Borough Council's representative has assessed the effectiveness of the partnership. This is shown at **Appendix 1.** The review identifies that AuditCotswolds has fulfilled the original business case criteria (including revenue savings) and has also delivered a quality service that meets the CIPFA standards for internal audit in local government.

2.2 Some of the non-financial benefits identified by the Audit Partnership Board include:

2.2.1 Audit transfer of skills and knowledge – Auditors have undertaken reviews of a service at one site and reviewed the same service at other sites. This has enabled the auditor to bring real best practice to the review and ensured the auditor was more efficient each time as he only needed to build the knowledge of the service once.

2.2.2 The auditors have gained in personal experience due to operating in multiple organisational environments, which include Cheltenham Borough Homes Ltd.

2.2.3 The risk identified in the Cheltenham Borough Council Audit & Assurance Service in 2009 relating to the age profile of the service has been fully mitigated through the partnership working. There was also a recognised enhancement to progression opportunities for the individual.

2.2.4 The service has now recruited and ICT Auditor and trained other members of the team in specialist areas, such as, environmental auditing. None of the specialist roles would have been enabled in a single site service.

2.3 As part of the effectiveness assessment process the KPMG Interim Audit Report that was presented to Audit Committee in June 2011 was reviewed. This report which included an assessment of AuditCotswolds and identified that the internal audit service had met the required standard for KPMG to place full reliance on their work.

2.4 This has therefore confirmed that AuditCotswolds has met the required milestones to move the development of a new and enhanced governance framework. The move to a Section 101 agreement would enhance the governance of the partnership and is scheduled to be in place by 1st April 2012 subject to Cabinet and Council approval. This time line has been extended from the original November 2011 suggested transfer date to enable the service to move within the transfer timelines of the GO Programme. This will assist with the allocation of staff posts within the GO ERP. This would also enable AuditCotswolds to be 'stable' during the implementation of the GO ERP and therefore enable the service to provide audit support when needed.

2.5 The Section 101 is expected to detail Cotswold DC as the host for the service as detailed in the Cabinet Report on the Audit Partnership (26th October 2010).

3. Alternative options considered

3.1 The alternatives to moving the service into the Section 101 governance framework model would be; to extend the current MoU arrangement which is only designed for short term use; or to cease the partnership arrangement and return to single site services.

3.2 The Audit Partnership Board has recognised the benefits that the new partnership has brought and that this service delivery model best suits the organisation due to the commissioning agenda and the increased use of shared services.

4. Consultation and feedback

4.1 This report has been produced in consultation with the Audit Partnership Board.

5. Performance management –monitoring and review

5.1 This has been largely covered in section 3 above. However, the Audit Committee may wish to make a formal comment for Cabinet and Council to consider in terms of the service provision to date under the partnership arrangement.

Report author	**Robert Milford, Audit Partnership Manager, 01242 775174, Robert.milford@cheltenham.gov.uk**
Appendices	1. Effectiveness review of AuditCotswolds
Background information	1. Cabinet 26th October 2010 Audit Partnership report

Risk Assessment

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	**Risk description**	**Risk Owner**	**Date raised**	**I**	**L**	**Score**	**Control**	**Action**	**Deadline**	**Responsible officer**	**Transferred to risk register**
1	*The Memorandum of Understanding is only designed to provide a short term governance solution for a shared service due to its reliance on secondment agreements. The move to a S101 agency agreement would provide a longer term solution. Failure to move to a longer term solution could be regarded as TUPE avoidance.*	Mark Sheldon	26/10/2010	2	4	8	Reduce	Move to the S101 agency agreement	1/04/2012	Mark Sheldon	Audit service register

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Guidance
Types of risks could include the following:
- Potential reputation risks from the decision in terms of bad publicity, impact on the community or on partners;
- Financial risks associated with the decision;
- Political risks that the decision might not have cross-party support;
- Environmental risks associated with the decision;
- Potential adverse equality impacts from the decision;
- Capacity risks in terms of the ability of the organisation to ensure the effective delivery of the decision
- Legal risks arising from the decision

Remember to highlight risks which may impact on the strategy and actions which are being followed to deliver the objectives, so that members can identify the need to review objectives, options and decisions on a timely basis should these risks arise.

Risk ref
If the risk is already recorded, note either the corporate risk register or TEN reference

Risk Description
Please use "If xx happens then xx will be the consequence" (cause and effect). For example "If the council's business continuity planning does not deliver effective responses to the predicted flu pandemic then council services will be significantly impacted."

Risk owner
Please identify the lead officer who has identified the risk and will be responsible for it.

Risk score
Impact on a scale from 1 to 4 multiplied by likelihood on a scale from 1 to 6. Please see risk scorecard for more information on how to score a risk

Control
Either: Reduce / Accept / Transfer to 3rd party / Close

Action
There are usually things the council can do to reduce either the likelihood or impact of the risk. Controls may already be in place, such as budget monitoring or new controls or actions may also be needed.

Responsible officer
Please identify the lead officer who will be responsible for the action to control the risk.
For further guidance, please refer to the risk management policy

Transferred to risk register
Please ensure that the risk is transferred to a live risk register. This could be a team, divisional or corporate risk register depending on the nature of the risk and what level of objective it is impacting on

Appendix 1

Effectiveness review of AuditCotswolds 2010~2011

Following Cabinet approval at both authorities in November 2010 the Internal Audit Service at Cotswold District Council formed a Partnership with Cheltenham Borough Council (including Cheltenham Borough Homes) and West Oxfordshire District Council. This partnership is called 'AuditCotswolds'.

The mission of the AuditCotswolds is to provide independent, objective assurance and consulting services designed to add value and improve the partner Council's operations. It helps each Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes

There is a requirement for both authorities to deliver an effective Internal Audit as a statutory function under the Accounts and Audit (England) Regulations 2011 as shown below:

Internal audit

Reg. 6:(1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

(2) Any officer or member of a relevant body must, if the body requires—

(a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and

(b) supply the body with such information and explanation as that body considers necessary for that purpose.

(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.

(4) The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 4(3), by the committee or body referred to in that paragraph.

Furthermore under the business case it was established that the partnership would deliver on the following three aims:

1. A sustainable high quality service

2. Reduce the cost of the service without adverse impact on aim 1

3. Provide progression and specialist development for the authority and individual, and generate potential income opportunities with other parties without adverse impact on aim 1 or 2

As the Internal Audit service is provided by the partnership there will only be one effectiveness review required for all authorities and it will also assess the achievement against the business case aims. The result of this review has comment by the Partnership Board and has been provided to Audit Committee for information.

Partnership Board Assessment against Business Case Aims 1 to 3

1. A sustainable high quality service
2. Reduce the cost of the service without adverse impact on aim 1
3. Provide progression and specialist development for the authority and individual, and generate potential income opportunities with other parties without adverse impact on aim 1 or 2

For each of the Aims listed below, please tick the most appropriate box for each question.

	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree
Aim 1					
Sustainable – there has been a clear demonstration through direct action within the partnership that ensures a higher likelihood of sustaining the service.	X				
High quality – The partnership complies with the CIPFA and CIIA codes of practice (evidence of compliance through review shown in Appendix 2)	X				
Aim 2					
Reduce the cost of the service – budget outturns at partner authorities identify savings as forecast (within reasonable tolerances)		X			
Aim 3					
Progression and specialist development – there is clear evidence that progression and specialist development has been undertaken and could potentially generate income	X				

Overall assessment by the Partnership Board:

	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree
Audit Cotswolds has achieved its Aims for 2010/11 as set down in the business case & Has operated to a satisfactory level of compliance with the CIPFA and CIIA codes of Practice (see appendix 2 below).	X				

Cheltenham Partnership Board representative – Mark Sheldon (Director of Resources)
Cotswold Partnership Board representative – Jenny Poole (Chief Finance Officer)
West Oxfordshire Board representative – Paul Stuart (Head of Corporate Resources)

Appendix 2

AuditCotswolds

Internal Audit - Good Practice Self Assessment Checklist 2010/11

The Audit partnership (AuditCotswolds) has expanded by one site per year. Starting as a single site in 2008/09 (Cotswold DC) then Cheltenham BC including Cheltenham Borough Homes and in 2010/11 expanded to included West Oxfordshire DC. As a result of this some aspects remain only partial due to inconsistency at each site although compliance individually is sound.

Scoring:	2008/09 CDC only	2009/10 CCAP	2010/11 Audit Cotswolds	
1 = No - performance does not comply with good practice				
2 = Qualified - partial compliance	enter 1, 2 or 3			**Evidence / Source**
3 = Yes - performance complies with good practice				

SETTING CLEAR & PROPERLY FOCUSED OBJECTIVES

1. Internal audit has an agreed terms of reference.

1.1	The internal audit section has written terms of reference.	3	3	3	Financial Rules, supported by Internal Audit Charter, Memorandum of Understanding, Partnership Board Terms of Reference
1.2	The TOR have been agreed between the chief internal auditor, senior management and councillors.	3	3	3	Agreed with Corporate Team and Audit Committees
1.3	The TOR have regard to the CIPFA Code of Practice and guidance published by relevant accountancy bodies.	3	3	3	Charter is aligned to the Chartered Institute of Internal Auditors
1.4	The TOR frame objectives for internal audit that take account of the council's corporate aims and objectives.	3	3	3	Annual Plan is aligned to objectives & Charter is enabling Audit to fufil this element
1.5	The TOR make clear that internal audit should not be a substitute for effective control.	3	3	3	Charter
1.6	The TOR authorise internal audit's free access to all operations, information, records, assets and personnel across the council.	3	3	3	Financial Rules & Charter
1.7	The TOR are reflected in the council's standing orders and financial regulations.	3	3	3	Financial Rules
1.8	The communication arrangements between members and the chief internal auditor are set out in the TOR or standing orders.	3	3	3	Financial Rules, Council approved CIA role, (Possibly in new constitution) & CIA Job

					Description
1.9	The TOR are communicated across the council in the form of a mission statement or charter.	2	3	2	Internal Audit is marketed on the Intranet and Charter published ~ Intranet requires update to reflect wider partnership
1.1	The TOR have been reviewed during the last 3 years	3	3	3	Reviewed in line with business case November 2010

2. The respective roles of management and internal audit in maintaining internal control are clearly defined and communicated.

2.1	Management has defined control objectives for all major systems (financial and non-financial).	2	2	2	Delegated Authorities in the Constitution, Procurement Strategy and Financial Rules.
2.2	Internal audit is consulted about significant proposed changes to internal control systems.	3	3	3	Audit Partnership Manager (APM) and Principal Auditors consulted on change programmes e.g. GO programme, Waste, One Team
2.3	The chief internal auditor provides an overall assessment for management of the robustness of internal control for the council's main systems, based on the work done that year.	3	3	3	Covered by fundamental auditing each year, Annual Report & AGS
2.4	Internal audit reviews demonstrate to managers the strength of internal controls and the levels of risk within their systems.	3	3	3	Assurance opinion given in reports - recommendations prioritised.
2.5	The chief internal auditor reports to the responsible officer or body the basis for demonstrating compliance with Section 151 of the Local Government Act 1972	3	3	3	APM Reports to Section 151 Officer

3. Internal audit has a clear role in relation to fraud.

3.1	The council has an anti-fraud and corruption strategy.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.

3.2	A framework for internal audit involvement in fraud investigation and prosecution is set down in the anti-fraud and corruption strategy.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.
3.3	The council has a fraud response plan.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.
3.4	The fraud response plan clearly sets out the roles and responsibilities of internal audit and management and includes a protocol for informing the police.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.
3.5	The council has a 'whistleblowing' policy or confidential reporting procedure that has been communicated to all staff.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.
3.6	Where appropriate, fraud investigations lead to recommendations to help disclose similar frauds and improve internal control.	3	3	3	Financial Rules, Anti Fraud & Corruption Strategy, Whistleblowers Policy and Terms of Reference.
3.7	The anti-fraud and corruption strategy and fraud response plan have been reviewed since April 1996 during the last 3 years.	3	3	3	Current version Sept 09 + Leaflets issued Feb 2010 to all staff

MAINTAINING INTERNAL AUDIT INDEPENDENCE

4. Internal audit has sufficient organisational status to be able to undertake its work effectively.

4.1	The chief internal auditor has direct access to members, the chief executive and senior managers.	3	3	3	Financial Rules, Internal Audit Charter
4.2	The chief internal auditor formally discusses the work and performance of internal audit with the chief executive / audit panel or equivalent at least annually.	3	3	3	Regular reports to Audit Committee and briefings to the Section 151 Officer
4.3	Internal audit determines its own priorities, based on risk assessment, in consultation with management.	3	3	3	Annual operational plan based on risk assessment. Audit Committee approves plan after CT consultation.

