



CHEL TENHAM

BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 25 September 2013
6.00 pm
Montpellier room, Municipal Offices

Membership	
Councillors:	Paul Massey (Chair), Andrew Chard (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 To approve the minutes of the last meeting held on 19 June 2013.	(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.	LEISURE & CULTURE TRUST GOVERNANCE Business Development Manager, Ken Dale – a presentation and discussion	
6.	INTERNAL AUDIT MONITORING REPORT Head of Audit Cotswolds, Rob Milford – for discussion	(Pages 9 - 18)
7.	REVIEW OF ANNUAL STATEMENT OF ACCOUNTS Finance Team – for decision	(Pages 19 - 150)
8.	AUDIT FINDINGS REPORT - ISA 260 (2012-13) Grant Thornton – for discussion	(Pages 151 - 188)
9.	FINANCIAL RESILIENCE REPORT (2012-13) Grant Thornton – for discussion	(Pages 189 - 220)

10.		GRANT CERTIFICATION WORK PLAN Grant Thornton – for discussion	(Pages 221 - 228)
11.		OFFICE OF SURVEILLANCE COMMISSIONERS - RIPA INSPECTION REPORT Corporate governance, risk and compliance officer, Bryan Parsons – for decision.	(Pages 229 - 282)
12.		WORK PROGRAMME To review the current programme.	(Pages 283 - 286)
13.		LOCAL GOVERNMENT ACT 1972-EXEMPT BUSINESS The Audit Committee is recommended to approve the following resolution :- “That in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraph 3, Part (1) Schedule (12A) Local Government Act 1972, namely: Paragraph 3; Information relating to the financial or business affairs of any particular person (including the authority holding that information)	
14.		ICT NETWORK ISSUE Report of the Cabinet Member Corporate Services	(Pages 287 - 296)
15.		ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
16.		DATE OF NEXT MEETING The next meeting has been set for 15 January 2014.	
17.		BRIEFING NOTES Grant Thornton – Briefing notes not on the agenda Audit update report	(Pages 297 - 308)

Contact Officer: Rosalind Reeves, Democratic Services Manager, 01242 775153
Email: democratic.services@cheltenham.gov.uk

Audit Committee

**Wednesday, 19th June, 2013
18:00 to 19:25**

Attendees	
Councillors:	Paul Massey (Chair), Colin Hay, David Prince, Tim Harman and Pat Thornton
Also in attendance:	Peter Smith, Peter Barber, Robert Milford, Mark Sheldon, Bryan Parsons and Councillor Jon Walklett

Minutes

1. APOLOGIES

Apologies were received for Councillor Rowena Hay.

2. DECLARATIONS OF INTEREST

No interests were declared.

3. ELECT A VICE-CHAIR OF THE COMMITTEE

As Councillor Wall has stepped down from the committee, the Chair invited nominations for the Vice-Chair. Councillor Harman nominated Councillor Chard and this was seconded by the Chair.

On a vote it was unanimously,

RESOLVED that Councillor Chard be appointed Vice Chair of the committee.

4. MINUTES OF THE LAST MEETING

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

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 20 March 2013 be agreed and signed as an accurate record. This is subject to a minor amendment that the forename of the Councillor Hay who was speaking at any one time is included in the minutes to avoid confusion.

5. PUBLIC QUESTIONS

No public questions had been received.

6. AUDIT UPDATE REPORT

The item was introduced by Peter Smith from Grant Thornton. This paper provides the Audit Committee with a report on progress in delivering Grant Thornton's responsibilities as the council's external auditors. The paper includes a summary of emerging national issues and developments that may be relevant to Cheltenham Borough Council and it also includes a number of challenge

questions in respect of these emerging issues which the committee may wish to consider. The auditors explained that Grant Thornton were currently at the planning stage and were carrying out interim work leading up to the audit of the council's accounts. At this stage there were no issues arising out of this work which he needed to bring to the committee's attention.

The Chair asked why the audit timetable from the Audit fee letter 2013-14 had not been included in the Audit update report. The auditors said that it had not been included in the update report as a separate piece of work, but the outcomes of the work would be itemised separately in subsequent updates.

7. AUDIT FEE LETTER 2013-14

Peter Barber from Grant Thornton introduced the item. The Audit Commission has set its proposed work programme and scales of fees for 2013/14. This letter sets out details of the audit fee for the council along with the scope and timing of Grant Thornton's work and details of their team.

The scale fee is set at £69,974. The Audit Commission defines the scale audit fee as 'the fee required by the auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice'. The auditors explained that the proposed fee was the same as last year's - representing value for money. The outputs of the audit for 2013/14 would be the same as the output for 2012/13. Grant Thornton reminded members that for 2012/13 the Council received a rebate from the Audit Commission at 8% and therefore the 2013/14 fee the Council is likely to be charged will be a lot less. The Director of Resources was aware of the rebate last year, but was not aware that it was likely to be repeated.

The Chair said that last year there had been an extra fee of £8,500 for additional work. He asked how far into the process the auditors had to go before they knew whether additional work and fees would be necessary. The auditors responded that they were hoping to see the draft accounts next week and then they would have a more detailed understanding. They would advise Mark Sheldon, Director of Resources, on this. The auditors informed members that they would report back in September to the committee.

8. AUDITING STANDARDS - COMMUNICATION WITH THE AUDITING COMMITTEE

Peter Smith from Grant Thornton introduced the item. The purpose of this report was to ensure there is effective two-way communication between the Council's Audit Committee and the external auditor and was required by Auditing Standards. These Auditing Standards cover the following areas, fraud, law and regulation, going concern, related parties and accounting for estimates. Grant Thornton had questioned the management in detail about these areas and their response was set out in the report. The auditors were now seeking the approval of the committee that the responses provided by management are accurate and to give an opportunity for the committee to ask any questions.

The Chair referred to question 4 on page 30 of the agenda which asks whether the council has enough staff, particularly at senior level, to ensure the delivery of the Council's objectives. The Chair remarked that he was surprised there was no mention of the extra capacity and resilience that had been made available through shared services such as ICT, GO or Audit Cotswolds.

The Chair referred to question 2 on page 32 of the agenda. This asks 'what are the controls in place to identify, account for, and disclose, related party transactions and relationships?'. The response from management states 'If there are any [related parties] that could lead to risk, the council would not order from or deal with the party concerned'. He asked if there was a policy which stated that the council could not conduct business with these companies or if there was a due process which would be followed if this were to happen.

Council Officers responded that they thought it was the latter. Bryan Parsons, Corporate Governance and Compliance Officer, said that there were codes of conduct and procurement rules but said that he could check and review this. The auditors said that if this were the case then they would still be happy.

After consideration and a vote the committee,

RESOLVED that it was satisfied with the responses from management and the arrangements in place.

9. INTERNAL AUDIT MONITORING REPORT

The Head of Audit Cotswolds, Robert Milford, introduced the report. The report is designed to give the Audit Committee the opportunity to comment on the work completed by the Audit Cotswolds partnership and provide 'through the year' comment and assurances on the control environment.

The Head of Audit Cotswolds explained that Audit Cotswolds have started finalising work on GO Shared Services. There are areas for improvement which management have agreed to. The Head of Audit Cotswolds said that officers were committed to supporting GO Shared Services and overall he explained that they are working well together. The governance documents which had been put in place to support the GO structure are being worked to and as a result service governance is working effectively. ICT issues caused a big problem for GO shared services and have also caused problems for housing and the council tax system.

The amount of change GO has been through increases the chance of error, but resources are being focused and they are tackling these problems. The Limited Assurance was good in these circumstances and overall GO is improving and moving forward in a positive direction. The Head of Audit Cotswolds informed members that the COG is working well. He asked if there were any questions.

In response to a question as to whether there had been unnecessary change at the council, the Head of Audit Cotswolds responded that this was not the case. He gave the analogy of a triangle where each of the three sides is represented by ICT software, staff that operate the system and the end user. All sides had been in a state of flux and the amount of change that two sides of the triangle had to deal with meant that the end user had also been impacted.

The Head of Audit Cotswolds, in response to the question as to whether GO would reach a satisfactory level within a year, said that it should do. There is a big action plan for GO to tackle, but if this is achieved then a satisfactory level will be reached.

The Chair informed members that he was not surprised by the report. He asked whether previously they had been premature in saying the payroll issues had been resolved. The Head of Audit Cotswolds responded that resilience and resource levels were better but they were still trying to catch up in other areas.

There was a reference in the report to updating the Terms of Reference for the JMLG and a member questioned whether these were strategic changes. The Head of Audit Cotswolds responded that the changes referred to were mainly changes to the documentation to reflect that the GO programme had now closed.

Mark Sheldon, Director of Resources, gave the committee an update on the ICT problems. He explained that the process was very difficult and that the benefit of shared services meant there was now a fresh pair of eyes on the problem as well as a new build of servers. As a result progress had already been made in resolving the response time issues for Revenues and Benefits.

On a vote the committee unanimously,

RESOLVED that the Internal Audit Monitoring Report be accepted.

10. INTERNAL AUDIT OPINION 2012-13

The Head of Audit Cotswolds introduced the report. This annual report gives the opinion as the Head of Internal Audit and therefore the officer responsible for the delivery of the internal audit function, which includes assessing the adequacy and effectiveness of internal control within Cheltenham Borough Council.

The report follows the same model as last year and it develops the auditing planning process. In terms of resourcing, there were some new entries to the auditing team. Overall there was a relatively stable skill base amongst staff.

The Head of Audit Cotswolds informed the committee that it had been a difficult year for audit because of the formation of UBICO came at the same time as the implementation of GO, creating a significant change. Both services were delivering what they were meant to deliver, despite a significant governance change. The Head of Audit Cotswolds commented that in his 15 years experience as an auditor he had never seen such a level of change in a single year. ICT has moved to the Forest of Dean meaning there is still significant change ongoing and issues with change continue to cause a problem. A report on the ICT virus was dealt with at the last committee and the Head of Audit Cotswolds explained that issues will be monitored and reported on at the meeting in September. This is a draft report and so may be subject to change.

The committee was asked if there were any questions.

A member referred to items 32/33 on page 63 of the agenda. This refers to Go Shared Services Debtors and Creditors and these are classed as 'limited'. The member asked why they were classed as such. The Head of Audit Cotswolds responded that they were still going through the finalising process and had to be passed by senior management. It is unlikely there will be any further questions by managers, but this is possible.

Grant Thornton asked how the ratings system worked. The Head of Audit Cotswolds responded that high assurances are top level and then it goes satisfactory, limited and low.

After some consideration and upon a vote the committee unanimously,

RESOLVED that the opinion of the Annual Internal Audit Opinion report be noted.

11. ANNUAL COUNTER FRAUD REPORT

The Head of Audit Cotswolds, introduced the report. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a paper which recognises the key elements to an authority's governance framework, this includes 'ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained'. This report sets out the Counter Fraud work conducted through 2012/13.

