CHELTENHAM
BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 19 September 2012
6.00 pm
Pittville Room, Municipal Offices

Membership	
Councillors:	Paul Massey (Chair), Andrew Wall (Vice-Chair), Colin Hay, Rowena Hay, David Prince, Tim Harman and Pat Thornton

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

Agenda

1.		**APOLOGIES**	
2.		**DECLARATIONS OF INTEREST**	
3.		**MINUTES OF THE LAST MEETING** 20 June 2012	(Pages 1 - 8)
4.		**PUBLIC QUESTIONS** These must be received no later than 12 noon on the fourth working day before the date of the meeting	
5.		**REVIEW OF THE ANNUAL STATEMENT OF ACCOUNTS** Presentation by the Finance Team	(Pages 9 - 138)
6.		**AUDIT HIGHLIGHTS MEMORANDUM (ISA 260)** Report of KPMG	(Pages 139 - 168)
7.		**INTERNAL AUDIT MONITORING REPORT** Report of the Head of Audit Cotswolds	(Pages 169 - 176)
8.		**WORK PROGRAMME**	(Pages 177 - 180)
9.		**ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION**	
10.		**DATE OF NEXT MEETING**	

		9 January 2013	
		Briefing Notes (for information only) 1. Future external audit proposals – government response to consultation	

Contact Officer: Saira Malin, Democracy Officer, 01242 775153
Email: democratic.services@cheltenham.gov.uk

Audit Committee

Wednesday, 20th June, 2012
6.05 - 7.45 pm

Attendees	
Councillors:	Paul Massey (Chair), Nigel Britter (substitute for Colin Hay), Andrew Chard (substitute for Andy Wall), Tim Harman and Charles Stewart (substitute for Rowena Hay)
Also in attendance:	Jenny Poole (Head of GO Shared Services), Rob Milford (Head of Audit Cotswolds), Bryan Parsons (Corporate Governance, Risk and Compliance Officer), Ian Pennington (KPMG Auditor), Mark Sheldon (Director of Resources) and Rachael Tonkin (KPMG Auditor)

Minutes

1. APOLOGIES
Councillors R. Hay, C. Hay, Wall had given their apologies and Councillors Britter, Stewart and Chard were substituting respectively. Councillor Thornton had also given her apologies.

2. DECLARATIONS OF INTEREST
No interests were declared.

3. MINUTES OF THE LAST MEETING
The minutes of the last meeting has been circulated with the agenda.

The Chairman referred members to the fourth paragraph of item 8 on page 3 where the words 'low' and 'negligible' needed to be switched so that the sentence read '…and 'negligible' listed below 'low''.

Upon a vote by those that had been present it was unanimously

RESOLVED that the amended minutes of the meeting held on the 21 March 2012 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS
No public questions had been received.

5. GO SHARED SERVICES UPDATE
The Head of GO Shared Services introduced herself and the update that had been circulated with the agenda.

She explained that such updates would be provided to each of the GO Shared Services partners, each report would follow the same format and she apologised for any instances where another partner was referenced in place of Cheltenham Borough Council in error.

On the 1 April 2012 Cotswold District Council became the employing authority for the GO Shared Services partnership. The governance arrangements in place to manage the development of the ERP system and the development of the shared service had now been superseded by a Joint Monitoring and Liaison Group (JMLG) and a Client Officer Group (COG). The first meeting of the COG was held on the 25 May and the first meeting of the JMLG was scheduled for a date next week.

There had been a number of achievements to date including the savings that had been driven out from CIPFA and the Audit Commission were being lobbied to reduce the fee for External Auditors given the expected economies of scale. Implementation was complete or nearing completion for 5 of the 6 organisations (including Cheltenham Borough Homes and UBICO) and whilst there had been some minor issues, fundamentally the system was working, paying staff, etc. She felt that these were good achievements given the pace of implementation.

TUPE transfers were successfully carried out at the 1 April 2012 and all employees transferred to Cotswold DC. The restructure and shaping of the service was on target for October and this would bring about further efficiency savings. A variety of methods were being utilised to ensure that staff were kept informed and engaged, including letters, briefings, the website and workshops.

It was a testament to the hard work of officers that the current stage had been reached and implementation continued and she took the opportunity to thank staff for all of their efforts. She was confident that GO Shared Services would deliver what it had set out to do.

The GO Shared Services Manager gave the following responses to member questions;

- All staff other than the senior management team were at risk and all had been provided with an information pack. Staff, were currently being invited to 1-2-1s to discuss the structure and therefore there could be changes as a result and until this time it was not possible to provide figures for staff that would exit the organisation. This documentation would be available on the 18 July 2012.
- There was a sum of monies set aside for one-off compulsory redundancies.
- The business case was regularly reviewed, delivery was largely on cost and she was confident that it would be delivered within budget. The new system was already delivering savings and further savings were being actively progressed as part of the restructure. She was happy to provide further updates and envisaged final close down by Autumn.
- The Head of Audit Cotswolds would next week be setting out how and what internal audit would report and to whom.
- There was every confidence that the ERP implementation would resolve the payroll issues that faced Cheltenham Borough Council. The issues would continue to be monitored.

The Chairman thanked the GO Shared Services Manager for her attendance.

6. INTERNAL AUDIT MONITORING REPORT

The Head of Audit Cotswolds introduced the report which was a six monthly item designed to give the Committee an opportunity to comment on the work completed by the partnership and provide ongoing comment and assurances on the control environment throughout the year. This would also support the work of the external auditor.

Item 3.4 set out other areas of work which Audit Cotswolds had undertaken through the course of the last year and included support for GO Shared Services, the Local Authority Company and Cheltenham Borough Homes as a client. Appendix 1, the Internal Audit Monitoring Report itself gave details of the specific areas of audit.

Payroll – this was the third consecutive year that issues were being reported but given the imminent implementation of a new ERP system a pragmatic approach to the review had been taken and focussed on key controls to identify any operational improvements so as not to effect the progress of GO. Weaknesses in the accuracy and effectiveness of internal controls included reconciliation, non-standard salary payments (e.g. maternity payments) and management review and performance management procedures. In spite of GO the risk would still be with this authority and whilst he was confident that a higher assurance would be achieved, this would need to be evidenced before the assurance would improve. The assurance was Limited.

Council Tax and NNDR – sickness was a concern. One member of the team had been off sick since last October and whilst this had not impacted the service any further absences would have consequences. The assurance was High.

Housing Benefits – the issues here had been resolvable and therefore a limited assurance was not justifiable. There was uncertainty around the significant changes to the Benefit system and periods of change always posed a risk. The assurance was Satisfactory.

Green Waste Accounting – this was a follow-up to a review which resulted in a limited assurance and had involved discussions with UBICO and the CBC side to ensure that all issues were being addressed. He was comfortable that the issues were being taken forward and confirmed that the matter would be subject to further follow-up.

The Head of Audit Cotswolds provided the following responses to member questions;

- There was no formal opinion for the review of the Green Waste Accounting as this had been a follow-up.
- Progress in relation to recommendations was reviewed after 6 months and all recommendations had an associated deadline which would trigger a return visit from internal audit. If sufficient improvements had been achieved the service would not be reviewed again until the next annual review.
- There were a number of issues that had delayed improvements to the payroll system and resulted in 2-3 years of limited assurance, which included failed negotiations with Tewkesbury Borough Council to join

GO and capacity issues which despite numerous attempts at recruitment were unresolved. Given that a new system was being built a pragmatic approach was taken and whilst the legal requirements were met, the limited assurance was allowed to continue for much longer than would ordinarily be acceptable.

- The ERP system was automated but managerial authorisations were still required. The 2 person rule referred to in the report implied that the process would involve the same two individuals but this was not the case, the point was simply that a second person would need to be involved in the process.
- The concerns highlighted in the original report for the green waste review had been fairly severe in relation to non-compliance with financial rules but he was confident that action had been taken to resolve this. With the formation of UBICO there had been a significant shift in governance and this would be considered in detail by internal audit at the end of the year.

7. ANNUAL INTERNAL AUDIT OPINION FOR 2011/12

The Head of Audit Cotswolds introduced the internal audit opinion for 2011/12 which was a key source of control assurance for the Audit Committee and Senior Leadership Team as well as support for the external auditors (KPMG). The work was also a key component of the annual governance statement.

Internal audit now operated as a partnership which included Cotswold District Council and West Oxfordshire District Council. The 10 year agreement provided stability, resilience and increased skills base and would allow for the service to be further developed. This also enabled the service to be adaptive and add items to the work plan where required (e.g. UBICO which was a massive undertaking and did take precedence over lower risk work).

Based on the work that had been undertaken the overall opinion was of satisfactory assurance. He explained that any organisation in a position similar to that of CBC, an organisation going through the same period of change would achieve a satisfactory assurance. The table of internal audit work for 2011/12 set out the various audit activities and he noted that in some cases the work undertaken by other sources of assurance had been considered (e.g. the One Legal Shared Service Audit on which internal audit at Tewkesbury Borough Council had collaborated).

In response to a member question the Head of Audit Cotswolds reiterated that it was not possible to provide an assurance where smaller, more focussed pieces of work had been carried out.

Upon a vote it was unanimously

RESOLVED that the Annual Internal Audit Opinion 2011/12 be accepted by the Audit Committee.

8. ANNUAL GOVERNANCE STATEMENT

The Corporate Governance, Risk and Compliance Officer (CGRCO) introduced the annual governance statement which the council had a statutory duty to prepare. The review was undertaken by the CGRCO and reported to the Senior Leadership Team and Corporate Governance Group before consideration by the Audit Committee ahead of its consideration by Council as part of the Statement of Accounts.

Assurance statements and evidence tables were issued to the Directors on an annual basis. The Directors undertook self assessment checklists of the existence and adequacy of governance and control arrangements and were encouraged to complete an honest assessment, setting out mitigating actions for areas of weakness in the control.

There had been a lot of activity over the last year that had affected the controls of the council including, the review of the constitution, the new financial rules adopted by council and rolled out across GO, the adoption of a commissioning framework and a protocol (to be considered / agreed at Council on 25 June 2012), the formation of the Local Authority Company and new Section 106 agreements.

The statement was a retrospective look at the last year, a challenge of what the council do and finalised with an action plan which would be monitored by the Corporate Governance Group and a report back to the Audit Committee in January 2013. The only outstanding issue from last years action plan was the payroll issue which had been previously discussed.

The CGRCO gave the following responses to member questions;

- The formation of UBICO was a response to an opportunity to work with a partner given the strong business case and was not the result of a commissioning review. The reference to UBICO would be moved below the references to commissioning reviews to avoid any confusion.
- A progress update would be provided and officers would consider the suggestion that original deadlines as well as revised deadlines would be reported.

Upon a vote it was unanimously

RESOLVED that;

1. **The annual governance statement be approved and recommended for adoption by Council 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 January 2013.**

9. INTERIM AUDIT REPORT

The KPMG Auditor introduced the Interim Audit report for 2011/12 and for the sake of new members explained that the report formed part of a chain of reports. This, the interim report, followed the planning report which was considered in March and summarised the key findings arising from the work carried out to date in relation to council's control environment for accounts production.

Overall the councils control environment was effective, with all but one of the aspects considered by KPMG being assessed as 'level 3 - generally sound control environment'. Risk assessment processes had been graded at level 2 (deficiencies in respect of individual controls) as a result of the number of recommendations raised by internal audit in their review of the area.

The councils IT control environment was effective but one area for further improvement identified was the need to formalise the review of access to various systems. The reviews were necessary to ensure that only valid individuals had access to specific systems. The justification for this was the implementation of a new system but KPMG were left with some questions about what this would mean for the accuracy of accounts – could an issue have crept through.

The controls over the financial systems that were selecting for testing were found to be generally sound, however there were known weaknesses in payroll controls. Internal audit had issued a 'limited assurance' audit opinion as there was no reconciliation of the two current systems at the end of each month. KPMG needed to satisfy them selves that the two systems reconciled at the end of the year and that no journals had been created. As the control didn't work they needed to apply alternative testing. There were some systems that still needed to be tested and these would be tested as part of the work required at year-end.

KPMG relied on Internal Audit to maximise their efficiency, considering reports, assessing their plans and testing some of the work that they had undertaken. KPMG found that Internal Audit fully complied with the Code of Practice for Internal Audit in Local Government and members should be assured that they could rely on Internal Audit.

The council's overall process for preparation of the financial statements was adequate. An issue had been identified last year regarding the lack of evidence of review of journals but this would be addressed following the transition to GO on the 1 April 2012.

In response to a member question, the Director of Resources advised that the £100k journal threshold had been used locally and when this issue had been discussed with the GO partners it was agreed that £100k was an acceptable level given the size of the organisations involved. Generally, larger journals were dealt with by more senior officers within the finance team. The KPMG Auditor assured members that this would be the subject of testing and any issues would be reported. The Chair requested that the issue of the £100k threshold for journals be raised with the GO partners and a response reported back to the Committee in September.

The Director of Resources confirmed that the new ERP system would, as standard good practice, be subject to a regular review of users. This had not been the case for APTOS as the new system was being developed. The Head of Audit Cotswolds reassured member that this item was included on the Internal Audit action plan. The KPMG Auditor explained that KPMG would not test GO as Grant Thornton had been appointed as external auditor for the GO partners. KPMG would complete the audit for March 2012, which would be 95% complete by September. The new auditors would be in place on the 1st September and were welcome to review any information KPMG had.

The Director of Resources assured members that Cheltenham Borough Council would still be audited as an independent authority as ultimately the new external auditor would still have to sign off separate accounts for each authority. The decision to use the same auditor was based on the fact that there was now a shared system which would previously have been tested by 3 different external auditors.

10. WORK PROGRAMME

The Chairman referred members to the work plan as circulated with the agenda. He explained that the work plan was populated with reoccurring items with no vast scope for change but members were welcome to raise items for consideration.

Officers imagined that there would be little change to the timetable of external audit items by the newly appointed external Auditor and reassured members that there would be a full handover between KPMG and Grant Thornton and at no point would the council be without an external auditor in place.

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

There were no urgent items for discussion.

12. DATE OF NEXT MEETING

The next meeting was scheduled for the 19 September 2012.

Paul Massey
Chairman

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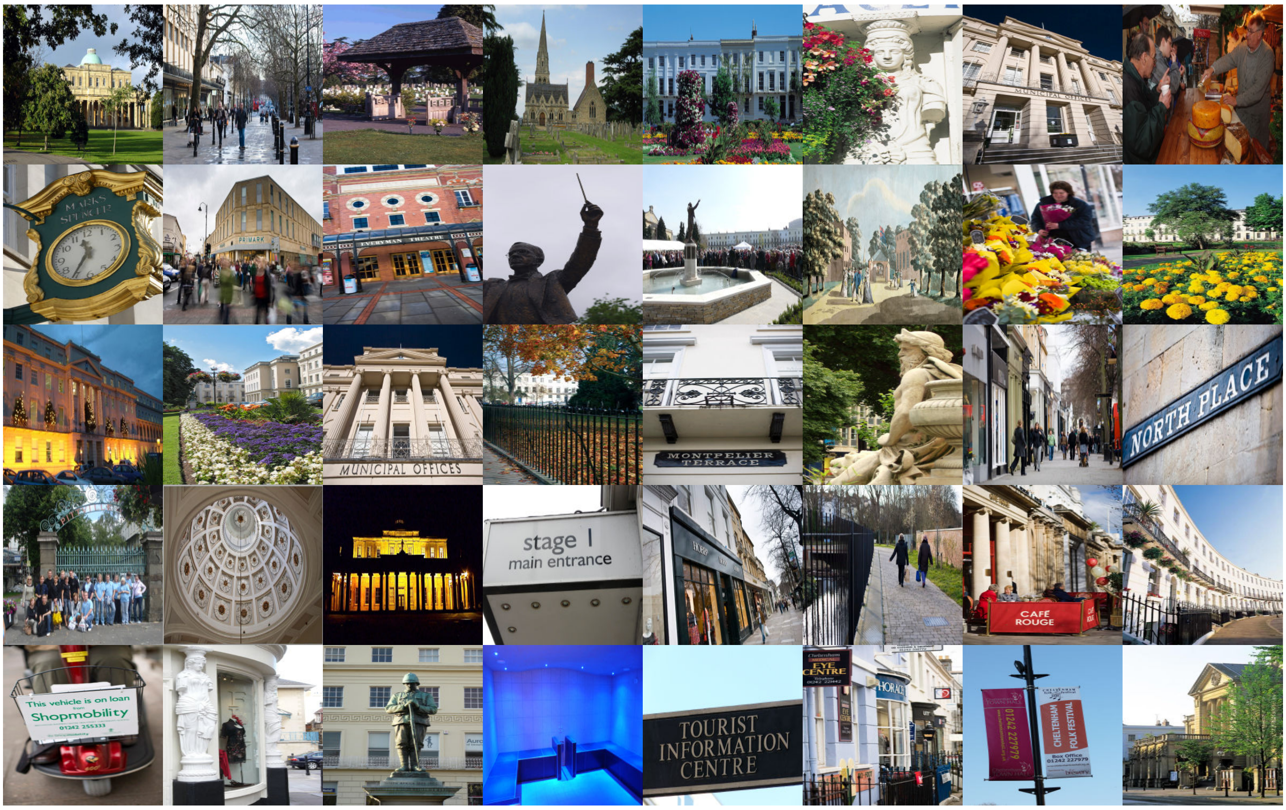
CHELTENHAM BOROUGH COUNCIL

Statement of Accounts 2011/12



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 2011/12 Municipal Year	
Mayor:	Councillor B Driver
Deputy Mayor:	Councillor C Hay
Cabinet in 2011/12	
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 2011/12	
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 A Regan
Audit Committee	Councillor A Wall
Appointments Committee	Councillor R Hay
Standards Committee	Mr S. Laine (Independent Member)
Chief Officers in 2011/12	
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 2011/12	
Appointed Auditor:	KPMG LLP
Address:	100 Temple Street, Bristol,BS1 6AG
Bankers in 2011/12	
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 115,300 (2010 mid-year population estimate) 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 June 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.

To address these needs, Cheltenham Borough Council has adopted a strategic commissioning approach which puts a strong focus on designing community-focused outcomes and working much more closely with other parts of the public service and the voluntary and community sector (VCS) and making objective, transparent, evidence-based decisions about how services should be provided and by whom. By using a strategic commissioning approach we will improve the outcomes for people who rely on the council and the wider public sector whilst at the same time creating opportunities for financial savings.

There are a number of challenges facing the Council 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 2012 overall political control remained with 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 2011/12".

Overall the council performed well during 2011/12. We continue to get recognition for our high standards, good performance, sound financial management and value for money.

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 2011/12

In the 2011-12 action plan, we identified 45 milestones to track our progress. Out of these:

- 93% (42) of milestones have been completed at the end of the year.
- 7% (3) of milestones are red and have not been completed at the year end..

In the 2011-12 action plan, we identified 52 key indicators to track our progress. Out of these:

- 32 were indicators which CBC is directly accountable for and targets have been set.
- 5 were environmental indicators
- 15 were community-based indicators which others are accountable for and no targets were set in the action plan.
- Out of the 32 council indicators, targets were not met for 5 (17%) of the indicators.

EXPLANATORY FOREWORD

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 2011/12 and the council's assets and liabilities at the year end.

INTRODUCTION

The Accounts for the year ending 31st March 2012 have been prepared and published in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: 2011/12 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.
Balance Sheet	This summarises the overall financial position of the council at 31st March 2012, showing its assets, liabilities and reserves.
Movement in Reserves Statement	This details the movement in the year of all the authority's reserves.
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 400 people. The activities vary widely and include the provision and upkeep of council housing, provision for the collection of refuse, leisure and recreation, car parking, cemeteries and crematoria, environmental health and many other services.

GENERAL FUND REVENUE BUDGET

In February 2011, the council set a net budget of £14.274m for spending on General Fund Services (excluding spending on council housing), of which £1.440m was to be financed by government grant, £4.658m from non -domestic rates and £8.176m 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 2011/12 £	Revised Budget 2011/12 £	Outturn 2011/12 £	Variance 2011/12 £
Strategic Management	(16,450)	(11,050)	(26,888)	(15,838)
Commissioning	2,942,800	2,876,450	2,687,646	(188,804)
Built Environment	1,166,850	1,072,966	455,265	(617,701)
Resources	1,340,650	1,586,650	1,446,669	(139,981)
Wellbeing & Culture	4,672,200	4,591,450	4,443,160	(148,290)
Operations	4,793,500	4,843,000	4,797,499	(45,501)
Programmed Maintenance (revenue)	482,100	588,400	428,212	(160,188)
Business Change	734,800	999,900	628,251	(371,649)
Bad debt provision	40,000	40,000	31,430	(8,570)
Target savings	(480,000)	(69,650)	0	69,650
TOTAL NET SERVICE EXPENDITURE	**15,676,450**	**16,518,116**	**14,891,244**	**(1,626,872)**
New Homes Bonus	0	(290,275)	(337,566)	(47,291)
Capital charges	(2,097,600)	620,500	620,542	42
Interest and investment income	521,800	597,200	54,075	(543,125)
Use of balances and reserves	173,643	(2,990,024)	(772,635)	2,217,389
Area Based Grant	0	(180,424)	(180,424)	0
NET BUDGET	**14,274,293**	**14,275,093**	**14,275,236**	**143**
FINANCED BY:				
Revenue Support Grant	(1,439,927)	(1,439,927)	(1,439,927)	0
National Non-Domestic Rate	(4,658,405)	(4,658,405)	(4,658,406)	(1)
Collection Fund Contribution	(59,500)	(59,500)	(59,455)	45
Council Tax	(8,116,461)	(8,117,261)	(8,117,448)	(187)
	(14,274,293)	**(14,275,093)**	**(14,275,236)**	**(143)**

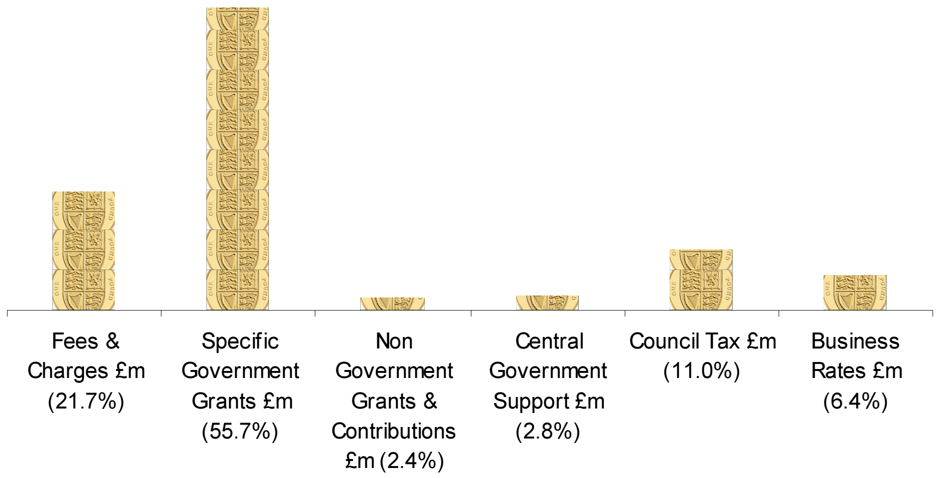
The council is required to analyse the expenditure for the year 2011/12 in a standard way in order to enable comparisons to be made between different local authorities and other organisations. This representation of the above position is contained in the form of the Comprehensive Income and

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 2011/12 the council continued with the process of formal monitoring of budgets which are reported to cabinet on a quarterly basis. 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 2011/12 £50.8m, of which £4.7m is retained as part of the council's accounts).



BUDGET SAVINGS

The council's track record of strong financial management was maintained during 2011/12 which resulted in council services being delivered within revised budget, with an overall residual saving made in 2011/12 of £149,777. The budget saving has been transferred to the carry forward earmarked reserve 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	190,109
Additional Employee costs	(2,894)
Other expenditure savings	(295,034)
Treasury Management additional interest income	(41,958)
Net Saving	**(149,777)**

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 2011/12 £	Revised Budget 2011/12 £	Outturn 2011/12 £	Variance 2011/12 £
Priority 1 – Enhancing & Protecting our Environment	3,564,200	3,789,910	3,103,282	(686,628)
Priority 2 – Strengthening our Economy	337,850	515,056	370,966	(144,090)
Priority 3 – Strengthening our Communities	4,884,000	4,959,050	4,897,256	(61,794)
Priority 4 – Enhancing the Provision of Arts & Culture	2,362,900	2,292,100	2,185,547	(106,553)
Priority 5 – Ensuring we provide Value for Money Services that effectively meet the needs of our Customers	4,527,500	4,962,000	4,334,193	(627,807)
TOTAL NET SERVICE EXPENDITURE	**15,676,450**	**16,518,116**	**14,891,244**	**(1,626,872)**
New Homes Bonus	0	(290,275)	(337,566)	(47,291)
Capital charges	(2,097,600)	620,500	620,542	42
Interest and investment income	521,800	597,200	54,075	(543,125)
Use of balances and reserves	173,643	(2,990,024)	(772,635)	2,217,389
Area Based Grant	0	(180,424)	(180,424)	0
NET BUDGET	**14,274,293**	**14,275,093**	**14,275,236**	**143**
FINANCED BY:				
Revenue Support Grant	(1,439,927)	(1,439,927)	(1,439,927)	0
National Non-Domestic Rate	(4,658,405)	(4,658,405)	(4,658,406)	(1)
Collection Fund Contribution	(59,500)	(59,500)	(59,455)	45
Council Tax	(8,116,461)	(8,117,261)	(8,117,448)	(187)
TOTAL INCOME	**(14,274,293)**	**(14,275,093)**	**(14,275,236)**	**(143)**

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 £3.103m

Examples of core net spending included:

- £942k on Parks & Gardens
- £70k on Allotments
- £1,107k on Refuse Collection
- £748k on Street Cleansing
- £788k on Recycling Schemes
- £170k on Strategic Planning
- £162k on provision of Public Conveniences
- £83k on Shopmobility
- £66k on Garden Collections
- £114k on Food Safety
- £143k on Pollution Control
- £77k on Pest Control
- £50k on Animal Welfare
- £80k on Health & Safety at Work

Priority 2 – Strengthening our Economy
Total net spend of £371k.

Examples of core net spending included:

- £100k on Tourist Information Centre
- £107k on Business and Economic Development
- £32k on Town Centre Management
- £38k on Twinning
- £43k on Christmas in Cheltenham

Priority 3 – Strengthening Our Communities
Total net spend of £4.897m.

Examples of core net spending included:

- £64k on Disabled Facilities Grants
- £238k on Homelessness
- £237k on Housing Standards
- £94k on Housing Grants
- £162k on Single Advice Contract with the Citizen's Advice Bureau
- £135k on Community Planning
- £33k on Community Pride
- £105k on the Holiday Recreation Programme
- £1,770k on Leisure Services
- £49k Healthy Lifestyles
- £1.157k on Sports & Open Spaces
- £89k on Sports Development
- £271k on Crime and Disorder
- £132k on CCTV and Town Centre safety

Priority 4 - Enhancing the Provision of Arts & Culture
Total net spend of £2.186m.

Examples of core net spending included:

- £794k on Art Gallery & Museum
- £547k on Town Hall
- £265k on Pittville Pump Room
- £213k on Everyman Theatre
- £184k on Arts Grants / Enabling

Priority 5 - Ensuring we provide Value for Money Services that effectively meet the needs of our customers
Total net spend of £4.334m.

Examples of core net spending included:

- £1,105k on Corporate Management
- £589k on Council Tax Collection
- £631k on Democratic Processes
- £255k on Election Expenses
- £133k 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, many 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 the banks went into administration. The council had £11m invested with three of these banks. Further details are given under the Exceptional Items heading below and in Note 27 of the notes to the Financial Statements on pages 65 to 71.