4.4	The chief internal auditor reports to the responsible finance officer under s95 or to a more senior manager in the council.	3	3	3	Section 151 Officer
4.5	The level of seniority (management tier) of the chief internal auditor within the management structure helps it to function effectively and independently.	3	3	3	APM reports to Sec 151 officer but also access to CT, CEO, Leader and Audit Committee. From April 2011 Audit Partnership Manager now Head of Internal Audit at CBC and all other partner Councils
4.6	Internal audit has unrestricted access to people, systems, documents and property as it considers necessary for the proper fulfilment of its responsibilities	3	3	3	Financial Rules and Charter
4.7	The chief internal auditor is free to report, without fear or favour, eg, the chief internal auditor has the right of final edit and issues reports in his or her own name.	3	3	3	APM reports to Audit Committee

5. Internal audit is free of operational responsibilities that could compromise its independence.

5.1	Internal audit is independent of any line management task and is seen to be independent.	3	3	3	Internal Audit Charter & Financial Rules
5.2	Where internal audit provide advice and consultancy work, are staff clear when they are operating as auditors and when they are not.	3	3	3	Internal Audit Charter & Declarations of Interest
5.3	The chief internal auditor plans assignments to minimise the possibility of staff conflicts of interest.	3	3	3	APM and Principal Auditors allocate work taking account of interests recorded on annual 'declaration of interest' forms submitted by team members
5.4	Whilst reporting to the responsible finance officer, the chief internal auditor has freedom of access to all members and officers, especially the chief executive.	3	3	3	Un-restricted access to all stakeholders
5.5	Staff with family or close friends within the council do not audit activities within their section.	3	3	3	Chartered Institute of Internal Auditors code of ethics embedded in service & Internal Declaration

PLANNING & CONTROLLING THE WORK OF INTERNAL AUDIT

6. Internal audit bases its work on a comprehensive risk assessment.

6.1	Internal audit bases its risk assessment on information from the authority's risk management process and an agreed audit risk methodology.	2	3	3	Risk Registers used where possible - Risk Management Audit undertaken annually to assess risk maturity of organisation. Plus formal consultation process with SLT/SMT
6.2	Internal audit consults widely with management to identify critical systems and risks.	3	3	3	APM conducts a consultation with SMT/SLT each year
6.3	Internal audit has a comprehensive understanding of the authority's systems, structures and operations.	3	3	3	Audit plans and reports
6.4	Internal audit uses a formal framework to assess risks.	2	2	3	Audit planning process incorporates organisations risk register and other key documents for assessment.
6.5	Internal audit uses the risk assessment to prepare audit plans and prioritise its work.	3	3	3	Audit planning process incorporates risk assessments
6.6	Internal audit review their risk assessment basis at least annually periodically, depending on the extent of change within the organisation.	3	3	3	Audit uses an annually developed risk based plan and is approved by Audit Committee

7. Internal audit operates within a structured planning framework.

7.1	Internal audit plans link back to the council's corporate aims and objectives and are co-ordinated with other review programmes (eg Best Value reviews).	3	3	3	Internal Audit Service Plan
7.2	Audit plans are produced in consultation with senior managers across the organisation.	3	3	3	Audit Plan agreed with CT/SLT and approved by Audit Committee
7.3	Internal audit has a strategic plan based on risk assessment, which sets out the audit scope and objectives.	3	3	3	Audit Plan identifies the risk universe - scope and objectives confirmed at the audit brief level

7.4	The strategic plan sets out the resources required to meet the audit needs of the council and identifies any mismatch between resource needs and resource availability.	3	3	3	Available days planning linked to Audit Planning
7.5	An annual audit plan is produced which translates the strategic plan into audit assignments to be undertaken during the year.	3	3	3	Annual Audit Plan
7.6	Project plans are set out for each audit assignment, which allocate resources, set out the scope and objectives of the assignment and establish target completion dates.	3	3	3	Audit Brief
7.7	Audit plans are flexible enough to accommodate work that has arisen during the course of the plan without resulting in core risk areas not being reviewed.	3	3	3	Audit Brief identifies the possibility of focus change in the engagement
7.8	Significant changes to audit plans are approved by senior management and the audit committee (or equivalent).	3	3	3	Sec 151 Officer / Audit Committee / Partnership Board
7.9	The planning process takes account of the work undertaken by external audit and other review agencies and inspectorates.	3	3	3	Joint Working Agreement + BCP and PIR
7.1	Internal audit strategic plans are reviewed to reflect the changed priorities of the council.	3	3	3	Audit Plan agreed by SMT/SLT and approved by Audit Committee
7.11	The agreed annual audit plan is only revised in exceptional circumstances.	3	3	3	Core plan yes - Risk based plan is fluid

8. Internal audit has effective relationships with council members, council managers, external audit, inspectorates and other agencies.

8.1	The timing of internal audit assignments is normally arranged with the management concerned to minimise disruption.	3	3	3	Agreed Brief
8.2	There is an ongoing dialogue between the auditor and client service throughout the audit assignment.	3	3	3	Agreed brief, includes findings feedback, draft report discussion and agreements
8.3	External audit place reliance on the work of internal audit *(evidenced by explicit mention in annual Audit Letter)*.	3	3	3	Annual Audit letter / JWA from External Auditor
8.4	Internal audit and external audit regularly exchange audit files.	3	3	3	Audit files reviewed every year
8.5	Internal audit effectively co-ordinates its work with external audit and other review agencies.	3	3	3	Joint Working Agreement e.g. PI audit

8.6	Internal audit maintains good working relationships and channels of communication with elected members.	3	3	3	APM is the key contact for all Audit Committees

9. Internal audit properly manages, controls and records its work.

9.1	Internal audit has documented policies and procedures contained in an audit manual.	3	2	2	Audit Manual to be updated to reflect expanded Partnership with WODC
9.2	The chief internal auditor allocates staff to assignments according to their skills and experience.	3	3	3	Annual Plan Allocation + Assurance/Consultancy on Programmes/Projects
9.3	Internal audit staff understand the objectives of their assignments and their responsibilities.	3	3	3	Scope set out in Brief
9.4	Internal audit has a rigorous approach to collecting and managing evidence.	3	3	3	Structured Working Papers and file system
9.5	Adequate working papers are prepared to support internal audit findings, conclusions and recommendations.	3	3	3	Audit files reviewed by Principal Auditors
9.6	Internal audit work is documented at all levels from audit planning to reporting.	3	3	3	Structured Working Papers
9.7	Internal audit assignments are adequately supervised and reviewed.	3	3	3	Audit files reviewed by Principal Auditors - APM approves final reports

RESOURCING THE INTERNAL AUDIT WORK PROGRAMME

10. Internal audit is adequately staffed and resourced.

10.1	The chief internal auditor is professionally qualified and has wide experience of internal audit and its management.	3	3	3	Member of 3 professional bodies (CMIIA/MCMI/AMS) and three postgraduate qualifications (DMS/MA/PgDip) and 10+ years experience
10.2	The chief internal auditor has identified a staffing structure that enables internal audit to meet its objectives and the changing needs of the organisation.	3	3	3	Organisation structure approved - partnership business case
10.3	Internal audit has adequate resources to enable it to meet its work objectives efficiently and effectively.	3	3	3	Organisation structure approved + consultancy+ Partnership agreement

10.4	Internal audit employs or has access to people with relevant skills and experience in order to undertake the required tasks.	3	3	3	Skilled staff, access to consultants and other LA's
10.5	Where required the chief internal auditor can 'buy in' people for specialist work who are suitably experienced and qualified.	3	3	3	Consultants and Partnership staff. Recruited an ICT Auditor due to expansion of partnership in 2010/11
10.6	Internal audit uses appropriate the latest technology for planning, audit work and reporting.	2	2	3	Internal system using Microsoft Office software - Huddle is used for cross site management
10.7	All audit staff have job descriptions and personnel specifications that reflect their current post.	3	3	3	JD and PS exist for all posts

11. Internal audit staff are suitably trained and developed.

11.1	An induction programme has been prepared for all new audit staff.	3	3	3	Formal Council Induction programme + Published training programme
11.2	Training is tailored to the needs of individual auditors and includes both theoretical knowledge and its practical application.	3	3	3	Appraisal system covers + coaching for new staff
11.3	Internal auditors keep up-to-date with current developments in auditing and the issues facing the audited body.	3	3	3	CIIA / CIPFA / AAT / CIMA memberships, GCIAG & MDCIAG, TISonline, CMI online, Team Brief & CPD plan
11.4	All staff maintain competence through professional development.	3	3	3	Appraisal system and training programme (see plan 2009/10)
11.5	The chief internal auditor co-ordinates and keeps under review the training and development requirements of internal auditor staff.	3	3	3	Appraisal system and team meetings

12. Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls.

12.1	The chief internal auditor produces an annual report, which contains a view on the soundness of the council's internal control system.	3	3	3	Year end annual report to Audit Committee - feeds into the AGS
12.2	Internal audit has documented, systematic, procedures in place for producing and clearing reports.	3	2	2	To be updated for partnership for consistency
12.3	Reporting arrangements, including timescales for drafting, finalisation and management action have been agreed with management.	3	2	2	To be updated for partnership for consistency

12.4	Internal audit produces clear, concise, constructive written reports *(in the opinion of the external auditor)*.	3	3	3	External audit provided with copies of Internal audit reports
12.5	Before issuing final reports, internal audit discusses the contents with management, and may submit a draft to confirm factual accuracy.	3	3	3	As routine on all audits
12.6	Where internal audit and management disagree the relevance of the factual content, the chief internal auditor has the opportunity to refer to this in his/her report.	3	3	3	Sec 151 officer, Director, CEO, Audit Committee Chairman, Leader of the Council (Case example CRB audit)

13. Internal audit follow up their recommendations to ensure action is taken.

13.1	Internal audit, agrees 'SMART' action plans, which identify persons responsible for implementation, with management to review progress of implementation by both parties.	3	3	3	Recommendation Action Plan in every report
13.2	Internal audit reports instances of significant failure to comply with action plans to the appropriate senior management/members corporate management team.	3	3	3	Reports identify previous recommendations that have not been implemented
13.3	Where management do not implement internal auditrecommendations, it is clear that they accept the risk resulting from not taking action.	3	3	3	Determined at follow up, reported to Audit Committee
13.4	The results of follow up work by internal audit are used to update the Audit Committee.	3	2	3	Follow-up work is reported to Audit Committees (shown in annual report 2010/11 at CBC)
13.5	The results of follow up work by internal audit are used to inform updated audit plans.	2	2	3	Audit follow-up feeds Audit Planning process, 2010/11 plan included some specific follow-up audits

HOLDING INTERNAL AUDIT TO ACCOUNT FOR ITS PERFORMANCE

14. Internal audit has a performance management framework that ensures continuous review of its performance.

14.1	Internal audit is accountable to an audit committee or equivalent body.	3	3	3	Audit Committee
14.2	The chief internal auditor prepares an annual plan that is presented to senior management and the audit committee (or its equivalent).	3	3	3	CT/SLT and Audit Committees

14.3	The chief internal auditor uses a set of indicators to measure the performance of internal audit.	3	3	3	Reported through Covalent + Partnership Board. APM recieves an annual appraisal by the Partnership Board
14.4	Internal audit has a documented system for evaluating the performance of the unit as a whole.	3	3	3	Partnership Board and Annual effectiveness review
14.5	The chief internal auditor is responsible for continuously maintaining and developing the performance management in internal audit.	3	3	3	Service plan tasks & Team meetings
14.6	Internal audit is accredited under a national or international quality standard (eg IIP, EFQM, etc).	2	3	3	CIPFA Code of Practice & CIIA Standards

15. The chief internal auditor promotes and maintains professional standards in internal audit.

15.1	Internal auditors possess knowledge of the council and its systems to a level commensurate with their role in the unit.	3	3	3	Appraisal and training promotes + Audit Partnership Manager + Principal Auditor role guides
15.2	Internal auditors are impartial in discharging their responsibilities	3	3	3	Internal Audit Charter
15.3	Disciplinary procedures are invoked where a staff member contravenes the ethical standards required by the accountancy bodies.	3	3	3	Employee Code of Conduct
15.4	Internal audit maintains a current register of declarations of interest, and acceptance of hospitality.	2	3	3	Officer Declaration of Interest & Hospitality register

SUMMARY	2008/09	2009/10	2010/11	
1 = No - performance does not comply with good practice	0	0	0	**0%**
2 = Qualified - partial compliance	8	8	5	**5%**
3 = Yes - performance complies with good practice	89	89	92	**95%**
Total Questions	97	97	97	100%

The results show a 95% full compliance and 5% partial with no instances of non-compliance. Through 2011/12 the service will be going through further changes due to increasing demands e.g. GO and Waste company. Therefore this assessment will be regularly reviewed.

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Cheltenham Borough Council
Audit Committee – 29 September 2011
Internal Audit Monitoring Report

Accountable member	**Cabinet Member Corporate Services - Councillor Colin Hay**
Accountable officer	**Audit Partnership Manager – Robert Milford**
Accountable scrutiny committee	**Economy and Business Improvement**
Ward(s) affected	**All**
Key Decision	**No**
Executive summary	The council must ensure that it has sound systems of internal control that facilitate the effective management of all the council's functions. The work delivered by AuditCotswolds, the council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supports the work of the external auditor. The Annual Internal Audit Opinion presented to Audit Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Monitoring Report however is designed to give the Audit Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.
Recommendations	**The Audit Committee considers the report and makes comment on its content as necessary**

Financial implications	There are no financial implications arising from this report. The investment in the Enterprise Resource Planning System (ERP) will address many of the control issues raised in the audit report for Payroll highlighted covered by this report. **Contact officer: Mark Sheldon, Chief Finance Officer** **mark.sheldon@cheltenham.gov.uk,** **01242 264123**
Legal implications	None specific arising from the report recommendation. **Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01684 272012**

HR implications (including learning and organisational development)	No additional HR implications arising from this report. **Contact officer: Julie McCarthy, HR Operations Manager** **julie.mccarthy@cheltenham.gov.uk,** **01242 26 4355**
Key risks	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.
Corporate and community plan Implications	"*Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*" (Chartered Institute of Internal Auditing UK & Ireland). Therefore the internal audit activity impacts on corporate and community plans.
Environmental and climate change implications	One of the specialist skills now provided by the service is that of environmental auditing. This would therefore aid the Council in its environmental and climate change objectives.

1. Background

2.1 The Annual Audit Plan was aligned with the corporate and service risks facing the Council as identified in consultation with the Senior Leadership Team and supported by such systems as the risk registers. At the time of preparing the 2011/12 plan, the Councils Corporate Strategy 2010-2015 was being reviewed and, as internal audit is there to help the organisation to achieve objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the recently prepared Medium Term Financial Strategy, change programme agendas and updates to the business plan, many of which contain risk assessments.

2.2 There is also a requirement to support the work of the External Auditor (KPMG). This is in the form of financial audits governed by the Joint Working Agreement, and the governance audits to support such activities as Use of Resources.

2.3 The audit plan also considered risks that may evolve during the year. The consultation process has sought to identify these areas considering where internal audit could support and add value to the risk control process. This report identifies work we have completed in relation to the planned audit work.

2. Reasons for recommendations

3.1 The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change e.g. the GO Programme impacting on core financial systems, Shared Services impacting on core governance arrangements, etc.