This is the first time that the Head of Audit Cotswolds had delivered such a report. There was a Local Government Fraud Strategy and a Commissioning Strategy that was used to build a framework for the report. The Head of Audit Cotswolds informed the committee that the Audit Commission produced a survey every year. The survey identified 28 areas for comment. The committee was asked if there were any questions.

A member said she was interested to know about the overpayments of £139,000. She wanted to know whether that was recovered and if it was external fraud. The Head of Audit Cotswolds responded that it was benefit fraud and that there had been 97 sanctions for it. He explained that the committee should not expect the report to be full of fraud, but that a mechanism is required to find it. The committee was informed that tenancy fraud was linked to benefit fraud.

A member commented that with two members of staff, the money recovered was cost effective, but he said he wasn't sure about other costs. He asked if another member of staff was put in place, would more money be recovered. The Head of Audit Cotswolds responded that the council receives money to tackle fraud from a subsidy. On the question as to whether the council is getting back all it could, he said the authority now has more powers to act. The council had been working with the local police to bring back housing which is fraudulently let.

The Chair remarked that as a percentage of the benefits bill, £129,000 in reclaimed money was good. He said the distinction between internal and external fraud was key to how this report is presented. External fraud will be the biggest share. The controls for internal and external fraud show that there is a proactive approach to tackling it. External and internal fraud should be separated and this may give the best structure to compare the different types of fraud.

After consideration and upon a vote the committee unanimously,

RESOLVED that the Annual Counter Fraud Report be accepted.

12. EFFECTIVENESS REVIEW - INTERNAL AUDITING STANDARDS

The Head of Audit Cotswolds introduced the item. This report assesses how far Audit Cotswolds is compliant with the CIPFA 2006 code of practice for internal audit in local government.

The Head of Audit Cotswolds explained that there were a few key reasons why Audit Cotswolds had not been fully compliant with the CIPFA standards. The Head of Audit Cotswolds informed the committee that there was a change to 3.7 which states, 'The anti-fraud and corruption strategy and fraud response plan have been reviewed during the last 3 years'. This received only a Qualified or partial compliance rating for 2012/13. This is because 'all partner sites are in the process of updating and aligning anti-fraud policies'. The Head of Audit Cotswolds referred to point 8.1 which again received only a Qualified rating in 2012/13. 8.1 states 'The timing of internal audit assignments is normally arranged with the management concerned to minimise disruption'. This is because it has been an exceptionally busy year for the audit team which meant it could not always align to the timings of management. ICT issues have also caused difficulty for the auditing team. The Head of Audit Cotswolds explained that the ICT provision for the partnership has deteriorated and he was trying to get it fit for purpose. He said there was an issue with managing data. Information is not emailed to ensure its security – instead his team go to the site of the data to pick up that information.

The committee was asked if it had any questions.

The Chair asked if there were any resourcing blockages. The Head of Audit Cotswolds responded that once GO is stabilised the timing issues for the auditors will be resolved. The Chair also asked if there is a problem that some of the GO partners are not part of the Audit Cotswolds partnership. The Head of Audit Cotswolds advised that this was not a problem.

Upon a vote it was unanimously,

RESOLVED that the Effectiveness Review – Internal Auditing Standards be accepted.

13. WORK PROGRAMME

The Chairman referred members to the work plan.

The Head of Audit Cotswolds confirmed that the work programme would pick up the ICT monitoring report. He also confirmed that he would be in a position to bring a report to this committee in September on the proposed governance arrangements for the new Leisure and Culture trust.

Peter Barber from Grant Thornton also picked up some minor errors for correction on the work programme. These will be noted and the work programme adjusted.

The committee noted the changes to the work plan.

14. ANNUAL GOVERNANCE STATEMENT

Bryan Parsons, Corporate Governance, Risk and Compliance Officer, introduced the item. The Corporate Governance, Risk and Compliance Officer

said that the council had a statutory duty to assess its internal controls and create an Annual Governance Statement. The review includes strategic directors and directors who are asked to sign a charter to state whether they are compliant in certain areas. He said that he also takes into account what the Head of Audit Cotswolds has done in internal auditing, payroll etc. The Annual Governance Statement is short on purpose. The Corporate Governance, Risk and Compliance Officer explained that the statement made some comment on the airport as it was a significant investment for the council.

Grant Thornton recognises that the arrangements and guidance are new this year. The auditors explained that as part of Grant Thornton's plan to ensure good governance in local government, a governance statements comparison table, documenting all the councils that Grant Thornton deals with, will be produced before Christmas.

The Chair commented that the report was a good format.

The Corporate Governance, Risk and Compliance Officer said that if the report was approved then it would be included in the Statement of Accounts.

A member referred to section 75 of the report which questioned how the council engages through its councillors with the local community. The member considered that standing for election is part of that accountability and that the report should try to capture that.

The Corporate Governance, Risk and Compliance Officer explained that they were trying to demonstrate the strategic link between the work with agencies and local people. He informed members that they may be able to change how this is put in the report next year and that the work they do with partnerships is new.

Upon a vote the Committee unanimously

RESOLVED that

- 1. The AGS be approved for inclusion in the statement of accounts**
- 2. The report be recommend to the Leader and Chief Executive Officer and that they sign the AGS**
- 3. An update report be requested in January 2014 on progress against the Significant Issues Action Plan.**

15. APPROVAL OF THE CODE OF CORPORATE GOVERNANCE

The Corporate Governance, Risk and Compliance Officer, introduced the item. This document is based upon the SOLACE and CIPFA model and there is a requirement to review it on a regular basis to ensure that this is an important principle embedded in the organisation. This document also forms part of the Council's constitution.

The Committee considered the code and upon a vote,

RESOLVED that the revised Code of Corporate Governance be approved for use during 2013-14.

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

There were no urgent items for discussion.

17. DATE OF NEXT MEETING

The next meeting was scheduled for the 25 September 2013.

18. LOCAL GOVERNMENT ACT 1972 -EXEMPT INFORMATION

Upon a vote it was unanimously

RESOLVED that in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraph 3, Part (1) Schedule (12A) Local Government Act 1972, namely:

Paragraph 3; Information relating to the financial or business affairs of any particular person (including the authority holding that information)

19. EXEMPT MINUTES

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

Upon a vote it was unanimously

RESOLVED that the exempt minutes of the meeting held on the 20 March 2013 be agreed and signed as an accurate record.

Paul Massey
Chairman

**Cheltenham Borough Council
Audit Committee
25 September 2013
Internal Audit Monitoring Report**

Accountable member	Cabinet Member Corporate Services, Councillor Jon Walklett
Accountable officer	Head of Audit Cotswolds – Robert Milford
Ward(s) affected	All
Key Decision	No
Executive summary	<p>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 Audit Cotswolds, 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.</p> <p>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.</p>
Recommendations	The Audit Committee considers the report and makes comment on its content as necessary

Financial implications	<p>There are no direct financial implications arising from this report.</p> <p>Contact officer: Mark Sheldon, Chief Finance Officer mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<p>None specific arising from the report recommendation.</p> <p>Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>No additional HR implications arising from this report.</p> <p>Contact officer: Julie McCarthy, HR Operations Manager julie.mccarthy@cheltenham.gov.uk, 01242 26 4355</p>

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	<p><i>“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.”</i> (Chartered Institute of Internal Auditing UK & Ireland).</p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
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 2013/14 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 (Grant Thornton). This is in the form of financial and governance audits to support such activities as value for money.
- 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 Shared Services impacting on core financial systems and shared services generally 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 keep to a more flexible and risk based plan.
- 2.3 It should also be recognised that the service is 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 is in the process of reviewing its operational procedures and processes to align with the new Public Sector Internal Audit Standards (PSIAS). Furthermore, the service is reviewing its structure to ensure it is appropriately resourced and skilled for future work expectations.

3.2 Internal Audit has concluded the following audits:

Audit	Report status	Assurance
Commissioning - Leisure & Culture	Consultancy	
Commissioning - ICT Project	Consultancy	
Art Gallery & Museum Project	Consultancy	
GOSS Main Accounting & Treasury Management	Final	Satisfactory / High
GOSS Budgetary Control and Capital Accounting	Final	Satisfactory
RIPA	Final	N/A
Play Area Enhancements	Final	High
NNDR	Final	Satisfactory
Annual Governance Statement	Final	N/A
Cash Receipting	Draft	
Corporate Strategy	Ongoing	
Governance Compliance	Ongoing	
Bridging the Gap	Ongoing	
Transparency Agenda	Ongoing	
Shared Service Governance	Ongoing	

Health & Safety	Ongoing	
-----------------	---------	--

3.3 Audit Cotswolds has also undertaken the following:

- Audit provision for GO Shared Service
- Audit provision for Ubico Ltd
- Audit Provision for Cheltenham Borough Homes

- 3.5 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 2013/14.
- 3.6 Further consultancy work was undertaken in relation to Counter Fraud. Internal Audit has a significant role in counter fraud work and as such the Head of Audit Cotswolds has been working with the Benefit Fraud Team at Cheltenham BC and other partner Councils to develop a more coordinated and proactive approach to counter fraud.
- 3.7 Follow-up on the ICT Virus report has been undertaken and there has been progress made against the recommendations.

Report author	Robert Milford, Head of Audit Cotswolds, 01242 775174, Robert.milford@cheltenham.gov.uk
Appendices	Appendix 1 – Monitoring Report
Background information	None

Internal Audit Monitoring Report

Audit	Report status	Assurance
Play Area Enhancements	Final	High

Overview and Key Findings

This review on Play Areas was conducted in accordance with the 2013/14 Audit Plan, as approved by the Audit Committee in March 2013. The focus of the audit was on:

- The effectiveness of the maintenance and upgrade programmes.
- Related health and safety operations.
- Appropriateness of related capital and revenue expenditure.

The Green Space Strategy was approved in July 2009. 'Natural play' areas, as part of the Strategy have been introduced and play value is actively considered to ensure enhancements provide facilities that can be enjoyed by all.

The Council has a duty of care to ensure the safety of children using play areas. Our review found operational inspections are completed in accordance with relevant guidance from the European Standards.

Audit testing and observation can confirm that processes and procedures associated with the maintenance and upgrade programme of the 52 play areas are sound and working effectively. We also analysed revenue expenditure over the last three years which showed budgets had been managed appropriately.

However, there are areas, which would benefit from further development:

- Accurate financial management information - during 2012/13 the new Agresso Business World (ABW) financial system had been implemented and as a result processes were not clearly defined in the service area.
- Section 106 Administration - administrative support changes impacted on monitoring capital expenditure.
- Performance Management – we identified performance data relating to the service area was not being reported corporately.
- Specific risk assessments – we found that some risk assessments would benefit from an update.

Overall, we found the inspections control regime was very good, ensuring the health and safety of users is at the forefront of all operations and delivery of an effective maintenance and upgrade programme.