Interest rates have remained constant throughout the year at 0.5%, with no Bank of England interest rate changes during the period 1st April 2011 to 31st March 2012.

The conclusion of the year's activity was that the council paid £1.224m in borrowing costs (which was £6,906 more than budgeted for the year); earned £0.190m on investments (which was £17,360 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 £0.469m from the Housing Revenue Account for the use of its balances (which was £22,164 more than budgeted). The overall impact was an additional surplus to the General Fund of £32,618 compared to the revised budget.

During the year the Council took out an additional £27.4 million in loans from the Public Works Loans Board (PWLB), which was used to make a one-off debt settlement payment to the Secretary of State following the abolition of HRA subsidy system and its replacement with a self financing regime. Further details are given on page 72.

PENSION LIABILITY

The council is required to account for retirement benefits when committed, even if the payment 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 2012, was £46,472,000 which was an increase of £8,401,000 over the figure for 31st March 2011 of £38,071,000. This is principally due to the fact that the financial assumptions as 31st March 2012 are less favourable than they were at 31st March 2011 as a result of falling real bond yields and poor asset returns. All else being equal, these factors serve to increase the value of the liabilities and thus have a negative impact on the IAS19 pension position.

ACCOUNTING POLICIES

The council has reviewed its accounting policies during the year and revised them in accordance with the 2011/12 Code of Practice in Local Authority Accounting. The policies are detailed in note 1 to the accounts (pages 25 to 38) and the changes in accounting policies are detailed in note 1(xxx) on page 38.

CHANGES IN STATUTORY FUNCTIONS

Public Sector Equality Duty

The Equality Act 2010 introduced a public sector equality duty which came into force on 6 April 2011. There is a general equality duty and three specific duties:

The General Equality Duty:

In the exercise of our functions, the council must have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

The specific duties:

- Publish equality objectives every four years;
- Publish information annually to demonstrate our compliance with the general Equality Duty;
- Publish information relating to the impact of our policies and practices on our employees, service users and others from the protected groups.

Localism Act 2011

The localism bill received Royal Assent on 15 November 2011 becoming an act of parliament. The Act is designed to shift power from central government back into the hands of individuals, communities and councils and will impact on how the council goes about its business.

Many of the changes to statutory functions came into power in April 2012 and these will include:

- The general power of competence for local authorities
- The community right to build
- Planning reforms including the changes to planning enforcement rules
- Reforms to social housing tenure and council housing finance

Tenancy Strategy

The council is now required under Part 7 of the Localism Act 2011 to publish a tenancy strategy, setting out the matters to which the registered providers of social housing for its district are to have regard in formulating policies relating to:

- the kinds of tenancies granted
- the circumstances in which the council will grant a tenancy of a particular kind
- where a tenancy is granted for a term certain, the lengths of the terms, and
- the circumstances in which the council will grant a further tenancy on the coming to an end of an existing tenancy.

In preparing the tenancy strategy, the council must consult with the registered providers with accommodation within the district, giving them reasonable opportunity to respond.

The council is required to publish a tenancy strategy by 14th November 2012. This strategy will be required to be kept under review. The strategy, once published, will be made available for inspection at all reasonable hours, without charge, by members of the public, and the council must provide (on payment if required by the authority of a reasonable charge) a copy of anything so published to any member of the public who asks for one.

Change to Designation of Private Drainage

The Flood and Water Management Act 2010 changed the designation of the majority of private drainage to public sewers on October 1st 2011. Responsibility for these newly transferred public sewers falls to Severn Trent Water. From Building Control's point of view this means that the council needs to invest more time in identifying drainage systems and this has a cost to the service. The cost, so far, does not appear to be substantial but this change will have a long period of 'development' before a fully functioning system is operational.

CAPITAL EXPENDITURE

In 2011/12 the council spent £11.834m on capital projects and grants, compared with the revised budget of £9.244m.

Included in the expenditure for the year was £4.740m on major repairs and maintenance of council houses, £0.349m on disabled adaptations within the council housing stock, £0.653m on private sector disabled facility grants and adaptation support grants, £0.090m on other grants mainly for private sector housing improvements, and £1.790m on housing enabling through partnership working with Cheltenham Borough Homes (CBH) which included the Brighton Road redevelopment scheme and £1.983 million on vehicles and plant.

In addition a further £27.414m has been spent from the Housing Revenue Account in respect of the settlement payment made by the local housing authority to the Secretary of State for the commencement of self-financing of the Housing Revenue Account.

The major variances between the revised budget and outturn position are in respect of the Art Gallery and Museum Development which is being financed from lottery funding and reserves, the purchase of Vehicles and recycling caddies and delays in progress of the transformational improvement programme at St Pauls.

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 £1.102m of capital receipts were available to finance capital expenditure in 2011/12. The remaining sources of finance were Government Grants £0.423m, developer contributions and partnership funding £0.999m, with £1.065m coming from revenue financing.

During 2011/12 the council committed to take out £3.595m of new borrowing to finance housing enabling, vehicles and recycling caddies and the Everyman Theatre restoration.

During the year the council sold 9 dwellings under the 'right to buy' scheme.

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, and a Leisure and Culture commissioning review of services (to improve current delivery).

On 1 April 2012, Ubico Ltd. was formed – a company wholly owned by its shareholders, Cheltenham Borough Council and Cotswold District Council. The company is responsible for delivering the shareholders' environmental services within their respective Council boundaries. Cheltenham Borough Council services were delivered from 1st April 2012 with Cotswold District Council services to be delivered from the anticipated commencement date of August 2012.

GO Shared Services has also been set up with effect from 1st April 2012. This is a service to provide Human Resources, Payroll, Finance and Procurement functions shared with Cotswold DC, Forest of Dean DC and West Oxfordshire DC, using a common platform (Agresso Enterprise Resource Planning (ERP) system)

Other major projects include the Joint Core Strategy 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. The council promoted the 5 acre site to the market in January 2011.

The process was complex and regulated by European legislation but significant interest was received. Contracts for the sale of North Place were exchanged with the preferred bidder, Auger Buchler, in April 2012. The next key date will be the submission of a planning application, anticipated by August 2012. It is understood that the developers are keen to mobilise should planning permission be secured.

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 approval from 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.

Gloucestershire Airport – runway project

In the autumn of 2009, the council agreed to facilitate borrowing to finance the runway safety project at Gloucestershire Airport, to provide a safer runway with a computerised instrument landing system (ILS). This will enable the airport to attract more profitable corporate business, increase the profitability for the airport and the council, a shareholder in the company.

The construction works on two of the key aspects of the project were completed in Spring 2012. The procurement and related works for the implementation of the ILS have commenced with completion planned for December 2012. The benefits of the runway safety project are anticipated to be seen by the airport from 2013 onwards.

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' 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 £2.8m funding gap in 2011/12 and £1.1m for 2012/13.

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 internal audit services. In addition, GO shared Services came into effect from 1st April 2012. This will deliver significant savings, reduce duplication of effort and provide service resilience. 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.

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 2011/12) was £187.12. (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 external fundraising for the project reaching £3.38m which includes £750k from the Heritage Lottery Fund. Whilst the council has underwritten a maximum shortfall of £919k Phase 3 of the fundraising campaign was launched in May 2011 in order to reach the projects total funding target of £6.3m. The AG&M was shut on 1st April 2011 for decanting, ahead of work that commenced on site in July 2011. Work is progressing well on site and the new AG&M is scheduled to re-open in the spring of 2013.

St. Paul's Regeneration and other social housing schemes

During 2011/12 the Council's ALMO, Cheltenham Borough Homes Ltd (CBH), completed the development of 16 new affordable housing units at Brighton Road. Significant progress was also made on the construction of a further 48 units (30 affordable rented and 18 shared ownership) in the St Paul's Regeneration Area. Both of these schemes were funded by a combination of social housing grant from the Homes and Communities Agency (HCA), capital grant from the Council and borrowing through the Council.
The Council, working in partnership with CBH, is currently evaluating funding options for 3 other schemes – St Paul's Phase 2, Cakebridge Place and the redevelopment of 4 garage sites.

HRA Self Financing

The Localism Act that passed into law in November 2011 has enabled the reform of council housing finance. The Housing Revenue Account subsidy system has now been abolished with effect from 1st April 2012 and replaced with self-financing whereby authorities support their own housing stock from their own income. This reform required a re-adjustment of each authority's housing–related debt based on the valuation of its council housing stock. On the settlement date of 28th March 2012 the council was permitted to borrow £27.414 million from the Public Works Loan Board (PWLB), which was paid to the government to pay off debt. In return the council will 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.

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

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 previously set aside £90,000 from the Flood Restoration Grant to spend over a three year period (ending financial year 2011/2012) on maintenance of our watercourses, streams and ditches which are not classified as 'main river' and thus help prevent future flooding. For financial year 2012/2013, another £30,000 has been allocated.

EXCEPTIONAL ITEMS

Icelandic Banks

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 these banks with varying maturity dates and interest rates. Although some repayments have been received in respect of these investments, the amounts invested with these banks continue to be subject to the respective administration and receivership processes. Of the original amounts invested plus interest due of £11.6 million, repayments of £6.7 million (58%) had been received by 31st March 2012, with a further £0.95 million (8%) received by 30th June 2012.

In 2008/09 the council was required to make a charge (an ‘impairment’) to its Income and Expenditure Statement to reflect the estimated loss in value of the deposits and the lost interest until any repayments were likely to be received. The council was however able to take advantage of government regulations to defer the impact of the impairment (excluding any interest not received) on the general fund balance until the following year.

In 2009/10 a further impairment charge was required to be made, however in that year the authority was successful in its application to the government for a capitalisation direction of £4.430 million , allowing it to spread the full accumulated impact of the loss on the general fund balance over twenty years, through borrowing.

The position was reassessed at 31st March 2011 (2010/11 accounts)and a reduction in the impairment of £2.7 million was credited to the Comprehensive Income and Expenditure Statement, mainly to reflect the decision by the 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%). Since the decision was subject to appeal to the Icelandic Supreme Court, most of the credit was transferred to an earmarked reserve to cover any further impairment, in case the decision was reversed. The remaining £0.230 million was used to reduce the council’s borrowing.

The position was again reassessed at 31st March 2012 (2011/12 accounts) and a further reduction in the impairment of £0.253 million made to reflect increased estimated recovery rates. Because of uncertainties as to the value of repayments held in Icelandic Kroner and of future repayments in a basket of currencies, this amount together with interest due but not received has been credited to an earmarked reserve, to cover any potential future losses. However confirmation by the Icelandic Supreme Court that local authority deposits were deemed to have priority status allowed a further reduction in borrowing by £2.5 million, financed from the earmarked reserve set up in 2010/11.

Improving recovery rates for the deposits since 2009/10 have therefore allowed the council to reduce the initial borrowing, with further reductions planned in 2012/13, subject to any future losses arising from exchange rate movements and/or changes in recovery rates.

Further details are given in note 27 to the accounts, page 65-71.

EVENTS AFTER THE BALANCE SHEET DATE

Icelandic Banks

In May 2012 a further (unexpected) repayment of £0.640 million (equivalent to around 12% of the council’s claim) was received from the Landsbanki winding up board. The effect of this repayment on the future repayment profile for the Landsbanki deposits has been taken into account in the impairment adjustment made for 2011/12. Further details are given in note 27, page 65-71.

Sale of North Place

Contracts for the sale of North Place were exchanged with the preferred bidder, Auger Buchler, in April 2012. The next key date will be the submission of a planning application, anticipated by August 2012. It is understood that the developers are keen to mobilise should planning permission be secured.

GO Shared Service

GO Shared Services has also been set up with effect from 1st April 2012. This is a service to provide Human Resources, Payroll, Finance and Procurement functions shared with Cotswold DC, Forest of Dean DC and West Oxfordshire DC, using a common platform (Agresso Enterprise Resource Planning (ERP) system)

Ubico Limited

On 1st April 2012, Ubico Ltd. was formed – a company wholly owned by it's shareholders, Cheltenham Borough Council and Cotswold District Council. The company is responsible for delivering the shareholders environmental services within their respective Council boundaries. Cheltenham Borough Council services were delivered from 1st April 2012 with Cotswold District Council services to be delivered from the anticipated commencement date of August 2012.

FURTHER INFORMATION

Further information about the accounts is available from the GO Shared Service (Finance), 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 are available for inspection by appointment between 16th July and 10th August 2012 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 2012 is designated as 13th August 2012.

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, 2012.

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 2011/12 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 2012.

………………………………... **Date………………………**

Director of Resources (Section 151 Officer)

…………………………………

Chair of Audit Committee **Date……………………..**

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.

	2010/11				2011/12	
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£'000	£'000	£'000		£'000	£'000	£'000
			Continuing Operations			
9,743	(8,482)	1,261	Central Services to the public	9,877	(8,747)	1,130
10,604	(3,737)	6,867	Cultural and related services	10,017	(3,500)	6,517
7,724	(4,231)	3,493	Environment & Regulatory services	7,449	(4,524)	2,925
3,630	(1,657)	1,973	Planning services	2,989	(1,475)	1,514
4,814	(6,174)	(1,360)	Highways and Transport services	4,590	(6,158)	(1,568)
60,565	(17,057)	43,508	Local Authority housing (HRA)	17,233	(18,052)	(819)
34,068	(33,167)	901	Other housing services	34,808	(33,579)	1,229
2,668	(311)	2,357	Corporate & Democratic core	2,384	(361)	2,023
(11,026)	(150)	(11,176)	Non Distributed costs	1,656	(150)	1,506
122,790	**(74,966)**	**47,824**	**Total Cost of Continuing Operations excluding concessionary fares transferred to Gloucestershire County Council 1 April 2011**	**91,003**	**(76,546)**	**14,457**
2,337	(642)	1,695	Concessionary Fares	-	-	-
125,127	**(75,608)**	**49,519**	**Cost of Services**	**91,003**	**(76,546)**	**14,457**
1,328	(281)	1,047	Other operating expenditure *(note 12)*	882	(676)	206
4,492	(1,350)	3,142	Financing and Investment Income and Expenditure *(note 13)*	518	(1,399)	(881)
(2,714)	-	(2,714)	Exceptional item- Release of reversal of impairment losses on Icelandic bank deposits *(note 8)*	(253)	-	(253)
(25)	-	(25)	Exceptional item - CBC v. Laird case	-	-	-
-	-	-	Exceptional item - HRA self financing settlement (note 8)	27,414	-	27,414
-	(17,519)	(17,519)	Taxation and non-specific grant income *(note 14)*		(15,905)	(15,905)
128,208	**(94,758)**	**33,450**	**(Surplus) or Deficit on the provision of services**	**119,564**	**(94,526)**	**25,038**
		(1,265)	(Surplus) / Deficit on revaluation of non-current assets (*note 34)*			(1,555)
		(21,417)	Actuarial (gains) / losses on pension fund assets / liabilities *(note 42)*			8,230
		(22,682)	**Other Comprehensive Income and Expenditure**			**6,675**
		10,768	**Total Comprehensive Income and Expenditure**			**31,713**

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 2010	31 March 2011		Note	31 March 2012
Restated (note 22)	Restated (note 22)			
£'000	£'000			£'000
282,220	231,147	Property, Plant & Equipment	21	236,384
27,306	27,306	Heritage Assets	22	28,196
22,608	22,223	Investment Property	23	22,784
234	448	Intangible Assets	25	543
10,560	3,793	Long Term Investments	27	2,655
201	183	Long Term Debtors	27	3,727
343,129	**285,100**	**Long Term Assets**		**294,289**
2,368	12,301	Short term Investments	27	4,093
-	3,084	Assets held for sale	26	-
117	124	Inventories	28	124
6,009	4,679	Short term Debtors	29	4,883
22	914	Cash and cash equivalents	30	2,621
8,516	**21,102**	**Current assets**		**11,721**
(464)	(1,022)	Bank overdraft	30	(1,772)
(17,912)	(13,607)	Short term borrowing	27	(7,424)
(7,100)	(8,945)	Short term creditors	31	(9,495)
(535)	(96)	Provisions	32	(141)
(26,011)	**(23,670)**	**Current Liabilities**		**(18,832)**
(26,900)	(26,900)	Long term borrowing	27	(54,674)
(83)	(83)	Grants receipts in advance - capital	19	(83)
-	-	Grants receipts in advance - revenue	19	(184)
(70,405)	(38,071)	Other long term liabilities	42	(46,472)
(97,388)	**(65,054)**	**Long term liabilities**		**(101,413)**
228,246	**217,478**	**Net Assets**		**185,765**
(14,989)	(19,546)	Usable Reserves	33	(17,838)
(213,257)	(197,932)	Unusable Reserves	34	(167,927)
(228,246)	**(217,478)**	**Total Reserves**		**(185,765)**

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**
As originally stated	2,446	10,262	1,581	-	-	700	**14,989**	185,951	**200,940**
Adjustments (note 22)	-	-	-	-	-	-	-	27,306	**27,306**
RESTATED Balance at 31 March 2010	**2,446**	**10,262**	**1,581**	**-**	**-**	**700**	**14,989**	**213,257**	**228,246**
<u>Movement in Reserves during 2010/11</u>									
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 6)	(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)**
RESTATED Balance at 31 March 2011	**2,667**	**11,044**	**3,673**	**1,162**	**300**	**700**	**19,546**	**197,932**	**217,478**
<u>Movement in Reserves during 2011/12</u>									
Surplus or (deficit) on the provision of services	1,565		(26,603)				**(25,038)**		**(25,038)**
Other comprehensive Income & expenditure							-	(6,675)	**(6,675)**
Total comprehensive Income & Expenditure	1,565	-	(26,603)	-	-	-	**(25,038)**	(6,675)	**(31,713)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	(3,225)		26,027	897	(300)	(69)	**23,330**	(23,330)	
Net decrease before transfers to reserves	(1,660)	-	(576)	897	(300)	(69)	**(1,708)**	(30,005)	**(31,713)**
Transfers to/from earmarked reserves (Note 33)	1,246	(1,246)					-		
Increase / (decrease) in 2011/12	(414)	(1,246)	(576)	897	(300)	(69)	**(1,708)**	(30,005)	**(31,713)**
Balance at 31 March 2012	**2,253**	**9,798**	**3,097**	**2,059**	**-**	**631**	**17,838**	**167,927**	**185,765**

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.

2010/11		2011/12	2011/12
£'000	**Operating Activities**	£'000	£'000
(7,148)	Council Tax receipts	(7,327)	
(1,118)	Revenue Support Grant	(1,440)	
(7,701)	National non-domestic rate receipts from national pool	(4,658)	
(39,534)	DWP grants for benefits	(39,975)	
(870)	Other government grants	(723)	
(6,761)	Rents (after rebates)	(7,203)	
(21,351)	Cash received for goods and services	(19,691)	
(50)	Interest received	(280)	
(25)	Dividends received	-	
(84,558)	**Cash inflows generated from operating activities**		(81,297)
18,174	Cash paid to and on behalf of employees	17,006	
20,246	Housing Benefit paid	20,723	
160	Precepts paid	204	
30,051	Cash paid to suppliers of goods and services	27,647	
1,293	Interest paid	1,301	
6,620	Other payments for operating activites	7,537	
76,544	**Cash Outflows generated from operating activities**		74,418
(8,014)	**Net cashflow from operating activities**		**(6,879)**
	Investing activities		
5,591	Purchase of property, plant and equipment, investment property and intangible assets	8,353	
-	Other payments for investing activites	2,393	
(2,101)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,909)	
(118)	Proceeds form the sale of short and long term investments	(8,397)	
3	Other receipts from investing activites	(347)	
3,375	**Net cashflows from investing activites**		**93**
	Financing activites		
(110,545)	Cash receipts of short and long term borrowing	(135,677)	
114,850	Repayments of short and long term borrowing	114,092	
-	Payment to Secretary of State - Self financing of HRA	27,414	
4,305	**Net cash flows from financing activites**		**5,829**
(334)	**Net increase (-) / decrease in cash and cash equivalents**		**(957)**
(442)	Cash and cash equivalents at beginning of the year		(108)
(108)	Cash and cash equivalents at end of the year (note 30)		**849**

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i) GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the 2011/12 financial year and its position at the year-end of 31st March 2012. 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 2011/12 (The 'Code') and the Service Reporting Code of Practice 2012 (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 78.

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 86 to 90.

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 would 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 an 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) HERITAGE ASSETS

The Authority's collections of heritage assets are accounted for as follows.

Ceramics, Art, Silverware, Furniture, Textiles, Costumes, Ephemera and Civic Regalia

The collections are reported in the Balance Sheet at their insurance valuation, which is based on market values. These insurance valuations are updated on an annual basis. The major works of art were revalued by Gull at 1 April 2010. The Authority has deemed that all the heritage assets have indeterminate lives, hence the Authority does not consider it appropriate to charge depreciation.

Archaeology

The Authority cannot obtain reliable cost or valuation information for its archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently the Authority does not recognise these assets on its balance sheet.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment - see note (x) in accounting policies. Occasionally the Authority will dispose of heritage assets. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

xii) 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.

xiii) 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.

xiv) 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 criteria 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.

xv) 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.

xvi) INVENTORIES AND LONG TERM CONTRACTS

Inventories 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.

xvii) 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.

xviii) 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.

xix) 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.

xx) 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.

xxi) 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.

xxii) 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.

xxiii) 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.

xxiv) 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.

xxv) 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.

xxvi) 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 re-valued in order to bring them in line with the council's accounting policies. A formal valuation with a valuation date of 31st March 2012 was undertaken by an external valuer in 2011/12.

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.

xxvii) 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.

xxviii) FOREIGN CURRENCY TRANSLATION

Where the Authority has entered into a transaction denominated in a foreign currency the transaction is converted into Sterling at the exchange rate applicable on the date it is received or paid. Where amounts denominated in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xxviii) DISCONTINUED OPERATIONS

Discontinued Operations are shown separately on the face of the Comprehensive Income and Expenditure Statement.

xxviv) LONG TERM LOANS

Long term loans granted to a body are treated as capital expenditure and included in the balance sheet as Long Term debtors.

xxx) CHANGES IN ACCOUNTING POLICIES

The specific changes in policies for 2011/12 are as follows:

There is a new requirement to disclose in bands the numbers of exit packages agreed and the cost of those packages to the authority in the financial year included in the Comprehensive Income and Expenditure Statement across the relevant services and in Non Distributed Costs. This includes redundancy costs (voluntary and compulsory), the accrued cost of added years (pension strain) and other departure costs.

2. Accounting Standards that have been issued but have not yet been adopted

For 2011/12 the only accounting policy change that needs to be reported relates to amendments to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).

The amendments to IFRS 7 - Financial Instruments are intended to assist users of financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority's financial position. The transfers described by the standard do not occur frequently in local authorities. The authority does not have any such transactions in 2011/12.

Community Assets
Community Assets mainly comprise parks, gardens and open spaces. The Code added the option for authorities to extend the measurement and disclosures. The authority has so far not changed its accounting policy in this way as it does not have the management information to make reasonable valuation estimates of community assets, which are currently held at historic cost on the balance sheet where known. This means that in most cases the assets are currently held at nil value.

3. 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 the Icelandic bank Landsbanki. In the absence of further information, it has been assumed that outstanding payments will be received evenly between December 2012 and December 2019, however they may be received from the administrators earlier (note 27, pages 65 to 71 provides further information).

Leases have been 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 previous years.

4. 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 2012 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
Impairment of Landsbanki deposits	The carrying value of these deposits as short or long term and the impairment adjustment made in 2011/12 is based on assumptions as to the amounts and timing of future repayments.	If repayments are received earlier than expected this would increase the carrying value of short term deposits (reducing that of long term investments) and increase the impairment credit adjustment made to the Comprehensive Income and Expenditure Statement. The maximum increase in the carrying value (and in the impairment credit adjustment) would be around £0.5 million if the outstanding amounts were received by 31st December 2012.

Surplus assets	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 as it is subject to planning permission being granted.

5. 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 million 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 86). The past service costs included for 2011/12 are £74k.

Section170 (60) of the Localism Act sets out that settlement payments transactions paid by a local housing authority are deemed to be capital expenditure. The payment made by the authority to the Secretary of State is £27.414 million, which as a material item of expenditure is identified separately on the face of the HRA. The £27.414 million is written out of the HRA as it is defined by statute to be capital expenditure. Long term loans were taken out with PWLB to fund the payment.

Dwelling stock totalling £0.588m has been transferred to Surplus Assets as the stock no longer meet the criteria to be regarded as a dwelling.

6. 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.

6. Adjustments between accounting basis and funding basis under the regulations

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		2011/12 General Fund Balance £'000	2011/12 Housing Revenue Account £'000	2011/12 Capital Receipts Reserve £'000	2011/12 Major Repairs Reserve £'000	2011/12 Capital Grants Unapplied £'000	2011/12 Unusable Reserves £'000
						Adjustments to / from the Capital Adjustment Account						
						Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
(2,754)	(3,212)				5,966	Charges for depreciation and impairment of non-current assets	(2,677)	(3,322)				5,999
84	(46,062)				45,978	Revaluation losses on Property, Plant and Equipment	-	-				-
-	-				-	Movements in the fair value of Investment Properties	2,331	(125)				(2,206)
(106)					106	Amortisation of Intangible Assets	(96)	-				96
589				136	(725)	Capital grants and contributions	912	72			86	(1,070)
(188)	(6)			(121)	315	Revenue Expenditure Funded from Capital Under Statute	(943)	-			(17)	960
(385)	(2,580)				2,965	Amounts of non-current assets written off on sale as part of the gain/loss on disposal	(1,688)	(277)				1,965
						HRA Self Financing Payment to Secretary of State	-	(27,414)				27,414
						Insertion of items not debited or credited to Comprehensive Income and Expenditure Statement						
645					(645)	Statutory provision for the financing of capital investment (Minimum Revenue Provision)	748					(748)
230					(230)	Voluntary provision for the financing of capital	2,500					(2,500)
852	133			(15)	(970)	Capital expenditure charged against the General Fund and HRA balances	1,012	1,127				(2,139)
						Adjustments to / from the Capital Receipts Reserve						
653	1,828	(2,516)			35	Transfer of sale proceeds credited as part of the sale of non-current assets	1,705	662	(2,413)			46
	(32)	528			(496)	Use of capital receipts to fund capital			1,012			(1,012)
(415)		415				Contribution from capital receipts to finance payments to capital receipts pool	(504)		504			
		411			(411)	Use of capital receipts to fund premiums	-					-
(795)	(49,931)	(1,162)	-	-	51,888	**Carried forward**	3,300	(29,277)	(897)	-	69	26,805

2010/11							2011/12					
General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Unusable Reserves		General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Unusable Reserves
£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000
(795)	(49,931)	(1,162)	-	-	51,888	**Brought forward**	3,300	(29,277)	(897)	-	69	26,805
						Adjustments to / from the Major Repairs Reserve (MRR)						
	3,101		(3,101)			Reversal of Major Repairs Allowance credited to the HRA		3,241		(3,241)		-
			2,801		(2,801)	Use of the MRR to finance capital expenditure				3,541		(3,541)
						Adjustments to the Pensions Reserve						
7,597					(7,597)	Reversal of items relating to retirement benefits debited to the Comprehensive Income and Expenditure Statement	(3,399)					3,399
3,320					(3,320)	Employers' pension contributions and payments direct to pensioners in the year	3,228					(3,228)
						Adjustments to / from the Financial Instruments Adjustment account						
146	9				(155)	Amount by which finance costs charged to Comprehensive Income and Expenditure Statement are different from those chargeable according to statute	146	9				(155)
						Adjustments to the Collection Fund Adjustment Account						
-					-	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from that calculated according to statute	(38)					38
						Adjustments to / from the Accumulating Compensated Absences Adjustment Account						
8					(8)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement is different from that chargeable according to statute	(12)					12
10,276	**(46,821)**	**(1,162)**	**(300)**	**-**	**38,007**	**Total Adjustments**	**3,225**	**(26,027)**	**(897)**	**300**	**69**	**23,330**

7. 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 and 2011/12. Since these operations were set up as a means of sharing expenses they are classified as jointly controlled operations, 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 was implemented during 2011/12, with a shared service for financial services for all five organisations being created on 1st April 2012. It is anticipated that that this will deliver significant savings, reduce duplication of effort, provide service resilience and lead to the sharing of other 'back office' services between the councils.