3.2 Therefore Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This prompts the requirement to move to a more flexible and risk based plan.

3.3 It should also be recognised that the service is now a partnership so coordinating resources across multiple organisations is critical to the success of the partnership.

3.4 This report highlights the work completed by internal audit and provides comment on the assurances provided by this work.

3. Internal Audit Output

4.1 The internal audit service commenced quarter 1 with reduced resources due to maternity leave. However there is still the expectancy to complete the audit plan 2011/12 as planned. The partnership made use of existing staff to cover the maternity issue by acting up one senior auditor to principal level and increasing the days available to another senior auditor.

4.2 Internal Audit has concluded the following audits in quarter 1 and commenced quarter 2 work:

Audit	Report status	Assurance
Creditors	Final	Satisfactory
Payroll	Final	Limited

Car Parking	Final	Satisfactory
Performance Management	Final	Satisfactory
Annual Governance Statement Review	Final	N/A
Licensing	Draft	
Risk Management	Ongoing	
Governance Compliance	Ongoing	
Information Technology	Ongoing	

4.3 Further detail specific to each audit finalised is shown in **Appendix 1.**

4.4 The AuditCotswolds has also undertaken the following:

- Audit support for the GO-Programme* (see section 4 below)
- Audit support for the Local Authority* Company (see section 4 below)
- Health Check – Art Gallery and Museum
- Cheltenham Borough Homes – client (audit days delivered)
- Audit support for the Commissioning Programme
- Audit Support for the other key Change Programmes

4.5 Internal Audit was required to conduct one investigation that resulted in a report to the Police and a prosecution for theft.

4. *Possible changes to the Annual Audit Plan

5.1 The Audit Committee approved the plan for 2011/12 on the 23rd March 2011. Within the plan there was an element identified as 'risk based' and therefore was to remain flexible to ensure only current risks were reviewed. There are two key risks that have impacted on the audit plan; GO Programme and the Local Authority Company. Both of these elements have received increased levels of audit input either through assurance work or consultancy.

5.2 The Audit Committee should be aware that the Annual Audit Plan is likely to be changed in terms of 'Core Financial' and 'Risk Based' activity as these two projects continue. Detail on the work conducted is summarise thus:

5.2.1 GO Programme – Audit support at programme board level, independent assessment of gateway reviews and results, advice on the implementation projects including coordinating implementation audit support at Forest of Dean, monitoring of risk assessments and highlight reports, etc

5.2.2 Local Authority Company – Audit support at Project Board level, advice on project governance, risk management and gateway review systems, advice at implementation level projects, etc

5.2.3 Both of these projects are going to require internal audit services from 1st April 2012 and therefore some audit management time has been allotted to the development of new audit structures and plans for this provision.

5.3 The level of involvement the internal audit service has within the Cheltenham Borough Council change programmes is substantial but it is considered necessary when there is such a high level of risk with such significant changes being introduced

5. Follow-up of recommendations – monitoring and review

5.1 At the last Audit Committee meeting (22nd June 2011) the committee requested details of the follow-up processes in place in the internal audit service. The process is summarised below:

6.2.1 For every audit conducted there could be recommendations generated. These recommendations are recorded in an action table in the final report. These recommendations include a statement of the risk the recommendation is mitigating. This enables management to consider the recommendation in light of the risk they could carry if the recommendation is not implemented. During the 'mop-up' (final meeting) with management, the recommendations are discussed. The manager has the responsibility for the control framework and therefore is responsible for the action to mitigate the risk. It is possible for the manager to accept the risk and therefore not take any additional action.

6.2.2 Once the recommendation action plan has been completed this is then issued as part of the final report to management and the agreed circulation. This will include the Director of Resources as normal practice.

6.2.3 In six months time the recommendations are reviewed for progress. If satisfactory progress is not made then this is raised with management, and if necessary with the Director of Resources or Audit Committee.

6.2.4 Where an audited area has received a 'limited' assurance opinion then there is a full follow-up to assess the progress of the service in improving the control framework. In 2010 Payroll was given a limited assurance opinion and as such has continued to be monitored by the audit service.

6.2.5 For every audit conducted one of the objectives is to check recommendation implementation from previous audits in the service area. Failure to implement recommendations is an influencing factor for the assurance opinion for the latest audit. Where recommendations have not been implemented they are carried through to the new action plan.

6.3 The monitoring report in Appendix 1 has included comments from the audit reports on follow-up of recommendations. For work conducted later this year there will be a new part to this monitoring report that will detail the follow-up undertaken by the audit team and the results. This is being built into our new operational manuals.

Report author	**Robert Milford, Audit Partnership Manager, 01242 775174, Robert.milford@cheltenham.gov.uk**
Appendices	1. **Internal Audit Monitoring Report**
Background information	

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Appendix 1

Internal Audit Monitoring Report

Audit	Report status	Assurance
Creditors (2010/11)	Final	Satisfactory

The Creditors function is one of the fundamental financial systems for the council and as such this review was completed as part of the annual audit plan 2010/11. It forms part of the Council's annual governance statement and is a factor assessed by the Council's external auditors. This year the focus of the audit was on key controls for the system and sample tested current year payments only due to the ongoing delivery of the GO Programme.

There have not been any significant changes to the system since the last review. The system is generally sound and well managed reflected by the satisfactory assurance opinion given. Testing found invoice processing was conducted in an accurate and timely basis, and payment runs were processed efficiently.

Key issues - There are no key issues that significantly impact on the overall opinion.

Other matters

- Secondment of the Payments Manager

The part time secondment of the Payments Manager to act as the Project Lead for the accounts payable module of the new ERP system has resulted in a reduction of available resources. Arrangements are in place for processing the payment run, but there is a possibility that over the longer term work loads could slip due to pressures on the service area**.**

- Authorised signatories list

The list of authorised signatories is not up to date. For orders processed through POM (Purchase Order Module), limits are set on the system, but where POM is not used an authorised signatories list exists to ensure only delegated staff order goods and services. On the new ERP system it is understood that authorisation limits will be assigned to post numbers so that only those authorised to commit expenditure will be able to do so. However, the new system is not due to go live until April 2012, so until then the onus is on the Payments Manager to recognise signatures and initials of authorising officers. This is not a satisfactory control as in the absence of the Payments Manager; invoices could be processed which have not been approved by an officer with delegated authority and the relevant financial approval limits. It is recommended that an up to date list is maintained and available to all staff involved in the creditor process.

- Procedure Notes

The Albac file contains some guidance on creating the payment run, but clear procedures are not available. Whilst arrangements are in place to process the payment run when the Payment Manager is absent; having a simple guidance document would aid staff who do not normally carry out the process.

Management Response

Hard copy notes of how to process a payment run and the Aptos manuals *are* held in the office. There are two staff who are able to process the payment run and management ensure at least one of theses are in the office on payment days. Given this, the replacement of Aptos with the new ERP and the resources currently required for its implementation it in not proposed that further guidance notes are written at this stage.

The authorised signatory lists are currently being reviewed and updated as part of the implementation of the new ERP system. Although the new lists/procedures will not go live until 1 April 2012, given the work required it is not possible or practical to implement these on Aptos before this date.

Payroll (2010/11)	Final	Limited

This review was undertaken as part of the annual audit plan. It is a core financial audit which must be completed each year to support the work of the external auditors and to provide the Section 151 officer with assurance that a significant financial system is being appropriately controlled.

The aim of this audit was to review key controls, follow up on recommendations from the previous audit and look at preparations for ERP implementation.

Payroll resilience issues present a significant risk; this has been raised on the Cheltenham Borough Council (CBC) Corporate Risk Register and the HR Operations team have undertaken work to manage this risk. However, some of this work has been limited by financial constraints and the impending implementation of the ERP system.

This audit was discussed at the June 2011 Audit Committee and questions were asked relating to follow-up of recommendation implementation. Progress on the recommendations has been positive with such issues as the passwords and removal of access to CHRIS 21 for generic users being addressed. Furthermore the new GO ERP system will address other recommendations made as identified through GO Programme assurance work.

Payroll will be reviewed as part of the 2011/12 & 2012/13 audit activity.

Car Parking	Final	Satisfactory

The previous audit report on car parking was issued in November 2009. That report was issued with a ‘limited assurance’ having identified weaknesses in procedures which put the system’s business objectives at risk. A number of these weaknesses were long standing and satisfactory progress was not being made to correct them.

Since that report was published there has been a restructure within the team and day to day management of the division is now undertaken by the Head of Integrated Transport and Sustainability, the previous Parking Manager having departed. Following this restructure management responsibility for the car parking division has also changed and now falls within the remit of the AD, Built Environment.

The sole purpose of this review, and therefore the only work undertaken, has been to review the recommendations made in the November 2009 report to establish if progress has been made in taking forward the issues identified. This has been undertaken by discussion with relevant staff and review of appropriate records.

The overall conclusion is that satisfactory progress has been made and that the Head of Integrated Transport and Sustainability has ensured good progress has been commenced to tackle the issues previously identified. A detailed position statement on these issues is contained within the main body of this report. Continued progress is still needed on some of the recommendations previously made for compliance with Financial Rules.

As a consequence of the continuing progress made and identified during this review, the assurance level attached to car park management has been upgraded from limited to satisfactory assurance.

Management Response

As identified in the Executive Summary satisfactory progress has been made since the last internal audit report of November 2009.

Upon undertaking responsibility for parking services, an internal audit review was undertaken which identified that in systems management and control, a number of areas needed significant improvement.

This resulted in the establishment of a pilot structure being created to enable a review of the function.

The review concluded that the management of the on-street and off-street parking services had become somewhat clouded with most of the resource allocation being directed at on-street parking services.

Significant progress has now been made in realigning the management of off-street parking service which is also reflected in appropriate budgetary control now being in place for both the off-street and on-street parking functions.

Although now in hand, further work is still required with particular reference to the previous recommendations made for compliance with Financial Rules.

Both the Parking Administration Manager and Head of Integrated Transport & Sustainability are in the process of establishing a management framework that will ensure an acceptable balance exists between the management of the off-street and on-street parking functions and that further efficiency gains are achieved.

Performance Management	Final	Satisfactory

This review established that there was clear and appropriate ownership of each of the Corporate Strategy Performance Indicators.

Testing confirmed that there was sufficient evidence to support the accuracy of performance data with 3 (minor) exceptions. Data for indicator WC02 (overall footfall at Leisure@) may not have presented a complete picture of footfall at Leisure@ because it did not include large groups, such as school groups. Consideration should be given to either changing the way data is collected to include groups, or amending the title of the indicator to provide a more accurate description of the data presented. Data for NI008 (Adult participation in sport) could not be verified as the original source data had been withdrawn by Sport England and replaced by an amalgamated figure. HR05 (Number of FTE days absence per employee) could not be tested as the HR Operations team were not able to run the necessary reports due to a lack of experienced staff. A note has been put on file to suggest this indicator is tested in the next audit of Performance Indicators.

Both performance indicators and the delivery of performance outcomes were reported via the online performance management tool (TEN), however some returns were either late or incomplete. Consideration should be given to drawing up a timetable for performance data returns and issuing it to all owners of performance indicators. Regular reminders could also be issued in the run up to submission dates, and any late or incomplete returns should be promptly followed up.

It was difficult to assess the effectiveness of performance reporting. There was evidence of performance indicators with a ‘red’ status being discussed at SLT, and some actions were recorded in the minutes, but there was no record of these actions being followed up at the next meeting. It would be useful to keep a record of actions identified at SLT (an action plan with timescales?) to allow progress to be followed up and monitored. Service areas reported that they had not received any feedback from SLT or the Economy and Business Improvement Overview and Scrutiny Committee. Feedback should be encouraged, including positive comments.

Recommendations from the previous audit were followed up and most had either been implemented, or were not longer applicable following the demise of National Indicators on 31st March 2011. One exception was the provision of guidance for the collation and calculation of Local Indicators. Collation of data for performance indicators in most cases relied upon one person and it would help resilience to have easily accessible guidance available so that, in the event of absence, anyone would be able to assume responsibility for performance reporting.

Management Response

I welcome the findings and recommendations in the report. Maintaining an effective performance management regime is critical in this time of great change; members and officers need to know how the organisation is delivering against the commitments set out in the corporate strategy, where the stress points are and how best we can collectively tackle under-performance. The recommendations set out in the report will help take forward this commitment.

However, this time of great change will see the organisation gradually begin to disaggregate with a wide-range of operation models coming to fruition. This will force us to reflect on our approach to PM, as the current system may not give members and officers the reassurances they need to effectively monitor the performance of service deliverers.

Annual Governance Statement Review	Final	N/A

Ongoing issues with Payroll resilience and capacity are known and have been raised on the Corporate Risk Register. The annual audit of Payroll in 2010/11 resulted in a ‘Limited Assurance’. Action is being taken to manage the risk; this will be monitored via the Corporate Risk Register and by the Corporate Governance Group through the Significant Issues Action Plan.

Business Continuity Plan (BCP) – BCPs are in place but as yet no system recovery testing has been completed based on worst case scenario involving reinstatement at standby Depot site. A project is underway to resolve the issue of testing the BCP. Progress on this issue will be monitored via the Corporate Risk Register and by the Corporate Governance Group through the Significant Issues Action Plan.

Financial Controls – audit work carried out during 2010/11 identified issues relating to the effective completion of reconciliations. These are key controls that must be completed monthly (Financial Rule 8.7). This has been discussed with the Section 151 Officer and it has been suggested that Financial Services will take an overview of service based reconciliations across CBC with the aim of confirming that reconciliations are regularly and effectively completed, and offer help and guidance where necessary. However, responsibility for ensuring reconciliations are completed still lies within the relevant service areas and Directors.

Risk Management – divisional risk registers and minutes from divisional team meetings were requested to provide evidence to support responses relating to Risk Management. Areas tested: Resources, Built Environment and People Organisational Development & Change. All service areas supplied the information requested, this indicates that divisional risk registers are maintained and Risk is a standing item on agendas for divisional team meetings.