Management Response

I have been fully involved and informed of the audit as it has progressed, and my team are pleased with the outcome. The audit was thorough, but reassured us that the systems in place to manage play areas are sound and effective, and that the council is adequately protected from risk.

We agree with the findings and recommendations which reflect the situation as it is. Work has already commenced on aspects of the action plan.

Budgetary Control and Capital Expenditure	Final	Satisfactory
--	--------------	---------------------

Overview and Key Findings

In March 2013 we began a review of the budgetary control and capital accounting arrangements for GO Shared Services (GOSS). The audit objectives required us to review:

1. The standard controls in the new budgetary control and capital accounting systems as operated for all the client bodies.
2. To ensure processes were compliant with Financial Rules and other relevant Client based policies and standards, as governed through the SLA.
3. To ensure processes were meeting external codes of practice, best practice and statutory regulations.

Our review has identified that 2012/13 budgets had been set and approved at the appropriate level.

Budget figures had been accurately input to ABW for 2 GOSS clients, but not accurately input for another 2 GOSS clients. There were compensating controls in place so it was felt the associated risk was low. However, it is essential that budget figures are accurately input into ABW to allow budget managers to effectively monitor and control their budgets. Ubico budget figures for 2012/13 were subject to change during the year as it was the company's first year of trading. Final reconciled budgets were not available at the time of audit; this will be followed up in a review of the Ubico budget setting process as part of 2013/14 audit plan.

Budgets for 2013/14 had been set and approved at the appropriate level. There had been a delay to CDC budget figures being input to ABW, which prevented budget managers from being able to monitor and manage their budgets for the first month of the new financial year. There was also a delay to Ubico budgets being agreed with the commissioning authorities and therefore input into the system. At the time of audit the figures had not been input into the system which prevented budget managers from being able to monitor and manage their budgets for the first two months of the new financial year. It is important that budget figures are promptly input into ABW to allow effective budget monitoring and management to take place.

Budgets were monitored and reported to the client organisations on a regular basis. Budget managers were still getting used to the new system and felt they would benefit from further training and consultation over the set up of budgets and reports.

2012/13 and 2013/14 capital strategies for CBC were set and approved at the appropriate level.

Appraisal and approval of capital spending took place within the client organisations and the control operated effectively.

Capital spending is regularly reviewed and monitored to ensure it is accounted for appropriately.

Management Response

The transfer to a shared service has led to a number of changes in staff and procedures. The budget setting process will be reviewed and a number of the recommendations identified within this report will be addressed during the year.

Main Accounting and Treasury Management	Final	Satisfactory / High
--	--------------	----------------------------

Overview and Key Findings

In January 2013 we began a review of the main accounting, bank reconciliation and treasury management arrangements for GO Shared Services (GOSS). Budgetary control and capital accounting have not been included in this review and will be reviewed and reported on separately. The audit objectives required us to review:

1. The standard controls in the new main accounting, bank reconciliation and treasury management systems as operated for all the client bodies.
2. To ensure processes were compliant with Financial Rules and other relevant Client based policies and standards, as governed through the SLA.
3. To ensure processes were meeting external codes of practice, best practice and statutory regulations.

Policies and procedures were in place in the form of Financial Rules for each client which set out the key controls. The Financial Rules pre-GOSS were broadly the same for each client, so the adoption of the GO Financial Rules had not caused significant change. The controls as defined in the Financial Rules, if complied with, were adequate and effective.

Our review has identified that the completion of bank reconciliations was sporadic during 2012/13. At the time of testing, the bank reconciliations for 2 of the 5 clients were not up to date (2 months behind). Reconciliations were not being completed on a monthly basis (i.e. one reconciliation covered several months). The reconciliation for one client had a large number of unmatched items, which had been explained by a backlog of banking input. The officers responsible for bank reconciliations were working to resolve these issues and to bring them up to date. It is important that bank reconciliations are completed on a monthly basis (as per Financial Rule H2.1 and performance indicator in the GO Service Delivery Plan) and kept up to date so that any discrepancies can be promptly identified and resolved. The reconciliations tested had not been independently reviewed and signed off. It is important that bank reconciliations are independently reviewed and authorised to provide evidence that the reconciliation is complete and that there are no outstanding matters for reporting purposes.

It is important that income systems are reconciled to the main accounting system to ensure that data held in the system is complete, accurate and up to date. At the time of audit this

control was not being consistently applied. Recommendations have been made in the relevant service area audit reports to address this risk.

Our review carried out sample testing on journals across all clients and found that the approach to processing journals was inconsistent. Hard copy journal files were still being maintained at each client office for the purpose of providing an audit trail and also to provide evidence of management review and authorisation. However, in some cases working papers had not been kept on file and the approach to review and authorisation of journals (a requirement of Financial Rule H11.3) was also inconsistent. It would be helpful if a protocol outlining a standardised approach across GOSS for processing journals could be developed. This protocol should also define the requirement for reviewing and authorising journals.

This review confirmed the key controls in operation for Treasury Management were effective. Consideration should be given to reviewing the performance reporting procedure for each client to ensure they are complying with the Financial Rules and reporting on Prudential Indicators twice a year. It might also be helpful to review the systems currently being used to record and monitor treasury management activity and ascertain whether it would be possible to achieve further efficiencies by standardising the method of recording and monitoring treasury management transactions.

Opening balances were tested against closing balances from the previous year. IA was able to fully verify opening balances for 2 of the 4 clients tested (Ubico was excluded as it was a new company formed on 01/04/2012). Opening balances for the third client were verified apart from discrepancies in the Short Term Debtors and Short Term Creditors figures, which were being investigated. A number of discrepancies were identified in the opening balances for the fourth client tested, which were also being investigated.

IA also confirmed that the General Ledger for each client nets to zero (debits were equal to credits)

Management Response

Many of the processes put in place since the implementation of GO shared Services and the staff restructure have been reviewed and adapted as staff have become more aware of previous custom practices at each partner site and how the new system actually works. Staff are currently developing their own skills within the system. The proposed action plan is welcomed and highlights some specific areas that are still developing and will be further improved in the medium term.

NNDR	Final	Satisfactory
-------------	--------------	---------------------

Overview and Key Findings

This audit has been completed as part of the annual review of the core financial systems which are fundamental to the financial management of the Council.

Appropriate control over the operation of this system is fundamental to the financial management element of the Council’s annual governance statement.

The National Non Domestic Rates (NNDR) processes and procedures are a core financial system and as such are audited each year; the fundamental control testing is a requirement

of Grant Thornton the external auditor and is included in the Internal Auditing testing.

The main objectives of the review have been to test the adequacy, efficiency and effectiveness of internal controls in place; to ensure that current processes are meeting the requirements of internal policy, procedural standards and targets for each system reviewed; and to ensure the processes are meeting external codes of practice, and, as appropriate, statutory regulations.

The work undertaken during the review has been sufficient to address these objectives and gain an opinion on the level of assurance that can be placed on the system of controls operating within the Council.

Our work focused the following areas: Review of NNDR policies and legislation, Implementation of new legislation and planning for future change, Annual Billing process , Property valuations , Assessment of reliefs, discounts and refunds, NNDR Civica reconciliations procedures, recovery enforcement (including writeoffs).

We have also followed up recommendations agreed with management from our prior year audit.

Changes to the rate payer customer records within the Civica system should be supported by valid and certified instructions; however in one case we were unable to validate the record change to official supporting records

Our review of the NNDR reconciliations procedures between Civica (IBS) to the Cashbook within Agresso highlighted that unexplained transaction differences were not being investigated. We also noted that a number of reconciliations were not completed on standardised excel spreadsheets

Our follow up reviews on mandatory Charity reliefs, highlighted proposed charity "status" checking procedures have been implemented, however only limited checks have been performed by Revenue officers to confirm that ratepayers currently receiving the charity relief still hold bona fide Charity Commission status.

Management Response

Office procedures require that all changes made to the business rates system should be supported by documentation or where information is taken over the phone, a dairy note explaining the reason for the change. Where documentation covers more than once record a copy should be saved on each record. Staff have been reminded of this requirement

The system speed issues have had a significant impact on the service during 2012/2013. It has not been possible to run many system processes or complete scheduled tasks. Prioritisation has minimised the effect on customers but it was not possible to complete the review of charity relief cases.

Following the implementation of the new finance system Income reconciliation was not kept up to date due to the high volume of discrepancies. A complete match of items between systems was undertaken which identified reporting problems. These have now been resolved and a new process and reconciliation spreadsheet has been set up. A full year end reconciliation has been completed and regular reconciliations are now being undertaken. Any discrepancies are being reported to finance

RIPA	Final	N/A
<p>A governance compliance health check of Regulation of Investigatory Powers Act (RIPA) policies was undertaken as part of the Governance Review.</p> <p>The objective of the review was to compare and contrast the policies and processes in place with those of other Councils. The review also compared the policies with best practice and the advice provided by the Office of Surveillance Commissioners and ensured that the Council adhered to legislation.</p> <p>The approach taken with this audit was through meetings and conversations with Officers who might invoke RIPA surveillance during the course of their investigations and ensure:</p> <ul style="list-style-type: none"> • They are aware of the current guidance • They understand their obligations under RIPA • Any RIPA training is satisfactory and up to date • The recording of surveillance is complete and accurate • They adhere to the authorising process for requests; both within the Council and by the magistrate. <p>The officers were from the Housing Benefit, Environmental Health and Licensing services. The officers with specific RIPA responsibilities i.e. The Senior Responsible Officer, an Authorising Officer and the RIPA coordinator.</p> <p>There was a planned review of the Councils arrangements for RIPA by the Office of Surveillance Commissioners, Assistant Surveillance Commissioner on the 26th July, who was made aware of this Health Check and the outcome.</p> <p>This review has concluded that the obligations under RIPA are well understood, based on interviews audit obtained appropriate levels of confidence that the requirements would be adhered to by officers of the Council. No use of RIPA surveillance has been undertaken by the Council; and there have been no instances in the last four years; confirmed by our testing. Due to the stringent requirements under the new legislation of the Protection of Freedoms Act 2012; the resources required undertaking such surveillance, and the changing nature of the offences the Council may investigate, it appears unlikely that surveillance activity will increase. However, the actions the Council have taken over the last 6 months demonstrate a clear intent to ensure officers meet their RIPA responsibilities.</p> <p>The findings from this review have been agreed with the RIPA Co-ordinating officer. Audit will also monitor any outcomes from the OSC visit and update the Corporate Governance Group within the next three months.</p> <p><i>For information – this report is referenced in the OSC report.</i></p>		

**Cheltenham Borough Council
Audit Committee**

25 September 2013

Statement of Accounts 2012/13

Report of the Director of Resources

Accountable member	Cabinet Member Finance, John Rawson
Accountable officer	Director of Resources, Mark Sheldon
Accountable scrutiny committee	Audit Committee
Ward(s) affected	All
Significant Decision	Yes
Executive summary	The purpose of this report is to present the audited Statement of Accounts 2012/13 for formal approval. Members of the Committee will recall that Council previously agreed that the consideration and sign off of the statement of accounts is delegated to the audit committee and that no report is made back to council unless there are issues arising from the audit.
Recommendations	That the audited Statement of Accounts for 2012/13 be approved for signature by the Chairman of this Committee.