The concessionary fares function transferred to the control of Gloucestershire County Council on 1st April 2011. All future costs associated with this scheme are included in the accounts for the County Council from this date. Consequently the cost of the scheme for 2010/11 has been shown separately on the face of the Comprehensive Income and Expenditure Statement.

From 1st January 2012, the council's responsibility for the administration of four trust funds (The Hay Trust, Caroline Strickland Homes, Walker Memorial Fund and the Turner Long Fund) ended, and the trusts' resolution documents were amended to remove the requirement for the council to nominate trustees. The trusts continue to operate under the management of a third sector organisation. The trusts' balances were held outside of the council's accounts, and the balances held by the trusts at the date of transfer are shown on page 85.

On 1 April 2012, Ubico Ltd. was formed – a company wholly owned by it's shareholders, Cheltenham Borough Council and Cotswold District Council. The company is responsible for delivering the shareholders environmental services within their respective Council boundaries. Cheltenham Borough Council services were delivered from 1st April 2012 with Cotswold District Council services to be delivered from the anticipated commencement date of August 2012.

8. Exceptional Items

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 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, 2010/11 and 2011/12. Full details are given in note 27, pages 65 to 71.

HRA Self Financing Settlement Paid to Secretary of State

The Government abolished the HRA subsidy system with effect from 1 April 2012 and replaced it with a self financing regime. This has necessitated a one off debt settlement payment of £27,414,000 which was made on 28th March 2012.

9. 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:

2010/11 Restated						2011/12				
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					
(1,512)	741	(771)		(771)	Town Hall / Pump room	(1,414)	736	(678)		(678)
(1,461)	3,049	1,588		1,588	Leisure@Cheltenham	(1,464)	3,084	1,620		1,620
(1,436)	812	(624)		(624)	Cemetery and Crematorium	(1,424)	729	(695)		(695)
(4,942)	3,226	(1,716)		(1,716)	Car Parks	(5,173)	3,282	(1,891)		(1,891)
(9,351)	**7,828**	**(1,523)**	**-**	**(1,523)**	**Total**	**(9,475)**	**7,831**	**(1,644)**	**-**	**(1,644)**
					Other Trading Activities					
(281)	239	(42)		(42)	Glos CC (schools)	(274)	212	(62)		(62)
(76)	45	(31)	31	-	TIC shop / agency	(72)	60	(12)	12	-
(22)	8	(14)	14	-	Art gallery/museum shop	-	-	-	-	-
(379)	**292**	**(87)**	**45**	**(42)**	**Total**	**(346)**	**272**	**(74)**	**12**	**(62)**

Other trading activities generated a net surplus of £62k for 2011/12 (£42k for 2010/11), which is included in Other Operating Expenditure within the Comprehensive Income & Expenditure Statement (see note 12, page 45).

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.

10. 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.

	2011/12 £'000	2010/11 £'000
Recruitment advertising	7	2
Other advertising	145	202
Information relating to regional government	-	-
Event promotion	105	83
TOTAL	**257**	**287**

11. 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:-

2010/11 Expenditure	2010/11 Income	2010/11 Net Expenditure		2011/12 Expenditure	2011/12 Income	2011/12 Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
-	-	-	Routine Maintenance	-	-	-
275	185	90	Verges and highway trees	257	196	61
1,446	1,446	-	Car parking (on-street)	1,635	1,635	-
-	-	-	Enmainment works	-	-	-
164	125	39	Administrative costs	122	125	(3)
1,885	**1,756**	**129**	**Total**	**2,014**	**1,956**	**58**

12. Other operating Expenditure

2010/11 £'000	Analysis of other operating expenditure	2011/12 £'000
516	(Gains) / losses on the disposal of fixed assets	(402)
(42)	(Surpluses) / deficits on trading operations	(62)
158	Parish council precepts	165
415	Contribution to the housing capital receipts pool	505
1,047	**Total**	**206**

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13. Financing and Investment income and expenditure

2010/11 £'000	Analysis of Financing and Investment income and expenditure	2011/12 £'000
1,293	Interest payable and similar charges	1,302
(620)	Interest and investment income	(654)
164	Income and Expenditure on Investment properties and changes in their fair value	(2,756)
2,305	Pensions interest costs and return on assets	1,227
3,142	**Total**	**(881)**

14. Taxation and non specific grant income

2010/11 £'000		2011/12 £'000
(8,070)	Demand on the collection fund	(8,106)
(1,159)	General government grants	(2,156)
(7,701)	Non domestic rates	(4,658)
(589)	Capital grants and contributions	(985)
(17,519)	**Total**	**(15,905)**

General government grants are included in the Comprehensive Income and Expenditure Statement and are not attributable to specific services.

15. Members' Allowances

In 2011/12 the council paid £321,111 (2010/11 £323,100) in allowances to its 40 members. The expenditure reflects members' allowances approved by council for 2011/12. Full details of the Members' Allowances scheme for 2011/12 can be found on the council's website.

16. 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 2011/12**	**No of Employees 2010/11**
£50,000 - £54,999	-	1
£55,000 - £59,999	1	-
£60,000 - £64,999	4	5
£65,000 - £69,999	2	2
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	2	1
£90,000 - £94,999	2	3
£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	**12**	**13**

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.

2011/12 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 2011/12	Pension contributions	Total Remuneration inc. pension contbns 2011/12
	£	£	£	£	£	£	£	£
Chief Executive (note 1)	108,083	943	-	465	3,179	112,670	16,244	128,914
Executive Director	89,104	392	-	465	-	89,961	13,009	102,970
Executive Director	89,104	201	-	465	-	89,770	13,009	102,779
Civic Pride Managing Director	89,104	847	-	1,239	-	91,190	13,009	104,199
GO Shared ERP Programme Manager (note 2)	89,104	545	-	1,239	-	90,888	13,009	103,897
Director Operations	63,019	1,290	-	775	-	65,084	8,909	73,993
Director Resources	67,992	323	-	-	-	68,315	9,762	78,077
Director People OD & Change	61,487	657	-	465	-	62,609	8,909	71,518
Director Commissioning	61,019	14	-	465	-	61,498	8,875	70,373
Director Built Environment	61,019	-	-	465	-	61,484	8,909	70,393
Director Wellbeing & Culture	61,019	568	-	516	-	62,103	8,909	71,012
TOTAL	**840,054**	**5,780**	**-**	**6,559**	**3,179**	**855,572**	**122,553**	**978,125**

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Note 1: 'Other payments' relate to Returning Officer fees paid in respect of elections

Note 2: GO Shared ERP Programme Manager – jointly funded by CBC, Cotswold District Council, West Oxfordshire District Council and Forest of Dean District Council.

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 (note 1)	108,083	1,347		1,267	10,061	120,758	17,308	138,066
Assistant Director – Customer Access & Service Transformation (note 2)	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 (note 3)	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
TOTAL	**869,388**	**6,542**	**26,401**	**13,121**	**10,061**	**925,513**	**125,798**	**1,051,311**

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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.

17. 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, 49 were received. This equates to a 98% return rate (100% in 2010/11).

Central Government

The UK Government has effective control over the general operations of the council - it is responsible for providing the statutory framework and legislation 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 26 local bodies (32 in 2010/11) and voluntary organisations totalling £1,213,738 (£1,488,955 in 2010/11). 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 £3,228,000 in 2011/12 (£3,320,000 in 2010/11).

The total grants over £35,000 made during 2011/12 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
Everyman Theatre	265,450	18,628	284,078	
Citizens Advice Bureau	154,931	6,847	161,778	
Cheltenham Community & Voluntary Action Group	34,000	96,696	130,696	
Playhouse Theatre	65,700	3,450	69,150	2
Town Centre Management	26,200	42,913	69,113	
Business & Economic Development Grants	61,851	-	61,851	
Young Art Centre	1,745	48,348	50,093	
Hesters Way Renewal Area	40,200	4,500	44,700	
Whaddon Renewal Area	40,200	3,800	44,000	
Youth Affairs	37,479	6,628	44,107	
Business & Economic Development Grants	35,000	0.00	35,000	
	762,756	**231,810**	**994,566**	

Companies and joint ventures

The Gloucestershire Everyman Theatre leases the theatre from the Council. The Council approved a grant of £250,000 and a loan of £1 million to fund restoration costs carried out by the theatre company in 2011/12.

The council has a 50% share in Gloucestershire Airport. The Airport's accounts have been consolidated into the Group Accounts, which are shown on pages 92 to 101. 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 £24,088 during 2011/12 (£24,067 in 2010/11). At 31st March 2012 £12,188 was owed by the Airport to the council (£11,997 at 31st March 2011) in respect of these goods and services. In addition the council loaned £1.195 million to the Airport during 2011/12 (Nil in 2010/11). This loan is shown as a long term debtor on the council's balance sheet.

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 92 to 101. Four councillors serve on the company's Board of Directors.

The council procured supplies and services totalling £9,690,972 from Cheltenham Borough Homes during 2011/12 (£8,995,324 in 2010/11), £307,200 (£307,200 in 2010/11) of which is included in the council's Balance Sheet and excluded from the Group Balance Sheet (see pages 92 to 101 and Note 43 to the Group Accounts on Page 96). During the year the council also loaned CBH £1.4m for development at St Paul's and Brighton Road

Cheltenham Borough Homes procured supplies and services from Cheltenham Borough Council of £702,138 during 2011/12 (£841,517 in 2010/11), £587,388 (£96,641 in 2010/11) of which is included in the council's Balance Sheet and adjusted for within the Group Balance Sheet (see pages 92 to 101 and Note 43 to the Group Accounts on Page 96).

On 31st March 2012, 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

18. External Audit Costs

The total audit fees payable to the council's external auditor and the Audit Commission in 2011/12 were £129,327 (£138,014 in 2010/11), made up as follows:

	2011/12 £	2010/11 £
Certification of grant claims and returns	26,080	26,232
Statutory inspection	-	(1,881)
Audit of accounts (including whole of government accounts)	99,627	68,903
Other work provided by the appointed auditor:		
- Use of resources / value for money work	-	37,460
- Consideration of public questions	3,620	5,000
- National Fraud Initiative	0	2,300
Total	**129,327**	**138,014**

19. Grant Income

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

	2010/11 £'000	2011/12 £'000
Credited to Taxation and Non Specific grant income		
Revenue Support Grant	(1,118)	(1,440)
New Homes Bonus	-	(338)
Performance Reward Grant	-	(180)
Area Based Grant	(40)	-
Non Domestic Rates	(7,701)	(4,658)
Capital Grants and Contributions	(589)	(984)
Total	**(9,448)**	**(7,600)**
Credited to Services		
Civic Pride Grant	-	(10)
Flood defence grants	(320)	(558)
Election grants	(105)	(142)
Concessionary Transport Scheme grant	(640)	-
Homelessness grants	(268)	(242)
Housing Benefits subsidy & Administration grants	(31,438)	(32,409)
Council Tax Benefits subsidy & Administration grants	(7,440)	(7,386)
NNDR – Cost of Collection grants	(198)	(192)
Recycling grants	(109)	(100)
Contaminated Land Grants	(148)	(25)
Art Gallery & Museum Grants	(99)	(75)
Other Grants	(131)	(40)
Other partnership funding and contributions	(331)	(1,591)
Total	**(41,227)**	**(42,770)**
Receipts in Advance – Revenue		
Commuted Grounds Maintenance contributions	-	(184)

No grants were credited during 2011/12 to Capital Grants Receipts in Advance on the balance sheet.

20. 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 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 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. The council's organisation structure changed in 2011/12 and the 2010/11 comparative figures are presented in the previous management structure format, relevant in 2010/11.

Segmental Analysis - General Fund Services 2011/12	Employees Costs	Other Service Expenses	Support Service Costs	Total Expenditure	Fees & Other income	Gov't Grants	Total Income	Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Strategic Management	646	18	(677)	(13)	(14)	0	(14)	(27)
Commissioning	757	1,781	410	2,948	(118)	(142)	(260)	2,688
Built Environment	3,000	4,911	689	8,600	(7,387)	(757)	(8,144)	456
Resources	5,370	41,347	(3,624)	43,093	(1,659)	(39,987)	(41,646)	1,447
Wellbeing and Culture	3,970	4,720	959	9,649	(5,171)	(35)	(5,206)	4,443
Operations	4,454	2,934	684	8,072	(3,156)	(119)	(3,275)	4,797
Programmed Maintenance (Revenue)	0	428	0	428	0	0	0	428
Business Change	122	226	526	874	(246)	0	(246)	628
Bad debt provision	0	31	0	31	0	0	0	31
	18,319	**56,396**	**(1,033)**	**73,682**	**(17,751)**	**(41,040)**	**(58,791)**	**14,891**

Segmental Analysis - General Fund Services 2010/11 comparative figures	Employees Costs	Other Service Expenses	Support Service Costs	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**

Reconciliation of Directorate Income & Expenditure to Cost of Services in the Comprehensive Income & Expenditure Statement

2010/11 £000		2011/12 £000
19,233	**Net expenditure in the Segmental Service Analysis**	**14,891**
30,294	Net expenditure of services and support services not included in service analysis	25,566
-113	Amounts included in analysis not included in cost of services in Comprehensive Income & Expenditure Statement	472
105	Amounts in the Comprehensive Income & Expenditure Statement not reported to management in the segmental analysis	942
49,519	**Cost of services in Comprehensive Income & Expenditure Statement**	**41,871**

Reconciliation to Subjective Analysis 2010/11 Comparative / **Reconciliation to Subjective Analysis 2011/12**

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		2011/12 Service Analysis £000	2011/12 Services & Support Services not in analysis £000	2011/12 Amounts not included in I & E statement cost of services £000	2011/12 Amounts not reported in management decision making £000	2011/12 Cost of Services £000	2011/12 Corporate Amounts £000	2011/12 Deficit on provision of services £000
19,803				19,803		19,803	Employees costs	18,319				18,319		18,319
58,993				58,993		58,993	Other service exps	56,396		12		56,408		56,408
(1,070)				(1,070)		(1,070)	Support service costs	(1,033)				(1,033)		(1,033)
	8			8		8	Allocation of recharges		27			27		27
	(13,222)			(13,222)	2,305	(10,917)	Pension adjustments re IAS 19		(1,056)			(1,056)	1,227	171
		25		25	(25)	0	Exceptional items			0		0	(253)	(253)
	43,508			43,508		43,508	HRA Deficit		26,595			26,595		26,595
					158	158	Parish council precepts						165	165
					415	415	Contribution to the housing capital receipts pool						505	505
					1,293	1,293	Interest payable and similar charges						1,302	1,302
77,726	**30,294**	**25**	**0**	**108,045**	**4,146**	**112,191**	**Total Expenditure**	**73,682**	**25,566**	**12**	**0**	**99,260**	**2,946**	**102,206**
(17,721)				(17,721)		(17,721)	Fees & Other Income	(17,751)				(17,751)		(17,751)
(40,772)				(40,772)		(40,772)	Government Grants	(41,040)				(41,040)		(41,040)
			(84)	(84)		(84)	Impairments							0
			189	189		189	Revenue funded from capital under statute				942	942		942
		33		33	(42)	(9)	Trading operations			51		51	(62)	(11)
		(171)		(171)	164	(7)	Investment properties			409		409	(425)	(16)
					516	516	Gains / (losses) on the disposal of fixed assets						(966)	(966)
					(2,714)	(2,714)	Investment losses						(1,767)	(1,767)
					(620)	(620)	Interest and investment income						(654)	(654)
					(17,519)	(17,519)	Taxation and non-specific grant income						(15,905)	(15,905)
(58,493)	**0**	**(138)**	**105**	**(58,526)**	**(20,215)**	**(78,741)**	**Total income**	**(58,791)**	**0**	**460**	**942**	**(57,389)**	**(19,779)**	**(77,168)**
19,233	**30,294**	**(113)**	**105**	**49,519**	**(16,069)**	**33,450**	**Deficit on the provision of services**	**14,891**	**25,566**	**472**	**942**	**41,871**	**(16,833)**	**25,038**

21. Property, Plant & Equipment

2010/11									2011/12							
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								
259,220	78,387	3,419	7,690	226	25	137	349,104	At 1 April	152,037	75,373	4,993	8,454	226	25	-	241,108
2,884	186	1,574	627	-	-	-	5,271	Additions	4,072	79	1,982	660	-	-	1,013	7,806
1,062	99	-	-	-	-	-	1,161	Revaluation increases / (decreases) recognised in the Revaluation Reserve	713	(47)	-	-	-	-	-	666
(108,549)	-	-	-	-	-	-	(108,549)	Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services	-	-	-	-	-	-	-	-
(2,580)	-	-	-	-	-	-	(2,580)	Derecognition - disposals	(277)	(50)	-	-	-	-	-	(327)
-	(3,404)	-	-	-	-	-	(3,404)	Assets reclassified to/from held for resale	-	-	-	-	-	3,404	-	3,404
-	-	-	137	-	-	(137)	-	Other Reclassifications	(588)	-	-	-	-	588	-	-
-	105	-	-	-	-	-	105	Other movements	-	-	-	-	-	-	-	-
152,037	**75,373**	**4,993**	**8,454**	**226**	**25**	**-**	**241,108**	**At 31 March**	**155,957**	**75,355**	**6,975**	**9,114**	**226**	**4,017**	**1,013**	**252,657**
								Accumulated Depreciation and Impairment								
(62,487)	(1,968)	(1,789)	(640)	-	-	-	(66,884)	At 1 April	(3,129)	(3,642)	(2,345)	(845)	-	-	-	(9,961)
(3,101)	(1,992)	(613)	(232)	-	-	-	(5,938)	Depreciation charge	(3,242)	(1,834)	(696)	(227)	-	-	-	(5,999)
-	103	-	-	-	-	-	103	Depreciation written out to the Revaluation Reserve	-	-	-	-	-	-	-	-
62,487	-	-	-	-	-	-	62,487	Depreciation written out to the surplus/ deficit on the provision of services	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
(28)	-	57	27	-	-	-	56	Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	Derecognition - disposals	-	7	-	-	-	-	-	7
-	320	-	-	-	-	-	320	Assets reclassified to/from held for resale	-	-	-	-	-	(320)	-	(320)
-	-	-	-	-	-	-	-	Other Reclassifications	-	-	-	-	-	-	-	-
-	(105)	-	-	-	-	-	(105)	Other movements	-	-	-	-	-	-	-	-
(3,129)	**(3,642)**	**(2,345)**	**(845)**	**-**	**-**	**-**	**(9,961)**	**At 31 March**	**(6,371)**	**(5,469)**	**(3,041)**	**(1,072)**	**-**	**(320)**	**-**	**(16,273)**
148,908	**71,731**	**2,648**	**7,609**	**226**	**25**	**-**	**231,147**	**Net Book Value at 31 March**	**149,586**	**69,886**	**3,934**	**8,042**	**226**	**3,697**	**1,013**	**236,384**

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. The uplift for 11/12 for dwelling stock is £0.712m

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. No components were identified in 2011/12

Reclassifications

A number of HRA dwellings which were being assessed in 2010/11 were identified as surplus assets during 2011/12. The balance sheet for 2010/11 has been restated to reflect the change.

Assets classified as Held for Sale in 2010/11 have been transferred to Surplus Assets as their sale is subject to planning permission being granted.

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 financed by borrowing. The CFR is analysed in the second part of the note.

	2011/12 £'000	2010/11 £'000
Opening Capital Financing Requirement	**45,488**	**45,437**
Capital Investment		
Intangible Assets	191	320
Property, Plant and Equipment	7,806	5,270
Long Term Loans	3,595	-
HRA Settlement Payment	27,414	-
Revenue Expenditure Funded from Capital under Statute	1,382	1,250
	40,388	**6,840**
Sources of Finance		
Capital Receipts	(1,012)	(500)
Government Grants	(423)	(844)
Capital Contributions and Partnership Funding	(1,071)	(803)
Lottery Funding	-	-
Revenue Financing		
Minimum Revenue Provision (MRP)	(748)	(645)
Voluntary Revenue Provision	(2,500)	(230)
HRA	(1,127)	(118)
Major Repairs Reserve	(3,541)	(2,797)
Revenue Reserves	(1,010)	(852)
	(11,432)	**(6,789)**
Closing Capital Financing Requirement	**74,444**	**45,488**
Explanation of movement in year		
Increase in underlying need to borrow –HRA Settlement Payment	27,414	-
Increase in underlying need to borrowing (unsupported by Government financial assistance)	4,790	926
MRP	(748)	(645)
Voluntary Revenue Provision	(2,500)	(230)
Increase in Capital Financing Requirement	**28,956**	**51**

Commitments under capital contracts

At 31st March 2012 the council was committed to completing all schemes within its capital programme. This included contractual commitments at 31st March 2012 of £3.864 million for works on properties (£1.58 million at 31st March 2011), £0.194 million for works on cycle paths and other infrastructure (£0.241 million as at 31st March 2011), £15,000 for insulation works (£15,000), £11,000 for CCTV in car parks (£11,000), a total of £4.084 million (£1.859 million at 31st March 2011). Most of this is anticipated to be incurred by 31st March 2013.

22. Heritage Assets

The Code of Practice on Local Authority Accounting 2011/12 (the Code) introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in the accounting policies, the authority is now required to show heritage assets on the balance sheet at valuation. At 31st March 2012 such assets were valued at £28.196 million, matched mainly by an increase in the Revaluation Reserve. The balance sheet for 31st March 2011 has been restated to reflect the valuations on that dates of £27.306 million, also matched by an increase in the Revaluation Reserve.

The council's buildings house the various collections of heritage assets, which are held to support the Council's objective of enhancing the provision of Arts and Culture. The mission statement of Cheltenham Art Gallery is 'To preserve and develop Cheltenham's unique collections for the future - and to make them accessible to an increasingly broad public in a way that communicates, educates and inspires'. The heritage assets held by the authority are the collections of assets and artefacts either exhibited or stored at the Cheltenham Art Gallery and Museum, the Pittville Pump Room, the Holst Birthplace Museum, the Municipal Offices and the Town Hall. These assets comprise many given by local people. The four principal collections are

- Fine Art
- Decorative Arts
- Social History and Ethnography
- Archaeology

The authority has recognised its heritage assets on the balance sheet using detailed insurance valuations (which are based on market values) for the collections. On 1 April 2010 the major works of art works were re-valued and all of the insurance valuations were updated on 1st April 2011. The authority considers that the assets will have indeterminate lives and does not consider it appropriate to charge depreciation.

The authority does not recognise the archaeological collection on its balance sheet, as obtaining valuations for these would involve a disproportionate cost. This exemption is permitted by the Code and is due to the diverse nature of the assets held, and lack of comparable market values. Further to this, the commencement of the construction works for the Art Gallery and Museum redevelopment has meant that the collections are currently being de-canted, thus restricting access.

The museum holds significant collections in the following areas:

- Fine Art: British and foreign paintings, drawing and prints from the 16th century onwards, including English water colours from the 18th century onwards
- Decorative Art: British and European ceramics, British furniture, clocks, glass, metalwork and treen from the 16th century onwards
- Oriental Art: Chinese ceramics, costume, armour and artefacts from the 9th century to the present day
- Costume and Textiles: Garments, underwear and accessories from the 17th century onwards.
- The Arts and Crafts Movement: Books, ceramics, furniture, metalwork, paintings, textiles, archives, designs and drawings relating to the English Arts and Crafts Movement from the 1860's to the present day, recognised nationally by the government as a Dedicated Collection.
- Archaeology; Prehistoric, Romano- British and medieval archaeology
- Local History: Printed ephemera, photographs, postcards, topographical prints and objects relating to the history of Cheltenham
- Numismatics: British and foreign coins from the Roman empire to the 21st century
- Firearms and edged weapons: British and European examples
- Natural Sciences: Geology, herbaria, eggs
- Social History: Objects relating to English domestic, personal and working life from the 17th century to the present day.

The museum maintains all its present collections, and where appropriate enhances those collections, by building on present strengths and filling gaps by purchase, gift or bequest. The museum does not undertake disposals motivated by financial reasons. Disposals are only undertaken by the governing body after full consideration of the reasons for disposal. External expert advice is sought, along with the views of stakeholders. The proceeds of such items are accounted for in accordance with statutory accounting requirements relating to capital receipts.

The collections are managed by curators reporting to the Museum Manager, who manage the collections in accordance with policy and guidance.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment - see note xi in accounting policies.

A detailed breakdown of the carrying values of the council's heritage assets are shown below:

	Ceramics	Art Collection	Furniture	Civic Regalia & Silver	Textiles and other	Total Assets
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
1 April 2010	1,881	20,382	1,698	279	3,066	27,306
Additions	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-
31 March 2011	**1,881**	**20,382**	**1,698**	**279**	**3,066**	**27,306**
Cost or Valuation						
1 April 2011	1,881	20,382	1,698	279	3,066	27,306
Additions	-	205	-	-	150	355
Update for inflation	37	403	34	5	56	535
31 March 2012	**1,918**	**20,990**	**1,732**	**284**	**3,272**	**28,196**

In 2009 the valuer Gulls carried out a re-valuation of the art collection, which increased the values of certain works of art. There were no material additions, disposals or impairments in 2010/11 but in 2011/12 a compass and various works of art were added to the collection.

A breakdown of the carrying values, spit between purchased and donated assets, for the last five years (as required by the Code) has not been provided due to lack of supporting historical information.

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.

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.

2010/11 £'000		2011/12 £'000
729	Rental income from Investment Property	752
-	Gain on revaluation	2,331
(893)	Direct Operating Expenses	(327)
(164)	**Net gain / (loss)**	**2,756**

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.

2010/11 £'000		2011/12 £'000
22,608	**Balance at 1st April**	**22,223**
	Additions:	
-	Purchases	-
-	Subsequent expenditure	-
(385)	Disposals	(1,645)
-	Net gains / (losses) from fair value adjustments	2,206
-	Transfers	
-	Other changes	
22,223	**Balance at 31st March**	**22,784**

All the properties were recently re-valued during 2011/12 with a re-valuation date of 1st April 2011, so the carrying value approximates to their fair value. Valuations were carried out internally, using the methodologies and bases of estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

There is a completion of sale contract for the majority of the Midwinter site but the sale is split into four tranches and only the first tranche was conveyed in 2011/12. The second tranche should be conveyed on 1st October 2012, the third tranche on 1st October 2013 and the fourth tranche on 1st April 2014.

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 2011/12 vehicles, caddies and waste bins were not leased but purchased and funded by prudential borrowing.

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 2011/12 or 2010/11.

(ii) Operating Leases
Leasing payments, which all relate to vehicles, plant and equipment leased before 2011/12, amounted to £581,495 (£367,374 in 2010/11). This included a payment of £295,089 to enter into an early buyout arrangement for all outstanding leases in 2011/12. This payment has been treated as Capital expenditure in the 2011/12 outturn. Outstanding obligations as at 31st March 2012 therefore amounted to £NIL (£570,623 as at 31st March 2011).