Performance Management – agendas and minutes from divisional team meetings were requested to ascertain how performance was monitored and managed. Areas tested: People OD & Change and Built Environment. Service areas supplied the information requested; this indicates that performance is monitored regularly in divisional team meetings.

Data Quality – Service Managers returns in the area of ‘Commissioning’ stated that data is checked for reasonableness. Data is drawn from corporate systems so reliability is placed on controls in place within those systems. There is no formal departmental checking and therefore nothing to specifically substantiate.

‘Partial’ or ‘Not met’ responses to be challenged/followed-up – Business Continuity Plans (BCP) (see above, project already underway), Equality, Staffing (safeguarding children and vulnerable adults), and Information Management (compliance with information security policy). BCP Equality and safeguarding will be monitored through the Significant Issues Action Plan Follow-up action could include: checking that service delivery plans include actions to improve performance in these areas, monitoring progress at SLT and/or CGG.

AGS Process

There are 3 internal control checklists: Service Managers, Directors, and Strategic Directors. The Directors and Strategic Directors checklists also double as Certificates of Assurance, and these are completed and returned (signed hard copy) to be used in compiling the Council’s Annual Governance Statement. The certificates have been adjusted and questions tailored according to the level they are aimed at (e.g. service level, strategic level). Service Managers returns are not mandatory but may be useful for Directors when completing their own return.

Directors’ responses were entered onto a spreadsheet by the Policy Officer, the results were analysed and reported with comment to SLT.

The current process for producing the AGS is satisfactory and is in line with current guidance from CIPFA’s Better Governance Group and Grant Thornton.

Licensing	Draft	
Risk Management	Ongoing	
Governance Compliance	Ongoing	
Information Technology	Ongoing	

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Audit Committee 2011-2012 work plan

Item	Officer
21 September 2011	
Chairs briefing: 17 August 2011	**Complete reports by:** 09 September 2011
Internal Audit monitoring report (including recommendation tracker update) – standing item	Rob Milford
Year end – Audit Committee reporting	KPMG
Review of Annual Statement of Accounts	Mark Sheldon
Report on progress in delivering KPMG action plan	Sara Freckleton
Revised financial rules as a result of GOS Shared Services	Mark Sheldon
Enhancement of Audit Partnership Governance	Rob Milford
Local Authority Company governance arrangements – presentation	Tbc
Corporate Governance Group – update (briefing for information only)	Bryan Parsons
11 January 2012	
Chairs briefing: 30 November 2011	**Compete reports by:** 30 December 2011
Internal Audit monitoring report (including recommendation tracker update) – standing item	Rob Milford
Annual audit letter	KPMG
Grant certification	KPMG
Audit strategy 2011-12	KPMG
Future external audit proposals – government response to consultation	Rob Milford
Audit Committee self assessment	Tbc
Corporate Governance Group – update (briefing for information only)	Bryan Parsons
21 March 2012	
Chairs briefing: 15 February 2012	**Compete reports by:** 09 March 2012
Internal Audit monitoring report – standing item	Rob Milford

Item	Officer
Corporate Risk Register – annual update	Bryan Parsons
Corporate Governance Group – update (briefing for information only)	Bryan Parsons
20 June 2012	
Chairs briefing: 17 May 2012	**Compete reports by:** 08 June 2012
New member training session	
Internal Audit monitoring report – standing item	Rob Milford
Interim report	KPMG
GO Shared Services – post implementation update	Tbc
Corporate Governance Group – update (briefing for information only)	Bryan Parsons
Items to be added at a future date	
Corporate Strategy 2011/12 – consideration of governance issues – is this still relevant?	
Joint training session with Cotswold and West Oxford councillors?	Rob Milford / Mark Sheldon

Briefing Notes

Committee name: Audit Committee

Date 21 September 2011

Responsible officer: Bryan Parsons

Corporate Governance Group

This briefing paper contains information to keep Members informed of matters relating to the work of the Committee, no decisions are required but members can make comments on the work of the group or suggestions for additional action.

1. Why has this come to Audit Committee?

1.1 To update the Committee on the work of the Corporate Governance Group (CGG).

2. Summary

2.1 The council has a statutory duty to prepare an annual governance statement (AGS) to be approved as part of the annual statement of accounts. The AGS includes a Significant Issues Action Plan (SIAP); this is approved by the Audit Committee and indicates how the council is complying with the code of corporate governance including internal control arrangements. The audit committee need to satisfy itself that the AGS fairly reflects the arrangements within the council.

2.2 The CGG which is chaired by the Chief Executive and routinely meets to;

- monitor and challenge the internal controls (Annual Certificates of Assurance checklist),
- monitor progress against any recommendations that arise from external audit assessments,
- consider progress against the SIAP; and
- monitor the risk management procedures.

The minutes of the CGG since the last the last Audit Committee are being provided to the Audit Committee so that they will have a more informed view of the issues when the AGS is presented to it for approval.

3. Conclusion

The CGG have agreed terms of reference and considers information from a range of internal control sources and assurance checks. These issues and the outcomes from the checks are placed within appropriate action plans, discussed and monitored. The CGG would welcome any comment or input from the audit committee on progress against the action plan or items recorded within the CGG minutes.

4. Summary of supporting information

- Appendix 1 minutes of the Corporate Governance Group meetings on the 18th August 2011.
- Appendix 2 a copy of the significant issues action plan highlighting progress against the Annual Governance Statement

5. Further information

5.1 If you require any further information on any of these issues please contact; Bryan Parsons

- Policy officer - governance 01242 264189 bryan.parsons@cheltenham.gov.uk

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Corporate Governance Group
Minutes
18th August 2011
2.00pm Sherbourne Room

Item	Subject	Notes
1	Apologies;	Sonia Phillips It was noted that Julie McCarthy would be permanently replacing Amanda Attfield on the group
2	Minutes of the last meeting 31st May 2011	Accepted
3	AGS audit committee feedback on action plan Significant Issues Action Plan update	The draft action plan was considered, updated and approved with deadlines in line with Audit Committee comments.
4	Review of the Code of Corporate Governance - Commissioning - Constitution	The CCG was reviewed and updated in respect of changes linked to commissioning and the constitutional review. The code will be considered again by officer working group on the 23-08-2011 and will then be passed to One Legal as part of the constitution review.
5	Audit Committee - self assessment KPMG suggestion	RM proposed that IA carry out a review of the effectiveness of the Audit Committee as per the KPMG suggestion. He will discus with Chairman as to the best way to facilitate the review and its scope. This was agreed as the best way forward.
6	2011/12 annual assurance process – discussion on approach	The 2010-11 review of the 2009-10 assurance check was discussed and comments made by Senior Leadership Team (SLT) on the process and changes to the senior management structure were taken into account. It was agreed that the process for 2010-11 assurance check should be as close as possible as the 2009-10 so that improvements could be easily identified. BP to update SLT in the autumn when checklists have been updated.
11	AOB	Audit Commission's letter regarding the future of local audit was discussed and RM confirmed that an update would be given to the Audit Committee. SF and MS updated the group on the work on the constitution and Financial regs. Both confirmed that they were on target for Council report in October. SF said that a further officer meeting was planned to discus the constitutions Policy Framework. BP circulated a structure diagram to highlight the new SLT and exec board structure which will be put on the intranet.
12	Date of next meeting 6th October Montpellier Room.	

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Significant issues action plan – 2010-11

Control issue and source April 2010-11	Proposed action	Action taken	Proposed completion date	Lead officer
The new management structure, partnership working and recommendations from the PIR necessitate a revision of the Constitution and Financial Rules (AGS)	Review ongoing to be reported to Council during 2011	Member working group set up to consider constitution. Officer group considering Financial rules to reflect constitution changes, freedom and flexibilities, GO project and new management structure.	October 2011	Monitoring officer Director of Resources
Planned constitutional and Financial rule changes and the restructuring of the Senior Leadership Team necessitate a review of the Annual Assurance process to ensure that it remains effective (AGS)	Provide a report to SLT by October 2011 the proposals for the annual assurance review for 2011-12	CGG considered feedback from 2010-11 assurance check 18-08-2011 and an action plan for is being drafted for 06-10-2011	December 2011	Director Resources
The current audit of payroll highlights that controls could be put at risk due to anticipated short term resource constraints in the payroll team. Audit Assurance report carried forward from 2010-11 AGS SIAP	Payroll resilience is being addressed through temporary recruitment of expertises as required. In addition the GO partnership project will address	This issue is recorded as corporate risk and considered by SLT on a monthly basis. Staffing concerns continue, offer of employment has been made and accepted (August).	ASAP	Director OD and Change

Control issue and source April 2010-11	Proposed action	Action taken	Proposed completion date	Lead officer
	resilience issues in the longer term.			
The Business Continuity Group identified the need for a robust test of back-up ICT systems (AGS)	Upgrade back up systems and install new equipment to migrate the key business systems. Planning a full test for July 2011	Identified as corporate risk and being monitored by SLT on a monthly basis. Planned DR test of GO systems at recovery site planned for 14th to 16th September. Action plan within ICT for the phased testing of 72 key systems in place	March 2012	Graham Lewis Strategic Director
CBC needs to comply with the general equality duty to meet new obligations being placed on all public sector organisations under the Equality Act 2010 and ensure that current processes are embedded within the organisation (AGS)	Review and refresh the Equality and Diversity processes and the Project Initiation Document template	SLT have been briefed on the introduction of the new public sector equality duty set out in the Equality Act. Review of strategy being undertaken. RG will updating SLT October.	March 2012	Director of Commissioning

Briefing Note

Committee name; Audit Committee

Date; 21 September 2011

Responsible officer; Bryan Parsons

Corporate Governance arrangements and commissioning

The issue
At the June Audit Committee meeting Members made the following comments in relation to corporate governance arrangements and the commissioning process;

- Some form of framework needed to be developed which should be considered as part of every commissioning review. Ultimately, regardless of the delivery option the Council would still require the same governance arrangements.
- The primary issue was the 'governance' column. The Audit Committee needed assurances that the relevant governance arrangements were in place and that these were enforceable.
- The document should show what level of control the Council would have over the various delivery options, for example, the Council would have little control over a Limited Company.

Purpose of this briefing is to provide assurance to the committee of the arrangements that are in place or being reviewed in respect of Corporate Governance. Any governance arrangements relating to specific commissioning projects, could if appropriate, be reported separately to Audit Committee and Cabinet as part of the project.

The council has in place a **Code of Corporate Governance** and 3 framework guides to support Members and staff on working on commissioning projects;

1. A framework for Member roles within the commissioning cycle
2. A framework for the commissioning processes, resources and toolkits
3. Delivery Model Assessment Matrix.

Code of Corporate Governance

Cheltenham Borough Council has an approved Local Code of Corporate Governance the purpose of which is to demonstrate that the Council is complying with the framework recommended by CIPFA/SOLACE. It identifies its key internal policies and procedures that provide the Council with a framework to meet 6 principles which are:-

1. focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
3. promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. developing the capacity and capability of members and officers to be effective; and
6. engaging with local people and other stakeholders to ensure robust public accountability

This code is revised annually and a report is made to Audit Committee on its effectiveness and the need for any amendments. The Corporate Governance Group is currently reviewing the need to update the code in respect of its work on commissioning any amendments will be reported to Audit

Committee in March. A copy of the current Local Code of Corporate Governance can be found on the intranet and internet by following this link. Local Code of Corporate Governance

Framework for Member Roles within the commissioning cycle

This framework provides guidance on the role of Member's within the commissioning cycle it was discussed by the Cross Party Member's group and subsequently circulated to all Member's in February 2011. It Includes material based on the presentation given by Strategic Directors to the Cross Party Member's Group in March 2011.

The presentation described a skeleton framework based on discussions to date and will be reviewed following further work on the commissioning processes. It includes examples of the roles and responsibilities of the Council, Cabinet, Committees and constituent members for example it illustrates the role of Cabinet and the Audit Committee in respect of governance. A copy of this framework is attached at appendix 1.

Commissioning processes, resources and toolkits

The council has developed a comprehensive corporate resource to guide staff involved in the commissioning process. It provides advice, guidance and links to internal and external resources to ensure that there is consideration given to the 4 key stages of the commissioning cycle. Many of these documents form part of the councils established policies and guidance which are referred to within the Code of Corporate Governance for example the Monitoring and Review stage refers to the key process of *using corporate governance to ensure that elected members and executive board have the assurances that commissioning processes and decisions are compliant, well controlled and fit for purpose*.

In Gloucestershire an 8-stage cycle (see the following table) is being used for Joint Strategic Commissioning Plans. The commissioning cycle is a model - commissioning processes will work in different ways and may start at different points in the cycle. A copy of this resource is attached at appendix 2.

Stages of the Commissioning cycle	Gloucestershire 8 stage cycle
1. Analysis	*1a - Needs - What do we know about current and future needs?*
	1b - Resources - What capacity and resources do we have available to respond?
	1c - Priorities - What outcomes are most important / urgent for us to deal with?
. Planning	*2a - Options - What different solutions are there and who might be involved in developing them?*
	2b - Strategy - What are we going to do and how are we going to do it?
3. Sourcing/procurement	*3a - Implementation - Commissioning of new capacity & de-commissioning of old capacity*
4. Monitoring and review	*4a - Monitoring - Is the strategy delivering the improvement needed? Are there unexpected consequences we need to address?*
	4b - Review - What changes are needed to our strategy?

Delivery Models Assessment Matrix

There are a wide range of different delivery models that a local authority should consider when commissioning. Examples of these include shared services, local authorities companies, civil societies, charitable bodies and community interest groups, officers and Members will need to decide which model is best depending on the circumstances.

This matrix provides guidance on the characteristics, opportunities, limitations and financial implications for each model type to support the decision making process. A copy of this matrix is attached at appendix 3 although Members should note that it is regularly reviewed and updated.