Financial implications	None Contact officer: Mark Sheldon E-mail: mark.sheldon@cheltenham.gov.uk Tel no: 01242 264123
Legal implications	This report adopts relevant guidance issued in the Accounts and Audit Regulations 2003 and 2011. Contact officer: Peter Lewis E-mail: Peter.Lewis@tewkesbury.gov.uk Tel no: 01684 272012
HR implications (including learning and organisational development)	None Contact officer: Julie McCarthy, E-mail julie.mccarthy@cheltenham.gov.uk, Tel no: 01242 264355

Key risks	There are no risks arising from this report which need to be brought to the attention of members.
Corporate and community plan Implications	None identified.
Environmental and climate change implications	None identified.

1. Introduction

- 1.1** The Accounts and Audit Regulations 2011 require the council to prepare an annual statement of accounts by 30th June of each year. The Section 151 Officer must sign and date the draft statement of accounts, and certify that they present a true and fair view of the financial position of the council. There should then be a period of public inspection of the accounts of 20 working days, for which public notice of at least 14 days must be given.
- 1.2** The Regulations then require that the draft accounts be audited and for the audited statement of accounts to be considered and approved by way of a council committee by 30 September, following the year end. The Section 151 Officer must re-certify the audited statement of accounts prior to this meeting. Following approval by the committee, the statement of accounts is to be signed and dated by the person presiding at the meeting.
- 1.3** At its meeting on 28th June 2010 Council delegated authority to the Audit Committee to review and approve the audited statement of accounts.
- 1.4** The Audit Committee review specifically considers whether appropriate accounting policies have been followed, the conclusion of the audit of the statements, and whether there are any issues that need to be brought to the attention of the Council. The Committee also considers whether the Annual Governance Statement fairly reflects the arrangements within the council and whether the suggested action plan will address any significant governance issues.

2. Background

- 2.1** The draft Statement of Accounts was signed by the Section 151 Officer on 30th June 2013. The public inspection period operated from 16th July to 12th August 2013 and a public notice to that effect was placed in the Gloucestershire Echo on 1st July 2013.
- 2.2** The accounts were audited during July and August 2013 and have been signed by the Section 151 Officer.
- 2.3** From 2010/11 the Statement of Accounts has had to comply with a new code of accounting practice – the CIPFA Code of Practice on Local authority Accounting (the 'Code'), which fully incorporates International Financial Reporting Standards (IFRS).

3. Auditor's Report

- 3.1** The council's external auditors, Grant Thornton UK LLP, conducted a full audit of the financial statements and have issued a 'Report to those charged with governance (ISA 260) for 2012/13', giving the Statement of Accounts an unqualified audit opinion.

3.2 The auditor must appoint a date on which local government electors for the area to which the accounts relate may exercise their rights under regulation 15 and 16 of the Audit commission Act 1998 to question the auditor about or make objections to the accounts. The date appointed by the auditor was 13th August 2013.

4. Reasons for recommendations

4.1 The Council is required to formally approve its audited Statement of Accounts by 30th September. The Chairman of the Audit Committee is asked to approve the Statement on behalf of the Council.

4.2 A copy of the audited Statement of Accounts 2012/13 is attached at Appendix 1 to this report. Once approved, the audited statements will be published on the Council's website and notice advertised of the completion of the audit.

5. Alternative options considered

5.1 None.

6. Consultation and feedback

6.1 As detailed throughout the report.

Report author	Contact officer: Paul Jones paul.jones@cheltenham.gov.uk 01242 775154
Appendices	1. Statement of Accounts 2012/13
Background information	External Audit Working paper files 2012/13 Code of Practice on Local Authority Accounting in the UK 2012/13 Accounts Service Reporting Code of Practice 2012/13 Report to those charged with governance (ISA 260) for 2012/13 Accounts and Audit Regulations 2003 Accounts and Audit Regulations 2011

This page is intentionally left blank
Page 22

CONTENTS

Page(s)

3 - 6	Introduction to Cheltenham Borough Council
7 - 15	Explanatory Foreword
16	Statement of Responsibilities for the Statement of Accounts
17	Comprehensive Income and Expenditure Statement
18	Balance Sheet
19	Movement in Reserves Statement
20	Cash Flow Statement
21 – 85	Notes to the Accounts
86 – 96	Group Accounts and Notes
97 - 101	Housing Revenue Account and Notes
102 - 104	Collection Fund and Notes
105 - 120	Annual Governance Statement including Statement on the System of Internal Financial Control
121 - 124	Glossary of Terms
125 - 127	Independent Auditors report

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 2012/13 Municipal Year

Mayor:	Councillor C Hay
Deputy Mayor:	Councillor W Flynn

Cabinet in 2012/13

Leader of the council	Councillor S Jordan
Cabinet Member Corporate Services	Councillor J Walklett
Cabinet Member Sport and Culture	Councillor R Hay
Cabinet Member Built Environment	Councillor A McKinlay
Cabinet Member Finance and Community Development	Councillor J Rawson
Cabinet Member Housing and Safety	Councillor P Jefferies
Cabinet Member Sustainability	Councillor R Whyborn

Chairman of Committees in 2012/13

Licensing Committee	Councillor G Barnes
Planning Committee	Councillor H McCloskey
Overview and Scrutiny Committee	Councillor D Smith
Audit Committee	Councillor P Massey
Appointments Committee	Councillor R Hay
Standards Committee	Councillor W Flynn

Chief Officers in 2012/13

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 2012/13

Appointed Auditor:	Grant Thornton UK LLP
Address:	Hartwell House, 55 - 61 Victoria Street, Bristol, BS1 6FT

Bankers in 2012/13

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. A major new extension is due to open in the Autumn of 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 set 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.

Overall the council performed well during 2012/13. We continue to get recognition for our high standards, good performance, sound financial management and value for money.

The council's 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 2012/13

In the 2012-13 action plan, we identified 78 milestones to track our progress. Out of these:

- 72% (56) of milestones have been completed at the end of the year.
- 8% (6) of milestones have not been completed at the year end and will not be achieved within a reasonable time frame.
- 20% (16) of milestones have not yet completed, but are expected to be achieved within a reasonable time frame

In the 2012-13 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.
- 12 were indicators which CBC is directly accountable for and no targets have been set.
- 8 were community-based indicators for economic development and community

Out of the 32 indicators with targets:

- 81% (26) were met
- 16% (5) did not meet targets
- 3% (1) have not yet been updated

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 2012/13 and the council's assets and liabilities at the year end.

INTRODUCTION

The Accounts for the year ending 31st March 2013 have been prepared and published in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: 2012/13 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 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 <i>all</i> 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 31 st March 2013, 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, Ubico Ltd 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 2012, the council set a net budget of £13.716m for spending on General Fund Services (excluding spending on council housing), of which £109k was to be financed by government revenue support grant, £5.608m from non-domestic rates and £7.965m 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 17, in accordance with the Code.

	Original Budget 2012/13 £	Revised Budget 2012/13 £	Outturn 2012/13 £	Variance 2012/13 £
SERVICES				
Strategic Management	2,919,900	3,054,600	2,650,528	(404,072)
Commissioning	5,557,750	5,875,700	4,909,911	(965,789)
Built Environment	300,450	702,650	265,961	(436,689)
Resources	2,706,325	3,282,775	3,025,112	(257,663)
Wellbeing & Culture	4,755,850	4,702,950	4,378,688	(324,262)
Bad debt provision	40,000	40,000	21,842	(18,158)
Target savings	(480,000)			
TOTAL NET SERVICE EXPENDITURE	15,800,275	17,658,675	15,252,041	(2,406,633)
Capital charges	(1,913,300)	(1,152,600)	(925,405)	227,195
Interest and investment income	373,900	334,500	90,038	(244,462)
Use of balances and reserves	(95,955)	(2,289,955)	134,650	2,424,605
New Homes Bonus	(250,000)	(535,700)	(536,268)	(568)
Council Tax Freeze Grant	(199,000)	(396,987)	(199,137)	197,850
Other Government Grants		(100,000)	(100,000)	0
NET BUDGET	13,715,920	13,517,933	13,715,920	197,987
FINANCED BY:				
Revenue Support Grant	(108,705)	(108,705)	(108,705)	0
National Non-Domestic Rate	(5,607,741)	(5,409,754)	(5,607,741)	(197,987)
Collection Fund Contribution	(34,000)	(34,000)	(34,000)	0
Council Tax	(7,965,474)	(7,965,474)	(7,965,474)	0
	(13,715,920)	(13,517,933)	(13,715,920)	(197,987)

The council is required to analyse the expenditure for the year 2012/13 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.

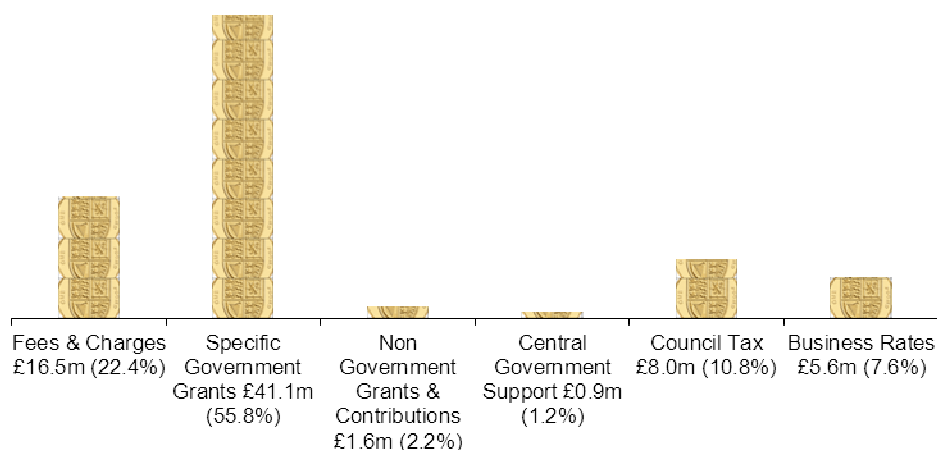
BUDGET SAVINGS

During 2012/13 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.

The council's track record of strong financial management was maintained during 2012/13 which resulted in council services being delivered within revised budget, with an overall residual saving made in 2012/13 of £201,801. 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.

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 2012/13 £51.851m, of which £5.6m is retained as part of the council's accounts).