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 2011/12 leases of property are accounted for as separate leases of land and buildings. Prior to 2010/11 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 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 2011 onwards have been deemed to be operating leases

The council received £1,528,353 in rental income in 2011/12 on its granted leases from commercial and Housing Revenue Account land and buildings (£1,291,175 in 2010/11).

The future minimum lease payments receivable under non-cancellable leases in future years are £5.0m.

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:

2010/11 Software £'000		2011/12 Software £'000
	Balance at 1st April :	
466	- Gross carrying amounts	786
(232)	- Accumulated amortisation	(338)
234	**Net carrying amount at start of year**	**448**
320	Expenditure in year	191
(106)	Amortisation in Year	(96)
448	**Balance at 31st March**	**543**
	Comprising:	
786	- Gross carrying amounts	977
(338)	- Accumulated amortisation	(434)
448		**543**

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 was implemented during 2011/12, with a 'go live' date for Cheltenham of 1st April 2012. Expenditure of £0.164 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 2012 £'000	31st March 2011 £'000
Balance outstanding at start of year	**3,084**	**-**
Assets newly classified as held for sale - Property, Plant and Equipment	-	3,084
Revaluation losses	-	-
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as held for sale	(3,084)-	-
Fair value of assets sold	-	-
Other movements	-	-
Balance outstanding at year end	**-**	**3,084**

The assets held for sale at 31st March 2011 comprised car parks at North Place and Portland Street designated for redevelopment. They were carried at their existing use value and were re-valued during 2009/10.

Contracts for the sale of the North Place and Portland Street car park sites were exchanged with the preferred bidder, Auger Buchler, in April 2012. However since the sales are subject to planning permission the assets have been reclassified as surplus assets within Property, Plant and Equipment. It is understood that the developers are keen to mobilise should planning permission be secured.

27. Financial Instruments

Overall Investments

Categorised according to the period remaining to maturity or until payment is received	31st March 2012 £'000	31st March 2011 £'000
Long Term (over 1 year)		
Loans and Receivables – Icelandic banks	2,219	3,357
– Other banks	1	1
	2,220	3,358
Available-for-sale financial assets	-	-
Unquoted equity investments	435	435
Financial assets at fair value through profit and loss	-	-
	2,655	**3,793**
Current or Short Term (less than 1 year)		
Loans and Receivables – Icelandic banks deposits	2,072	4,757
– Other banks	2,021	7,544
	4,093	12,301
Available-for-sale financial assets	-	-
Unquoted equity investments	-	-
Financial assets at fair value through profit and loss	-	-
	4,093	**12,301**

The amortised cost of the investments represents their cost, less any impairment charges. Their fair values equate approximately to the carrying values at the balance sheet date.

Impairment adjustments have been made to the deposits with the Icelandic-owned banks. Short term investments include 'escrow' accounts, containing the repayments received during the year that were denominated in Icelandic Krona (ISK), the value of which have been converted to Sterling at the prevailing ISK exchange rate on 31st March 2012. Further details are given in the section on Icelandic banks below.

The unquoted equity investment of £435,222 (shown at cost), consists of shares held in Gloucestershire Airport (see Group Accounts, pages 92 to 101), 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 their 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 £'000	Interest 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

Although some repayments have been received in respect of these investments, the amounts invested with these banks continue to be subject to the respective administration and receivership processes. The amounts and timing of repayments to depositors such as the council are determined by the administrators and receivers. Of the original amounts invested plus interest due to the claim dates of £11.64 million, repayments of £6.722 million had been received to 31st March 2012 (see the sections on each bank below for a breakdown). A further £0.947 million had been received by 30 June 2012.

The current situation with regards to the recovery of the sums deposited varies for 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, at 31st March 2011 and again at 31st March 2012, based on the latest information and guidance, and as a result further adjustments have been made in 2009/10, 2010/11 and 2011/12. As not all the available information is definite 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 council had £3 million invested with this bank.

The latest creditor progress report, issued by the administrators in April 2012, indicates a return to creditors in the range of 81p to 86p in the £. Claims are based on the principal and interest accrued up to 7th October 2008. Up until 31st March 2012 repayments of 63p in the £ had 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
May 2011	5	154
October 2011	5	154
	63	**1,936**

A further distribution of 10p in the £ (£0.3 million) was received in May 2012.

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 (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.

In 2010/11 the estimated recoverable amount increased to between 78p and 86p in the £, so for the purposes of calculating the impairment adjustment for that year the authority assumed the mid-point of 82p. with the remaining 24p to be received evenly at six monthly intervals, from January 2012 to January 2013.

For the purpose of calculating the impairment adjustment in 2011/12 the authority has assumed the mid point in the latest range of 81p to 86p in the £ (i.e. 83.5p), in accordance with current accounting guidance. As 63p in the £ had already been received by 31st March 2012, with a further 10p in May 2012, it has been assumed the remaining 10.5p will be received in two equal instalments, 5p in January 2013 and 5.5p in January 2014. The increase in the recoverable amount from 82p to 83p in the £, offset only by a slight extension in the repayment profile, results in a reduced impairment adjustment for these deposits in 2011/12, of £35,000, which has been credited to the Comprehensive Income and Expenditure Statement.

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. This ruling was subsequently confirmed by the Icelandic Supreme Court on 28 October 2011.

The ruling means that the value of the council's claim is now more certain and is likely to be at least equal to the value of the original deposit plus interest due to 22 April 2009. The latest information from the winding up board indicates that recoveries will exceed the value of priority claims, so that it is now considered likely that council will recover 100% of its claim, subject to potential exchange rate fluctuations.

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.

Following the Supreme Court ruling the administrators made a repayment to the council in February 2012 of £1.547 million, plus interest accruing from the distribution date of 7 December 2011. The repayment, mainly in a basket of currencies converted to Sterling when received, equated to approximately 30% of the claim according to the winding up board, as denominated in Sterling. However a small proportion of the repayment (approximately 1% of the claim) continues to be held in an interest-earning 'escrow' account, denominated in Icelandic Kroner, which is included on the Balance Sheet in short term investments at 31st March 2012. This is because, under applicable currency controls operating in Iceland, the permission of the Central Bank of Iceland is required to release Icelandic Kroner payments held within the Icelandic banking system.

A further repayment of £0.640 million (equivalent to around 12% of the claim according to the winding up board) was received in May 2012, wholly in Sterling.

In 2008/09 the authority decided to recognise an impairment 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 94.85p in the £, 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 94.85p was again used, again assuming the deposits had priority status, with repayments assumed to be made between December 2011 and December 2018. The slight extension of the repayment profile resulted in a small increase in the impairment charge for the deposits.

Given the decision of the Supreme Court and taking into the latest information from the administrators, the authority has assumed a recovery rate of 100p in the £ (as denominated in Sterling), for 2011/12. The future pattern of further repayments following that received in May 2012 is not known, so it has been assumed that 7% will be received in December annually until 2018, with the remaining 8.8% in December 2019, in accordance with current accounting guidance and the best information available. The increased recovery rate, combined with an improved repayment profile compared to 2010/11, results in a reduced impairment adjustment of £373,000 for these deposits in 2011/12, which has been credited to the Comprehensive Income and Expenditure Statement.

However there is an exchange rate risk arising from:
* a proportion of the February 2012 repayment continuing to be held in Icelandic Kroner (ISK)
* future repayments being made in a basket of different currencies
and the amounts ultimately received in Sterling will depend on the prevailing exchange rate at the time of repayment or conversion. This may mean the council receiving more or less than 100% of the value of the investments shown on the council's balance sheet, depending on future exchange rate movements. The risk is not however deemed significant enough to materially affect the carrying values of the deposits.

The distribution percentages quoted above by the winding up board are also based on its understanding of Icelandic law, which may be subject to legal challenge, possibly affecting the value of future distributions.

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 originally recognised local authority claims as general unsecured claims, rather than priority claims under the Icelandic Banking Act. Claims were originally based on principal and interest accrued up to 22nd April 2009, at the contractual rate of interest. This indicated an expected recovery rate of around 29% for claims that did not have priority status.

However The Reykjavik District 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 ruling was subsequently confirmed by the Icelandic Supreme Court on 28 October 2011, although interest due was to be payable up to 22nd April 2009 *or the date of maturity (if earlier).*

Following the ruling, in March 2012 the winding up board made repayments to priority creditors, which for the council amounted to £3.238 million. The repayment, mainly in a basket of currencies converted to Sterling when received, equated to 100% of the claim as denominated in that basket of currencies at 22nd April 2009 (the claim date), or 97% of the claim, as denominated in Sterling at the time of conversion.

However, as with the Landsbanki deposits, a proportion of the repayment (approximately 19% of the amount repaid) continues to be held in an interest-earning 'escrow' account, denominated in Icelandic Kroner, which is included on the Balance Sheet in short term investments at 31 March 2012. This is because, under applicable currency controls operating in Iceland, the permission of the Central Bank of Iceland is required to release Icelandic Kroner payments held within the Icelandic banking system.

The council has therefore received all of the money to which it is entitled from the Glitnir winding up board, albeit a small proportion is held in Icelandic Kroner in the 'escrow' account. However an additional impairment adjustment has had to be made in 2011/12 to reflect the difference between the value of the council's claim denominated in the basket of currencies at the claim date (22 April 2009), and the carrying value of the investment on the council's balance sheet.

Since the carrying value at 1 April 2011 reflected a recovery rate of 100% of the claim as denominated in Sterling (with an estimated repayment date of December 2011), a large proportion (around 60%) of the impairment adjustment results from the adverse effect of the movement in exchange rates between the claim and repayment dates. The remaining 40% of the charge results from receiving interest only up to the original loan's maturity date (15 December 2008), and not 22 April 2009 as originally envisaged.

The resolution committee's presentations and further information can be found at www.Glitnirbank.com

The accounting entries made in respect of the original loans are therefore as follows. All impairments have been recognised as at the balance sheet date of 31st March 2012. Repayments include amounts subsequently held in 'escrow' accounts as short term investments.

Bank	Interest rate %	Amount invested £'000	Add Interest due to 31st March 2012 £'000	Less Impairments 2008/09 -2010/11 £'000	Less Repayments (including interest) to 31st March 2012 £'000	Less Impairment 2011/12 £'000	Carrying amount at 31st March 2012 £'000
Kaupthing, Singer & Friedlander	5.30	2,000	174	525	1,275	-23	397
Kaupthing, Singer & Friedlander	5.86	1,000	133	278	662	-12	205
Landsbanki Islands Hf	5.29	2,000	323	642	615	-148	1,214
Landsbanki Islands Hf	5.31	2,000	324	644	615	-148	1,213
Landsbanki Islands Hf	5.40	1,000	200	336	317	-77	624
Glitnir Bank Hf	5.56	3,000	624	231	3,238	155	-
Total		**11,000**	**1,778**	**2,656**	**6,722**	**-253**	**3,653**

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 £1.434 million, have been classified as short term, leaving £2.219 million recoverable in the long term.

In addition to the above, short term investments include the following amounts held in 'escrow' accounts. As these are denominated in Icelandic Kroner they were valued on the dates received and re-valued at 31st March 2012 (including interest receivable from the date of repayment), with the interest and any exchange rate gain or loss credited or charged to the Comprehensive Income and Expenditure statement:

	Repayments credited to escrow account £'000	Carrying amount of escrow account at 31st March 2012 (including interest receivable) £'000	Exchange rate gain / loss (-) £'000
Landsbanki Islands HF	39	36	-3
Glitnir Bank Hf	606	600	-6
Total	**645**	**636**	**-9**

With the exception of the Glitnir loan impairment adjustment (which reduces its carrying value to Nil), the impairment losses recognised in the Comprehensive Income and Expenditure Statement have been calculated by discounting estimated future repayments at the effective interest rate of the original deposits, in order to recognise the loss of interest to the authority from the claim dates until the funds are recovered. The carrying amounts therefore represent the present value of the remaining amounts likely to be recovered.

Proper accounting practice requires that interest on the carrying amounts of the original loans must continue to be credited to the Comprehensive Income and Expenditure Statement (included in Interest and Investment income) until repayment is received:

Bank	Amount invested £'000	Interest rate %	Interest credited					
			2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	Total to 31 March 2012 £'000
Kaupthing, Singer & Friedlander	2,000	5.30		75	44	31	24	174
Kaupthing, Singer & Friedlander	1,000	5.86	17	59	25	18	14	133
Landsbanki Islands Hf	2,000	5.29	-	73	86	83	81	323
Landsbanki Islands Hf	2,000	5.31	-	74	86	83	81	324
Landsbanki Islands Hf	1,000	5.40	16	54	45	43	42	200
Glitnir Bank Hf	3,000	5.56	216	166	59	45	138	624
Total	**11,000**		**249**	**501**	**345**	**303**	**380**	**1,778**

The impairments made to the investments in 2008/09 and 2009/10 were wholly offset in 2009/10 by a capitalisation direction received from the government of £4.430 million, which allowed the council to spread the loss over twenty years through borrowing.

In 2010/11 recognition of the priority status of the Glitnir investment resulted in a reduced impairment adjustment (a credit) to the Comprehensive Income and Adjustment Account of £2.714 million. As the decision on priority status had not been finalised at that time (the Supreme Court made their ruling in October 2011), an equivalent amount was transferred from the General Fund Balance to Earmarked Reserves to help meet the increased impairment charge, should the decision be reversed.

Given that the reserve comprised a credit adjustment to impairments previously financed by borrowing, now that the decision on priority status is final an amount of £2.5 million of the earmarked reserve has in 2011/12 been used to repay debt via a Voluntary Revenue Provision. The reduced impairment adjustments and interest receivable in 2011/12 have been transferred to the earmarked reserve, to cover any increased impairment or losses due to exchange rate fluctuations in the future and, if not required for this purpose, will be used in 2012/13 to repay debt.

Legislation does not permit an impairment of an investment to be charged to the Housing Revenue Account (HRA), so all the above transactions were made to the Council's General Fund.

Debtors

	Short term		**Long term**	
	31st March 2012 £'000	**31st March 2011 £'000**	**31st March 2012 £'000**	**31st March 2011 £'000**
Loans and Receivables	4,883	4,679	3,727	183

Further details of short term debtors are given in note 29, page 76. Long term debtors at 31st March 2012 mainly comprise a loan of £1 million to the Cheltenham Everyman Theatre for 25 years towards the redevelopment of the theatre during 2011, a loan made to Cheltenham Borough Homes of £1.392 million for 50 years for housing redevelopment and loans totalling £1.195 million to Gloucestershire Airport Ltd towards the cost of the runway safety project. The remainder comprises mortgages for house purchase loans and car loans to staff.

Borrowing

	Range of Interest Rates Payable %	**31st March 2012 £'000**	**31st March 2011 £'000**
Long Term (over 1 year)			
Financial liabilities at amortised cost			
- Public Works Loan Board (PWLB) loans	3.30% - 4.875%	38,774	11,000
- Bank loans	3.82% - 4.95%	15,900	15,900
Financial liabilities at fair value through profit and loss		-	-
		54,674	**26,900**
Current or Short term (less than 1 year)			
Financial liabilities at amortised cost			
- Public Works Loan Board (PWLB) loans	4.35%	2,055	-
- Bank loans		248	245

- Building Society loans		-	5,002
- Other local authority loans	0.33% - 0.38%	5,101	8,006
- Other temporary borrowing		20	354
Total financial liabilities at fair value through profit and loss		**-**	**-**
		7,424	**13,607**

Analysis of PWLB loans by maturity:		
1 year	2,055	-
2-5 years	-	2,000
6-10 years	-	-
More than 10 years	38,774	9,000
	40,829	**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**

The increase in PWLB borrowing results from the changes in the HRA subsidy system. The Localism Act passed into law in November 2011 enabled the reform of council housing finance. This reform required a re-adjustment of the council's housing related debt based on a valuation of its housing stock.

The government issued the final Settlement Payment Determination in February 2012. The settlement date for the self-financing transaction was 28th March 2012. As the council's debt level generated by the housing reform model was higher than the Subsidy Capital Financing Requirement (SCFR), the council was required to pay the government the difference between the two, which was £27.414m. The council chose to fund the full settlement of £27.414m by taking on new borrowing from the PWLB. Three separate loans were taken out for periods of between 20 and 30 years.

The council took out further PWLB borrowing in 2011/12 in order to advance loans to Cheltenham Borough Homes for £1.4 million and The Gloucestershire Everyman Theatre for £1 million. These loans were taken on an annuity basis in which the named organisations are repaying back in full to the council based on the loan terms taken out with the PWLB.

Creditors

	Short term		**Long term**	
	31st March 2012	**31st March 2011**	**31st March 2012**	**31st March 2011**
	£'000	**£'000**	**£'000**	**£'000**
Financial liabilities at amortised cost	9,495	8,945	-	-

Further details of short term creditors are given in note 31, page 77.

Reclassifications

There were no reclassifications of financial instruments during the year.

Income, Expense, gains and losses

	2011/12 Financial Liabilities measured at amortised cost £'000	2011/12 Financial Assets: Loans and receivables £'000	2011/12 Total £'000	2010/11 Financial Liabilities measured at amortised cost £'000	2010/11 Financial Assets: Loans and receivables £'000	2010/11 Total £'000
Interest expense	1,302	-	1,302	1,210	-	1,210
Impairment losses		(253)	(253)	-	(2,714)	(2,714)
Fee expense	7	14	21	10	37	47
Total expense in Surplus or Deficit on the Provision of Services	**1,309**	**(239)**	**1,070**	**1,220**	**(2,677)**	**(1,457)**
Interest Income	-	(273)	(273)	-	(229)	(229)
Interest Income accrued on impaired financial assets	-	(380)	(380)	-	(303)	(303)
Total income in Surplus or Deficit on the Provision of Services	-	**(653)**	**(653)**	-	**(532)**	**(532)**
(Net gain)/loss for the year	**1,309**	**(892)**	**417**	**1,220**	**(3,209)**	**(1,989)**

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 2012 is £45,024,416 (£12,041,926 at 31st March 2011) compared to the carrying value of £40,829 at 31st March 2012 (£11,000,000 at 31st March 2011). 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 £18,725,045 at 31st March 2012 (£15,835,439 at 31st March 2011) compared to the carrying value of £15,900,000 at 31st March 2012 (£15,900,000 at 31st March 2011).

The fair value of all short term borrowing is deemed 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
- exchange rate risk – the risk of fluctuations in exchange rates where the transaction is denominated in a foreign currency.

The authority's overall risk management is carried out by a central treasury team, subject to policies set out in the treasury management strategy approved by Council in February 2011. 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 2011/12 were made with financial institutions that were rated independently with all three agencies (Fitch, Moody's and Standard & Poor) and met the council's lending criteria as approved in its Investment Policy 2011/12.

The policy dictates the maximum amount of lending that can be held with any one institution, set in accordance with the institution's 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 2011/12. No credit limits were exceeded during the year.

Temporary loans were made to Gloucestershire Airport, The Gloucestershire Everyman Theatre and Cheltenham Borough Homes in 2011/12. These loans were approved as part of the 2011/12 Treasury Management Strategy and Investment Policy. The Council has a 50% shared ownership of the airport, leases the theatre to the Gloucestershire Everyman Theatre Company and owns the housing stock which Cheltenham Borough Homes manages on behalf of the council.

<u>Liquidity risk</u>

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 could be required 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.

<u>Market risk</u>

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 2011/12, 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	27,900	4.32	1,207	4.32	1,207	-
Variable rate	10,500	0.38	40	1.38	163	123
	38,400	**3.24**	**1,247**	**4.225**	**1,370**	**123**
Lending						
Fixed rate	-	-	-	-	-	-
Variable rate	8,200	2.26	(185)	3.26	(267)	(82)
	8,200	**2.26**	**(185)**	**3.26**	**(267)**	**(82)**
Net loss / (gain) on surplus / deficit for year	**30,200**		**1,062**		**1,103**	**41**

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.

<u>Foreign exchange risk</u>

The authority has short term investments held in 'escrow' accounts denominated in Icelandic Kroner (ISK) (see section on Icelandic banks, pages 65-71), the Sterling value of which fluctuates according to prevailing exchange rates. This risk will continue until the amounts are released to the council in Sterling, which is subject to the authorisation of the Central Bank of Iceland.

In addition future repayments of the Landsbanki deposits will be affected by prevailing exchange rates at the time of repayment, since a number of the bank's assets are not be denominated in Sterling. The risk to movements in exchange rates is likely to apply for a number of years since the remaining repayments are expected to be spread over the period from 2012/13 to 2019/20. In view of this the council has set up an earmarked reserve to cover potential future losses from exchange rate fluctuations plus any increased impairment adjustments relating to these deposits.

28. Inventories

	Consumable Stores		Maintenance materials		Total	
	31st March 2012 £'000	31st March 2011 £'000	31st March 2012 £'000	31st March 2011 £'000	31st March 2012 £'000	31st March 2011 £'000
Balance outstanding at start of year	**102**	**87**	**22**	**30**	**124**	**117**
Purchases	841	807	54	57	895	864
Recognised as expenses in year	(835)	(791)	(60)	(65)	(895)	(856)
Written off balances	-	(1)	-	-	-	(1)
Reversals of write offs in previous years	-	-	-	-	-	-
Balance outstanding at year end	**108**	**102**	**16**	**22**	**124**	**124**

29. Short Term Debtors

	31st March 2012 £'000	31 March 2011 £'000
Amounts falling due in one year		
Central Government Bodies	740	1,206
Other Local Authorities	547	865
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals-		
- Council Taxpayers	231	157
- Cheltenham Borough Homes	587	97
- Housing Rents	193	225
- Sundry Debtors	2,585	2,129
Total	**4,883**	**4,679**

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 2012 £'000	31st March 2011 £'000
Cash held by the Authority	19	14
Bank current accounts	-	-
Short term deposits	2,602	900
Cash and cash equivalent assets	**2,621**	**914**
Cash and cash equivalent liabilities - bank overdraft	**(1,772)**	**(1,022)**
Net Cash and cash equivalents per Cash flow Statement	**849**	**(108)**

31. Short Term Creditors

	31st March 2012 £'000	31st March 2011 £'000
Central Government Bodies	4,169	2,847
Other Local Authorities	692	1,497
NHS bodies	40	-
Public corporations and trading funds	185	386
Other entities and individuals-		
- Council Taxpayers	66	72
- Cheltenham Borough Homes	610	307
- Housing Rents	141	117
- Sundry Creditors	3,592	3,719
	9,495	**8,945**

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	96	127	(82)	-	141
2011/12	**96**	**127**	**(82)**	**-**	**141**
2010/11	**535**	**-**	**411**	**28**	**96**

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.

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 1 April 2010 £'000	Transfers out 2010/11 £'000	Transfers in 2010/11 £'000	Balance at 1 April 2011 £'000	Transfers out 2011/12 £'000	Transfers in 2011/12 £'000	Balance at 1 April 2012 £'000
Earmarked Reserves							
General Fund							
Capital Reserve	**3,019**	(2,326)	1,111	**1,804**	(383)	752	**2,173**
Equalisation Reserves	**1,243**	(1,133)	2,931	**3,041**	(2,640)	794	**1,195**
Repairs & Renewals Reserve	**1,530**	(920)	858	**1,468**	(1,123)	693	**1,038**
Reserves for Commitments	**258**	(258)	303	**303**	(351)	1,415	**1,367**
Other earmarked reserves	**4,212**	(1,350)	1,566	**4,428**	(850)	447	**4,025**
	10,262	**(5,987)**	**6,769**	**11,044**	**(5,347)**	**4,101**	**9,798**
HRA							
Housing Repairs Account	**-**	(3,769)	3,769	**-**	(3,974)	3,974	**-**
Other earmarked reserves	**-**	-	-	**-**	-	-	**-**
	-	**(3,769)**	**3,769**	**-**	**(3,974)**	**3,974**	**-**

Purpose of reserves

Capital Reserve – to finance the general fund capital programme and new initiatives.

Equalisation Reserves – to smooth out fluctuations in expenditure or income as a result of cyclical events, for example bi-annual local elections. Also to cushion the impact of fluctuating activity levels (for example housing benefit payments) or movements in investment recovery, interest or exchange rates.

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 on 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 2011 £'000	31st March 2012 £'000	Purpose of Reserve
Revaluation Reserve	36,142	37,592	Store of gains on revaluation of non-current assets not yet realised through sales
Capital Adjustment Account	202,577	179,457	Store of capital resources set aside to meet past expenditure
Financial Instruments Adjustment Account	(2,889)	(2,734)	Balancing account to allow for differences in statutory requirements and proper accounting practices relating to borrowings and investments
Collection Fund Adjustment Account	93	55	Balancing account to allow for differences in statutory requirements and proper accounting practices for council tax surpluses/deficits
Pensions Reserve	(38,071)	(46,472)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet
Deferred Capital Receipts Reserve	152	113	Capital receipts to be received in future years e.g. from mortgage repayments
Accumulating Compensated Absences Adjustment Account	(72)	(84)	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	**197,932**	**167,927**	

Revaluation Reserve

	2011/12 £'000	2010/11 £'000 Restated
Restated balance at 1st April	**36,142**	**36,239**
Revaluation gains on non-current assets	1,555	1,265
Downward revaluation of assets and impairments	-	-
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**37,697**	**37,504**
Difference between fair value and historic cost depreciation	(280)	(298)
Accumulated gains on assets sold	(36)	(1,064)
Adjustment for previous revaluation gains on investment property	211	-
Amount written off to the Capital Adjustment Account	**(105)**	**(1,362)**
Balance at 31st March	**37,592**	**36,142**

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. The reserve for 2010/11 was restated as a result of heritage assets (see note 22).

Capital Adjustment Account

	2011/12 £'000	2010/11 £'000
Balance at 1st April	**202,577**	**250,693**
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	(6,000)	(5,966)
• Revaluation gains/(losses) on Property, Plant and Equipment	-	(45,979)
• Amortisation of intangible assets	(96)	(106)
• Revenue expenditure funded from capital under statute	(1,382)	(1,250)
• 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	(1,965)	(2,965)
• Revenue expenditure charged to capital – Capitalisation Direction for Icelandic bank losses		-
• Self Financing Payment-write the revenue transaction out of the HRA as defined by statute	(27,414)	-
	165,720	194,427
Capital receipt on payment of long term loan	(7)	
Adjusting amounts written out of the Revaluation Reserve	105	1,362
Net written out amount of the cost of non-current assets consumed in the year	**165,818**	**195,789**
Capital Financing applied in the year:		
• Use of Capital Receipts Reserve to finance new capital expenditure	1,012	500
• Use of the Major Repairs Reserve to finance new capital expenditure	3,541	2,797
• 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	1,493	1,646
• Statutory provision for the financing of capital investment charged against the General Fund Balance	748	645
• Voluntary provision for the financing of capital investment charged against the general fund balance	2,500	230
• Capital expenditure charged against the general fund and HRA balances	2,139	970
	177,251	202,577
Movements in the market value of Investment properties debited or credited to the Comprehensive Income and Expenditure Statement	2,206	-
Balance at 31st March	**179,457**	**202,577**

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

	2011/12 £'000	2010/11 £'000
Balance at 1st April	**(2,889)**	**(3,454)**
Premiums incurred in previous years charged against the General Fund Balance	155	154
Repayment of premiums from capital receipts	-	411
Balance at 31st March	**(2,734)**	**(2,889)**

This account absorbs the timing differences between the accounting treatment of income and expenses relating to certain financial instruments, and their 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 required to be 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.

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.

	2011/12 £'000	2010/11 £'000
Balance at 1st April	**93**	**93**
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	(38)	-
Balance at 31st March	**55**	**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.