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Tel No: 01242 264189
Email: bryan.parsons@cheltenham.gov.uk

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Framework for Member Roles

Version 3

May 2011

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This version of the framework…

- Is based upon the original version discussed by the Cross Party Member's group and subsequently circulated to all member in February 2011
- Includes material based on the presentation given by Strategic Directors to the Cross Party Member's Group in March 2011 and further discussion by the Group

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Creating a framework

- Goal is to create a framework which reinvigorates democracy
- This presentation describes a skeleton framework based on discussions to date
- It’s based on a large commissioning exercise and our standard model of a commissioning cycle

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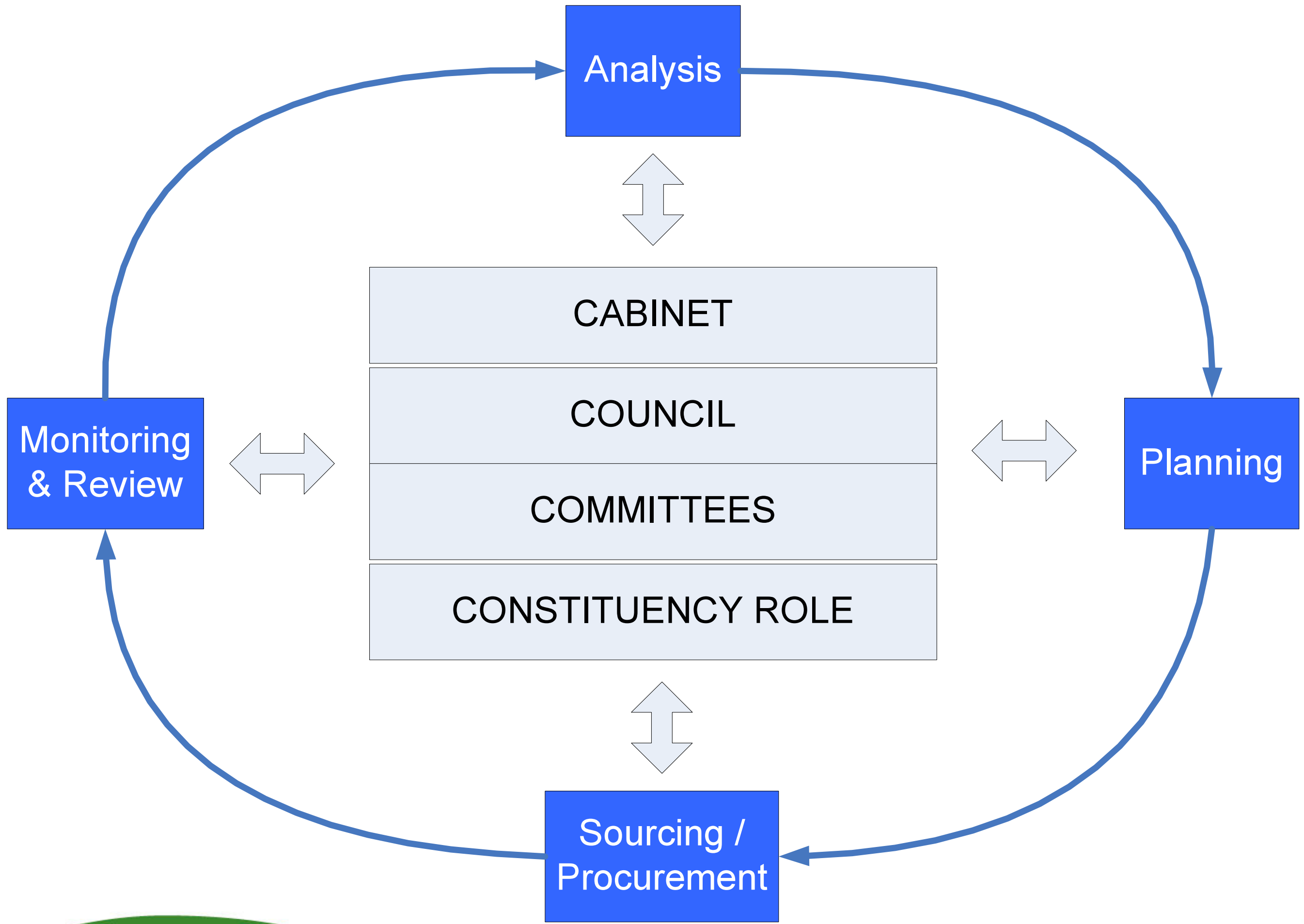
The commissioning cycle



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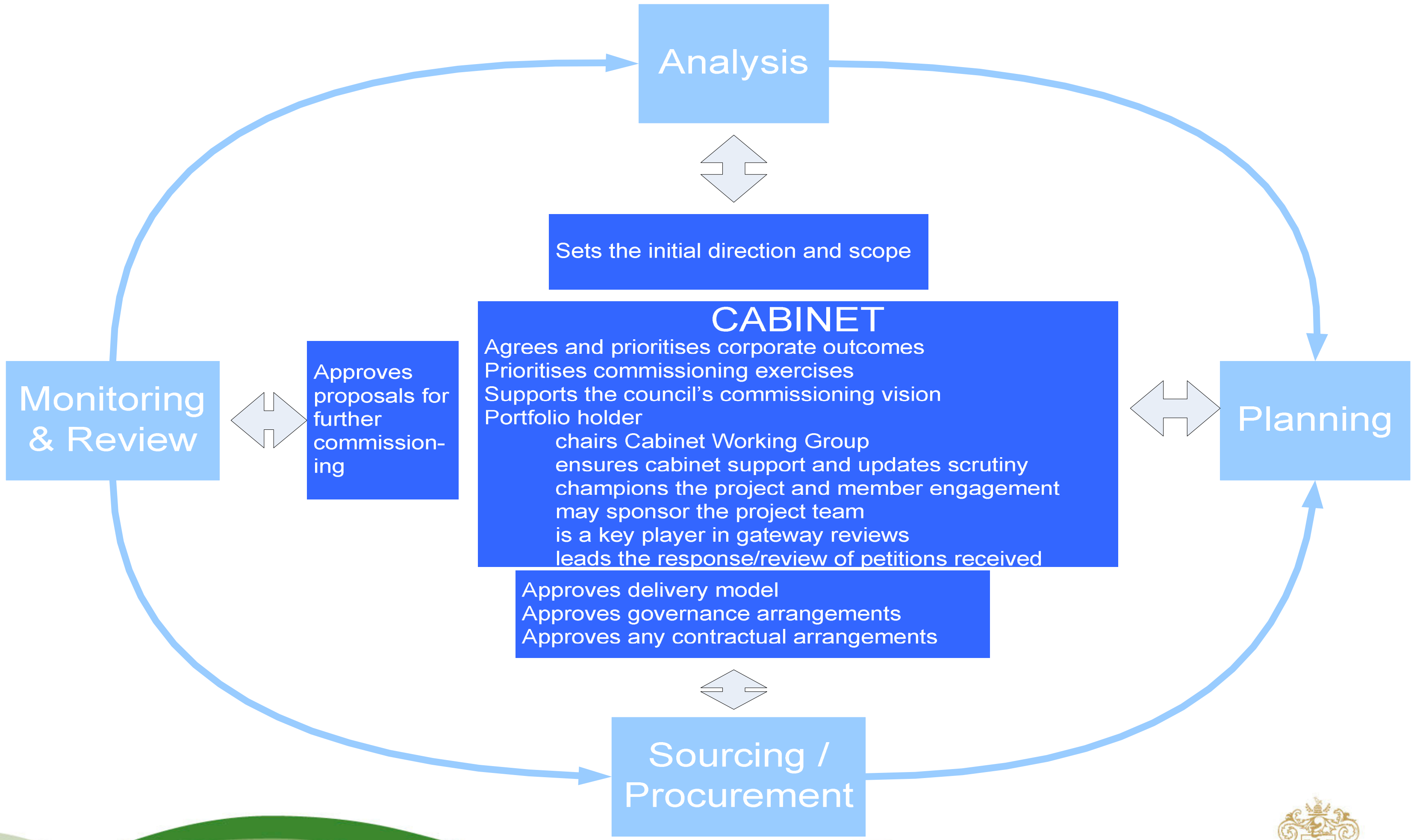
Cabinet role



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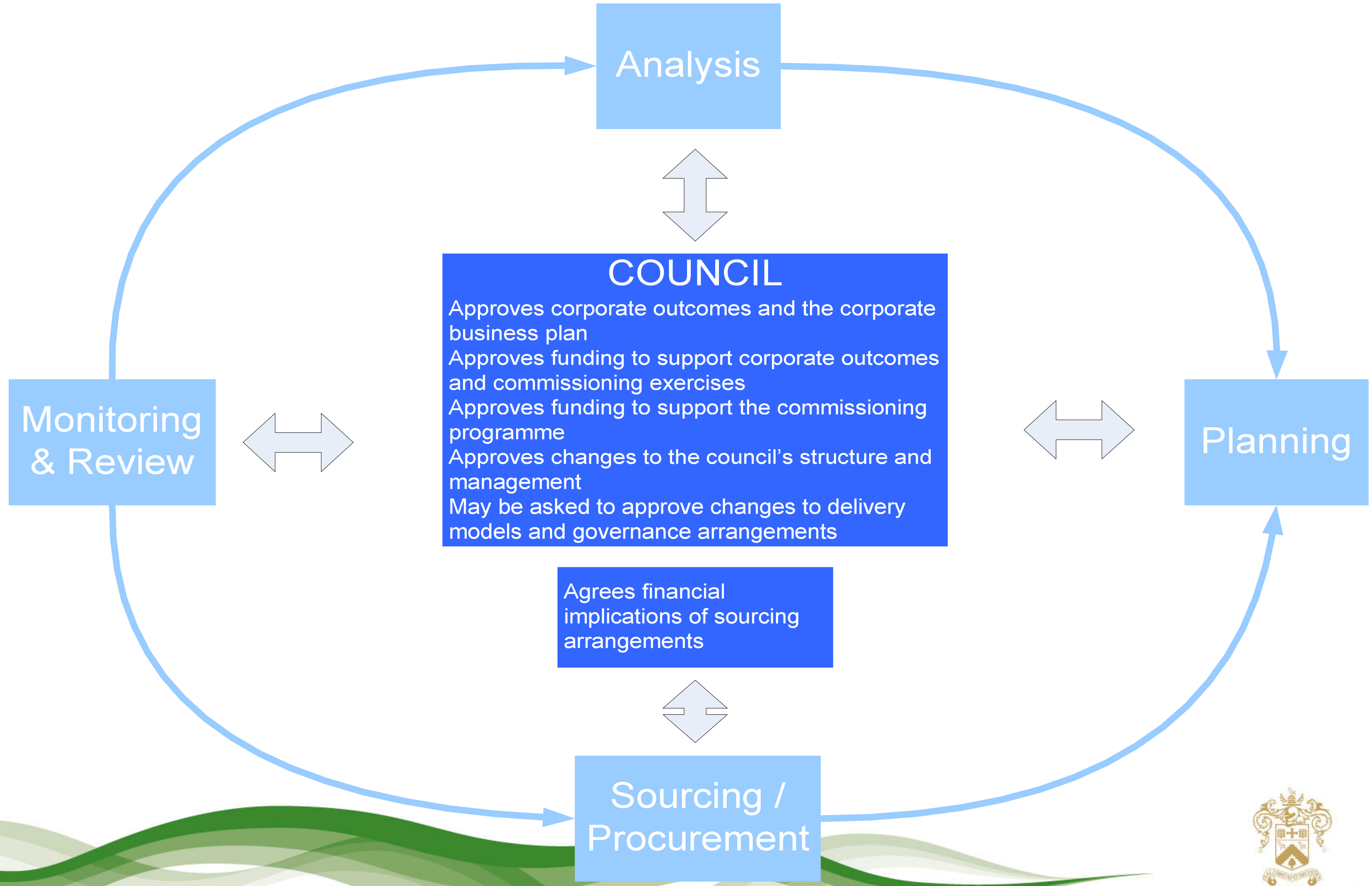
Council role



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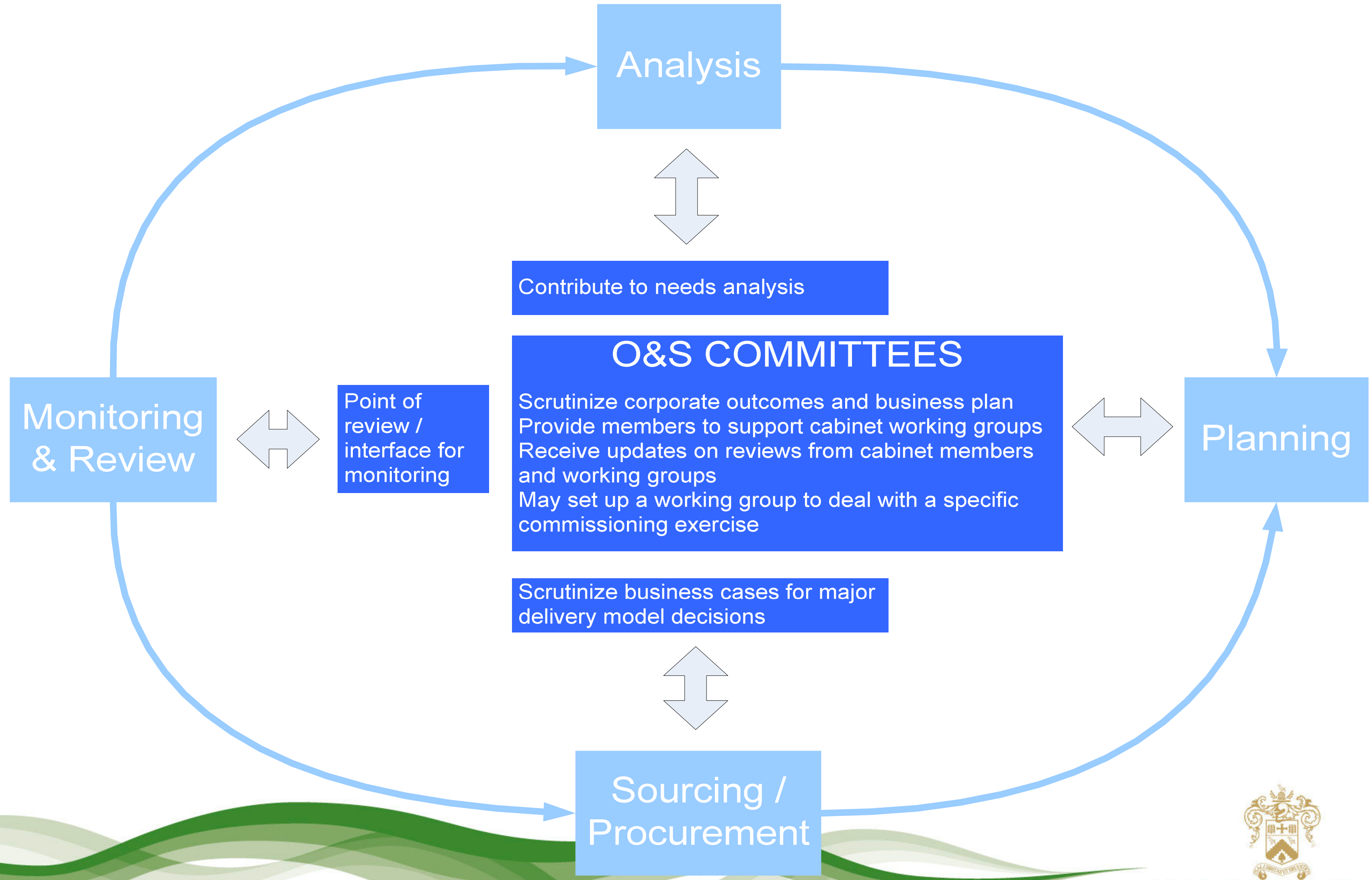
O&S Committee Role