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 £11 million invested with three of these banks. Although a large proportion of the deposits have now been repaid, the remaining amounts invested with these banks continue to be subject to the respective administration and receivership processes. Of the original amounts invested (plus interest due to the claim dates) of £11.640 million, repayments of £8.063 million (69%) had been received to 31st March 2013 and a further £0.092 million had been received by 30 June 2013. Further details are given in Note 27 to the accounts.

Interest rates have remained constant throughout the year at 0.5%, with no Bank of England interest rate changes during the period 1st April 2012 to 31st March 2013.

The conclusion of the year's activity was that the council paid £2.094m in borrowing costs (which was £718 more than budgeted for the year); earned £74,128 on investments (which was £15,728 more than budgeted (this excluded interest on the written down value of the Icelandic investments, details of which are shown in note 27). The overall impact was an additional surplus to the General Fund of £15,010 compared to the revised budget.

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 2013, was £53,724,000 which was an increase of £7,252,000 over the figure for 31st March 2011 of £46,472,000. This is principally due to the fact that the financial assumptions as 31st March 2013 are less favourable than they were at 31st March 2012 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 2012/13 Code of Practice in Local Authority Accounting. The policies are detailed in note 1 to the accounts (pages 21 to 34) and the changes in accounting policies are detailed in note 1(xxx) on page 34.

CHANGES IN STATUTORY FUNCTIONS

Tenancy Strategy

The council is 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.

The council published a tenancy strategy by 14th November 2012. This strategy is 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.

Local Government Finance Act 2012 (Royal Assent 1/11/12)

- Enables local authorities to retain a proportion of the business rates generated in their area as a "local share" and borrow against future business rate growth through Tax Increment Finance schemes.
- Provides a framework for the localisation of support for council tax in England, which will give councils increased financial autonomy and a greater stake in the economic future of their local area. (It has been estimated that the localisation of council tax support can produce savings of £500 million across Great Britain and these changes are expected to realise the share of these savings attributable to England.)
- Makes changes to council tax rules to provide further flexibility on the council tax local authorities can charge on empty properties and other small changes aimed at modernising the system.

This does not affect the 2012/13 accounts but will affect those for 2013/14.

Public Services (Social Value) Act 2012 (Royal Assent 8/3/12)

Requires public authorities to consider the economic, social and environmental well-being of their area when undertaking public procurements.

The Act sets out a number of requirements that public authorities must comply with before starting the procurement process, including considering:

- How what is being procured might improve the economic, social and environmental well-being of its area (section 1(3)).
- How that improvement might be secured (section 1(3)).
- Whether to have a consultation on the potential improvements themselves or how they might be secured (section 1(7)).

The Act only applies to contracts and framework agreements for services that are subject to the Public Contracts Regulations 2006 (SI 2006/5) and will not apply to call-off contracts awarded under a framework agreement.

Electoral Registration and Administration Act 2013 (Royal Assent 31/1/13)

Makes provision for the registration of electors and the administration and conduct of elections; and amends section 3(2)(a) of the Parliamentary Constituencies Act 1986. The Act aims to reduce electoral fraud by speeding up the introduction of Individual Electoral Registration and to modernise the electoral registration system, making it convenient for people to register to vote. The Electoral Registration and Administration Act 2013 will open up new methods to enable voting, including electronic voting. The Act's main aims are to:

- Tackle electoral fraud;
- Improve the integrity of our electoral system, in particular the electoral register;
- Modernise the electoral registration system, making it more convenient for people to register to vote;
- Make a number of improvements to the running of elections.



CAPITAL EXPENDITURE

In 2012/13 the council spent £11.625m on capital projects and grants, compared with the revised budget of £14.435m.

Included in the expenditure for the year was £4.476m on major repairs and maintenance of council houses, £0.266m on disabled adaptations within the council housing stock, £0.498m on private sector disabled facility grants and adaptation support grants, £0.155m on other grants mainly for private sector housing improvements, £2m on housing enabling through partnership working with Cheltenham Borough Homes (CBH) and £3.284m million on the Art Gallery and Museum Development .

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 £0.513m of capital receipts were available to finance capital expenditure in 2012/13. The remaining sources of finance were Government Grants £0.406m, developer contributions and partnership funding £1.959m, major repairs reserve £4.727m, borrowing £2.003m, with £2.017m coming from revenue financing.

During the year the council sold 14 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.

DEVELOPMENTS IN SERVICE 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 and Cotswold District Council services were delivered from August 2012.

GO Shared Services was also 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).

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. Existing projects underway include the provision of Leisure & Culture services, Green Environment and the Housing Options Service.

Other major ongoing 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.

Civic Pride

The Cheltenham Development Task Force continues to make progress. Key sites, identified in the Central Area Ambition leaflet, that have progressed include North Place & Portland Street and the Brewery phase 2 which have secured the support of the planning committee and the Albion Street block which will be considered by the planning committee summer 2013.

Subject to conclusion of the associated legal documents North Place and Portland Street could be on-site by early 2014.

In addition to these schemes, 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 support the Cheltenham Travel Plan which is the subject of a major consultation exercise summer 2013; discussions relating to future improvements to St. Mary's Minster churchyard and other public realm improvements – several phases of which have either been delivered or in progress eg Promenade upgrade.

Gloucestershire Airport – runway project

In the autumn of 2009, the council agreed to facilitate borrowing to finance the runway safety project at Gloucestershire Airport (GAL), 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 been completed and await Civil Aviation Authority (CAA) approval.

The financing was fully expended and in April 2013 the council converted the borrowing to an annuity loan of £1.2m from the Public Works Loan Board.

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. The council was 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 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 £1.1m funding gap in 2012/13, with £1.245m anticipated for 2013/14.

The average level of council tax paid by Cheltenham's residents for services provided by the council (based upon a band D equivalent in 2012/13) was £187.12. (2011/12 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.

The AG&M was shut on 1st April 2011 for decanting, ahead of work that commenced on site in July 2011. Work is nearing completion on site and the new AG&M is scheduled to re-open in the autumn of 2013.

Phase I & II of the fundraising campaign resulted in external fundraising for the project, including £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 £5.6m. Fundraising is still continuing through the Art Gallery & Museum Development Trust and is expected to continue to March 2014, beyond the re-opening of the new galleries.

St. Paul's Regeneration and other social housing schemes

During 2012/13 the Council's ALMO, Cheltenham Borough Homes Ltd (CBH), completed the development of 30 social rented and 18 shared ownership housing units in the St Paul's Regeneration Area. This scheme was 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. CBH is also currently redeveloping 4 redundant HRA garage sites to create a further 14 houses for affordable rent.

The Council, working in partnership with CBH, continues to evaluate a number of opportunities to redevelop HRA sites which includes the St Paul's Phase 2 scheme

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 was 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. This change has proved to 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.

EVENTS AFTER THE BALANCE SHEET DATE

A Shared Information, Communications & Technology (ICT) service has been set up with effect from 1st April 2013. This function is shared with Forest of Dean Council, using common ICT platforms, enabling service resilience within the councils.

A new Joint Waste partnership has been set up with effect from 1st April 2013. This service is shared with Forest of Dean District Council, Gloucestershire County Council and Cotswold District Council.

The on-street car parking enforcement service has transferred back to Gloucestershire County Council with effect from 1st April 2013. This has in turn been outsourced to APCOA by the County at the same date.

Within the Ubico company accounts, the redistribution of the year end surplus is subject to approval by the Shareholders and may require some changes to the Shareholders Agreement. As a result of this delay in approval, the draft statements are likely to be subject to a post 30th June amendment for both Ubico and Cheltenham Borough Council.

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 2013 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 2013 is designated as 13th August 2013.

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, 2013.

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 2012/13 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 2013.

.....

Date.....

Director of Resources (Section 151 Officer)

The Statement of Accounts for 2012/13 have been approved by the council's Audit Committee at its meeting on 25th September 2013.

.....

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.

2011/12 restated			2012/13		
Gross expenditure	Gross income	Net expenditure	Gross expenditure	Gross income	Net expenditure
£'000	£'000	£'000	£'000	£'000	£'000
Continuing Operations					
9,877	(8,747)	1,130	9,610	(8,078)	1,532
10,017	(3,500)	6,517	9,823	(3,758)	6,065
7,449	(4,524)	2,925	7,541	(4,284)	3,257
2,989	(1,475)	1,514	2,951	(1,707)	1,244
4,590	(6,158)	(1,568)	4,998	(6,364)	(1,366)
17,233	(18,052)	(819)	17,712	(19,269)	(1,557)
27,414	-	27,414	-	-	-
34,808	(33,579)	1,229	35,022	(34,453)	569
2,384	(361)	2,023	4,056	(2,028)	2,028
1,656	(150)	1,506	1,990	(153)	1,837
118,417	(76,546)	41,871	93,703	(80,094)	13,609
882	(676)	206	793	(977)	(184)
265	(1,399)	(1,134)	4,395	(1,149)	3,246
	(15,905)	(15,905)	-	(16,799)	(16,799)
119,564	(94,526)	25,038	98,891	(99,019)	(128)
		(1,555)			(7,104)
					712
		8,230			6,511
		6,675			119
		31,713			(9)

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 2012	Note	31 March 2013
£'000		£'000
236,384 Property, Plant & Equipment	21	235,740
28,196 Heritage Assets	22	31,221
22,784 Investment Property	23	21,651
543 Intangible Assets	25	733
2,655 Long Term Investments	27	2,418
3,727 Long Term Debtors	27	6,681
294,289 Long Term Assets		298,444
4,093 Short term Investments	27	1,528
- Assets held for sale	26	281
124 Inventories	28	58
4,883 Short term Debtors	29	6,664
2,621 Cash and cash equivalents	30	3,847
11,721 Current assets		12,378
(1,772) Bank overdraft	30	(87)
(7,424) Short term borrowing	27	(2,658)
(9,495) Short term creditors	31	(11,397)
(141) Provisions	32	(363)
(18,832) Current Liabilities		(14,505)
(54,674) Long term borrowing	27	(56,552)
(83) Grants receipts in advance - capital	19	(83)
(184) Grants receipts in advance - revenue	19	(184)
(46,472) Other long term liabilities	42	(53,724)
(101,413) Long term liabilities		(110,543)
185,765 Net Assets		185,774
(17,838) Usable Reserves	33	(19,239)
(167,927) Unusable Reserves	34	(166,535)
(185,765) Total Reserves		(185,774)

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	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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
<u>Movement in Reserves during 2012/13</u>									
Surplus or (deficit) on the provision of services	(235)		363				128		128
Other comprehensive Income & expenditure							-	(119)	(119)
Total comprehensive Income & Expenditure	(235)	-	363	-	-	-	128	(119)	9
Adjustments between accounting basis and funding basis under regulations (Note 6)	(1,647)		102	2,297	399	122	1,273	(1,273)	
Net decrease before transfers to reserves	(1,882)	-	465	2,297	399	122	1,401	(1,392)	9
Transfers to/from earmarked reserves (Note 33)	1,650	(1,650)					-		
Increase / (decrease) in 2012/13	(232)	(1,650)	465	2,297	399	122	1,401	(1,392)	9
Balance at 31 March 2013	2,021	8,148	3,562	4,356	399	753	19,239	166,535	185,774

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.