	2011/12 £'000		2010/11 £'000	
Balance at 1st April		**(72)**		**(81)**
Settlement or cancellation of accrual made at the end of the preceding year	72		81	
Amounts accrued at the end of the year	(84)		(72)	
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		(12)		9
Balance at 31st March		**(84)**		**(72)**

Pensions Reserve

Further information is shown within note 42, pages 86 to 90.

Deferred Capital Receipts Reserve

This comprises capital receipts receivable in future years, for example from mortgage repayments, which are not usable until they are received.

35. Impairment Losses and Adjustments

At 31st March 2012 the situation with regard to the recovery of deposits placed with Icelandic banks was reassessed based on the latest information and guidance. Increases in the recovery rates and changes in the repayment profiles of the outstanding sums resulted in a reduced impairment adjustment in 2011/12 of £0.253 million, increasing the carrying values of the remaining investments by a corresponding amount. Note 27 on pages 65 to 71 gives further details.

36. Termination Benefits

The Authority terminated the contracts of 25 employees in 2011/12 (18 in 2010/11) as part of a rationalisation within a number of service areas. Total costs incurred were £232,111 (£266,452 in 2010/11), of which £99,397 (£190,488) related to early retirement costs and £132,714 (£75,964) redundancy payments. These costs have been charged to the relevant service line shown within the Comprehensive Income and Expenditure Statement.

These termination benefits are summarised in the table below:

2010-11			2011-12	
No of staff	£	Bands	No of staff	£
12	41,291	£0 - £20,000	24	194,803
4	107,259	£20,001 - £40,000	1	37,309
1	47,312	£40,001 - £60,000	-	-
1	70,590	£60,001 - £ 80,000	-	-
18	**266,452**		**25**	**232,112**

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 (also £474,018.56 at 31st March 2011). 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.

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 31st March 2012.

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 19th September 2012. This is the date after which any events are not recognised in the audited accounts for the year 2011/12.

40. Events after the Reporting Period

Icelandic Banks

In May 2012 a further (unexpected) repayment of £0.640 million (equivalent to around 12% of the council's claim) was received from the Landsbanki winding up board. The effect of this repayment on the future repayment profile for the Landsbanki deposits has been taken into account in the impairment adjustment made for 2011/12. Further details are given in note 27, pages 65-71.

Sale of North Place

Contracts for the sale of North Place were exchanged with the preferred bidder, Auger Buchler, in April 2012. The next key date will be the submission of a planning application, anticipated by August 2012. It is understood that the developers are keen to mobilise should planning permission be secured.

GO Shared Service

GO Shared service formally came into operation on 1st April 2012. This is a shared Enterprise Resource Planning (ERP) system and Human Resources, Payroll, Finance and Procurement functions shared with Cotswold DC, Forest of Dean DC and West Oxfordshire DC.

Ubico Ltd

On 1 April 2012, Ubico Ltd. was formed – a company wholly owned by its shareholders, Cheltenham Borough Council and Cotswold District Council. The company is responsible for delivering the shareholders' environmental services within their respective Council boundaries. Cheltenham Borough Council services were delivered from 01 April 2012 with Cotswold District Council services to be delivered from the anticipated commencement date of August 2012.

41. Trust Funds

The council acts as trustee for legacies left by inhabitants of the Borough.

	Balance at 1st April 2011	Receipts in Year	Payments in Year	Balance at 31st March 2012
	£	£	£	£
Captain Wild	-	-	-	-
Major Mason	452	7	-	459
Miss Privett	7,329	28	-	7,357
Phyllis Kay	-	-	-	-
Leslie Young	-	-	-	-
Garden of Remembrance	10,732	796	2,500	9,028
	18,513	**831**	**2,500**	**16,844**

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 were maintained outside of the council's accounts until 1st January 2012, at which point the administration of the trusts was transferred out of the council's responsibility. The balances as at 31st December 2011 (when the council's involvement with the Trusts ended) and the nil balances as at 31st March 2012 are shown below:

	Balance at 1st April 2011	Receipts in Year	Payments in Year	Balance at 31st December 2011	Capital Value of fund at 31st December 2011	Balance at 31st March 2012	Capital Value of fund at 31st March 2012
	£	£	£	£	£	£	£
Turner Long	10,699	1,700	-2,700	9,699	45,460	-	-
Caroline Strickland	16,901	58,547	-23,802	51,646	-	-	-
Hay Trust	31,006	90,287	-104,172	17,121	-	-	-
Walker Memorial	2,254	505	-900	1,859	15,631	-	-
	60,860	**151,039**	**-131,574**	**80,325**	**61,091**	**-**	**-**

The capital value of the Trust funds is based on the share values at 31st March 2012. 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 Pension 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 pension 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 £3,228,000 (£3,320,000 in 2010/11) have been replaced by the current service (pension) 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 £1,996,000 for 2011/12 (£2,464,000 in 2010/11).

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 £74,000 for 2011/12 (negative £12,414,000 costs in 2010/11) 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 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 £102,000 for 2011/12 (£48,000 for 2010/11).

The expected return on employer assets is based on the long-term future expected investment return on assets as at 31st March 2012. This is £4,684,000 for 2011/12, representing 41.4% of pensionable pay (£5,013,000 in 2010/11, being 41.3%) 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 £5,911,000 for 2011/12, representing 52.2% of pensionable pay (£7,318,000 for 2010/11, being 60.3%) 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	**2011/12 £'000**	**2010/11 £'000**
Cost of Services:		
current service cost	(1,996)	(2,464)
past service costs	(74)	12,414
curtailments	(102)	(48)
Financing and Investment income and Expenditure:		
expected return on scheme assets	4,684	5,013
interest on pension scheme liabilities	(5,911)	(7,318)
Total post employment benefit charged to the deficit on the provision of services	**(3,399)**	**7,597**
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	(3,399)	7,597
Actual amount charged against the General Fund Balance for pensions in the year:		
employer contributions payable to scheme	(3,228)	(3,320)

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial losses of £8,230,000 (£21,417,000 gains in 2010/11) 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 2012 is £30,278,000 (£22,048,000 cumulative losses to 31st March 2011).

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 2012 £'000	**31st March 2011 £'000**	**Net Increase /(Decrease) £'000**
Fair value of scheme Assets (A)	**71,573**	**70,405**	**1,168**
Present value of Scheme Liabilities	(116,430)	(106,958)	(9,472)
Present value of Unfunded Liabilities	(1,615)	(1,518)	(97)
Total value of Liabilities (B)	**(118,045)**	**(108,476)**	**(9,569)**
Net Pension Asset/(Liability) (A-B)	**(46,472)**	**(38,071)**	**(8,401)**

(A) Fair value of scheme Assets	31st March 2012	31st March 2011	Net Increase /(Decrease)
	£'000	£'000	£'000
1st April	**70,405**	**72,946**	**(2,541)**
Expected return on assets	4,684	5,013	(329)
Contributions by members	760	818	(58)
Contributions by the employer	3,228	3,320	(92)
Actuarial gains / (losses)	(2,521)	(7,073)	4,552
Unfunded benefits paid	(99)	(94)	(5)
Benefits paid	(4,884)	(4,525)	(359)
Closing fair value of assets	**71,573**	**70,405**	**1,168**

(B) Present value of Liabilities	31st March 2012	31st March 2011	Net Increase /(Decrease)
	£'000	£'000	£'000
1st April	**108,476**	**143,351**	**(34,875)**
Current service cost	1,996	2,464	(468)
Interest on obligation	5,911	7,318	(1,407)
Contributions by members	760	818	(58)
Past service costs	74	(12,414)	12,488
Losses (gains) on curtailments	102	48	54
Actuarial losses / (gains)	5,709	(28,490)	34,199
Estimated Unfunded benefits paid	(99)	(94)	(5)
Estimated Benefits paid	(4,884)	(4,525)	(359)
Closing value of liabilities	**118,045**	**108,476**	**9,569**

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 £2,178,000 (2010/11 £5,748,000).

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 2012	31st March 2011
Mortality Assumptions:		
Longevity at 65 for current pensioners - men	21.7	21.7
Longevity at 65 for current pensioners - women	23.6	23.6
Longevity at 65 for future pensioners - men	23.5	23.5
Longevity at 65 for future pensioners - women	25.8	25.8
Rate of inflation (CPI)	2.5%	2.8%
Pension increase rate	2.5%	2.8%
Rate of increase in salaries	4.3%	4.6%
Rate of discounting scheme liabilities	4.8%	5.5%
Expected return on assets	5.5%	6.7%
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 2012				Assets at 31st March 2011		
Value £'000	**%**	**Expected long term return %**		**Value £'000**	**%**	**Expected long term return %**
50,818	71	6.2%	Equities	47,876	68	7.5
15,030	21	3.9%	Bonds	16,897	24	4.9
4,294	6	4.4%	Property	4,224	6	5.5
1,431	2	3.5%	Cash	1,408	2	4.6
71,573	**100**		**Total**	**70,405**	**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	**31st March 2012 £'000**	**31st March 2011 £'000**	**31st March 2010 £'000**	**31st March 2009 £'000**	**31st March 2008 £'000**
Fair value of employers assets	71,573	70,405	72,946	51,561	65,549
Present value of liabilities	(118,045)	(108,476)	(143,351)	(88,642)	(90,626)
Surplus / (Deficit)	**(46,472)**	**(38,071)**	**(70,405)**	**(37,081)**	**(25,077)**

The liabilities show the underlying commitments that the council has in the long-term to pay retirement benefits. The net liability of £46.5m has a substantial impact on the net worth of the council as recorded in the Balance Sheet, although the overall balance remains positive at £185m. 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 2012/13 is £3,165,000.

History of Experience Gains and losses

The actuarial gains identified as movements on the pension reserve in 2011/12 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as at 31st March year end:

Amounts for current and previous accounting periods	**Year to 31st March 2012 £'000**	**Year to 31st March 2011 £'000**	**Year to 31st March 2010 £'000**	**Year to 31st March 2009 £'000**	**Year to 31st March 2008 £'000**
Experience gains / (losses) on Assets	(2,521)	(7,073)	17,730	(19,148)	(8,548)
Fair value of employers assets	71,573	70,405	72,946	51,561	65,549
Experience gains / (losses) as a percentage of fair value of Assets	**(3.5)%**	**(10.0)%**	**24.3%**	**(37.1%)**	**(13.0%)**
Experience Gains/(Losses) on Liabilities	(1,714)	13,268	(53)	(55)	1,657
Actuarial gains / (losses) on liabilities	(5,709)	28,490	(49,827)	7,951	18,488
Present value of liabilities	(118,045)	(108,476)	(143,351)	(88,642)	(90,626)
Experience gains / (losses) as a percentage of present value of Liabilities	**(1.4%)**	**12.2%**	**(0.0%)**	**(0.1%)**	**1.8%**
Actuarial gains / (losses) as a percentage of present value of Liabilities	**(4.8%)**	**26.3%**	**(34.7%)**	**9.0%**	**20.4%**

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 where the council is the sole member. From 2012/13 the Group Accounts will include Cheltenham's share of Ubico Ltd (see note 40 on pages 83 - 84), a joint venture company operating from that date.

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 is also included.

PRIOR YEAR ADJUSTMENTS

The Group Accounts were restated in 2010/11 to take into account of the changes made in the council's single entity accounts as a result of changes in accounting policy resulting from implementation of International Financial Reporting Standards (IFRS). They have been restated again in 2011/12 to take account of the inclusion of Heritage assets in the singe entity balance sheet (see accounting policies, page 32).

STATEMENT OF ACCOUNTING POLICIES FOR THE GROUP ACCOUNTS

These are set out on pages 25 to 38 and note 1(xxvi) 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.

2010/11				2011/12		
Gross expenditure £'000	Gross income £'000	Net expenditure £'000		Gross expenditure £'000	Gross income £'000	Net expenditure £'000
			Continuing Operations			
9,743	(8,482)	1,261	Central Services to the public	9,877	(8,747)	1,130
10,604	(3,737)	6,867	Cultural and related services	9,926	(3,474)	6,452
7,724	(4,231)	3,493	Environment & Regulatory services	7,540	(4,550)	2,990
3,630	(1,657)	1,973	Planning services	2,989	(1,475)	1,514
4,814	(6,174)	(1,360)	Highways and Transport services	4,590	(6,158)	(1,568)
60,637	(17,057)	43,580	Local Authority housing (HRA)	17,233	(18,079)	(846)
34,068	(34,151)	(83)	Other housing services	34,808	(33,969)	839
2,668	(311)	2,357	Corporate & Democratic core	2,384	(361)	2,023
(11,026)	(150)	(11,176)	Non Distributed costs	1,656	(150)	1,506
122,862	**(75,950)**	**46,912**	**Total Cost of Continuing Operations excluding Concessionary Fares transferred to Gloucestershire County Council 1 April 2011**	**91,003**	**(76,963)**	**14,040**
2,337	(642)	1,695	Concessionary Fares	-	-	-
125,199	**(76,592)**	**48,607**	**Cost of Services**	**91,003**	**(76,963)**	**14,040**
252	(281)	(29)	Other operating expenditure *(note 12)*	882	(676)	206
4,596	(1,354)	3,242	Financing and Investment Income and Expenditure	518	(1,573)	(1,055)
(2,714)	-	(2,714)	Exceptional item- Impairment losses on Icelandic bank deposits *(note 8)*	(253)	-	(253)
(25)	-	(25)	Exceptional item - CBC v. Laird case	-	-	-
-	-	-	Exceptional item - HRA self financing settlement	27,414	-	27,414
-	(17,519)	(17,519)	Taxation and non-specific grant income *(note 52)*	-	(17,011)	(17,011)
127,308	**(95,746)**	**31,562**	**(Surplus) or Deficit on the provision of services**	**119,564**	**(96,223)**	**23,341**
		(362)	Share of Surplus or deficit of Joint Ventures			(56)
		17	Tax expenses of Joint ventures			-
		31,217	**Group (Surplus) or Deficit**			**23,285**
		(1,283)	(Surplus) / Deficit on revaluation of non-current assets			4,712
		(28,431)	Actuarial (gains) / losses on pension fund assets / liabilities *(note 49)*			9,543
		-	Share of other comprehensive income and expenditure of Joint Ventures			-
		(29,714)	**Other Comprehensive Income and Expenditure**			**14,255**
		1,503	**Total Comprehensive Income and Expenditure**			**37,540**

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 2010	31 March 2011		Note	31 March 2012
Restated (note 22)	Restated (note 22)			
£'000	£'000			£'000
282,492	234,272	Property, Plant & Equipment	49	242,734
27,306	27,306	Heritage Assets	22	28,196
22,608	22,223	Investment Property	23	22,784
234	448	Intangible Assets	25	543
10,125	3,358	Long Term Investments	50	2,220
21,368	22,052	Investments in Joint Ventures	50	15,600
249	233	Long Term Debtors	50	2,335
364,382	**309,892**	**Long Term Assets**		**314,412**
2,368	12,301	Short term Investments	27	4,093
-	3,084	Assets held for sale	26	-
117	124	Inventories	28	124
6,064	4,916	Short term Debtors	45	4,751
96	1,976	Cash and cash equivalents	46	2,845
8,645	**22,401**	**Current assets**		**11,813**
(464)	(1,022)	Bank overdraft	46	(1,772)
(17,912)	(13,607)	Short term borrowing	27	(7,424)
(6,983)	(10,753)	Short term creditors	47	(10,241)
(535)	(96)	Provisions	32	(141)
(25,894)	**(25,478)**	**Current Liabilities**		**(19,578)**
(26,900)	(26,900)	Long term borrowing	27	(54,674)
(83)	(83)	Grants receipts in advance - capital	19	(83)
-	-	Grants receipts in advance - revenue	19	(184)
(76,852)	(38,037)	Other long term liabilities	49	(47,451)
(103,835)	**(65,020)**	**Long term liabilities**		**(102,392)**
243,298	**241,795**	**Net Assets**		**204,255**
(8,445)	(20,079)	Usable Reserves	51	(17,315)
(234,853)	(221,716)	Unusable Reserves	53	(186,940)
(243,298)	**(241,795)**	**Total Reserves**		**(204,255)**

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**
As originally stated	14,989	(6,544)	**8,445**	185,951	21,596	**207,547**	**215,992**
Adjustments (note 22)	-	-	**-**	27,306	-	**27,306**	**27,306**
Restated Balance at 31 March 2010	**14,989**	**(6,544)**	**8,445**	**213,257**	**21,596**	**234,853**	**243,298**
Movement in Reserves during 2010/11							
Surplus or (deficit) on the provision of services	(31,280)	63	**(31,217)**			**-**	**(31,217)**
Other comprehensive Income & expenditure			**-**	22,682	7,032	**29,714**	**29,714**
Total comprehensive Income & Expenditure	(31,280)	63	(31,217)	22,682	7,032	29,714	(1,503)
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 6)	38,007		**38,007**	(38,007)		**(38,007)**	**-**
Net decrease before transfers to reserves	4,557	7,077	11,634	(15,325)	2,188	(13,137)	(1,503)
Transfers to/from earmarked reserves (Note 33)	-		**-**				**-**
Increase / (decrease) in 2010/11	4,557	7,077	11,634	(15,325)	2,188	(13,137)	(1,503)
Balance at 31 March 2011	**19,546**	**533**	**20,079**	**197,932**	**23,784**	**221,716**	**241,795**
Movement in Reserves during 2011/12							
Surplus or (deficit) on the provision of services	(23,542)	257	(23,285)			-	(23,285)
Other comprehensive Income & expenditure			-	(6,675)	(7,580)	(14,255)	(14,255)
Total comprehensive Income & Expenditure	(23,542)	257	(23,285)	(6,675)	(7,580)	(14,255)	(37,540)
Adjustments between company and authority							
reserves (Note 52)	(1,496)		(1,496)		1,496	1,496	-
Adjustments between company reserves (Note 52)		(1,313)	(1,313)		1,313	1,313	-
Adjustments between accounting basis and funding			-			-	-
basis under regulations (Note 6)	23,330		23,330	(23,330)		(23,330)	-
Net decrease before transfers to reserves	(1,708)	(1,056)	(2,764)	(30,005)	(4,771)	(34,776)	(37,540)
Transfers to/from earmarked reserves (Note 33)	-		-				
Increase / (decrease) in 2011/12	(1,708)	(1,056)	(2,764)	(30,005)	(4,771)	(34,776)	(37,540)
Balance at 31 March 2012	**17,838**	**(523)**	**17,315**	**167,927**	**19,013**	**186,940**	**204,255**

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.

2010/11		2011/12	
£'000		£'000	£'000
	Operating activities		
(7,148)	Council Tax receipts	(7,327)	
(1,118)	Revenue Support Grant	(1,440)	
(7,701)	National non-domestic rate receipts from national pool	(4,658)	
(39,534)	DWP grants for benefits	(39,975)	
(1,604)	Other government grants	(1,697)	
(6,761)	Rents (after rebates)	(7,203)	
(19,946)	Sales of goods and rendering of services	(18,980)	
(54)	Interest receipts	(284)	
(25)	Dividends received	-	
(83,891)	**Cash inflows generated from operating activities**		(81,564)
23,105	Cash paid to and on behalf of employees	21,977	
20,246	Housing Benefit paid	20,723	
160	Precepts paid	204	
22,645	Cash paid to suppliers of goods and services	22,225	
1,293	Interest paid	1,301	
6,510	Other payments for operating activities	7,537	
73,959	**Cash outflows generated from operating activities**		73,967
(9,932)	**Net cashflows from operating activities**		**(7,597)**
	Investing activities		
7,505	Purchase of property, plant and equipment, investment property and intangible assets	11,301	
-	Other payments for investing activities	1,001	
(2,101)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,909)	
(118)	Proceeds from the sale of short and long term investments	(8,397)	
(981)	Other receipts from investing activities	(347)	
4,305	**Net cashflows from Investing activities**		**1,649**
	Financing activities		
(110,545)	Cash receipts of short and long term borrowing	(135,677)	
114,850	Repayments of short- and long-term borrowing	114,092	
-	Payment to Secretary of State - Self Financing of HRA	27,414	
4,305	**Net cash flows from financing activities**		**5,829**
(1,322)	**Net increase (-) / decrease in cash and cash equivalents**		**(119)**
(368)	Cash and cash equivalents at beginning of the year		954
954	**Cash and cash equivalents at the end of the year (note 46)**		**1,073**

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 audited group accounts for CBH Ltd (including CBHS Ltd) show net assets at 31st March 2012 of £2,006,378 (net assets of £529,273 at 31st March 2011) and a trading profit of £185,793 in the year to 31st March 2012 (compared to a loss of £283,554 in the year to 31st March 2011). The net assets have increased 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 £1.7 million, offset by an increased pension liability of £1 million, resulting mainly from actuarial losses.

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 2012. 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 2012 can be obtained from the Company Secretary at the company's registered office – Cheltenham House, Clarence Street, Cheltenham, Gloucestershire, GL50 3RD.

During the year the council loaned Cheltenham Borough Homes £1.4 million towards the cost of housing developments at Brighton Road and in St. Pauls. The Brighton Road development is largely complete and included in operational dwellings on the balance sheet, with the St.Pauls development shown as Assets Under Construction.

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. 02774189). The audited accounts of the company show net assets at 31st March 2012 of £485,441 (compared to net assets of £876,338 at 31st March 2010) and an after tax profit of £92,103 for the year to 31st March 2012 (£690,369 to 31st March 2011). The main reason net liabilities have reduced is due to a significant increase in the net pension deficit, resulting mainly from an actuarial loss of £0.483 million. 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 results and net assets as follows:

	Gloucester-shire Airport Limited 2011/12 £'000	Council's share 2011/12 £'000	Gloucester-shire Airport Limited 2010/11 £'000	Council's share 2010/11 £'000
Turnover	4,249	2,124	3,985	1,992
Profit on ordinary activities before taxation	109	55	726	363
Tax on profit on ordinary activities	-	-	35	18
Profit for the financial year after taxation	92	46	690	345
	31 March 2012 £'000	**31 March 2012 £'000**	**31 March 2011 £'000**	**31 March 2011 £'000**
Fixed Assets	4,379	2,189	2,113	1,056
Current Assets	1,187	593	1,055	528
Liabilities due within one year	1,222	611	627	314
Liabilities due after one year	1,769	884	-	-

The net assets of the Airport Company as shown in the company accounts 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 2012 (nil 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.

During the year the council loaned £1.195 million to the Airport (Nil in 2010/11) towards the cost of the runway safety project. This loan is shown as a long term debtor on the council's balance sheet.

The accounts of Gloucestershire Airport Ltd for the year ending 31st March 2012 can be obtained from the Managing Director at the company's registered office - The Tower Building, Staverton, Nr Cheltenham, Gloucestershire, GL51 6SR.

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 non-current 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 £9.468 million.
- Non-operational assets added at leasehold market value (50% share) total £6.557 million.

The Airport's non-current assets were re-valued at 31 March 2012 for the purposes of the Group accounts by a qualified external valuer, as required by the Code.

This upward revaluation results in an increase in Unusable Reserves in the group accounts compared to the council's own accounts of £15.3 million, of which £8.8 million 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 £0.4 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, to provide a safer runway with a computerised instrument landing system (ILS). This will enable the airport to attract more profitable corporate business, increase the profitability for the airport and the council, a shareholder in the company.

The construction works on two of the key aspects of the project were completed in Spring 2012. The procurement and related works for the implementation of the ILS have commenced with completion planned for December 2012. The benefits of the runway safety project are anticipated to be seen by the airport from 2013 onwards.

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 2012 £'000	31st March 2011 £'000
Cash held by the Authority and subsidiaries	21	14
Bank current accounts of the Authority and subsidiaries	222	1,062
Short term deposits	2,602	900
Cash and cash equivalent assets	**2,845**	**1,976**
Cash and cash equivalent liabilities - bank overdraft	**(1,772)**	**(1,022)**
Net Cash and cash equivalents per Cash flow Statement	**1,073**	**954**

47. Short term Creditors

	31st March 2012 £'000	31st March 2011 £'000
Central Government Bodies	4,474	3,245
Other Local Authorities	748	1,497
NHS bodies	40	-
Public corporations and trading funds	185	1,091
Other entities and individuals-		
- Council Taxpayers	66	72
- Housing Rents	141	117
- Sundry Creditors	4,587	4,731
	10,241	**10,753**

48. Group Property, Plant & Equipment

2010/11									2011/12							
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								
259,220	78,552	3,967	7,690	226	25	282	349,962	At 1 April	152,037	75,537	5,578	8,454	226	25	3,075	244,932
2,884	192	1,628	627	-	-	2,930	8,261	Additions	6,749	79	2,102	660	-	-	1,539	11,129
1,062	99	-	-	-	-	-	1,161	Revaluation increases / (decreases) recognised in the Revaluation Reserve	713	(47)	-	-	-	-	-	666
(108,549)	-	-	-	-	-	-	(108,549)	Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services	-	-	-	-	-	-	-	-
(2,580)	(7)	(17)	-	-	-	-	(2,604)	Derecognition - disposals	(277)	(50)	(18)	-	-	-	-	(345)
-	(3,404)	-	-	-	-	-	(3,404)	Assets reclassified to/from held for resale	-	-	-	-	-	3,404	-	3,404
-	-	-	137	-	-	(137)	-	Other Reclassifications	(588)	-	-	-	-	588	-	-
-	105	-	-	-	-	-	105	Other movements	-	-	-	-	-	-	-	-
152,037	**75,537**	**5,578**	**8,454**	**226**	**25**	**3,075**	**244,932**	**At 31 March**	**158,634**	**75,519**	**7,662**	**9,114**	**226**	**4,017**	**4,614**	**259,786**
								Accumulated Depreciation and Impairment								
(62,487)	(2,103)	(2,240)	(640)	-	-	-	(67,470)	At 1 April	(3,172)	(3,777)	(2,866)	(845)	-	-	-	(10,660)
(3,101)	(1,999)	(700)	(232)	-	-	-	(6,032)	Depreciation charge	(3,259)	(1,842)	(783)	(227)	-	-	-	(6,111)
-	103	-	-	-	-	-	103	Depreciation written out to the Revaluation Reserve	-	-	-	-	-	-	-	-
62,487	-	-	-	-	-	-	62,487	Depreciation written out to the surplus/ deficit on the provision of services	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
(71)	-	57	27	-	-	-	13	Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services	-	-	-	-	-	-	-	-
-	7	17	-	-	-	-	24	Derecognition - disposals	-	7	32	-	-	-	-	39
-	320	-	-	-	-	-	320	Assets reclassified to/from held for resale	-	-	-	-	-	(320)	-	(320)
-	-	-	-	-	-	-	-	Other Reclassifications	-	-	-	-	-	-	-	-
-	(105)	-	-	-	-	-	(105)	Other movements	-	-	-	-	-	-	-	-
(3,172)	**(3,777)**	**(2,866)**	**(845)**	**-**	**-**	**-**	**(10,660)**	**At 31 March**	**(6,431)**	**(5,612)**	**(3,617)**	**(1,072)**	**-**	**(320)**	**-**	**(17,052)**
148,865	**71,760**	**2,712**	**7,609**	**226**	**25**	**3,075**	**234,272**	**Net Book Value at 31 March**	**152,203**	**69,907**	**4,045**	**8,042**	**226**	**3,697**	**4,614**	**242,734**

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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 86 to 90 and for CBH in their accounts. Due to an actuarial loss of £1.072 million during the year the CBH accounts show a pension liability at 31st March 2012 of £0.979 million (asset of £34,000 at 31st March 2011).

50. Long term investments and Long term debtors

Long term investments 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 £15.6 million, shown immediately below long term investments.