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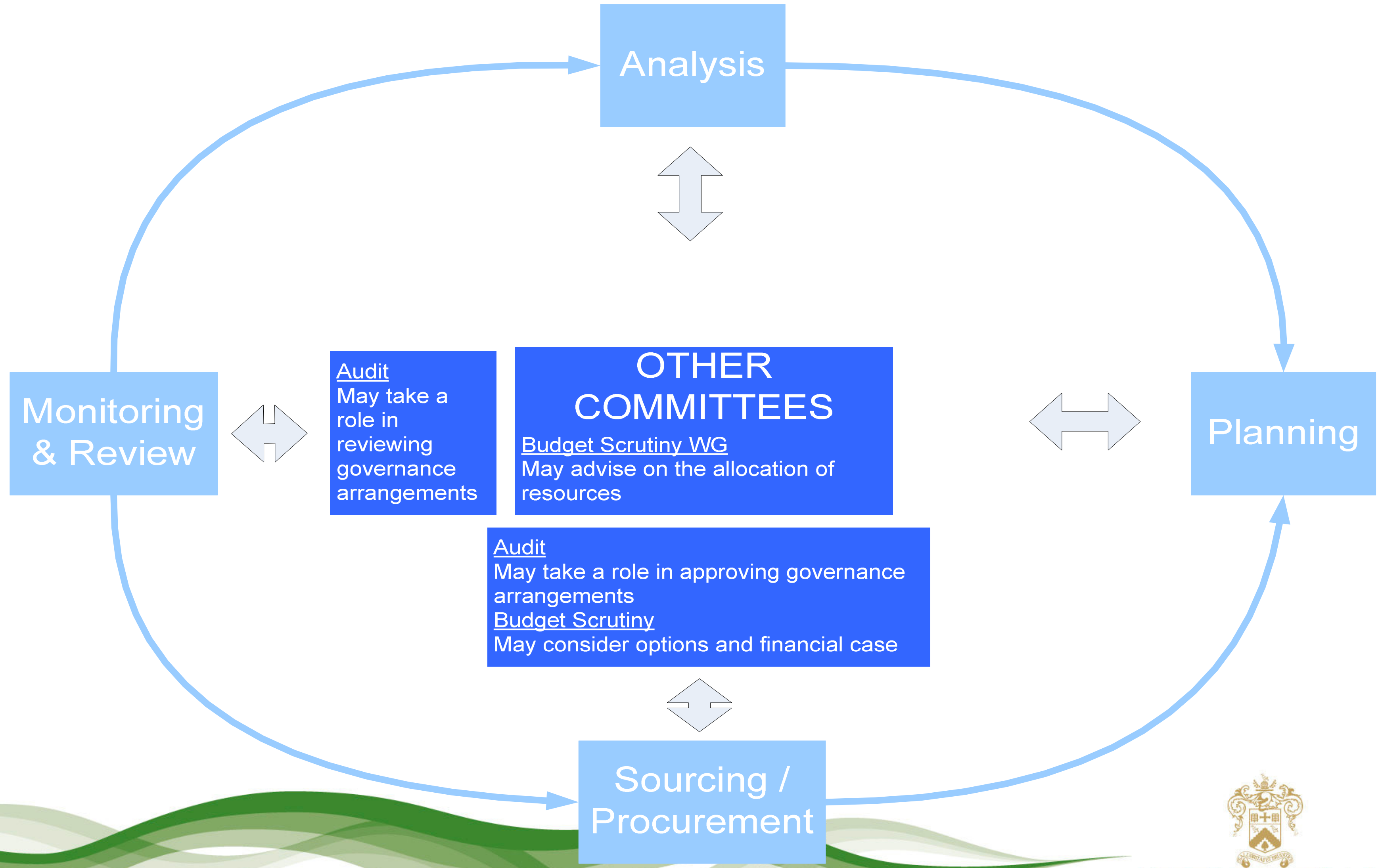
Role of other committees



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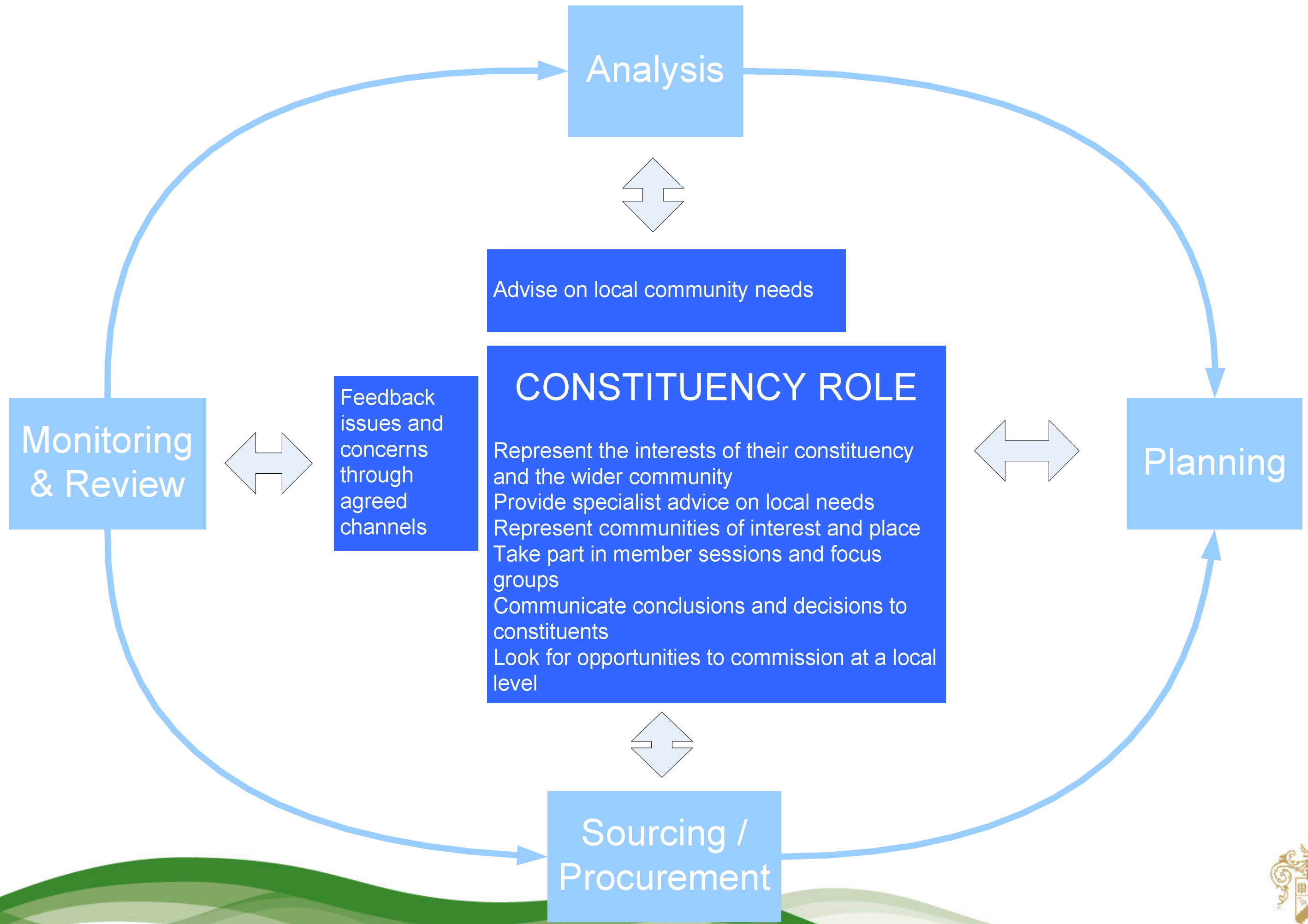
Constituency role



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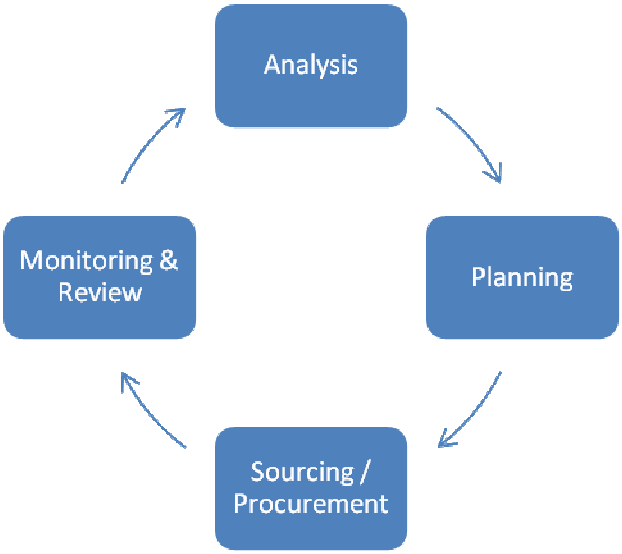
Commissioning processes, resources and toolkits

v.3.2 March 2011



The simplest representation of the commissioning cycle has four key stages. In Gloucestershire an 8-stage cycle is being used for Joint Strategic Commissioning Plans. The commissioning cycle is a model - commissioning processes will work in different ways and may start at different points in the cycle.

1. Analysis	*1a - Needs - What do we know about current and future needs?*
	1b - Resources - What capacity and resources do we have available to respond?
	1c - Priorities - What outcomes are most important / urgent for us to deal with?
2. Planning	*2a - Options - What different solutions are there and who might be involved in developing them?*
	2b - Strategy - What are we going to do and how are we going to do it?
3. Sourcing/procurement	*3a - Implementation - Commissioning of new capacity & de-commissioning of old capacity*
4. Monitoring and review	*4a - Monitoring - Is the strategy delivering the improvement needed? Are there unexpected consequences we need to address?*
	4b - Review - What changes are needed to our strategy?

Commissioning processes

1. Analysis	***1a – Needs:*** To develop a shared view of what service users and the wider community need from our services now and in the future. *Aspirations* • To work collectively with partners to ensure we have an effective needs analysis sets out what information already exists, what information is needed and what the gaps are;	*Key processes* • Estimating current and future needs through population data, population demands, participation profiles and other thematic needs analyses • Identifying key groups of people and priority places for intervention • Working through thematic partnerships and VCS forum to ensure collective understanding of needs.	*Resources / toolkits available* Gloucestershire Joint Strategic Needs Assessment (needs Maiden log-in) Summary from eJSNA Cheltenham needs analysis (Sept 2009) Unemployment bulletins Director of Public Health annual report Maiden – neighbourhood info (needs Maiden log-in) Inform Gloucestershire Office for National Statistics – census 2001 Indices of Deprivation 2007 Glos Children and Young People's Needs Analysis 2009 Chelt Community Safety Needs analysis Glos Economic assessment – not yet published Glos Housing Needs Assessment Local Futures district profile Community Cohesion insight report Child poverty data CSP thematic partnerships Sport England profile Cheltenham Labour Market profile IDeA toolkit; needs analysis for culture and sport
	1b – Resources: To ensure that we know what resources, existing service provision and capacity is available to meet needs. *Aspirations* • A shared understanding of the totality of resources available to the locality and how through a commissioning approach these resources can be used more effectively and efficiently to deliver improved outcomes and improved value for money	*Key processes* • Understanding CBC current and future resource frameworks for service area • Understanding uptake of current provision in terms of service user information, bench-marking, accessibility • Understanding satisfaction with current provision through customer feedback data • Understanding community views through engagement mechanisms • Understanding how partner resources are currently utilised to support needs through thematic partnership and total place research.	*Resources / toolkits available* Service user information Benchmarking Audit / Quality assessments Performance indicators Maiden accessibility toolkits (needs Maiden log-in) Maiden access maps(needs Maiden log-in) Customer complaints/comments/compliments/insight Community engagement processes CSP thematic partnerships

		• Understanding what the gaps are in service provision between what is currently provided and the identified needs of the population.	Total place studies Mapping and Gapping – sample study of cultural provision in the West Midlands CBC People and Organisational Development Strategy CBC Learning Gateway CBC Competencies CBC Values
	1c – Priorities: To determine the most important issues and outcomes that the council needs to address and the services that will be needed to deliver these outcomes. A prioritised list of services that will be commissioned. *Aspirations* • A clear picture of political aspirations and priorities which will shape the annual budget and corporate strategy • A clear picture of community views about the most important issues facing Cheltenham and how best the council can respond. • An agreed set of outcomes that the council will work towards that stem from the needs analysis process.	*Key processes* Understanding key policy drivers for government and partner organisations Engagement with cabinet, O+S and other members to test needs and resources analysis Engagement with people and places to test needs and resources analysis. Engagement with CSP and thematic partnerships to help shape priorities Stakeholder engagement with VCS bodies to test needs and resources analysis. Community strategy process which will set out a collective vision for Cheltenham and a joint commissioning plan which is focused on delivering a set of agreed and shared outcomes for Cheltenham Corporate Strategy process that sets out the commissioning framework for the council by setting out a statement of agreed priority outcomes that the council will deliver over the longer-term and annual action plan. Annual budget process to deliver agreed priority	*Resources / toolkits available* Community engagement processes Consultation Strategy (2004) Consultation Toolkit CSP thematic partnerships Compact Commissioning Code for Gloucestershire Good Commissioning Guide Place-based commissioning PID Community strategy 2008-2011 Corporate Strategy 2010-2015

		outcomes. Ensuring that Future-proofing and horizon scanning sessions are built into the commissioning process. Joint Consultative Committee and collective bargaining mechanism – Trade Unions	 Leisure and Culture future-proofing exercise
	Gateway review questions		*gateway questions - analysis.doc*

Phase 1 would conclude with a gate review to evaluate the costs and benefits of proceeding to phase 2; we would expect the decision about proceeding to phase 2 to be made by informal cabinet though could be cabinet in certain circumstances.