2011/12 Restated	2012/13	2012/13
£'000	£'000	£'000
Operating Activities		
(7,327) Council Tax receipts	(7,565)	
(4,658) National non-domestic rate receipts from national pool	(5,608)	
(39,975) DWP grants for benefits	(40,491)	
(2,163) Other government grants	(1,481)	
(7,203) Rents (after rebates)	(7,799)	
(19,691) Cash received for goods and services	(14,955)	
(280) Interest received	(72)	
- Other receipts from operating activities	(4,608)	
(81,297) Cash inflows generated from operating activities		(82,579)
17,006 Cash paid to and on behalf of employees	9,806	
20,723 Housing Benefit paid	21,088	
204 Precepts paid	180	
460 Payments to Capital Receipts Pool	271	
27,187 Cash paid to suppliers of goods and services	24,422	
1,301 Interest paid	1,564	
7,537 Other payments for operating activities	5,989	
74,418 Cash Outflows generated from operating activities		63,320
(6,879) Net cashflow from operating activities		(19,259)
Investing activities		
Purchase of property, plant and equipment, investment		
8,353 property and intangible assets	8,811	
- Purchase of Investments	1,450	
2,393 Other payments for investing activities	2,003	
Proceeds from the sale of property, plant and equipment,		
(1,909) investment property and intangible assets	(2,728)	
(8,397) Proceeds from the sale of short and long term investments	(4,463)	
(347) Other receipts from investing activities	(14)	
93 Net cashflows from investing activities		5,059
Financing activities		
(135,677) Cash receipts of short and long term borrowing	(17,001)	
- Other receipts from financing activities	(418)	
114,092 Repayments of short and long term borrowing	20,400	
27,414 Payment to Secretary of State - Self financing of HRA	-	
- Other payments for financing activities	8,308	
5,829 Net cash flows from financing activities		11,289
(957) Net (increase) / decrease in cash and cash equivalents		(2,911)
(108) Cash and cash equivalents at beginning of the year		849
849 Cash and cash equivalents at end of the year (note 30)		3,760
957 Net increase / (decrease) in cash and cash equivalents		2,911

NOTES TO THE ACCOUNTS**1. ACCOUNTING POLICIES**

i) GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the 2012/13 financial year and its position at the year-end of 31st March 2013. 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 2012/13 (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 80 to 85.

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 2012/13. 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 line(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 20 to 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. Community and Surplus assets are also not depreciated.

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 effect.

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 Ltd and Ubico Ltd, in which the council each has a 50% shareholding, 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. Both Gloucestershire Airport Ltd and Ubico Ltd have been treated as jointly controlled entities (joint ventures) and CBH as 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 of the runway and buildings at the Airport, with a valuation date of 31st March 2012, was undertaken by an external valuer in 2012.

Dwellings owned by CBH are valued at cost as a proxy for fair (market) value for existing use. Unlike dwellings owned by the council, their value is not adjusted for social housing use, due to their different tenure.

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
Plant & Machinery	20% straight line allocation	4% per annum of cost
Office Equipment	33% straight line allocation	
Computer Equipment	33% straight line allocation	
Taxiway / Runway		2% per annum of cost
Fixtures & Fittings, Tools & Operational Equipment	33% straight line allocation	
Leasehold Buildings	Over the life of the lease	2% per annum of cost

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.

xxvii) 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

There are no specific changes to accounting policies for 2012/13.

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

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Council. As required by the Code, full adoption of the standard will be required for the 2013/14 financial statements. However, the Council is required to make disclosure of the estimated effect of the new standard in these (2012/13) financial statements.

The accounting policy changes to report in 2012/13 relate to:

- amendments to IAS 1 – Presentation of Financial Statements – other comprehensive income
- amendments to IFRS 7 Financial Instruments: Disclosures – offsetting financial assets and liabilities
- amendments to IAS 19 – Employee benefits

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 21 to 34, 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 60 to 63 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 (with the exception of the lease of vehicles to Ubico Ltd) as being operating leases. The lease of vehicles to Ubico on 1 April 2012 has been deemed to be a finance lease.

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.

There are no known items in the balance sheet at 31st March 2013 for which there is a *significant* risk of material adjustment in the forthcoming financial year.

5. Material Items of Income and Expenditure not disclosed on the face of the statements

There are no known material items not disclosed on the face of the statements.

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.

STATEMENT OF ACCOUNTS 2012/13

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

2011/12						2012/13					
General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Unusable Reserves	General Fund	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
Adjustments to / from the Capital											
Adjustment Account											
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>											
Charges for depreciation and impairment											
(2,677)	(3,322)				5,999	(2,538)	(7,315)				9,853
-	-				-	-					-
Movements in the fair value of											
2,331	(125)				(2,206)	-					-
(96)	-				96	(108)					108
912	72			86	(1,070)	2,109			(122)		(1,987)
(943)	-			(17)	960	(433)					433
(1,688)	(277)				1,965	(2,723)	(695)				3,418
-	(27,414)				27,414						
<u>Insertion of items not debited or credited to Comprehensive Income and Expenditure Statement</u>											
Statutory provision for the financing of capital											
748					(748)	875					(875)
2,500					(2,500)	700	1,392				(2,092)
1,012	1,127				(2,139)	2,016					(2,016)
Adjustments to/from Deferred Capital Receipts											
Transfer of sale proceeds credited as part of the gain/loss on sale of non-current assets											
						1,364					(1,364)
Adjustments to / from the Capital Receipts Reserve											
Transfer of sale proceeds credited as part gain/loss on the sale of non-current assets											
1,705	662	(2,413)			46	1,340	1,384	(2,724)			-
		1,012			(1,012)			513			(513)
(504)		504				(346)		346			-
								(386)			386
								(46)			32
-					-	14					
3,300	(29,277)	(897)	-	69	26,805	2,270	(5,234)	(2,297)	-	(122)	5,383
Carried forward											

STATEMENT OF ACCOUNTS 2012/13

2011/12						2012/13					
General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
3,300	(29,277)	(897)	-	69	26,805	2,270	(5,234)	(2,297)	-	(122)	5,383
						Brought forward					
						Adjustments to / from the Major Repairs Reserve (MRR)					
						Reversal of Major Repairs Allowance credited to the HRA					
	3,241		(3,241)		-		5,126		(5,126)		-
						Use of the MRR to finance capital expenditure					
			3,541		(3,541)				4,727		(4,727)
						Adjustments to the Pensions Reserve					
						Reversal of items relating to retirement benefits debited to the Comprehensive Income and Expenditure Statement					
(3,399)					3,399	(3,609)					3,609
						Employers' pension contributions and payments direct to pensioners in the year					
3,228					(3,228)	2,868					(2,868)
						Adjustments to / from the Financial Instruments Adjustment account					
						Amount by which finance costs charged to Comprehensive Income and Expenditure Statement are different from those chargeable according to statute					
146	9				(155)	146	6				(152)
						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	(51)					51
						Adjustments to / from the Accumulating Compensated Absences Adjustment Account					
						Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement is different from that chargeable according to statute					
(12)					12	23					(23)
3,225	(26,027)	(897)	300	69	23,330	1,647	(102)	(2,297)	(399)	(122)	1,273
						Total Adjustments					

7. Changes in Operations and Discontinued Operations

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 in 2011/12 are shown on page 79, note 41.

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 were delivered from August 2012.

8. Exceptional Items

There are no exceptional items arising in 2012/13.

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:

2011/12 Restated					2012/13				
Income	Expenditure	Net (surplus)/deficit	Contribution to Revenue	(Surplus) / deficit	Income	Expenditure	Net (surplus)/deficit	Contribution to Revenue	(Surplus) / deficit
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Included within Net cost of Services									
(1,414)	2,107	693	-	693	Town Hall / Pump room	(659)	1,560	901	901
(1,464)	3,084	1,620	-	1,620	Leisure@Cheltenham	(1,495)	3,006	1,511	1,511
(1,424)	729	(695)	-	(695)	Cemetery and Crematorium	(1,500)	840	(660)	(660)
(5,173)	3,282	(1,891)	-	(1,891)	Car Parks	(5,566)	3,800	(1,766)	(1,766)
(9,475)	9,202	(273)	-	(273)	Total	(9,220)	9,206	(14)	(14)
Other Trading Activities									
(274)	212	(62)	-	(62)	Glos CC (schools)	-	-	-	-
(72)	60	(12)	12	-	TIC shop / agency	(72)	60	(12)	(12)
(346)	272	(74)	12	(62)	Total	(72)	60	(12)	(12)

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.

	2012/13	2011/12
	£'000	£'000
Recruitment advertising	6	7
Other advertising	141	145
Information relating to regional government	-	-
Event promotion	86	105
TOTAL	233	257

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:-

	2011/12			2012/13		
Expenditure	Income	Net		Income	Net	
£'000	£'000	Expenditure		£'000	Expenditure	
£'000	£'000	£'000		£'000	£'000	
257	196		61 Verges and highway trees	270	193	77
1,635	1,635		- Car parking (on-street)	1,989	1,989	-
122	125		(3) Administrative costs	103	103	-
2,014	1,956	58	Total	2,362	2,285	77

12. Other operating Expenditure

Analysis of other operating expenditure	
2011/12	2012/13
£'000	£'000
(402) (Gains) / losses on the disposal of fixed assets	(671)
(62) (Surpluses) / deficits on trading operations	(29)
165 Parish council precepts	170
505 Contribution to the housing capital receipts pool	346
<u>206 Total</u>	<u>(184)</u>

13. Financing and Investment income and expenditure

Analysis of Financing and Investment income and expenditure	
2011/12	2012/13
Restated	
£'000	£'000
1,302 Interest payable and similar charges	2,131
(253) Impairment of Icelandic bank investments	14
Exchange rate (profit) / loss Icelandic Banks	(47)
(654) Interest and investment income	(271)
Income and Expenditure on Investment properties	
(2,756) and changes in their fair value	(369)
1,227 Pensions interest costs and return on assets	1,788
<u>(1,134) Total</u>	<u>3,246</u>

14. Taxation and non specific grant income

Analysis of taxation and non-specific grant income	
2011/12	2012/13
£'000	£'000
(8,106) Demand on the collection fund	(8,118)
(2,156) General government grants	(944)
(4,658) Non domestic rates	(5,608)
(985) Capital grants and contributions	(2,129)
<u>(15,905) Total</u>	<u>(16,799)</u>

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

15. Members' Allowances

In 2012/13 the council paid £318,633 (2011/12 £321,111) in allowances to its 40 members. The expenditure reflects members' allowances approved by council for 2012/13. Full details of the Members' Allowances scheme for 2012/13 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	No of Employees
	2012/13	2011/12
£50,000 - £54,999	1	-
£55,000 - £59,999	-	1
£60,000 - £64,999	3	4
£65,000 - £69,999	-	2
£70,000 - £74,999	1	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	1	2
£90,000 - £94,999	2	2
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	1
£115,000 - £119,999	1	-
£120,000 - £124,999	-	-
Total	9	12

STATEMENT OF ACCOUNTS 2012/13

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.
2012/13 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 2012/13	Pension contributions	Total Remuneration inc. pension contbns 2012/13
	£	£	£	£	£	£	£	£
Chief Executive (note 1)	108,083	1,214	-	-	7,744	117,041	16,291	133,332
Executive Director	92,522	400	-	-	-	92,922	13,056	105,978
Executive Director	89,104	94	-	-	-	89,198	13,009	102,207
Civic Pride Managing Director	89,104	1,249	-	465	-	90,818	13,009	103,827
Director of Resources	72,710	173	-	-	-	72,883	10,416	83,299
Director of Wellbeing and Culture	61,019	650	-	-	-	61,669	8,909	70,578
Director of Commissioning	61,019	88	-	-	-	61,107	8,909	70,016
Director Built Environment	61,019	-	-	-	-	61,019	8,909	69,928
TOTAL	634,580	3,868	-	465	7,744	646,657	92,508	739,165

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

Note 2: In addition, Cheltenham Borough Council pay a contribution of 35% of the salary costs of a Shared Monitoring Officer with Tewkesbury Borough Council.