Long term debtors differ from note 27 in the single entity accounts by the elimination on consolidation of the loan to CBH Ltd of £1.392 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

- the receipt by CBH of social housing capital grant of £1.1 million. This has been credited to the Taxation and non specific grant income 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 £0.390 million 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 2011 £'000**	**31st March 2012 £'000**
Revaluation Reserve	51,256	46,677
Capital Adjustment Account	211,247	189,385
Financial Instruments Adjustment Account	(2,889)	(2,734)
Collection Fund Adjustment Account	93	55
Pensions Reserve	(38,071)	(46,472)
Deferred Capital Receipts Reserve	152	113
Accumulating Compensated Absences Adjustment Account	(72)	(84)
Total Unusable Reserves	**221,716**	**186,940**

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

The Housing Revenue Account (HRA) covers 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.

	2011/12 £000's	2010/11 £000's
Expenditure		
Repairs and maintenance	(3,974)	(3,770)
Supervision and management	(6,024)	(5,919)
Rents, rates, taxes and other charges	(35)	(36)
Payment to Secretary of State - Self Financing Settlement	(27,414)	-
Negative HRA Subsidy payable	(3,255)	(1,119)
Depreciation and impairment of non-current assets	(3,447)	(49,274)
Debt management costs	(56)	(46)
Movement in the allowance for bad debts	(156)	(139)
Revenue expenditure charged to capital under statute	-	(6)
Rent rebates subsidy limitation	(87)	(130)
Total Expenditure	**(44,448)**	**(60,439)**
Income		
Dwelling rents	16,660	15,824
Non-dwelling rents	420	421
Charges for services and facilities	536	503
Contributions towards expenditure	364	309
Total Income	**17,980**	**17,057**
Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	**(26,468)**	**(43,382)**
HRA services' share of Corporate and Democratic Core	(127)	(126)
Net Cost for HRA Services	**(26,595)**	**(43,508)**
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	385	(784)
Interest payable and similar charges	(548)	(525)
Interest and investment income	83	88
Capital contributions	72	0
Deficit for the year on HRA Services	**(26,603)**	**(44,729)**

MOVEMENT ON THE HRA STATEMENT

The 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:

2010/11 £000's		2011/12 £000's
(44,729)	Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	(26,603)
46,821	Adjustments between accounting basis and funding basis under statute (note 1)	26,027
2,092	**Net Increase / (decrease) in year on the HRA**	**(576)**
1,581	**Balance on the HRA at the end of the previous year**	**3,673**
3,673	**Balance on the HRA at the end of the current year**	**3,097**

NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)

1. Note of reconciling items for the Movement on the HRA Statement

2010/11 £000's		2011/12 £000's
	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)
-	HRA self financing payment to Secretary of State	27,414
784	Gain/(loss) on sale of HRA fixed assets	(385)
46,090	Impairment losses	125
-	Capital contributions	(72)
6	Revenue expenditure charged to capital under statute	-
46,871	**Items not included in the HRA Income and Expenditure Account but included in the Movement on the HRA Statement**	**27,073**
83	Transfer from Major Repairs Reserve (net)	81
(133)	Capital expenditure funded by the HRA	(1,127)
46,821	**Net adjustments between accounting basis and funding basis under regulations**	**26,027**

2. Housing Stock

An analysis of the number and types of dwellings is detailed below:-

Type	1st April 2011	Additions	Sales	31st March 2012
Houses & Bungalows	2,210		(4)	2,206
Flats	2,376		(3)	2,373
Shared Ownership (flats)	19	1	(2)	18
Total Stock	**4,605**	**1**	**(9)**	**4,597**

3. HRA Fixed Assets

The balance sheet valuation of HRA fixed assets is shown in the following table:-

	1st April 2011 £000's	Revaluation £000's	Additions £000's	Impairment £000's	Disposals £000's	Depreciation £000's	31st March 2012 £000's
Dwellings	148,319	712	4,071		(277)	(3,240)	149,585
Garages	1,008		79	(62)		(24)	1,001
Infrastructure	2,299		590			(57)	2,832
Surplus Assets	588						588
Investment Property	3,727			(125)			3,602
Total net fixed assets	**155,941**	**712**	**4,740**	**(187)**	**(277)**	**(3,321)**	**157,608**

4. Dwellings Valuation

The vacant possession value of dwellings within the HRA at 1st April 2011 was £482,642,139. 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:

	2011/12 £000's	2010/11 £000's
Balance 1st April	300	-
Transfer to reserve	3,322	3,184
Transfer from reserve to HRA	(81)	(83)
Finance of HRA capital expenditure	(3,541)	(2,801)
Balance 31st March	**-**	**300**

6. Housing Repairs Account

An analysis of movements on the account is shown below:

	2011/12 £000's	2010/11 £000's
Balance 1st April	-	-
Contribution from HRA	3,974	3,770
Repair & Maintenance expenditure	(3,974)	(3,770)
Balance 31st March	**-**	**-**

7. HRA Capital Expenditure

A summary of capital expenditure and sources of finance is shown in the following table:

HRA Capital Expenditure	Total Expenditure £000's	Sources of finance Major Repairs Allowance £000's	Revenue £000's	Capital Contributions £000's
Major Repairs & Improvements	4,032	3,541	419	72
Garages	79		79	
Infrastructure	590		590	
Repurchase of shared ownership flats	39		39	
Total	**4,740**	**3,541**	**1,127**	**72**

8. HRA Capital Receipts

An analysis of HRA capital receipts realised during the year is shown below:

	2011/12 £000's	2010/11 £000's
Sale of Dwellings	507	453
Mortgage Principal	39	21
Discounts repaid on former Council dwelling sales	11	14
Sale of Shared Ownership Flats	128	75
Land	15	1,300
Total	**700**	**1,863**

9. Payment to Secretary of State – Self Financing Settlement

The Government has abolished the HRA subsidy system with effect from April 2012 and replaced it with a self financing regime. This has necessitated a one off debt settlement payment of £27,414,000 which was made on 28th March 2012.

10. HRA Subsidy

The council's entitlement to HRA subsidy in 2011/12 is calculated in accordance with the subsidy determination for the year and is analysed into its component elements below:

	2011/12 £000's	2010/11 £000's
Management Allowance	2,870	2,814
Maintenance Allowance	5,725	5,441
Charges for Capital	791	9
Major Repairs Allowance	3,241	3,101
ALMO Allowance	-	2,515
Guideline Rent Income	(15,877)	(14,949)
Interest on Receipts	(5)	(50)
Total Net Subsidy Payable	**(3,255)**	**(1,119)**

11. Rent Arrears

Rent arrears at 31st March 2012 amounted to £513,705 (£516,719 as at 31st March 2011) and the Balance Sheet includes a bad debt provision of £321,000 relating to those arrears £292,000 as at 31st March 2011).

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 £87,029 (£129,671 in 2010/11), 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 £4,017 mortgage interest and £79,020 on notional cash balances (£4,984 and £83,220 respectively in 2010/11).

THE COLLECTION FUND - INCOME AND EXPENDITURE ACCOUNT

INCOME	**2011/12 £'000**	**2010/11 £'000**
Council Taxpayers	55,888	55,591
Transfers from General fund		
- Council Tax benefits	7,035	7,075
Income collectable from business ratepayers	50,837	47,784
Bad and Doubtful Debts		
Decrease/(increase) in provision	(38)	135
Total Income	**113,722**	**110,585**
EXPENDITURE		
Precepts & Demands from County & District Councils	62,688	62,358
Business Rates		
Payment to National Pool	50,215	47,182
Costs of Collection	189	190
Interest on Repayments	17	58
Bad and Doubtful Debts		
Write Offs	449	529
Surplus Distribution	456	265
Total Expenditure	**114,014**	**110,582**
(Deficit) / Surplus for the Year	**(292)**	**3**
Balance of fund at 1st April	724	721
Fund Balance as at 31st March	**432**	**724**

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 2012 was £136.9913m (£136.953m at 31st March 2011) and the national non-domestic multiplier for 2011/12 was 43.30p (41.40p in 2010/11), resulting in gross income before cost of collection and provision for bad debts and interest of approximately £50m (approximately £47m 2010/11). The income shown in the Collection Fund of £50.8m 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 various reductions being made for differing circumstances i.e. single occupancy (25% discount). 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	7,195.95	6/9	4,797.30
B	10,559.30	7/9	8,212.79
C	11,839.20	8/9	10,523.73
D	7,731.10	1	7,731.10
E	4,186.10	11/9	5,116.34
F	2,293.70	13/9	3,313.12
G	1,750.25	15/9	2,917.08
H	67.20	2	134.40
			42,745.86

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).	(422.96)
Council Tax Base for 2011/12	**42,322.90**

3. PRECEPTS

The precepts on the Collection Fund are as follows:-

	2011/12 £'000	2010/11 £'000
Gloucestershire County Council	46,153	45,914
Cheltenham Borough Council	7,919	7,879
Gloucestershire Police Authority	8,451	8,408
Charlton Kings Parish Council	47	45
Leckhampton Parish Council	32	25
Prestbury Parish Council	56	55
Swindon Village Parish Council	7	9
Up Hatherley Parish Council	23	23
	62,688	**62,358**

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 2013/14 (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 2011	93	533	98	724
Decrease in the Year	(38)	(214)	(40)	(292)
Balance at 31st March 2012	**55**	**319**	**58**	**432**

ANNUAL GOVERNANCE STATEMENT 2011 - 2012

Scope of responsibility

1. 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.

2. There are legal and formal controls in place to ensure that it is clear who is accountable for money and governance controls at the local level. The Local Government Act 2000 provides the current governance arrangements for local government with the ultimate accountability lying with the full council. The Cabinet is responsible for proposing the policy framework and budget to Council. Once agreed, the cabinet then goes on to implement those decisions.

3. In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions as defined by the constitution, and the management of risk.

4. The Council has approved and adopted a Code of Corporate Governance (CCG), which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government.

5. You can download a copy of the local Code of Corporate Governance (CCG) from the council's website or a copy can be obtained from the Municipal Offices, Promenade, Cheltenham Gloucestershire GL50 9SA

6. 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 CCG – the Governance Framework

7. The governance framework comprises the systems, processes, 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.

8. The internal controls are a significant part of the framework to support the management 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 support the achievement of Cheltenham Borough Council's objectives and actions.

9. The CCG for the period commencing 1st April 2011 was reviewed by the Corporate Governance Group and approved by Council in March 2010 and there was a further review in March 2012 by the Audit Committee.

The Governance Framework

10. The Code of Corporate Governance identifies 6 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:

Principle 1 - 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.

11. The council has a 5 year Corporate Strategy (2010 -15) which clearly articulates how the council will deliver better outcomes for the community either directly or in partnership. The strategy was based on the sustainable community strategy – a document which was drawn up following extensive public consultation on key issues and priorities for the town and which sets out a long term vision for Cheltenham.

12. The Corporate Strategy action plan 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.

13. The Corporate Strategy supports Cheltenham's Community Strategy which sets out its vision for the long-term future of Cheltenham as

"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."

14. On 28th June 2010, the Council formally agreed to adopt a strategic commissioning approach that
    i. puts a strong focus on understanding the needs of Cheltenham and its people in designing outcomes for public services,
    ii. seeks to work much more closely (including sharing budgets where appropriate) with other parts of the public service and the voluntary and community sector (VCS) and
    iii. makes objective, transparent, evidence-based decisions about how services should be provided and by whom.

15. By using this strategic commissioning approach, the council will improve the outcomes for people who rely on the council and the wider public sector whilst at the same time creating opportunities for financial savings.

16. The 2011-2012 Corporate Strategy also included an additional commitment to this Vision

"By April 2012, we will lead our community by taking a commissioning approach. We will be driven by the needs of people and place, in order to improve wellbeing, the economy and the environment and use resources efficiently and effectively"

17. The above vision for commissioning has been realised through a programme of change led by the Chief Executive. The Strategic Commissioning Programme had its own governance arrangements and was managed through a programme board for the period up to spring 2012; it considered which services should be in scope for commissioning, and how they will be delivered in the future.

18. During 2011/12 there were 3 key commissioning reviews;
    1) Built Environment services
    2) Leisure and Culture services
    3) Partnership working.

19. These reviews have followed the commissioning cycle; a Commissioning Protocol and toolkit were developed to ensure that commissioning reviews are inclusive and comprehensive.

20. The Built Environment and Leisure and Culture Commissioning reviews began by analysing;

- community needs
- what resources are available to CBC and our partners to meet the needs and
- what our priorities are.

21. On the 18th October 2011 Cabinet received an update report on the Built Environment review and approved a series of recommendations that included;

    i. an outcome framework to be used as a basis for the development of a service specification
    ii. the restructuring of the team to assist delivery of the outcomes and agreed service specification
    iii. a request for a further report with regards to the local setting of planning fees and identifies the additional planning income which may be realised.
    iv. a review of alternative delivery models for building control is undertaken in 2013, as part of the programmed review of the current shared service arrangement with Tewkesbury Borough Council.
    v. the testing of inscope range of built environment services against private sector service alternatives in 2013/14, to confirm whether the internal service continues to deliver value for money, based on an assessment of both cost and quality.
    vi. the Director of Built Environment explores the opportunities to extend the charging for pre application process to other areas currently not within scope.
    vii. the commissioning division working with the Voluntary and Community Sector to support market development in areas which will underpin the localism bill.

22. In 2012/13 the Council will decide on the most appropriate way for Leisure and Culture to achieve its objectives.

23. Cheltenham Borough Council and Cotswold District Council formed a Local Authority Company (Ubico) and are partners in the wider Gloucestershire Joint Waste Partnership. The new Company and the Joint Partnership can operate independently of one another.

24. The decision to form Ubico from April 2012 contributes to the council's strategic commissioning objectives and is the chosen vehicle for partnership working in this case with the aim of delivering improved outcomes and value for money. It is estimated that annual savings for the council will increase to c£400,000 by 2014/15.

25. Tewkesbury Borough Council has requested to join Ubico and there is potential for other local authorities to join in the future. This will provide the opportunity for improving outcomes and value for money within Cheltenham and the wider partnership area.

26. The Place Based Commissioning review commenced July 2010 with the aim "To have a fit for purpose Cheltenham Strategic Partnership (CSP) that is ensuring partner resources are targeting the priority needs in Cheltenham". As part of the review, senior officers and practitioners within the public sector and the voluntary and community sector, participated in the Partnership Improvement Programme (PIP) to consider the strengths of partnership working in Cheltenham and areas where they would like to improve to meet local needs in the light of changing legislation.

27. A draft structure of three new partnerships was proposed and agreed by all participants. With simplified governance arrangements a more flexible approach, outcomes focused with the potential to engage diverse groups.

28. The draft structure was consulted on over the summer and the final proposals were endorsed by the CSP on 29 September and CBC's Cabinet on 18 October. The new partnerships are;

    1. Positive Participation Partnership
    2. Positive Lives Partnership
    3. Strategic Leadership Group

29. Members of Executive Board agreed to take a lead on the partnerships, and along with the relevant Cabinet member are able to ensure that the council's views are fully represented at partnership meetings.

30. The Cabinet agreed 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 and reflects the financial impact of government plans to tackle the level of national debt. 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.

31. In February 2012, Cabinet and council members met to discuss the final budget report for 2012/13. The government had announced that it would cut on-going support to the council by a further £534k in 2012/13 which cumulatively equated to a 23% cut over two years. As a result the council had to identify, prioritise and make savings to meet this funding gap. This reflected on the budget consultation exercise that was undertaken during 2010/11 and new objectives identified by elected Members.

Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles.

32. 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 Leader has allocated executive functions to himself, Cabinet Members, Cabinet and officers and those functions are undertaken in accordance with the Council's Budget and the Policy Framework (which includes the 5 year Corporate Strategy).

33. The council's constitution and policy framework are approved by Council, and is subject to periodic review. A constitution working group comprising of elected members and officers led the review in 2011/12. The constitutional changes mainly relate to Part 3 - Responsibility for Functions, Part 4 - Procedure Rules, O&S Rules, Budget and Policy Framework Rules, Financial Rules, Contract Rules, Part 5 - Employee Code of Conduct.

34. There were three overview and scrutiny committees that held to account the bodies exercising executive functions and assisted with policy formulation; from May 2012, there will be one overview and scrutiny committee assisted by scrutiny task groups. This change has arisen out of a review which commenced in July 2011. The brief was 'to ensure that there was an

effective scrutiny process in place to support commissioning and achieve positive outcomes for the town.

35. The council has two committees which deal with governance, internal control and ethical arrangements, (Audit Committee and Standards Committee).

36. The 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 including the Risk Scorecard took place in March 2012 to ensure that they reflected the changes brought about by the Senior Officer restructure and the strategic move towards becoming a Commissioning Authority by April 2012. The Audit Committee also receives routine information papers on the work of the Corporate Governance Group which monitors Significant Issues arising from the Annual Governance Statement.

37. The Localism Act 2011, which abolished the statutory national standards framework for elected members, removes the requirement for a statutory standards committee. Therefore, the council will be deciding in 2012 whether to retain a local standards committee and, if so, what form it will take.

38. The Staff and Support Services Committee, which dealt with employee related functions, was discontinued in February 2011; those functions are now dealt with by the Appointments and Remuneration Committee and senior officers. In addition there are two quasi judicial committees which deal with licensing and planning.

39. Cheltenham Borough Council's Cabinet agreed in July 2011 to partner with three other councils, West Oxford DC, Forest of Dean DC, and Cotswold DC - to implement a new shared service called the Go Partnership covering Finance, Procurement, Human Resources and Payroll. Employees involved in the provision of these services transferred (TUPE) into the employment of Cotswold District Council (as the employing council) from April 2012.

40. The Financial Rules were reviewed in co-ordination with the GO Partnership and approved by Council in October 2011.The new Rules allow greater conformity across the partnership organisations when processing work or customer accounts. Also, the Contract Rules were reviewed on the same basis and approved by Council in March 2012. Both sets of Rules took effect 1st April 2012.

41. The council has a Chief Executive who is the Head of Paid Service which is a statutory position as defined within the Local Government and Housing Act 1989. The Chief Executive co-ordinates the Council's activities, including its management structure, the number of staff employed and the salary grades of chief officers.

42. A pay policy statement is required to be produced annually under section 38 of the Localism Act. The Council agreed its 2012/13 statement in March 2012 which is available to employees through the intranet and to the public through the internet.

43. The Council approved revisions to the Constitution in March 2012, Article 2 refers to the roles and functions of elected Members.

44. Article 12 refers to the roles and responsibilities of the statutory officers.

45. The Council also approved a revised Code of Conduct for all employees on the 26th March 2012 which provides additional information on roles and responsibilities.

46. The Council appointed a Monitoring Officer under a shared service agreement with Tewkesbury Borough Council (to ensure lawfulness and fairness of decision making and to

support Standards Committee) and a Director of Resources who is the section 151 officer (to ensure lawfulness and prudence in financial decision making and that the council's financial arrangements are sound); these are both statutory posts.

47. The Executive Board and the Senior Leadership Team have clear terms of reference and provide 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.

48. The council has an internal audit function called Audit Cotswolds which reports to the council's Audit Committee. Audit Cotswolds is a partnership with the Internal Audit Services at Cotswold District Council and West Oxfordshire District Council. Audit Cotswolds is managed by a Partnership Board with its own Terms of Reference and representatives from each authority.

49. In 2011/12 Audit Cotswolds Board considered that the partnership had been successful and should move to a more formalised governance arrangement. A report was made to Cabinet in November 2011 confirming that the partnership had met the original business case objectives. It was agreed that the partnership be formalised through a Section 101 agreement (delegation of functions) of the Local Government Act 1972 from April 2012.

50. The Corporate Governance Group has agreed Terms of Reference and is chaired by the Chief Executive it reviews the effectiveness of the council's internal controls and reports the results to the Audit Committee.

51. 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.

52. In September 2011 KPMG published its report to those charged with governance (ISA 260) where they confirmed that the wording of the 2010/11 Annual Governance Statement accords with their understanding. They also concluded that it complied with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE in June 2007; and that it was not misleading or inconsistent with other information that they were aware of from their audit of the financial statements.

53. 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 its property assets.

54. The council's policies are easily accessible to employees and Members on the intranet and they are also provided with update/briefing seminars as appropriate.

Principle 3 - Promoting the values of the Council and demonstrating the values of good governance through behaviour.

55. 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, and were incorporated into the council's competency framework which forms part of the annual appraisal of employees.

56. The code of corporate governance was reviewed March 2012 and a revised code was approved by the Audit Committee in March 2012 and will be included in the council's constitution from

June 2012. This code clearly sets the aspirations of the council in ensuring that there are effective governance arrangements.

57. All Members and officers are subject to codes of conduct, and periodically training sessions are held. Members and officers must declare any interests and registers of those declarations are maintained. The council's Monitoring Officer and Standards Committee are responsible for ensuring that reported breaches of the Code of Members' Conduct are investigated appropriately. The Code of Members' Conduct will be reviewed in 2012 in the light of the abolition of the national standards framework.

58. The Chief Executive and other members of the Senior Leadership Team routinely promote good governance messages to employees and Members through the intranet, employee blogs and Twitter.

59. Members of staff are encouraged to shadow the Chief Executive to promote their understanding of the wider aspects of the council's 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.

60. The council's Whistle Blowing policy was reviewed and revised in August 2010 and its Anti-Fraud and Anti-Corruption Policy is currently under review to ensure that it aligns to the requirements of the new Bribery Act and the working arrangements of the Go Partnership. These documents are available on the council web site, and accessible to Members and employees from the intranet site.

61. The council has a complaints process and quarterly reports analysing the nature and type of complaint are considered by the senior leadership team.

62. There is a competency framework for its employees, who are assessed through the annual appraisal process. These competencies reflect the core values of the council which underpin good governance arrangements.

Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

63. In December 2010 the Council, as required by legislation, adopted new executive arrangements based on the new style strong leader and Cabinet model to take effect from May 2012. As the council already operates executive style arrangements the main differences with the new model is that the Leader will be appointed for a 4 year term (subject to removal by Council) and must appoint a deputy leader.

64. 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. 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 Budget and the Policy Framework which are approved by Council.

65. 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).

66. There are currently 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. A review involving officers and Members took place during 2011/12 to consider the work of these committees, following this review Council agreed in December 2011 that the new arrangements should be

centred on a single overview and scrutiny committee supported by task and finish groups from May 2012.

67. In March 2011 the Council agreed a 5 year Corporate Strategy (2010-2015) alongside an action plan for 2011-12. The Senior Leadership Team has collective ownership in ensuring that the Corporate Strategy and its supporting actions are monitored and delivered.

68. 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.

69. 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.

70. 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 constitution working group plays 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 2012 and clearly identifies roles and responsibilities for both Members and staff.

71. The Senior Leadership Team is responsible for the management of corporate risk process. The corporate risk register which includes the risk, mitigating actions, deadlines and the details of the responsible officers is updated and reported to them on a monthly basis. These risks were 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.

72. Internal Audit carried out an assessment of the risk management process and has made a number of recommendations for improvement. These recommendations are being monitored by the Corporate Governance group and a new risk management module has been ordered to improve functionality and reports.

73. The Cabinet agreed new RIPA guidelines in October 2010 and these were reviewed in March 2012. There were no applications to use these powers during 2011/12. Staff who could be involved in the process attended training sessions and information about the process has been made available on the intranet.

74. The council has an Information Management Group that developed an Information Management Strategy that was approved by SLT; it also reviewed the information management and data protection procedures and processes. These reflect partnership working and the sharing (where appropriate) of information with other organisations.

75. Internal auditors reviewed the Corporate Governance arrangements following the 2010/11 assurance check which led to a number of further improvements to the process and reporting protocols.

76. 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 Audit Committee.

77. 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.

Principle 5 - Developing the capacity and capability of Members and officers to be effective.

78. 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. Skills gaps within the organisation have been identified and a programme of learning interventions is being delivered. Progress will be monitored and development reassessed as part of the appraisal process. 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.

79. 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.

80. Officer learning and development needs are identified through the appraisal process and 1-2-1s and fed into the professional and corporate training programmes. The Senior Leadership Team and service managers have recently completed a leadership development programme, the principles of which are used to underpin coaching relationships for executive directors, directors, service managers and the wider organisation. The senior leadership team has adopted a "balanced scorecard" approach to their appraisal process.

81. 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.

82. Certain Members were appointed to represent the council on outside bodies i.e. companies, charities and unincorporated associations. The council's 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.

Principle 6 – Engaging with local people and other stakeholders to ensure robust public accountability

83. Cheltenham Borough Council as a whole, through the Cabinet is accountable for allocating resources. There are a range of checks and systems in place to provide assurance that they achieve value for money.

84. The principal local checks on regularity and propriety are as follows:

   i. Clarity about who is accountable for resources
   ii. A set of financial duties and rules

iii. Internal assurance checks by the section 151 officer of the council; and external checks by an independent auditor
iv. Transparency through publication of annual accounts and spending.

85. Councillors have to make judgements about what value for money means in local terms and where available resources need to be allocated to match what their community's need. These decisions are based on a range of information including consultation exercises and advice from officers; these decisions are made at public meetings.

86. 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.

87. 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.

88. 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. This year the leaflet contained additional information to inform customers about the Go and UBICO projects and how information will be shared to enable the delivery of services.

89. 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 overview and scrutiny committee. Advice on how to submit a petition is provided on the council's website and a public participation section is being produced for inclusion in the council's constitution.

90. 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.

91. The council has a well established web site which provides access to many of its services online, including a "report it" tool which was used 285 times during the year to tell us about issues of concern. We took steps to improve the interactive nature of the website by developing systems that allow improved access to council services and information. All of the council's committee meetings have their agendas, minutes and supporting papers published on the website.

92. The council makes significant use of the social media including Facebook, 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 and the intranet.

93. CBC was ranked 2nd in the Public Sector Customer Services Forum social media reputation index for December 2011. We've seen an increase in the number people using Twitter to contact us and ask questions and we've had some good feedback from customers about the service.

94. The Department for Communities and Local Government introduced a Code of Recommended Practice for all local authorities on Data Transparency for spending on goods and services over £500. The council complies with this Code and continues to consider additional information and data that it can publish.

95. The council published senior officer remuneration as part of its annual accounts as of the 31st October in line with government guidelines.

96. We also published information on the council's contracts and tenders register which is linked to the expenditure data.

Delivery of services and outcomes through third parties

97. In September 2010 the council considered an options appraisals for the future delivery of environment services which indicated that the formation of a Local Authority Company (LAC) involving a partnership between Cheltenham Borough Council (CBC) Cotswold District Council CDC) and Tewkesbury Borough Council (TBC) would be the most viable and effective means by which to deliver their services. It would also provide the first step towards achieving joined up waste services across Gloucestershire. In March 2011 elected Members of TBC decided against joining the LAC at that time, CBC and CDC agreed to continue.

98. In June 2011 Members of CBC and CDC approved the formation of a LAC called UBICO Ltd. Tewkesbury Borough Council asked to re-join the partnership from April 2013 (which was approved by the Board) and there is potential for other local authorities to join in the future. This will provide the opportunity for improving outcomes and value for money within the wider partnership area. CBC went live on 1st April with relevant staff transferring to the LAC via TUPE. In August 2012 CDC will also go live with relevant CDC & SITA UK staff transferring to the LAC via TUPE.

99. 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, Audit Cotswolds review the procedures and policies and report on the adequacy of arrangements. The company is overseen by a board of directors which includes tenants and has an audit committee.

100. 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.

101. 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 or their designated representative attends the monthly airport programme board meetings.

Review of effectiveness

102. Cheltenham Borough Council has responsibility under The Accounts and Audit (England) Regulations 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 Head of Audit Partnership annual opinion report, and also by comments made by the external auditors and other review agencies and inspectorates.