Phases 2a and 2b are not necessarily sequential – outputs from the service specification will help shape service delivery solutions.

2. Planning	***2a – Options:*** To identify the service delivery solutions that will meet the needs and priorities identified in the analysis stage within the agreed resource frameworks. *Aspirations* • Commissioners are aware of the different delivery options at their disposal including an assessment of the strengths and weaknesses of existing providers. • Commissioners are able to benefit from a diverse market of providers through encouraging innovative approaches, more collaborative provision through partnership, more shared services with other councils, working with VCS providers, Big Society delivery options or mutual companies.	*Key processes* Engagement with VCS through the VCS forum, round table and through thematic partnerships to understand the VCS local provider market, the potential of the market and where gaps or deficiencies could realistically be overcome. Developing the capacity of potential VCS providers to enable the VCS to fill identified gaps in service provision where business case exists. Developing the capacity of potential community providers through community capacity building, asset transfer etc. to build capacity within the sector. Being risk aware about the opportunities that different service delivery models will bring	*Resources / toolkits available* Compact Commissioning Code for Gloucestershire Good Commissioning Guide Community engagement processes Risk management policy Total place studies Models assessment spreadsheet
	***2b –Specifying the service**:* To design and specify the service. *Aspirations* Commissioners are able to design effective services that deliver the council's agreed outcomes within agreed resource frameworks and which are responsive to local needs. Commissioners are able to design services that that support the council's over-riding obligations: • promoting sustainability • reducing carbon emissions and adapting to climate change • promoting equality and diversity • safeguarding children & vulnerable adults • value for money Commissioners are able to work collaboratively with others outside the organisation to design effective services.	*Key processes* Setting clear objectives in relation to the Council's priorities, corporate outcomes, shared targets, and taking into account views of users, residents and other stakeholders. Identifying a clear plan of actions that closes the gap between where the service is now and where it needs to be in the future in respect of future demographic need and public policy frameworks. Identifying performance targets, financial, workforce and other resource requirements. These will form the basis for monitoring during the year. Ensuring quality assessment processes are embedded and that these inform service design	*Resources / toolkits available* Service improvement and redesign Systems thinking Equality impact assessment process Community outcomes assessment– priorities assessment tool (needs updating) Safeguarding web-pages value for money toolkit CBC values and competencies Mental well-being checklist
	Gateway review quesions		*gateway questions - planning stage.doc*

Phase 2 would conclude with a gate review to evaluate the costs and benefits of proceeding to phase 3; we would expect the decision about proceeding to phase 3 to be made by cabinet though could be council in certain circumstances.

3. Sourcing/procurement	***3a – Sourcing and procurement****:* To use the service specification to commission services from a range of providers. *Aspirations* Commissioners are able to evaluate current delivery models and alternative options in a fair and consistent way which meets the needs of users; takes account of sustainability in its widest sense; and ensures the most appropriate delivery model – in-house, external, public-private partnership or another delivery model to deliver value for money and improved performance.	*Key processes* Using formal procurement processes (where appropriate) to ensure best practice and legal compliance in the procurement of goods and services. Developing robust evaluation criteria so that commissioners can assess current delivery models and alternative options in a fair and consistent way which meets the needs of users; takes account of sustainability in its widest sense. Using effective contracts to specify the terms by which the service provider will comply with the council's aspirations including supply of performance and financial information. Using service plans as a means of specifying standards for in-house provision. Using grants to fund projects and where it is not cost effective or necessary to tender for a service Ensuring contracts and grants reference equality legislation and s.11 safeguarding legal obligations. Using tender specification to emphasise local knowledge and community links where this is an important part of the service. However, a local provider cannot be specified Providing clear guidance on partnership and consortia bids e.g. guidance on collusion and competition Job evaluation	*Resources / toolkits available* Procurement strategy Social return on investment Contract rules Community giving grants and Community Investment Grants Equality act S.11 requirements (safeguarding) service plan template Trade Union Facilities Agreement Policies for Managing Change - TUPE, restructures, redundancy Recruitment policy and procedure Employee Health and Safety CBC Values, and Competencies

		Joint Consultative Committee and collective bargaining mechanism	
	Gateway review questions		*gateway questions - Sourcing.doc*

4. Monitoring and review	***4a - Monitoring*** **–** to ensure that the service is delivering the specified outcomes within the agreed resource framework. *Aspiration* Commissioners are supported by dynamic processes that enable them to have up to date information about how well their services are performing	*Key processes* Using corporate governance to ensure that there elected members and executive board have the assurances that commissioning processes and decisions are compliant, well controlled and fit for purpose. Using performance management to understand current performance and enable effective benchmarking and analysis of inputs versus outputs and outcomes. Developing a balanced scorecard to support commissioners measure performance information, financial information, HR information Using risk management to make sure that commissioners are aware of the risks to the delivery of its objectives and that there are effective mitigating actions in place. Ensuring that customer views are collected and used by providers and commissioners to improve service delivery.	*Resources / toolkits available* Code of corporate governance significant issue log, assurance certificates TEN - Performance management model Risk Management policy Customer complaints/comments/compliments/insight
	4b - Review **–** to ensure that the council is aware of any changes that might be needed to the way services are commissioned *Aspiration* That the council is able to respond to changing needs, legislation, resources, markets and member priorities to help shape existing commissioning decisions and future commissioning projects.	*Key processes* Using effective communications to ensure that internal and external audiences are kept informed about the work of the council, Collective bargaining and Joint Consultative Committee process.	*Resources / toolkits available* CBC values and competencies
	Gateway review questions		*Gateway questions - Monitoring and review stage.doc*

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Commissioning - common service delivery models

Sector	Constitutional form	Broad characteristics	Opportunities	Limitations	Finance - implications	Legal/Staff/Procurement requirements	Governance	Could suit:	Decision making requirement
Public-generic term	**Shared Services**	Two or more LAs jointly run/manage services together; Scope can be informal or formal.	Can be service specific; Likely to be cheaper and quicker to establish this model than a trust. It is an established and familiar arrangement.	Depends on agreed form, see below (public sector constitutional forms).		Depends on agreed form, see below (public sector constitutional forms).	Depends on agreed form, see below (public sector constitutional forms).		
Public	**Secondment s113 LGA 1970**	A local authority can arrange for their staff to work for another council. The staff remain employed by their original council.	Simple arrangement for short term projects or to assist with capacity issues	Short term only. Requires the consent of the employee		Secondment agreement required to set out the services to be provided but essentially the management lines of responsibility	Staff remain employed by their original council.	Short term projects or interim arrangements e.g. internal audit	None other than services set out in the secondment agreement
Public	**Lead Authority s101 LGA 1972 s19/s20 LGA2000**	One local authority delegates functions to another local authority.	It is an established and familiar arrangement	Local authority delegating a functions may believe that it is losing control of that service.		s101 Agreement required. Possible to trade with other public bodies. Transfer of functions are administrative so the procurement rules do not apply. Affected staff transfer under TUPE	Usually set up a joint body to monitor shared service e.g. JMLG for Legal and Building Control		Set out in the s101 agreement
Public	**Joint Committee s101/102 LGA 1972 s19/s20 LGA2000**	Number of local authorities delegate functions to a single decision making body. This body, the Joint Committee, can make decisions jointly on matters delegated to them.	Creates a single decision making body which eliminates the need to obtain authorisation from each local authority. It can also cut across district/county functions e.g. waste disposal and collection. It is an establish, familiar arrangement.	The Joint Committee is not a legal entity and must appoint an administration authority to employ staff and the enter into contracts. Considered to be too bureaucratic as it requires the same committee administration as ordinary committees	Treated as part of administrative authority for VAT	s101 Agreement required. Administrative authority employs staff and enters into contracts. Possible to trade with other public bodies.Transfer of functions are administrative so the procurement rules do not apply.Affected staff transfer under TUPE	Representation on Joint Committee -in the case of executive functions, the person appointed must be a member of the executive and the political balance requirements do not apply. Need to consider conflicts of interest	Where shared services are being considered across a number of councils.	Although functions are delegated to the Joint Committee it is possible for each council to retain certain decisions e.g. for waste the financial plan and service design may be retained by the district councils
Public	**Local Authority Company-Trading**	It is a separate legal entity able to hold assets and enter into contracts in its own right	It can trade on a commercial basis	Company legislation applies as well as local government requirements for certain types of companies.The procurement rules apply so the council cannot simply 'hand over' its business to the company	Costly to set up.[company accounting rules apply]	Shareholders agreement, Articles of Association SLA s and other legal agreements required. Procurement rules apply. Affected staff transfer to the company under TUPE	Shareholders/Members of the Company via Shareholder/Member meetings and at an operational level at the Board of Directors.Need to consider conflicts of interest.		wholly owned by the council's)
Public	**Local Authority Company-Teckal**	It is a separate legal entity able to hold assets and enter into contracts in its own right	It undertakes work/services for the councils that control it and work/services for others is limited to 5% of its total business.	Company legislation applies as well as local government requirements for certain types of companies.	Costly to set up.[company accounting rules apply]	As above except the procurement rules do not apply to work/services undertaken for the controlling councils as the company is treated as an in- house department.	As above		Company makes its own decisions in accordance with the Shareholders Agreements and Articles.
Public	**Local Authority Company-Arms Length Management Organisation (ALMO)**	Involves a local authority setting up a private limited company to run a particular council service. The local authority – at least at the start – is the sole shareholder – but the company is run at 'arms length' from the council. ALMOs running leisure, social services and other council functions have been around for a few years. ALMOs managing council housing stock have a Company Board – usually made up of one third councillors, one third 'independents' and one third tenants. All board members have a legal obligation to put the interests of the company before any other loyalties. Not-for-profit. A Company Limited by Guarantee. Example - Cheltenham Borough Homes http://www.cheltborohomes.org.	When set up, the council will still own the assets but it will transfer the management of it's housing stock to th0 housing ALMO. ALMOs can be used for the whole, or part, of the council stock/service. LAs retain overall control of the performance and strategic direction of the ALMO. If an ALMO is not deemed to be a success, the relevant LA is able to wind it up and take management back in-house provided stakeholders have been fully involved in, and support, the decision. Separation of strategic and management roles. - Separation from the council allows staff to focus purely on service delivery. Customer focus.			Articles of Association and management agreement. Procurement rules apply. Affected staff transfer to the company under TUPE.	Members of the company via Member meetings and at operational level at Board of Directors. Need to consider conflicts of interest.		
Public	**Large Scale Voluntary Transfer - housing**	LSVT involves the Local Authority transferring the ownership of its housing stock. Key features (housing): • Transferring tenants are offered benefits such as rent guarantees, stock investment programmes and rights as 'assured tenants'. • Transfer price is determined by 'Tenanted Market Value' • The new landlord must be a Registered Provider if funding is to be secured. • Transfers are funded entirely by the private sector.	*Social Housing* : Affordable rents, Good quality service provision, Secure budgets for ongoing repair and maintenance and Provision for the homeless and other housing needs, The government is keen to see such transfers take place because it enables investment to be made in improving the housing stock without calling on public sector housing budgets or putting pressure on the public sector borrowing requirement.; *Investment* : Completion of major repairs, Provision for modernisation and Investment in new housing including achievement of the decent homes standard *Tenants* : Protection of existing rights and overall security, Rent guarantee and board representation.	• After a large-scale voluntary transfer the council is no longer a landlord, but it retains significant housing responsibilities. It is still the strategic housing council. They must also monitor and co-ordinate services delivered by many different organisations so that they are seamless to tenants and other service users. • The controlling body of the new landlord is not democratically elected.	"The basis for valuation for a LSVT is Tenanted Market Value. This values the stock as social housing, assuming affordable rents and good standards of maintenance. It does not reflect either the value of the 'bricks and mortar' or the market value, and is usually less than either of these values...The council is paid the tenanted market value for the housing stock by the registered social landlord, and usually uses the proceeds to repay debt. If the 'tenanted market value' is more than enough to repay housing debt, the council may spend the rest on investing in other services such as leisure or economic development. Sometimes the tenanted market value is lower than the level of debt that the council has outstanding from building and improving the housing stock. This situation is called 'overhanging debt' and in these instances the council must ask the government to fund the difference." Source: www.awics.co.uk	Transfer of housing stock. Agreement relating to future use, indemnities, financial payments and other obligations.	Representation on newly formed registered social landlord Board.		
Civil Society-generic term	**Social Enterprise**	Social enterprises are businesses with primarily social or environmental objectives. Their surpluses are reinvested in the business or community, rather than being driven by the need to maximise it for shareholders and owners. Example - Lodsworth Larder - http://www.lodsworthlarder.co.uk/ Social Enterprise Coalition - http://www.socialenterprise.org.uk/	A way for people to collectively 'do it for themselves'; They draw the knowledge, skills and expertise that diverse members bring; Providing employment for local people; Working with LAs to deliver public services can provide a consistency of demand for services.	Must ensure that entire income stream is not reliant on a single contract (i.e. from the LA); A barrier may be financial and structural along with a general lack of understanding of the social enterprise business model among financiers and commissioners.			Democratically owned and run, giving members real control over the direction of their enterprise and allowing them to contribute to the success of the business.	An LA wanting to inject innovative approaches and fresh thinking into traditional ways of conducting business in the public sector.	
Civil Society-generic term	**Mutual**	These are owned by and run in the interests of existing members or owned on behalf of the wider community and run in the interests of the wider community.Their key characteristic is one member one vote governance arrangement. The term is an 'umbrella' term for organisations of many different kinds of employee owned organisations or bodies controlled by their users.							
Civil Society	**Co-operatives**	A company or society set up as an enterprise and owned and controlled by its members and follows 'co-operative' principles ; It is a type of mutual whose members have a close association with the enterprise as producers or consumers of its products or services or as employees. Example - Spa Credit Unions, Worker's Co-operatives. Co-operative Directory for the SW - http://www.uk.coop/directory/rcc/S_West	A way for people to collectively 'do it for themselves'; They draw the knowledge, skills and expertise that diverse members bring; Providing employment for local people; Working with LAs to deliver public services can provide a consistency of demand for services.	Must ensure that entire income stream is not reliant on a single contract (i.e. from the LA); A barrier may be financial and structural along with a general lack of understanding of the social enterprise business model among financiers and commissioners.	All profits are distributed to members or re-invested in the enterprise		Democratically owned and run, giving members real control over the direction of their enterprise and allowing them to contribute to the success of the business.	An LA wanting to inject innovative approaches and fresh thinking into traditional ways of conducting business in the public sector.	