STATEMENT OF ACCOUNTS 2012/13

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 2010/11 £	Pension contributions £	Total Remuneration inc. pension contbns 2010/11 £
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

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.

Note 3: In addition, Cheltenham Borough Council pay a contribution of 35% of the salary costs of a shared Monitoring Officer with Tewkesbury Borough 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. Third Party Declaration forms were issued to chief officers and the Register of Members' Interests was reviewed.

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). Grants received from government departments are shown in Note 19.

Members and Officers

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in Note 15. 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 61 local bodies (26 in 2011/12) and voluntary organisations totalling £1,161,971 (£1,213,738 in 2011/12). 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 £1,166,458 in 2012/13 (£3,228,000 in 2011/12).

The total grants over £35,000 made during 2012/13 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	200,050	(60,156)	139,894	
Cheltenham Festivals	154,000	97,500	251,500	1
County Community Projects (CCP)	145,709	22,034	167,743	
Playhouse Theatre	65,700	(56,889)	8,811	2
Gloucestershire Association for Voluntary & Community Action	44,000	21,043	65,043	1
Hesters Way Partnership	38,200	18,269	56,469	4
Oakley Partnership	38,200	18,269	56,469	1
	685,859	60,070	745,929	

Companies and joint ventures

The Gloucestershire Everyman Theatre leases the theatre from the Council. In 2012/13 the Council approved a grant of £200,050 and the Everyman Theatre began to repay 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 86 to 96. Two members serve on the Airport's Board of Directors, over which the council has no control.

Gloucestershire Airport purchased goods and services from the council totalling £18,006 during 2012/13 (£24,088 in 2011/12). At 31st March 2013 £12,343 was owed by the Airport to the council (£12,188 at 31st March 2012) in respect of these goods and services. In addition the council loaned a further £355,000 to the Airport during 2012/13 (£1.195 million in 2011/12) making the total loan £1.55m. A loan of £1.2m is shown as a long term debtor on the council's balance sheet whilst £350,000 is a short term debtor by way of an overdraft facility provided to the Airport by the council to support their Runway Safety Project.

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 86 to 96. Four councillors serve on the company's Board of Directors.

The council procured supplies and services totalling £11,311,482 from Cheltenham Borough Homes during 2012/13 (£9,690,972 in 2011/12), £1,308,301 (£307,200 in 2011/12) of which is included in the council's Balance Sheet and excluded from the Group Balance Sheet (see pages 86 to 96 and Note 43 to the Group Accounts on Page 91). In the previous financial year the council loaned CBH £1.4m for development at St Paul's and Brighton Road. A further £2m was loaned in 2012/13.

Cheltenham Borough Homes procured supplies and services from Cheltenham Borough Council of £711,660 during 2012/13 (£702,138 in 2011/12), £132,218 (£587,388 in 2011/12) of which is included in the council's Balance Sheet and adjusted for within the Group Balance Sheet (see Pages 86 to 96 and Note 43 to the Group Accounts on Page 91).

On 1st April 2012, the council incorporated a local authority teckal company jointly owned with Cotswold District Council to deliver environmental services (Ubico Ltd). No members serve on the company's Board of Directors.

The council procured supplies and services totalling £6,394,741 from Ubico Ltd during 2012/13 (£0 in 2011/12), £6,405 (£0 in 2011/12) of which is included in the council's Balance Sheet and excluded from the Group Balance Sheet (see pages 86 to 96 and Note 45 to the Group Accounts on Page 93).

Ubico Ltd procured supplies and services from Cheltenham Borough Council of £1,437,909 during 2012/13 (£0 in 2011/12), £856,420 (£0 in 2011/12) of which is included in the council's Balance Sheet and adjusted within the Group Balance Sheet (see pages 86 to 96 and Note 45 to the Group Accounts on Page 93).

On 31st March 2013, the council had 4 councillors who were members of the following parish councils:

Leckhampton with Warden Hill	2
Prestbury	1
Charlton Kings	1

18. External Audit Costs

The total audit fees paid to the council's external auditor and the Audit Commission in 2012/13 were £101,579 (£129,327 in 2011/12), made up as follows:

	2011/12	2012/13
	£	£
Certification of grant claims and returns	26,080	25,444
Statutory inspection	-	-
Audit of accounts (including whole of government accounts)	99,627	71,023
Other work provided by the appointed auditor:		
- Use of resources / value for money work	-	-
- Consideration of public questions	3,620	3,962
- National Fraud Initiative	-	1,150
Total	129,327	101,579

In addition, £12,750 will be payable to the external auditor in 2013/14 in respect of the completion of the 2012/13 grant certification audit work.

19. Grant Income

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

	2011/12	2012/13
	£'000	£'000
Credited to Taxation and Non Specific grant income		
Revenue Support Grant	(1,440)	(109)
New Homes Bonus	(338)	(536)
Performance Reward Grant	(180)	-
Council Tax Freeze Grant	-	(199)
High Street Innovation Grant	0	(100)
Non Domestic Rates	(4,658)	(5,608)
Capital Grants and Contributions	(984)	(2,129)
Total	(7,600)	(8,681)
Credited to Services		
Civic Pride Grant	(10)	-
Flood defence grants	(558)	(49)
Election grants	(142)	(106)
Homelessness grants	(242)	(344)
Housing Benefits subsidy & Administration grants	(32,409)	(33,067)
Council Tax Benefits subsidy & Administration grants	(7,386)	(7,256)
NNDR – Cost of Collection grants	(192)	(194)
Recycling grants	(100)	(90)
Contaminated Land Grants	(25)	-
Art Gallery & Museum Grants	(75)	(130)
Other Grants	(40)	(237)
Other partnership funding and contributions	(1,591)	(1,199)
Total	(42,770)	(42,672)
Receipts in Advance – Revenue		
Commutated Grounds Maintenance contributions	(184)	(184)
Receipts in Advance – Capital	(83)	(83)

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) 2012/13. 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.

STATEMENT OF ACCOUNTS 2012/13

Segmental Analysis - General Fund Services 2012/13	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	1,405	1,778	213	3,396	-2,417	0	-2,417	979
Built Environment	2,041	5,038	842	7,921	-8,557	-42	-8,599	-678
Commissioning	911	7,137	-156	7,892	-2,667	-450	-3,117	4,775
Resources	4,679	44,151	-3,535	45,295	-2,158	-40,311	-42,469	2,826
Wellbeing and Culture	2,355	5,413	800	8,568	-3,601	0	-3,601	4,967
Operations	0	0	0	0	0	0	0	0
Programmed Maintenance (Revenue)	0	0	0	0	0	0	0	0
Business Change	0	0	0	0	0	0	0	0
Bad debt provision	0	22	0	22	0	0	0	22
	11,391	63,539	-1,836	73,094	-19,400	-40,803	-60,203	12,891

* Operations Division no longer exists - functions transferred to Ubico Ltd on 1st April 2013.

** Programme Maintenance and Business Change accounted for within service areas since 1st April 2013.

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

STATEMENT OF ACCOUNTS 2012/13

Reconciliation of Directorate Income & Expenditure to Cost of Services in the Comprehensive Income & Expenditure Statement 2012/13

	Group Analysis	Not Reported to Management	Not included in CIES	Allocation of Recharges	Net Cost of Services	Corporate Amounts	Total
Reconciliation of Net Cost of Services in CIES							
Cost of Services in General Fund Service Analysis	12,891				12,891		12,891
Add HRA income less expenditure		(1,411)			(1,411)		(1,411)
Add amounts not reported to management		2,129			2,129		2,129
Net Cost of Services in CIES	12,891	718			13,609		13,609
Fees, charges and other service income	(19,400)				(19,400)		(19,400)
Interest and investment income					-	(318)	(318)
Income from investment properties					-	(370)	(370)
Income from council tax					-	(8,128)	(8,128)
Income from NNDR					-	(5,608)	(5,608)
Government grants	(40,803)				(40,803)	(944)	(41,747)
Capital grants and contributions received					-	(2,129)	(2,129)
Surplus on HRA		(1,411)			(1,411)		(1,411)
Trading Account (Surplus) / Deficit					-	(28)	(28)
Total Income	(60,203)	(1,411)	-	-	(61,614)	(17,525)	(79,139)
Employee expenses	11,391				11,391		11,391
Other service expenses inc. support costs	61,703				61,703		61,703
Depreciation, amortisation and impairment					-	14	14
Interest payments					-	2,131	2,131
Precepts and levies					-	180	180
Payments to Housing Capital Receipts Pool					-	346	346
Revenue funded from capital under statute		1,059			1,059		1,059
Accumulated Absences Account		23			23		23
IAS 19 Pension adjustment		1,047			1,047		1,047
(Gain)/Loss on disposal of fixed assets					-	(671)	(671)
Pension scheme interest costs					-	1,788	1,788
Total Operating Expenses	73,094	2,129	-	-	75,223	3,788	79,011
(Surplus)/Deficit on provision of services	12,891	718	-	-	13,609	(13,737)	(128)

STATEMENT OF ACCOUNTS 2012/13

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

Net expenditure in the Segmental Service Analysis	2011/12
Net expenditure of services and support services not included in service analysis	£000
Amounts included in analysis not included in cost of services in Comprehensive Income & Expenditure Statement	14,891
Amounts in the Comprehensive Income & Expenditure Statement not reported to management in the segmental analysis	25,566
Cost of services in Comprehensive Income & Expenditure Statement	472
	942
	41,871