103. The effectiveness of the governance framework draws on evidence from:

- Internal and external audit and inspection
- Financial controls
- Risk and performance management
- Assurance statements from each division
- Legal standards
- Code of corporate governance.

104. The council approved the code of corporate governance and it 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.

105. 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 Governance, Risk and Compliance officer who identify control issues to be included in the annual governance significant issues action plan for the forthcoming year.

106. The Audit Committee considers the Annual Governance Statement as part of the statement of accounts and makes recommendations to Council regarding its approval. The audit committee is then responsible for monitoring progress against the actions taken, or proposed, to deal with significant governance issues.

107. 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 that Cabinet Member so that they are aware of any issues.

108. The Head of Internal Audit's Annual Opinion identified four areas as receiving 'limited' assurance opinions, which therefore presented risks to the achievement of organisational objectives in those areas. Where there remain recommendations for implementation in 2012-13 the significant governance issues table below includes details for the Corporate Governance Group to monitor.

- Building Control Shared Service Reporting
- Registration of Interests, Gifts and Hospitality
- Payroll
- Refuse and recycling stock control

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.

Significant issues action plan

Control issue and source	Action	Lead officer
Matters identified by Internal Audit • Building Control Shared Service Reporting – August 2011	Proposed actions for meeting the requirements as set out in the Shared Service Agreement are being managed.	Head of Building Control
• Registration of Interests, Gifts & Hospitality – October 2011	Process implemented for ensuring Registers of Interests are properly maintained A revised Employee Code of Conduct will be issued.	GOSS HR Operations Manager
• Payroll – January 2012	Payroll resilience issues are being managed via the GO Shared Services. Ongoing operational issues to be overseen by the GO Client Officer.	GO Client Officer
• Refuse & recycling stock control– November 2011	Stock and procurement controls are being managed by Ubico Ltd and CBC management.	Ubico Ltd & CBC Management

Control issue and source	Action	Lead officer
Matters identified through the Assurance Review		
• Compliance with Equalities Regulations	Review and revise report writing as necessary to ensure that legislative and policy requirements relating to equality are embedded within the decision making processes.	Director of Commissioning
• Business Continuity Testing	To review, develop and test ICT Business Continuity Plan to ensure that it is robust enough to mitigate the identified risks for the council and its partner organisations	Director – Resources
• Safeguarding Children and Vulnerable Adults	Review of operational processes related to maintaining a register which identifies the training needs that relate to child protection and safeguarding for each appropriate post in the Council.	Strategy and Engagement Manager

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: On behalf of Cheltenham Borough Council

Leader of Council

……….................………………

Councillor Steve Jordan

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 steward-ship 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 2012 on pages 21 to 109. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the Authority, 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 Authority, 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 Authority, 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 and for being satisfied that they 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 Authority'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 Authority and the Group as at 31 March 2012 and of the Authority's and the Group'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 2011/12.

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 2011 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 110 to 123 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 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

Authority's responsibilities

The Authority 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 Authority 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 Authority 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 Authority'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 2011, as to whether the Authority 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 Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012. We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority 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 2011, 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 2012.

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 2011 for Local Government Bodies issued by the Audit Commission.

Ian Pennington
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG
19 September 2012

KPMG

cutting through complexity™

Report to those charged with governance (ISA 260) 2011/12

Cheltenham Borough Council

September 2012

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 2012; 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 2011/12*, presented to you in June 2012, 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 2011/12* issued in June.

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 2011/12*.

Our final accounts visit on site took place between 02/07/2012 and 20/07/2012. 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 2011/12 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Council, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

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 2011/12 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.
- Section 5 outlines the audit handover process.

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 2012. We also expect to report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has identified a total of seven audit adjustments in respect of the Council. We have also identified an audit adjustment on the Consolidated Group accounts. Officers have corrected all except one of the adjustments. The impact of the corrected adjustments is to: ■ Increase the net worth of the Council as at 31 March 2012 by £0.685 million. ■ Decrease the net worth of the Group as at 31 March 2012 by £5.6 million. We have included a list of the corrected audit adjustments at Appendix 3. We have also included a schedule to detail the uncorrected audit adjustment at Appendix 3. We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix 1.
Critical accounting matters	We have worked with Officers throughout the year to discuss specific risk areas. The Council has addressed the non 'GO' associated recommendations appropriately in the year. However there were several recommendations that required GO to be implemented to be fully and these will be reviewed during the 2012/13 audit.
Accounts production and audit process	Your finance team have prepared this year's accounts in the face of the pressures and resource restraints following the implementation of GO and going 'live' from 1 April 2012. We had discussed the risks with Audit Committee during the planning stages of the audit. As a result of the pressures, there has been a decline in the quality of the accounts and the supporting working papers this y ear. Officers have worked with us to deal our audit queries, however the completion of the audit has taken longer than in prior years as a result of the increased number of issues. The Council has implemented the majority of the recommendations in our *ISA 260 Report 2010/11* 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. 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. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2012.

Proposed opinion and audit differences

Our audit has identified a total of six audit adjustments in the Council accounts and one in respect of the consolidated accounts.

The impact of these adjustments is to:

- **Increase the net worth of the Council as at 31 March 2012 by £0.7 million.**
- **Decrease the net worth of the Group as at 31 March 2012 by £5.6 million.**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2012.

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.

Our audit identified a total of six audit differences, which we set out in Appendix 3. These have all been adjusted in the final version of the financial statements.

We have identified one unadjusted audit difference which relates to the £0.36 million heritage asset additions in year. This item is not material and further details have been given in Appendix 3.

The tables on the right illustrate the total impact of audit differences on the Council's movements on the General Fund for the year and balance sheet as at 31 March 2012.

Council account - Movements on the General Fund 2011/12

£m	Pre-audit £'000	Post-audit £'000	*Ref (App.3)*
Deficit on the provision of services	(25,038)	(25,038)	
Adjustments between accounting basis & funding basis under Regulations	23,330	23,330	
Transfers earmarked reserves	0	0	
Decrease in General Fund	**(1,708)**	**(1,708)**	

Council only Balance - Sheet as at 31 March 2012

£m	Pre-audit £'000	Post-audit £'000	*Ref (App.3)*
Property, plant and equipment	233,286	236,384	No 2
Other long term assets	57,220	57,905	No 1
Current assets	14,805	11,721	No 2
Current liabilities	(18,832)	(18,832)	
Long term liabilities	(101,413)	(101,413)	
Net worth	**185,066**	**185,765**	
General Fund	(2,253)	(2,253)	
Other reserves	(182,813)	(183,512)	No 1,2
Total reserves	**(185,066)**	**(185,765)**	

Proposed opinion and audit differences (continued)

The wording of your Annual Governance Statement accords with our understanding.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2011/12 ('the Code')*. We understand that the Council will be addressing these where significant.

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.

Critical accounting matters

We have worked with Officers throughout the year to discuss specific risk areas. The Council addressed the issues appropriately.

In our *External Audit Plan 2011/12*, presented to you in June, we identified the key risks affecting the Council's 2011/12 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 risks	Issue	Audit findings
Savings plans	As at December 2011, the Council is forecasting that it will deliver its 2011/12 budget in overall terms. With continued pressure to deliver the required level of public sector cuts, this may increase the risk of management bias on the financial statements, for example reducing the levels of provisions and liabilities. If there are any liabilities arising from the savings plans at year end, these will need to be accounted for in the 2011/12 financial statements as appropriate.	In conjunction with our VFM work we have critically assessed the controls the council had in place to ensure a sound financial standing. We confirmed that its Medium Term Financial Plan had duly taken into consideration the funding reductions and that it was sufficiently robust to ensure that the Council continued to provide services effectively. We reviewed the Council's arrangements in place for securing economy, efficiency and effectiveness in your use of resources during our value for money audit. See page 10 for further commentary on the VFM conclusion work. During the final audit visit, we reviewed the liabilities as at the year end and discussed the movements in provisions and we are satisfied that the balances are not materially misstated.
GO project	As the GO project progresses towards completion, the Council's resources will become further stretched as staff will be asked to take on additional roles in the lead up to the GO Live 'date'. This may have an adverse impact on the Council control environment. The accounting for the GO project involves decisions as to whether project costs should be treated as Capital or Revenue. We will also review the accounting for the Council re-charging costs to its partners.	There has been a decline in the quality of the accounts and supporting working papers this year. This is a direct result of the pressures on the finance team in managing the Council's migration to Agresso as part of the transition to 'GG' on the 1 April 2012, at the same time as drafting the year end financial statements and preparing for the audit. We have reviewed the accounting policy and treatment of the project costs together with the assumptions behind the treatment during our Interim audit and are satisfied that the accounting treatment is appropriate and not materially misstated. We have not identified any significant control failures as a result of the transition to GO. However the finance team has been put under increased pressure and this has been seen in the quality of the working papers. As the transition to Agresso occurred on the 1 April 2012, we have not reviewed either the design or operating effectiveness of the controls within the new Agresso environment which will need to be addressed in the 2012/13 audit.

Critical accounting matters (continued)

Key audit risks	Issue	Audit findings
Code changes	The 2011/12 *Code* includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art. The 2011/12 *Code* also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 *Code.* The Council needs to review and appropriately address these changes in its 2011/12 financial statements.	We reviewed the Council's approach to disclosing heritage assets within their financial statements in 2011/12. We consider that the Council has used an appropriate process to identify its heritage assets. The Council has £28.2 million heritage assets as at 31 March 2012, which is mainly the Museum collection. The Heritage assets have been correctly brought onto the balance sheet through a prior period adjustment which requires the disclosure of a 'third' balance sheet in the accounts. We identified an audit adjustment of £0.69 million where some heritage assets had not been included in the calculations, and officers have corrected the final accounts accordingly. See appendix 3. We also identified a further £0.36 million audit difference in relation to the treatment of heritage asset additions in the year. This item was not corrected, and more details on this difference can be found in Appendix 3. The Code requires that heritage assets are held at valuation and that the valuation is regularly revisited. Cheltenham's most recent valuation was in 2009 ,which has been uplifted for inflation in subsequent years. We have raised a recommendation that the Council should carry out regular valuations, see Appendix 1.

Accounts production and audit process

There has been a decline in the quality of the accounts and the supporting working papers as a result of the increased pressure placed on the finance team with the transition to 'Go' on 1st April 2012.

Officers dealt with audit queries as efficiently as possible but there have been delays in the audit process as a result of the number of queries and the need to work around holiday leave.

The Council has implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant 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	We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2012.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in June 2012 and discussed with Sarah Didcote, set out our working paper requirements for the audit. The quality of working papers provided was variable and overall met the standards specified in our *Accounts Audit Protocol* ,but did lead to additional audit queries being raised.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically around support for the heritage asset valuations.
Group audit	To gain assurance over the Council's group accounts, we have obtained the audited financials statements of Cheltenham Borough Homes and Gloucester Airport Limited. We have completed additional audit testing on Gloucester Airport valuation. There are no specific matters to report pertaining to the group audit.

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Prior year recommendations

In our *Interim Audit Report 2011/12* we commented on the Council's progress in addressing the recommendations in our *ISA 260 Report 2010/11.*

The Council has now implemented the majority of the recommendations in our ISA 260 Report 2010/11 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 2012, 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 provided a template to the Director of Resources, a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Council's 2011/12 financial statements.

VFM conclusion

Our VFM conclusion considers 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.

Background

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.

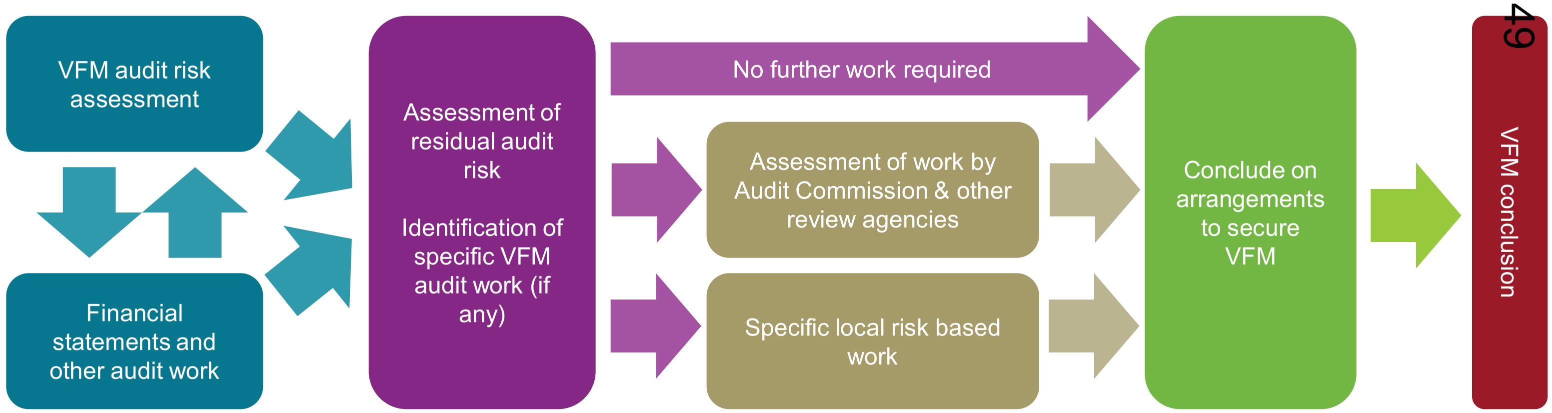
The key elements of the VFM audit approach are summarised in the diagram below.

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	✓

We reported our risk assessment in our Interim Audit Report 2011/12. As we were satisfied that in all cases, sufficient work in relation to these risks had been carried out by the Council, the Audit Commission, other inspectorates or review agencies to mitigate the residual audit risks for our VFM conclusion, we concluded that we did not need to carry out any specific additional work ourselves.



Specific VFM risks

We have now concluded our specific work in relation to the residual risks we identified following our initial risk assessment.

Our general audit work provides us with good assurance over the Council's general arrangements for securing economy, efficiency and effectiveness.

We identified the residual audit risks for our VFM conclusion, and set out our preliminary assessment of these with reference to the relevant work by the Council, the Audit Commission, other inspectorates and review agencies.

We concluded that we needed to carry out additional work for some of these risks and this work is now complete. The outcome of this work is set out below.

Key VFM risk	Preliminary assessment	Key findings of our additional work
Savings plan	We need to consider in more detail the process used by the Council to put together the savings plan and monitor progress against it.	Management have monitored the savings plan closely through their 'Bridging the Gap' programme board. The savings have been reported at regular intervals to the Cabinet with explanations of progress of achieving the separately identified savings. These savings are risk assessed and savings that have been delivered are removed from the base budgets. The levels of detail provided in the reports indicate that management understand the costs of delivery and are achieving the savings required. This is further evidenced by the under spend on the general fund for 2011/12.
GO project	As the GO project progresses towards completion we need to review the process used by the Council to identify and ensure delivery of the identified savings.	The Council has always forecast that savings for the GO project would be realised during 2013/14 and therefore it is not possible to review the achievement of these savings at this time. However, management have achieved the transition to Agresso within the planned timescale and are currently undertaking a staff restructure to ensure the level of resources are at an appropriate level for the GO environment.

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Section five

Process and timeline to handover to new audit auditors

This table summarises the approach and timetable of the audit handover

Overall	The Audit Commission has set deadlines for this work to be completed and for the work to be handed over to the new auditors Grant Thornton. These deadlines are set out below in each section. The Audit Commission has a set process which needs to be followed when audits are transferred between auditors. Generally, the process will commence with a meeting between incoming auditors, Grant Thornton, and the outgoing auditors, KPMG to discuss the audit and will provide copies of any requested documents and also access to our 2011/12 working papers, which will allow the audit to transition smoothly to Grant Thornton. KPMG will remain in place until Grant Thornton is appointed and any queries which arise before the formal handover need to be discussed with KPMG on a timely basis, if it relates to 2011/12 year. KPMG will then consider whether it is appropriate for us to take action or to hand over to Grant Thornton. If the issues relate to 2012/13 year, then it should first be discussed with KPMG but we would forward the issue to Grant Thornton as it relates to their first year of audit.
Financial statement and VFM audit	The deadlines for the financial statement audit opinions to be provided is 30 September 2012. The Audit Committee is scheduled for 19 September and it is planned that the Audit report will be signed on this day which will cover both the financial statement and VFM audit opinions.
WGA opinion	The audit work for the WGA will be completed before the Audit Committee and will be signed at the same time as the financial statement audit opinion.
Grant audits	The grant audits for the year ended 31 March 2012 including the Housing Benefit Count audits, NNDR and Housing Subsidy are currently being completed and KPMG has been given the deadline of the 26 October 2012 to have all the grant audit work completed. The work is currently on track to meet this deadline which is a month earlier than the normal.
Elector challenge	We are currently reviewing potentially two elector challenges and this work will be completed by KPMG before Grant Thornton is appointed.

Appendix 1: Key issues and recommendations

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.

Priority rating for recommendations		
1 ***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.	2 ***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.	3 ***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	2	**No regular revaluation of heritage assets** Heritage assets were brought onto the Council's balance sheet in 2011/12 inline with the Code. However during our review of heritage assets it became clear that the last valuation was undertaken in 2009. The Code recommends regular valuations and therefore we suggest that the Council reviews its policy for revaluing its heritage assets to ensure they are completed on a regular basis.	**Responsible officer –Martyn Scull/David Roberts** The policy for revaluation of heritage assets is to be reviewed to ensure regular revaluations take place in order to be reflected in the Council's balance sheet. **Due date- 31/03/2013**
2	2	**Timeliness of bank reconciliations** Our review of the September 2011 and March 2012 bank reconciliations revealed that whilst the bank reconciliations had been completed and all items reconciled there was a delay in the review of the reconciliations. The March bank reconciliation was not reviewed until July due to resource constraints within the Finance team following the implementation of GO. We therefore recommend that bank reconciliations are prepared and reviewed as part of the month end closedown to ensure any issues that arise on the new system are dealt with and cleared on a timely basis.	**Responsible officer – GO Corporate team member** The bank reconciliation will be reviewed as part of the month end closedown process to ensure that issues are dealt with on a timely basis. **Due date – 31/10/2012**

Appendix 2: Follow up of prior year recommendations

The Council has not implemented all of the recommendations in our *ISA 260 Report 2010/11.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2010/11* and re-iterates any recommendations still outstanding.

As a result of the change in the accounting system and transition to GO on 1 April 2012, several of the recommendations from our 2010/11 interim report are no longer relevant as they relate to the accounting system in place during 2011/12. The controls within the new accounting system Agresso will need to be tested during the 2012/13 interim audit.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2012
1	2	**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.	**In progress** Clarification was obtained from the Agresso suppliers prior to the system going live in 2012. Permissions to live environment folders have now been restricted to the IT development team.

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Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2012
2	2	**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 entled 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.	**Implemented.**

Appendix 2: Follow up of prior year recommendations

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2012
3	3	**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.	**In progress** For journals greater than £100,000 a retrospective review is undertaken. During the monthly close down any unusual journals which have been posted that month are also reviewed. We recommend that the Audit Committee follow this up during the 2012/13 audit.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

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 2012.

All the adjustments in this section have been amended in the final version of the financial statements.

	Impact					
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	Basis of audit difference
1	-		Dr Heritage assets £685k	-	Cr Revaluation reserve £685k	A review of the most recent valuation for heritage assets identified three assets that had been included on the valuation report from the valuer but had not been included in the financial statements. This resulted in heritage assets being understated by £685k.
2	-	-	Dr Surplus assets £3,084k	Cr Assets held for sale £3,084k	-	Assets held for sale contained land and buildings where the sale was subject to planning permission. This did not comply with the Code's definition of assets held for sale and therefore the land and buildings in question have been re-classified as surplus assets.
3	-	-	Dr Surplus assets £588k	Cr Council dwellings £588k	-	A number of council dwellings which were being assessed in 2010/11 have now been identified as surplus assets. This was accounted for as a prior period adjustment, however as the issue was identified during 2011/12 the adjustment should be made in the 2011/12 financial statements.

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Appendix 3: Audit differences (continued)

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
4	-	-	Dr Other land & buildings £2,990k	Cr Assets under construction £2,990k	-	Construction work is currently taking place at the Art Gallery and Museum which has resulted in the temporary closure of the building. The asset had been transferred to assets under construction from other land and buildings. The original assets should have remained in other land and buildings with only the eligible construction work being shown as assets under construction.
5	-	-	Dr Net gain/(losses) from fair value adjustments £563k	Cr Disposals £563k	-	Officers identified that one of the assets that had been revalued and part disposed of in year had the incorrect amount recorded as disposal and revaluation in the draft financial statements. This adjustment had no overall impact on the investment property balance.
	£0	**£0**	**Dr£2,574k**	**Cr£1,889k**	**Cr£685k**	**Impact on Council and Group accounts**
6	-	-	Dr Long term debtors £1,195k	Cr Long term investments £1,195k	-	The Council has loaned Gloucestershire Airport £1,195k in 2011/12. The loan was incorrectly accounted for as an investment.
	£0	**£0**	**Dr £3,769k**	**Cr £3,084k**	**Cr £685k**	**Total impact of Council accounts**

Appendix 3: Audit differences (continued)

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
Group Accounts **The audit adjustments 1 to 5 listed above also impact the group accounts**						
1-5 from above	**£0**	**£0**	**Dr£2,574k**	**Cr£1,889k**	**Cr£685k**	**Impact on Council and Group accounts (see previous page)**
1	-	-	Cr Group joint venture £6,285k	-	Dr Group revaluation reserve £6,285k	The valuation for Gloucestershire Airport was received after the draft financial statements had been released to audit. Therefore this adjustment is required to the Group financial statements so that it reflects the latest valuation.
	£0	**£0**	**Cr £3,711k**	**Cr£1,889k**	**Dr £5,600k**	**Total impact of Group Account adjustments**

Appendix 3: Audit differences (continued)

We identified one uncorrected audit adjustment.

Uncorrected audit differences

The following table sets out the uncorrected audit difference identified by our audit of Cheltenham Borough Council's financial statements for the year ended 31 March 2012.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Cr Expenditure £267k	Dr General Fund balance £267k	-	-	Dr Revaluation reserve £267k	Heritage asset additions had been accounted for incorrectly in year. Additions comprised £88k which had been paid for in cash and £267k of donated assets. The donated asset additions had not been accounted for in line with the Code. As the audit adjustment is not significant and has no impact on the General Fund balance the Council has chosen not to amend the financial statements.
	-	Cr Capital Adjustment account £267k	-	-	-	
	Cr £267k	**£0**	**£0**	**£0**	**£267k**	**Total impact of uncorrected audit differences**

Presentational issues

We identified a number of presentational issues during our audit and these have been amended by management.

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. We do this in our Annual Audit Letter.

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 Partner and the audit team.

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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)

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 2012, 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.

Appendix 5: Draft 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 Authority") for the year ended 31 March 2012,B for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2012 and of the Authority's and the Group's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority 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 Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority 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 Authority 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 Authority and the Group as at 31 March 2012 and of the Authority's and the Group'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 2011/12.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority 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 2011/12 requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority 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 Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority and Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

Appendix 5: Draft management representation letter (continued)

7. The Authority 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 Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Authority 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.

The Authority has disclosed to you all information in relation to:

(a) Fraud or suspected fraud that it is aware of and that affects the Authority and the 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 Authority 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.

9. The Authority 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 2011/12 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority 's and the 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 2011/12.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority 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 2011/12.

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority 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

all settlements and curtailments have been identified and properly accounted for.

Appendix 5: Draft management representation letter (continued)

This letter was tabled and agreed at the meeting of the Audit Committee on 19 September 2012.

Yours faithfully

Chair of Audit Committee

Director of Resources

Appendix A to the management representation letter of Cheltenham Borough Council: Definitions

Financial statements

A complete set of financial statements comprises:

- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Movement in Reserves Statement for 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 an authority 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 authority 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 2011/12.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund .

For pension funds participating in the following pension schemes, pension fund accounts must be prepared by the local authority that administers the Pension Fund:

a) the Local Government Pension Scheme (in England and Wales)

b) the Local Government Pension Scheme (in Scotland).

For pension funds participating in the following pension schemes, pension fund accounts must be prepared:

a) the Firefighters' Pension Scheme for England

b) the Firefighters' Pension Scheme for Wales

c) the Police Pension Scheme in England and Wales.

The financial statements of a defined benefit pension fund and of police authorities and fire and rescue service authorities in England and Wales must contain:

a) A fund account disclosing changes in net assets available for benefits.

b) A net assets statement showing the assets available for benefits at the year end.

c) Notes to the accounts.

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.

Appendix A to the management representation letter of Cheltenham Borough Council: Definitions (continued)

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".

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 authority (ie subsidiaries);

b) associates;

c) joint ventures in which the authority is a venture;

d) an entity that has an interest in the authority that gives it significant influence over the authority;

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 authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, 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 authority 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 authority or the government of which it forms part.

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Cheltenham Borough Council
Audit Committee – 19th September 2012
Internal Audit Monitoring Report

Accountable member	**Cabinet member corporate services**
Accountable officer	**Head of Audit Cotswolds – Robert Milford**
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 direct financial implications arising from 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 direct 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

1.1 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.

1.2 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.

1.3 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

2.1 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.

2.2 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.

2.3 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.

2.4 This report highlights the work completed by internal audit and provides comment on the assurances provided by this work.

3. Internal Audit Output

3.1 The internal audit service commenced quarter 1 with reduced resources due to a gradual recruitment process to reduce the impact on management providing training. The service has successfully recruited two new staff, one assistant auditor and one internal auditor. There remains a vacancy for an internal auditor. However there is still the expectancy to complete the audit plan 2012/13 as planned.

3.2 Internal Audit has concluded the following audits:

Audit	Report status	Assurance
Annual Governance Statement Review	Final	N/A

Leisure @	Draft	
Risk Management (consultancy)	Complete	N/A
Performance Management	WIP	
Single Post Service Vulnerabilities & Workforce Capacity Management	WIP	
Implementation of new legislation e.g. Localism Act, etc	WIP	
GO ICT Host (Centre of Excellence)	Deferred until Quarter 4	

3.3 Further detail specific to each audit finalised is shown in **Appendix 1.**

3.4 AuditCotswolds has also undertaken the following:

- Audit support for the GO-Programme (see 3.5)
- Audit provision for GO Shared Service (see 3.5)
- Audit support for the Local Authority Company project (see 3.6)
- Audit provision for Ubico Ltd (see 3.6)
- Cheltenham Borough Homes – client (audit days delivered)
- Audit support for the Commissioning Programme
- Audit Support for the other key Change Programmes

3.5 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. The programme board ceased in May 2012 and the shared service governance was introduced. Audit has representation on the Client Officer Group. Extensive liaison has also been undertaken with Forest of Dean Internal Audit to ensure the GOSS plan is delivered with minimal duplication and appropriate reliance placed on each audit service.

3.6 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. This has continued through to the provision of the internal audit service for Ubico Ltd.

3.7 Both GOSS and Ubico Ltd are uncharted organisations and therefore the demand on Internal Audit services is based on historic knowledge, research and risk assessment. The actual demand could vary and as such the service includes formal SLAs to hold resource levels. An audit plan for year one is now in place for both GOSS (300 operational audit days) and Ubico ltd (40 operational days). Operational days are also within the CBC plan for both areas to ensure governance arrangements operate effectively and that residual services (services not transferring to GOSS or Ubico but formerly managed by the service heads) remain well controlled.

3.8 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. This is in line with the audit plan for 2012/13.

3.9 Further consultancy work was undertaken in May in relation to the Risk Management system. This has taken some operational days from the planned assurance work on Risk Management. The remaining assurance work will be conducted later in the year.