Commissioning - common service delivery models

Civil Society-generic term	**Charitable company limited by guarantee (CCLG)**	CLGs are usually non–profit organisations such as charities, clubs and associations; Must have charitable purposes (Charities Act 2006); Emphasis is normally concerned with the provision of a service for the benefit of the public or a specific section of it. Whilst a company limited by guarantee might actively seek to maximise its revenues through donations, subscriptions or sponsorships, it would also seek to apply such funds in relevant projects; In situations where a company limited by guarantee has more income than expenses, the excess is referred to as a surplus and not a profit	Eligible for grant funding; Tried and tested (Trusted) model; Risk averse; Protects the liability of trustees; Flexibility subsidiary structures.	Unable to hold significant financial reserves; LT vulnerability / ST restrictions; Does not support collaborative working; Unpaid Board / No quality of leadership required/ less accountable Board; Restricted from non-charitable commercial activity.	TAX exemptions (but TAX still applies); No access to debt finance;		More fixed governance provisions than CIOs; No flexibility for welcoming external stakeholders within governance structure; Subject to dual regulation by Charities Commission and Companies House.	An LA in a highly philanthropic area; An LA subsidising a private/public venture	
Civil Society	**Charitable incorporated organisation (CIO)**	The CIO is a new legal form for a charity. The two sets of regulations, which set out much of the legal framework for CIOs, have not yet been agreed by Parliament, so there may be changes to the regulations and to this guidance. The legal framework for the CIO is set out in the Charities Act 2006 and in the two sets of regulations and an Order, which are still to be made by the Office for Civil Society	Reduces bureaucracy; creates a more flexible charitable format similar to that of the company format.	An untested model			Subject to fewer fixed governance provisions and offering more flex for merger and reconstruction, with less liability (the CIO will not to be penalised for the conduct of its directors)		
Civil Society	**Charitable Trust - trustees**	The formal 'trust' format; Assets held by a body of trustees for the benefit of agreed beneficiaries. Example - Cadbury - http://www.wa-cadbury.org.uk/Page.asp?id=35	Can be established by anyone who wishes to dedicate a portion of their assets to charity; Possible to secure significant tax exemptions; Assets are being put to constructive use;	Cannot start legal action, borrow money, enter into contracts in its own name; The officers can be personally liable if the charity is sued or has debts; Provides opportunities to compete for contracts from other LAs/agencies to generate revenue streams.		Not a separate legal entity; Legally considered to be a charity in and of itself;	The body's members to take full liability for all contractual or financial responsibilities;	An LA rooted in the community, open and transparent in their dealings, highly accountable for their actions, high standards embedded.	
Civil Society	**Community Land Trust (CLT)**	A corporate body holding property for the purposes of the community rather than for private profit, and offering the opportunity for members of the local community to become involved in its governance; Its property represents fixed assets to be held in perpetuity for local use; Its profits must be used to benefit the community, other than being paid directly to its members (if a CIC); Its purpose is to facilitate locally-driven long term and affordable development – providing regeneration, conservation, or cultural benefit locally. Example - Land for People - http://www.landforpeople.co.uk CLT Network - http://www.communitylandtrusts.org.uk/home; CLT Fund - http://www.cltfund.org.uk	Can access loan finance, mortgage land assets and hold reserves; Free to extend membership to private and public sector organisation; Can work across domain boundaries; Are likely to support collaborative, cross-agenda approaches to local issues & concerns, and work positively across the public, private and third sector; Their statutory recognition provides confidence to parties; They qualify as bodies that the HCA deal with and therefore associated with the key programmes delivered by CLG; They cannot be sold but are able in principle to assimilate other models and scale up.	In principle the democratic format could discourage the scaling up of activity beyond local area; If they take charitable status their restriction on the distribution of profit reduces the appeal of collaborations to the private sector; If they take CIC limited by share status, they restrict the fiscal benefits they can receive from Treasury.			Its governance is flexible - it can choose to establish as a charity or a CIC and take on additional regulation - and its tax position depends on the legal form it uses; In addition to an asset lock protecting its property, a CLT is required to have a democratic membership.	An LA interested in furthering a policy programme of community asset transfer and participation in decision making and strengthening community influence in political processes; An LA interested in developing a private finance initiative (PFI) whereby the CLT would take ownership of the freehold and lease out the facility to the PFI provider for the duration of the agreement.	
Civil Society	**Community Interest Company (CIC)**	CICs are limited companies created for organisations that wish to conduct a business activity for community benefit; They may engage in trading and, with approval, borrow against their assets.	Eligible for most grant funding; Can access loan finance and hold unrestricted reserves without intervention; The structure supports enterprise; Appeals to private sector collaborators because of ability to pay dividends, reward loans and contract out services; Reliably regulated; Capital and asset lock - prevents cultural property being used wrongly; surpluses are re- invested for the benefit of the body Board members can be paid so are accountable and performance managed.	Offers limited philanthropy; Shareholders can vote to change its purpose - market flexibility, however need to safeguard cultural holdings.	No special tax status; caps on dividends and interest payments on loans where payment is linked to CIC's performance.		Structure enables multiple shareholders at governance level - therefore underpins both collaborative working across private, public and third sector, and community engagement.	An LA interested in actively enabling regeneration in deprived local areas; An LA able to broker strong relationships and partnerships between a thriving local private sector and its third sector / cultural sector direct delivery services; An LA interested in empowering small and specialist services to become fit for full devolution.	The Community Interest Companies regulator will consider whether applications meet the criteria to become a Community Interest Company. If satisfied, the regulator will advise the registrar in Companies House who, providing all the documents are in order, will issue a certificate of incorporation as a Community Interest Company. Source: http://www.awics.co.uk/documents/briefing_papers/economic_development/Community_Interest_Companies__15-12-2007.pdf
Civil Society	**Industrial Provident Society (IPS)**	An IPS is a society conducted for the benefit of a community. It is primarily a corporate body which can hold charitable status - setting it apart from other charitable structures because its aim is not simply to provide public benefit but to produce a definable value and to generate income.	Effectively combines charitable status and risk-averse regulation with a model designed to generate income; Democratic management of assets can embed change within an organisation; Strategic-level transparency of entrepreneurialism; Supports investment in skills and staff development.	Set up costs can be high; do not support collaborative working as much as competition; old fashioned administrative and regulatory structure [compared with CCLGs];largely unfamiliar within cultural sector; Many leisure trusts have devolved into IPSs but the structure is an archaic one and it is anticipated that the CIO will offer a better alternative for corporate charities.	Historical light touch FSA regulation; Accountability for community benefit societies will increase when required to register with the Charities Commission when Co-operative and Community Benefit Societies and Credit Unions Act 2010 comes into force.	An LA interested in using its annual subsidy as an investment to generate a growth social enterprise business that supports community ownership, empowerment and engagement in political processes. An LA interested in creating a cross-domain leisure and cultural services trust capable of earning significant revenues to reinvest in its own development and reduce the need for local authority investment over time.			
Private-Legal form	**Company limited by shares (CLS)**	This is a common private sector delivery vehicle. It is a company owned by shareholders who have a Shareholders agreements and Articles of Association.	No restrictions on trading or borrowing against assets. Flexible and commercial; Flexible for private sector partnerships; Directors are performance accountable.						
Private-Legal form	**Company limited by guarantee (CLG)**	Companies Limited by Guarantee are usually non–profit organisations such as charities, clubs and associations; Emphasis is normally concerned with the provision of a service for the benefit of the public or a specific section of it. Whilst a company limited by guarantee might actively seek to maximise its revenues through donations, subscriptions or sponsorships, it would also seek to apply such funds in relevant projects; In situations where a company limited by guarantee has more income than expenses, the excess is referred to as a surplus and not a profit; Example: An Arms Length Management Organisation.	Eligible for certain grants; Eligible for most social enterprise funding; No restrictions on reserve holdings; No restrictions on trading or borrowing against assets. Flexible and commercial; Attractive to newly independent organisations; Flexible for private sector partnerships; Directors are performance accountable.	Ineligible for much grant funding; Prohibition on profit distribution could reduce appeal for private sector; No asset locks reduce security for LAs; No independent regulation reduces security for LA; Possibility of ineligibility for some professional standards i.e. Accreditation;	Eligible for NNDR savings and some VAT savings as non-profit distributing organisation		Despite qualifying as a NPDO – thereby forming to all intents and purposes a charitable vehicle – it is only subject to the light touch regulation of Companies House. (NDPO = Non Profit Distributing Organisation)	An LA looking for a model that enables its devolved service to commit to public benefit but to achieve significant improvement and become financially self sustaining before becoming constrained by regulation.	
Private-legal form	**Limited Liability Partnership (LLP)**	A body corporate with a legal personality separate from that of its members, the LLP is a hybrid entity combining the advantageous tax characteristics and organisational flexibility of a partnership with limited liability for members. 'Unlimited capacity' – i.e. no restrictions on any activities. Cannot lose more than they invest.	Taxation applied as a partnership; no restrictions on reserve holdings; Joint venture/ brings stakeholders inside a partnership - aligns interests; Protection of limited liability for members; Appeals to private sector through tax, dividend and contracting; Appeals to public sector through share restrictions or regulation.	No NNDR (National Non domestic Rates) exemptions; Ineligible for grant or social enterprise funding; Less direct opportunity to fulfil community engagement and empowerment agendas; Lack of security provided by asset lock; Possibility of ineligibility for some professional standards i.e. Accreditation.			LLPs are governed by the LLP Act 2000 and are subject to light touch regulation by Companies House; Governance is a matter of member choice, with no requirement for directors, board structures or management structure; Members have a joint responsibility to divide the running of the business/ no individual responsibility for each other's actions;	An LA in a deprived area or with services requiring high capital investment and wishing to contract out services to private partners in a PPP; an LA wishing to donate profits earned from LLP membership to other services and claim gift aid.	

Commissioning - common service delivery models

Civil Society	**Volunteering/ Resident & Tenant Associations/ Community groups**	A Residents' Association is a local group, made up of local residents (tenants and/or homeowners) who represent the interests of everyone living in a particular area or building. Some associations come together to address one specific issue or community event (Royal Wedding!), while others hope to address a wider spectrum of matters. A few British residents' associations have registered as locality-based political parties to enable them to participate in local elections at district and county council level.	Residents - getting to know neighbours; sharing ideas and local information; becoming more involved by having a greater say about decisions relating to their neighbourhood; meet new people; learn/update skills; gain confidence in dealing with local and community issues; speaking to local authority, Police etc and be taken more seriously as a formal group; accountable to local residents; increased access to training and networking opportunities; access to funding i.e. Lottery and government grants; Local Authority - Understanding community needs and wants; satisfaction with local area; community involvement; empowering the sense of community.	Issues may arise when residents don't wish to address issues formally - the RA would need to have increased contact with residents if covering a large area of the town and be proactive when issues arise to ensure they are addressed formally.			Not governed by any legal requirements (unless becomes a limited company or charity); adoption of a Constitution is recommended. Election of strong a Chairperson to guide and focus the group; also Vice-Chairperson, Secretary, and Treasurer and committee members; need to set out your aims and stating that the group is open to all residents; account for all decisions (minutes of meetings/record and publicise expenditure etc).		
Generic	**Joint Venture**	A joint venture is when two or more businesses pool their resources and expertise to achieve a particular goal; Reasons you might want to form a joint venture include business expansion, development of new products or moving into new markets; Success in a joint venture depends on thorough research and analysis of aims and objectives. This should be followed up with effective communication of the business plan to everyone involved.	The risks and rewards of the enterprise are also shared. A joint venture could give you more resources; greater capacity; increased technical expertise; access to established markets; distribution channels	Partnering with another business can be complex. It takes time and effort to build the right relationship. Problems are likely to arise if: The objectives of the venture are not totally clear and communicated to everyone involved; The partners have different objectives for the joint venture; There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners; Different cultures and management styles result in poor integration and co-operation; The partners don't provide sufficient leadership and support in the early stages.			Set out the terms and conditions in a written agreement (may also need other agreements including a confidentiality agreement) to prevent any misunderstandings once the joint venture is up and running. A written agreement should cover the structure; the objectives; the financial contributions; whether you will transfer any assets or employees; ownership of intellectual property created by the joint venture; management and control; how liabilities, profits and losses are shared; how any disputes between the partners will be resolved; an exit strategy.		

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