Report author	**Robert Milford, Head of Audit Cotswolds, 01242 775174, Robert.milford@cheltenham.gov.uk**
Appendices	1. **Internal Audit Monitoring Report**
Background information	

Appendix 1

Internal Audit Monitoring Report

AGS Review 2011-12

1. As part of the annual audit plan as approved by the Audit Committee at the March 2012 meeting the Internal Audit Service reviewed the Annual Governance Statement (AGS) and processes supporting the statement. This is a summary of the key findings of the review.

Reporting

2. A preliminary review of the AGS was considered by the Corporate Governance Group on 17th May 2012.

3. The final report incorporated consultation with the three Directors: 'Commissioning', 'Resources' and 'Wellbeing & Culture' and findings of audit testing of some of the responses given in the Certificates of Assurance. We have also reviewed the questions on the Certificates of Assurance; observations which were initially discussed with the Corporate Governance, Risk & Compliance Officer (CGRCO). The review also reflected on the work undertaken by internal audit in 2011/12. These observations were discussed with management in order to help further enhance the AGS process for next year.

Suggestions for Inclusion in the SIAP

4. The following areas were recommended for inclusion in the Significant Issues Action Plan (SIAP) based on audit testing in 2011/12 and observations through the AGS review:

   - Payroll
   - Business Continuity Planning
   - Building Control Shared Service Reporting
   - Registration of Interests, Gifts & Hospitality
   - Refuse & recycling stock control
   - Compliance with Equalities Regulations

   Each of these areas were included in the AGS and reported to the Audit Committee in June 2012.

Future AGS Process

5. Due to the implementation of GO Shared Services and Ubico it is envisaged that, based on the CBC structure at April 2012, only 4 directors – 'Built Environment', 'Wellbeing & Culture', 'Resources' and 'Commissioning' will be asked to complete the Certificates of Assurance next year. Going forward, consideration will also have to be given by the Directors of Resources (together with Section 151 Officer responsibilities) and Commissioning, as to how these officers will get their assurance from GO Shared Services (for example, financial control assurances) and Ubico.

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Audit Committee 2012-2013 work plan

Item	Officer
19 September 2012	
Chairs briefing: 09 August 2012	**Complete reports by:** 7 September 2012
Audit highlights memorandum (ISA 260)	KPMG
Handover process to new auditors by KPMG (included in the ISA260 report)	KPMG
Internal audit monitoring report	Rob Milford
Review of annual statement of accounts	CBC Finance Team
Future external audit proposals – government response to consultation (briefing for information only)	Rob Milford
9 January 2013	
Chairs briefing: 21 November 2012	**Complete reports by:** Poss 21 December 2012 (earlier to avoid Xmas?)
Annual audit fee letter for 2012-13	Grant Thornton
Annual audit plan for 2013-14	Grant Thornton
Internal audit monitoring report	Rob Milford
Annual governance statement – significant issues action plan	Bryan Parsons
The Regulation of Investigatory Powers and The Protection of Freedoms Bill	Bryan Parsons
Counter Fraud, Corruption and Bribery Policy and Process	Bryan Parsons
GO update – governance and internal audit role	Rob Milford or Jenny Poole
Leisure & Culture Review – governance arrangements (structure and process only) – tbc	tbc
20 March 2013	
Chairs briefing: 07 February 2013	**Complete reports by:** 08 March 2013
Certification of grants and returns for 2012-13	Grant Thornton
Annual internal audit plan for the 2013-14	Rob Milford
Internal audit monitoring report	Rob Milford

Item	Officer
Annual review of risk management policy	Bryan Parsons
19 June 2013	
Chairs briefing: 09 May 2013	**Complete reports by:** 07 June 2013
Interim audit report for 2013-14	Grant Thornton
Internal audit opinion for 2012-13	Rob Milford
Internal audit monitoring report	Rob Milford
Annual governance statement	Bryan Parsons

Items to be added at a future date	
Corporate Strategy 2012/13 – consideration of governance issue	Rob Milford
Joint training session with Cotswold and West Oxford councillors - tbc	Rob Milford / Mark Sheldon
Policy review timetable (briefing note) - tbc	Bryan Parsons
Requirements of the Localism Act (independent chairman, etc) – timetable tbc	Peter Lewis

Annual Items (standing items to be added to the work plan each year)		
January	Annual audit fee letter (for the previous year)	Grant Thornton
	Annual audit plan (for the upcoming year)	Grant Thornton
	Internal audit monitoring report	Rob Milford
	Annual governance statement – significant issues action plan	Bryan Parsons
March	Certification of grants and returns (for the previous year)	Grant Thornton
	Annual internal audit plan (for the upcoming year)	Rob Milford
	Internal audit monitoring report	Rob Milford
	Annual review of risk management policy	Bryan Parsons
June	Interim audit report (for current year)	Grant Thornton
	Internal audit opinion (for the previous year)	Rob Milford

	Item	Officer
	Internal audit monitoring report	Rob Milford
	Annual governance statement	Bryan Parsons
September	Audit highlights memorandum (ISA 260)	Grant Thornton
	Internal audit monitoring report	Rob Milford
	Review of annual statement of accounts	CBC Finance Team

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Briefing Notes

Audit Committee Date: 19 September 2012 Responsible Officer: Rob Milford (Head of Audit Cotswolds)

This note contains information to keep Members informed of matters relating to the work of the Audit Committee but where no decisions from Members are needed.

If Members have questions relating to matters shown, they are asked to contact the Officer indicated.

The Committee's forward plan included, for September, an update on the Governments response to the 'Future of Local Public Audit' consultation. However, the legislative process has moved on and the consultation response has now influenced the development of the draft Bill. In order to recognise this, this briefing note provides a summary of the key components of the draft Bill.

Further briefing notes (or reports as appropriate) will be provided to this Committee as this Bill progresses through the legislative process.

Last year, the Government consulted on its proposals for a new local public audit framework. The Department of Communities and Local Governement also sought views from local government and other interested parties about the new proposals and published its response in January 2012; a copy is available from http://www.communities.gov.uk/documents/localgovernment/pdf/2060619.pdf.

The views and response have been fed into the development of the draft Local Audit Bill, published on 6 July 2012.

The main provisions of the draft Bill are as follows:

- Closure of the Audit Commission and making arrangements to transfer its assets, liabilities and continuing functions to other bodies
- A requirement on local public bodies, such as councils, to appoint an external and independent auditor on the advice of an independent auditor panel
- Transferring responsibility to the Financial Reporting Council and professional accountancy bodies for regulating the provision of local public audit services, mirroring the arrangements for private sector audit
- Giving responsibility to the National Audit Office for setting the high level code of audit practice, which auditors of local public bodies must follow, and for undertaking a small number of value for money studies relating to local government
- The continuation of the National Fraud Initiative to prevent and detect fraud, which will be transferred to another body.

A copy of the full draft Local Audit Bill is available from;
http://www.cipfanetworks.net/fileupload/upload/Draft%20bill672012341357.pdf

However, the following is an extract from the draft Bill which offers a summary of the key components of the 213 page draft Bill;

The proposals contained in the draft Bill have been formulated with four key design principles in mind. These are:

a. **Localism and decentralisation** - enabling local bodies to appoint their own independent external auditors, subject to appropriate safeguards.
b. **Transparency** - ensuring that results of audit are accessible to the public, enabling local bodies to be held to account for local spending decisions.
c. **Lower audit fees** - ensuring that the audit fees paid by local public bodies are competitive.
d. **High standards of auditing** - ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit.

In achieving the principle of high standards of auditing, regard has also been given to the principles of local public audit, which were codified in 1998 by the Public Audit Forum, but have deep historical roots. These are:
a. Independence of public sector auditors from the organisations being audited;
b. The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money; and
c. The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives, and other key stakeholders.

Part 1 – Abolition of existing regime
This section of the draft Bill abolishes the Audit Commission and repeals the Audit Commission Act 1998. It also makes provision for the transfer of the Audit Commission's property, rights and liabilities on closure (as set out in Schedule 1).

In the new audit framework there will be no need for a central body to appoint auditors to or oversee the audits of local public bodies, as these functions will rest with the bodies themselves. The Commission's in-house practice will have already transferred to the private sector. A new regulatory regime will govern the new public audit framework, and other functions will either end or transfer elsewhere.

On closure, the Audit Commission will have various outstanding liabilities, which will need to transfer to another body. The major liability being property leases running beyond the lifetime of the Commission. It is agreed in principle any remaining liability will transfer to DCLG in late 2013 when the Commission ceases to have any estates management capability.

On closure, the current audit contracts that the Audit Commission has with private sector firms for carrying out the audit of local bodies will be transferred to another body. The current contracts were let in 2012 and will run until 2017 (with the possibility of extension until 2020). As it is envisaged that the Commission will have been abolished before that date, the contracts will transfer so they can run for their full duration. The Government is currently exploring options for where the contracts might transfer to be managed after the Audit Commission closes.

Part 2 – Basic concepts and requirements
Part 2 of the draft Bill sets out the general accounting and audit requirements for local public bodies. The accounting requirements have been recast in a modern form closely following the accounting provisions of the Companies Act 2006 and the Charities Act 2011. A clear distinction is drawn between the accounting records that must be maintained during the year and the annual statements of accounts that must be published after the year end. Previous legislation requiring the accounts to be made up annually was based on an outdated approach to maintaining accounts and was a source of confusion. The accounts are required to be audited by an auditor appointed by the body.

The draft Bill will apply to bodies in England only, and port health authorities and internal drainage boards that may be partly in England and partly in Wales. A full list of bodies that the draft Bill applies to is set out at Schedule 2 of the Bill. Schedule 2 does not yet include local health bodies, but the Government intends that these bodies will be included in full legislation.

In order to ensure that the new audit framework is proportionate for all bodies, the arrangements for smaller and larger local public bodies will be different in various respects. The draft Bill therefore includes a power to vary the provisions for smaller bodies in regulations. In the draft Bill, smaller bodies are defined as those with an annual turnover of less than £6.5m, as set out in the current

Accounts and Audit regulations. The £6.5m threshold was set in 2011 and may be reviewed and amended by the Secretary of State.

In order to ensure that bodies do not move across the threshold on an annual basis, bodies are required to exceed the threshold of £6.5m for three consecutive years before they are considered to be 'larger authorities'.

Part 3 – Appointment etc of auditors
In the new audit framework local public bodies will appoint their own auditors. This section of the draft Bill sets out the requirements of that process.

Independence is a key principle of public audit, and the Government believes that safeguarding independence during the process of appointing an auditor is vital. Therefore, the draft Bill sets out the requirement for local bodies to take into consideration the advice of an independent panel before making the appointment of their auditor. This independent 'auditor panel' must consist of a majority of independent members, and have an independent chair. To be classified as independent, a panel member must not have been a member or officer of the body within the last five years, and must not at that time be a relative or close friend of a member or officer of the body.

Provided they meet the requirements for the auditor panels, the draft Bill will allow bodies to nominate their existing audit committee to act as its independent auditor panel. The draft Bill also aims to allow separate bodies to share auditor panels, and enable joint procurement arrangements.

The draft Bill includes provisions to vary these arrangements for specific bodies, to reflect their particular requirements and structures. As signalled in the Government response, we recognise that it may be appropriate to use this to strengthen safeguards for some non-elected bodies, while balancing the need for independence with minimising any additional bureaucratic burdens. For local authorities operating executive arrangements, the draft Bill ensures that the appointment is made by full council and not delegated to the executive. Similarly for the Greater London Authority it requires that the appointment is made by the Mayor and London Assembly acting jointly. Chief Constables' accounts will be audited by the auditor appointed by the Police and Crime Commissioner to audit the commissioner's own accounts.

The draft Bill specifies three functions of the auditor panel:
a. To advise on the appointment of an auditor;
b. To advise the local body on the maintenance of an independent relationship with the auditor; and
c. To advise on proposals for a public interest report.
Bodies will be able to delegate further functions to the panel as they see fit. The draft Bill includes a power to provide more details on these specified functions, or to confer additional functions for the panel, by regulations. It also allows for guidance to be issued on their role and practical operation.

Transparency is key to the new audit framework and the arrangements for auditor appointment. The draft Bill requires bodies to publicise appointments, the advice of the auditor panel and, if that advice has not been followed, the reasons why.

In the event of a body failing to appoint an auditor, the Secretary of State will in these circumstances be able to direct the body to appoint an auditor, or appoint an auditor on its behalf.

The draft Bill includes provision for the Secretary of State to make regulations regarding the resignation or removal of an auditor from a local public body. It is envisaged that a resigning auditor would provide a statement explaining their reasons for resignation to the audited body and its independent auditor panel, and to the auditor's supervisory body. The local public body would then be required to make and publish a response to this statement.

In the case of removal of an auditor, the audited body would be required to give notice of its intent to remove the auditor to both the independent auditor panel and the auditor – including a statement of reasons. The auditor will be able to respond to this statement, with that response considered by the auditor panel. The body's decision to terminate the appointment will then be subject to the advice of the auditor panel. Regulations will also set out any provisions to address any potential gap between the resignation and removal of an auditor and their replacement.

Part 4 – Eligibility and regulation of auditors
In the new local public audit framework, new arrangements will be required to ensure that those firms and individuals undertaking local public audit work have the right level of skills, qualifications and experience necessary to undertake that work. In order to assure audit quality there also needs to be appropriate arrangements in place to ensure that the work of local public auditors is reviewed on a regular basis. An appropriate system of registering local public auditors and regulating their work therefore needs to be put in place.

The Government has therefore proposed that, as under the Companies Act 2006, the Financial Reporting Council will be responsible for oversight of the regulation of local public audit. In Part 4 of the draft Bill, the Secretary of State takes powers allowing him to authorise professional accountancy bodies to act as recognised supervisory bodies for local public audit. In practice, the Secretary of State would delegate these powers to the Financial Reporting Council. This mirrors the arrangements under the Companies Act 2006.

The Financial Reporting Council will be able to authorise existing and additional professional accountancy bodies to be recognised supervisory bodies in respect of local public audit.

The draft Bill sets out the role of the recognised supervisory bodies in relation to registration, monitoring and discipline for local public audit. The recognised supervisory bodies will have delegated authority to put in place rules and practices covering:
a. The eligibility of firms to be appointed as local public auditors (subject to the Financial Reporting Council's oversight, which might include guidance produced by the Council); and
b. The qualifications, experience and other criteria that individuals must have before being permitted to carry out a local public audit and sign off an audit report.

The Secretary of State will make regulations requiring the keeping of a register of those firms and individuals eligible to undertake local public audit work; it is envisaged that such a register would be held by one or more of the recognised supervisory bodies. Thus in order to be eligible for appointment as a local auditor, a firm will have to be registered to carry out local public audit with a recognised supervisory body. The recognised supervisory bodies will also hold a list of those individuals linked to each firm who are eligible to sign an audit report on behalf of that firm and able to take responsibility for local public audit work. In line with the Companies Act, the draft Bill makes it a criminal offence for a person to carry on as a local auditor if they are ineligible. It will also be an offence for auditors and regulatory bodies to provide misleading, false or deceptive information or for individuals to pretend to be an auditor or for a body to pretend to be a recognised supervisory body or recognised qualifying body.

The draft Bill also requires an auditor to meet particular independence requirements to be eligible for appointment to a body, for example they cannot be a member or officer of that body, or an officer or employee of an entity connected with that body (full details are given at clause 20). Connected entities are defined in the draft Bill as an entity whose financial transactions are consolidated into the group accounts of any of the main bodies covered by the new audit framework.

We have chosen not to replicate the criminal offence in the Companies Act that relates to lack of independence, as we consider that the current Ethical Standards and existing disciplinary powers of the recognised supervisory bodies provide sufficient safeguards for auditor independence (although it will be an offence for a person to act as a local auditor if they are not eligible to do so). Independent auditor panels will also play an important role in ensuring auditor independence. In addition, if an audit is not carried out by an eligible person, the Secretary of State will have powers to require a second audit by an appropriate person.

The responsibility for deciding which firms are eligible to undertake local public audit will lie with the recognised supervisory bodies. Schedule 3 of the draft Bill sets out the legal framework governing the recognised supervisory bodies.

Schedule 3 also specifies the arrangements for the monitoring of audits and auditors. In the new audit framework, the recognised supervisory bodies will have responsibility for monitoring the quality of audits undertaken by their member firms.
This work will include:
a. Reviews of individual audit engagements;
b. Reviews of the policies, procedures and internal controls of those firms licensed to carry out public sector audits;
c. Reporting on the quality of audit to the registration body;
d. Investigating complaints or disciplinary cases, as well as issues identified during their monitoring process; and
e. Removing a firm from the register of eligible local public auditors.

There will be an additional level of oversight and monitoring for audits of significant local public bodies. The Financial Reporting Council will have responsibility for monitoring the quality of what will be termed “major audits”. The draft Bill provides a power for the Secretary of State to establish which bodies would have their audits defined as ‘major audits’. The Government is currently exploring the options for which bodies’ audits would fall into this category. Bodies could then be listed in regulations. Additionally, the Financial Reporting Council will be able to decide on an annual basis if any other public bodies should be subject to similar additional monitoring. The Financial Reporting Council will then publish the scope of its inspections, following consultation with relevant government departments and the professional accountancy bodies.

Under the Companies Act 2006, as well as being subject to additional monitoring, auditors of public interest entities (essentially companies listed on the main London market) are also subject to requirements for the rotation of the key audit partner and additional independence reporting requirements. The draft Bill does not include equivalent requirements around rotation of auditors, as these will be covered in Ethical Standards. The draft Bill also does not replicate the provision for the auditor to report on issues surrounding their independence to the body’s audit committee at least once a year. Instead, the draft Bill includes a requirement for bodies to have an independent auditor panel to advise the body on the appointment of its auditor and on the maintenance of an independent relationship on an ongoing basis. In discharging this duty the panel will establish that the auditor is suitably independent to act as such. Further details on the role for the panel in ensuring auditor independence will be set out in statutory guidance or in regulations on the functions of the audit panel (see clause 13).

Significant public interest disciplinary cases, including those referred to them by the recognised supervisory bodies, will continue to be dealt with under the Financial Reporting Council’s Accountancy and Actuarial Disciplinary Schemes, which can impose a range of sanctions on those auditors found to have committed misconduct.

In the new local public audit framework, auditors will need to be suitably qualified to carry out local public audit. Auditors will need to hold an appropriate qualification which could either be a qualification recognised under Part 42 of the Companies Act 2006, or another qualification recognised under the draft Bill. The Secretary of State will be able to make regulations setting out the minimum requirements that other qualifications will need to meet in order to be recognised for the purposes of local public audit. As well as the requirement for an auditor to hold an appropriate qualification, recognised supervisory bodies will be required to have rules in place to ensure that those eligible to sign an audit report on behalf of a firm have suitable experience.

Part 4 of the draft Bill also makes provision for recognised supervisory bodies and recognised qualifying bodies, and any person eligible for appointment as a local public auditor to disclose information to the Secretary of State.

Part 5 – Conduct of audit
The draft Bill sets out how, in the new audit framework the National Audit Office1 will set a code of audit practice. The process of setting the code will have the following features:

a. The National Audit Office will be able, should it wish, to produce more than one code of audit practice, if different codes are required for different types of accounts.
b. The National Audit Office will need to consult key interested parties on the code before finalising and publishing the code. The code will then be laid before Parliament, where it will be passed after 40 days as long as there have been no resolutions against it.
c. A new code will need to be produced and agreed by Parliament at least every five years.

The audit outputs and scope of the audit will remain broadly the same as they currently are. The auditor must enter onto the audited body's statement of accounts a certificate that the auditor has completed the audit in accordance with statutory requirements together with the auditor's opinion on the statement. The auditor must, by examination of the accounts and otherwise, be satisfied that:
a. The accounts comply with the requirements of the legislative provisions that apply to them;
b. Proper practices have been observed in the preparation of the statement of accounts; and
c. The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office will set out more detailed requirements within the code of audit practice and related supporting guidance. The National Audit Office is committed to develop a risk based and proportionate approach which maintains audit standards.

A risk based and proportionate approach to the auditor's assessment of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources has the potential for a consequent decrease or increase in the level of audit work that some local public bodies might experience – but we would not expect this in itself to result in an overall increase in the total cost of audit.

The draft Bill retains the right of auditors to access documents and information from audited local public bodies. It also gives local auditors the right to access information from connected entities and their auditors for group accounts purposes. This will help to ensure there is proper scrutiny of the accounts of subsidiary bodies that are responsible for public money, such as local government companies.

The draft Bill makes it a criminal offence for an individual at an audited body, a connected entity, or the auditor of a connected entity to prevent the local auditor from having access to any information they require.

The draft Bill makes provision for auditors to continue to make reports in the public interest and recommendations to local public bodies in the new audit framework, and sets out the key features of this process. Most elements will remain the same in the new framework as under the current audit regime. In the new framework:
a. If an auditor issues a public interest report, this may be reported either immediately or at the conclusion of the audit.
b. Auditors will also be able to make a public interest report on connected entities. Public interest reports issued on connected entities will be supplied to and considered by the relevant 'parent' body.
c. The auditor must send a copy of public interest report and their recommendations to the appropriate Secretary of State (rather than the Audit Commission under the current framework) when they are sent to the audited body.
d. There will be a new requirement for an audited body to publish a public interest report on their website if they have one, with the objective of improving transparency. The body must also publish a notice of the meeting at which a public interest report or auditor's recommendation is to be discussed, providing details of the meeting and the subject matter of the auditor's report or recommendation.
e. Public interest reports and auditors' recommendations must be considered at a meeting held within one month of the report being received by the auditor. If the Greater London Authority receives a public interest report then it must be considered by the London Assembly, with the Mayor of London in attendance.

f. Having considered the public interest report's recommendations, the audited body must notify its auditor of any decisions that have been taken relating to the report, and publish a summary of these decisions in a manner that is likely to bring them to the attention of the public.
g. As under the current system, the auditor may charge the audited body for reasonable work involved in undertaking a public interest report.

Local electors will continue to be able to inspect and make copies of the statement of accounts and auditor's reports of a local body. We have removed the criminal offences relating to these requirements that are currently in the Audit Commission Act and instead have placed a duty on the audited body to ensure access to the public. Interested persons will retain the right to inspect the accounting records to be audited and documents relating to them. Local electors will also retain the ability to question the auditor about the accounts, and raise objection to the statement of accounts if they think there are matters that the auditor should report on in the public interest, or items of unlawful spending.

Local electors will retain the right to make objections to the accounts. However, the draft Bill provides a power for the auditor to exercise discretion and reject vexatious, repeated or frivolous objections. This is because there are now many more mechanisms by which the electorate can hold local public bodies to account than when the right to object to the accounts was introduced more than 150 years ago, and the costs of auditors investigating objections can be disproportionate to the sums involved.

The draft Bill retains the right for an auditor to apply to the court for a declaration if the auditor considers that an item of account is contrary to law. It also retains the ability for an auditor to issue an advisory notice if the auditor thinks that the body:
a. is about to make or has made a decision which incurs unlawful expenditure;
b. is about to take or has begun to take a course of action which would be unlawful and likely to lead to loss; or
c. is about to enter an item of account which would be unlawful.

The draft Bill retains the right for an auditor to make an application for judicial review of a decision of the audited body or a failure by that body to act, which it is reasonable to believe would have an impact on the accounts of that body.

The draft Bill replicates the provision in the Audit Commission Act 1998 for the Secretary of State to make regulations about how local public bodies should keep their accounts (Accounts and Audit Regulations).

Part 6 – Data matching
The Audit Commission Act 1998 gives powers to the Audit Commission to require data to be provided by local public bodies for the purposes of data matching. The Audit Commission exercises these powers through a data-matching service for local public bodies called the National Fraud Initiative. These powers are used to match data provided by local public sector bodies, with potential fraud matches returned to the bodies that provided the data for further investigation. The National Fraud Initiative has been very successful, enabling participants to detect £919m in fraud, errors and overpayments since 1996.

The draft Bill transfers the Commission's current data-matching powers to the Secretary of State, who in practice will delegate them to the new operational owner of the National Fraud Initiative which will transfer to a new organisation. The National Fraud Authority (an executive agency of the Home Office), the Department for Work and Pensions and the Cabinet Office (ERG) have expressed an interest in taking on operational ownership of the National Fraud Initiative and discussions are on-going.

Local public bodies will continue to be required to provide data for data matching purposes. The draft Bill removes the criminal offence relating to this provision in the Audit Commission Act, instead placing a duty on local public bodies to provide this information. The results of data matching will be returned to those from which the matches came, and it will be up to individual bodies to follow up their matches. There will still be a requirement to publish a fee scale and a code of data matching practice, both of which will be formally consulted on. The draft Bill also retains the restrictions and protections around the disclosure of personal information, making it a criminal offence to disclose information obtained through a data matching exercise.

Part 7 – Inspections, studies and information
The draft Bill contains amendments to provisions in Section 10 of the Local Government Act 1999. Currently, under that Act, the Secretary of State can require the Audit Commission to carry out an inspection of a local authority. The provision in the draft Bill gives the Secretary of State a similar power to appoint an inspector to carry out such an inspection, following the abolition of the Audit Commission. We envisage that this power would be rarely used, only where there are concerns about significant governance failure in a local authority.

Schedule 5 sets out that the person appointed as inspector would have the same powers of access to an authority's documents that an Audit Commission inspector currently has.

As it plans for closure, the Audit Commission is winding down its programme of national 'value for money' studies looking at how local public bodies have used the resources available to them. Remaining studies will focus on summarising the results of audits and on material drawn from the support and information provided to auditors. The Government would like to see a smaller, coherent and complementary programme of value for money studies on local issues.

Whilst not directly replacing the Audit Commission's work, there is an opportunity for the National Audit Office to enhance the assurance it provides to Parliament by developing gradually its own value for money programme to include a small number of studies which more explicitly take in local delivery, thus giving a more end-to-end, systemic view on the use of public money. The National Audit Office will not be undertaking the full range of types of studies that the Audit Commission did. It will not have a locus to assess the performance of individual councils nor to hold them to account in the way it does central government departments. The National Audit Office believes these studies will be useful in its role in holding central government to account for the money it provides to local public bodies. This work will also support and encourage improved performance locally, by identifying examples of what works in different circumstances.

The draft Local Audit Bill includes new powers for the National Audit Office to undertake these studies and access information held by local government. We are exploring the case for the National Audit Office to be able to undertake thematic value for money studies regarding all local public sectors whose bodies are subject to audit under the new audit framework.

The National Audit Office recognises that it will need to take account of the work of others when taking forward a future work programme, including sector-led improvement programmes led by the Local Government Association and the work of relevant inspectorates and regulators such as the Care Quality Commission and Her Majesty's Inspectorate of Constabulary (if the powers were to be provided for it to undertake studies within the police sector).

The National Audit Office envisages undertaking a small programme of local studies - increasing to six studies in 2014/15. It is committed to working collaboratively regarding its programme of work with local government. With agreement from the sector, the National Audit Office has already established a local government reference panel comprising representatives from local government. The panel provides insight, challenge and advice to help inform the Comptroller and Auditor General's consideration of the programme including testing whether the overall programme is useful to the sector, scope of individual studies, sources of evidence, types of output and reporting arrangements.

The draft Bill also restricts the disclosure of information relating to an individual or a body that is obtained by an auditor or inspector through an audit or inspection, or that is provided to other specified bodies in connection with the exercise of their functions, making it a criminal offence to disclose this information, except in specified circumstances.

Part 8 – General provisions

This section sets out the process by which the Secretary of State can make regulations or amend primary legislation using the powers contained in the draft Bill, the territorial extent of the provisions and how various terms in the draft Bill should be interpreted.

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