Reconciliation to Subjective Analysis 2011/12

	£000	£000	£000	£000	£000	£000	
	Service Analysis	Services & Support Services not in analysis	Amounts not included in I & E statement cost of services	Amounts not reported in management decision making	Cost of Services	Corporate Amounts	Deficit on provision of services
Employees costs	18,319				18,319		18,319
Other service exps	56,396		12		56,408		56,408
Support service costs	(1,033)				(1,033)		(1,033)
Allocation of recharges		27			27		27
Pension adjustments re IAS 19		(1,056)			(1,056)	1,227	171
Exceptional items			0		0	(253)	(253)
HRA Surplus		26,595			26,595		26,595
Parish council precepts						165	165
Contribution to the housing capital receipts pool						505	505
Interest payable and similar charges						1,302	1,302
Total Expenditure	73,682	25,566	12	0	99,260	2,946	102,206
Fees & Other Income	(17,751)				(17,751)		(17,751)
Government Grants	(41,040)				(41,040)		(41,040)
Impairments							0
Revenue funded from capital under statute				942	942		942
Trading operations			51		51	(62)	(11)
Investment properties			409		409	(425)	(16)
Gains / (losses) on the disposal of fixed assets						(966)	(966)
Investment losses						(1,767)	(1,767)
Interest and investment income						(654)	(654)
Taxation and non-specific grant income						(15,905)	(15,905)
Total income	(58,791)	0	460	942	(57,389)	(19,779)	(77,168)
Deficit on the provision of services	14,891	25,566	472	942	41,871	(16,833)	25,038

STATEMENT OF ACCOUNTS 2012/13

21. Property, Plant & Equipment

2011/12								2012/13							
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															
152,037	75,373	4,993	8,454	226	25	-	241,108	155,957	75,355	6,975	9,114	226	4,017	1,013	252,657
At 1 April															
4,072	79	1,982	660	-	-	1,013	7,806	4,137	64	324	541	-	-	3,447	8,513
Additions															
713	(47)	-	-	-	-	-	666	-	-	-	-	-	3,759	-	3,759
Revaluation increases / (decreases) recognised in the Revaluation Reserve															
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(277)	(50)	-	-	-	-	-	(327)	(564)	-	(1,639)	-	-	(188)	-	(2,391)
Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services															
-	-	-	-	-	3,404	-	3,404	-	-	-	-	-	(281)	-	(281)
(588)	-	-	-	-	588	-	-	-	(31)	-	-	-	31	-	-
Assets reclassified to/from held for resale															
- Other Reclassifications															
- Other movements															
155,957	75,355	6,975	9,114	226	4,017	1,013	252,657	159,530	75,388	5,660	9,655	226	7,338	4,460	262,257
At 31 March															
Accumulated Depreciation and Impairment															
(3,129)	(3,642)	(2,345)	(845)	-	-	-	(9,961)	(6,371)	(5,469)	(3,041)	(1,072)	-	(320)	-	(16,273)
At 1 April															
(3,242)	(1,834)	(696)	(227)	-	-	-	(5,999)	(5,032)	(1,802)	(588)	(241)	-	-	-	(7,663)
Depreciation charge															
Depreciation written out to the															
- Revaluation Reserve															
-	-	-	-	-	-	-	-	-	6	-	-	-	(6)	-	-
Depreciation written out to the surplus / deficit on the provision of services															
Impairment losses / (reversals)															
- recognised in the Revaluation Reserve															
-	-	-	-	-	-	-	-	(712)	-	-	-	-	320	-	(392)
Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services															
-	-	-	-	-	-	-	-	(2,190)	(102)	-	-	-	-	-	(2,292)
-	7	-	-	-	-	-	7	-	-	103	-	-	-	-	103
Derecognition - disposals															
-	-	-	-	-	(320)	-	(320)	-	-	-	-	-	-	-	-
Assets reclassified to/from held for resale															
- Other Reclassifications															
- Other movements															
(6,371)	(5,469)	(3,041)	(1,072)	-	(320)	-	(16,273)	(14,305)	(7,367)	(3,526)	(1,313)	-	(6)	-	(26,517)
At 31 March															
149,586	69,886	3,934	8,042	226	3,697	1,013	236,384	145,225	68,021	2,134	8,342	226	7,332	4,460	235,740
Net Book Value at 31 March															

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 12/13 for dwelling stock is nil (11/12 £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 2012/13

Reclassifications

A number of HRA dwellings which were being assessed in 2010/11 were identified as surplus assets during 2011/12. Some of these have been reclassified in 2012/13 as Current Assets Held for Sale.

Ubico vehicles

Vehicles in respect of Ubico activities were transferred to the company in 2012/13 under a finance lease, and now form part of Ubico's balance sheet. The finance lease repayments from Ubico score as capital receipts.

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.

	2012/13	2011/12
	£'000	£'000
Opening Capital Financing Requirement	74,444	45,488
Capital Investment		
Intangible Assets	299	191
Property, Plant and Equipment	8,513	7,806
Long Term Loans	2,003	3,595
HRA Settlement Payment	-	27,414
Revenue Expenditure Funded from Capital under Statute	810	1,382
	11,625	40,388
Sources of Finance		
Capital Receipts	(513)	(1,012)
Government Grants	(405)	(423)
Capital Contributions and Partnership Funding	(1,460)	(1,071)
Lottery Funding	(499)	-
Revenue Financing		
Minimum Revenue Provision (MRP)	(875)	(748)
Voluntary Revenue Provision	(2,092)	(2,500)
HRA	-	(1,127)
Major Repairs Reserve	(4,727)	(3,541)
Revenue Reserves	(2,016)	(1,010)
	(12,587)	(11,432)
Closing Capital Financing Requirement	73,482	74,444
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)	2,005	4,790
MRP	(2,267)	(748)
Voluntary Revenue Provision	(700)	(2,500)
Increase (Decrease) in Capital Financing Requirement	(962)	28,956

Commitments under capital contracts

At 31st March 2013 the council was committed to completing all schemes within its capital programme. This included contractual commitments at 31st March 2013 of £1.257 million for works on properties (£3.864 million at 31st March 2012), £0.210 million for works on cycle paths and other infrastructure (£0.194 million as at 31st March 2012), £15,000 for insulation works (£15,000), £11,000 for CCTV in car parks (£11,000), a total of £1.257 million (£4.084 million at 31st March 2012). Most of this is anticipated to be incurred by 31st March 2014.

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 2013 such assets were valued at £31.221 million (£28.196 million at 31st March 2012), matched mainly 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 and again at 1st April 2012. 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 trees 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 2011	1,881	20,382	1,698	279	3,066	27,306
Additions	-	205	-	-	150	355
Revaluations	37	403	34	5	56	535
31 March 2012	1,918	20,990	1,732	284	3,272	28,196
Cost or Valuation						
1 April 2012	1,918	20,990	1,732	284	3,272	28,196
Additions	-	-	-	-	-	-
Revaluations	124	(628)	1,945	(98)	799	2,142
Update for inflation	61	604	109	6	103	883
31 March 2013	2,103	20,966	3,786	192	4,174	31,221

The last formal valuation was carried out in 2009 by the valuer Gulls, and as a result the values of certain works of art were increased significantly. There were no material additions, disposals or impairments in 2012/13, however the insurance inventory was reviewed during the year for completeness and accuracy and as a result many items were revalued for insurance purposes, in addition to a general uplift being applied for inflation.

A breakdown of the carrying values, split 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.

2011/12 £'000		2012/13 £'000
752	Rental income from Investment Property	886
2,331	Gain on revaluation	0
(327)	Direct Operating Expenses	(517)
2,756	Net gain / (loss)	369

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.

2011/12 £'000		2012/13 £'000
22,223	Balance at 1st April	22,784
	Additions:	
	Purchases	
	Subsequent expenditure	
(1,645)	Disposals	(1,130)
2,206	Net gains / (losses) from fair value adjustments	
	Transfers	
	Other changes	(3)
22,784	Balance at 31st March	21,651

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. The first tranche was conveyed in 2011/12, the second tranche was conveyed on 1st October 2012, the third tranche will be conveyed on 1st October 2013 and the fourth tranche on 1st April 2014.

24. Assets held under leases

The Authority as Lessee

As a lessee the council does not have any finance or operating leases.

The Authority as Lessor

Vehicles and Plant

Vehicles in respect of Ubico activities were transferred to the company in 2012/13 under a finance lease, and now form part of Ubico's balance sheet. The finance lease is recorded on the council's Balance Sheet as a long term debtor, matched by a Deferred Capital Receipt. The value of the lease on transfer at 1 April 2012 was £1,364,213 and after repayments in year from Ubico of £369,750 (which score as capital receipts) left a net long term debtor of £994,462 at 31 March 2013.

Other Property

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 £1,703,518 in rental income in 2012/13 on its granted leases from commercial and Housing Revenue Account land and buildings (£1,528,353 in 2011/12).

The future minimum lease payments receivable under non-cancellable leases in future years are £4.96m.

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:

2011/12 Software £'000		2012/13 Software £'000
	Balance at 1st April :	
786	- Gross carrying amounts	977
(338)	- Accumulated amortisation	(434)
448	Net carrying amount at start of year	543
191	Expenditure in year	298
(96)	Amortisation in Year	(108)
543	Balance at 31st March	733
	Comprising:	
977	- Gross carrying amounts	1,275
(434)	- Accumulated amortisation	(542)
543		733

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, and went 'live' for Cheltenham on 1st April 2012.

There were no disposals, revaluations, reclassifications or impairment of intangible assets during the year.

26. Assets Held for Sale

	Current	
	31st March 2013	31st March 2012
	£'000	£'000
Balance outstanding at start of year	-	3,084
Assets newly classified as held for sale		
- Property, Plant and Equipment	281	-
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	281	-

The assets held for sale at 31st March 2013 relate to Housing assets previously classified as Surplus Assets.

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 classified 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 InstrumentsOverall Investments

	31st March 2013	31st March 2012
	£'000	£'000
Categorised according to the period remaining to maturity or until payment is received		
Long Term (over 1 year)		
Loans and Receivables – Icelandic banks	1,983	2,220
Unquoted equity investments	435	435
	2,418	2,655
Current or Short Term (less than 1 year)		
Loans and Receivables – Icelandic banks	468	1,436
– Other organisations	350	2,021
Fair Value through Profit & Loss – Icelandic banks	710	636
	1,528	4,093

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 2013. 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 86 to 96), 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.

Although a large proportion of the deposits have now been repaid, the remaining 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 £11.640 million, repayments of £8.063 million (69%) had been received to 31st March 2013. A further £0.092 million had been received by 30 June 2013.

In order to recognise any potential losses (including loss of interest from the original maturity date until the estimated date of repayment), the authority made impairment charges to its Income and Expenditure Statement in 2008/09, which were revised in 2009/10, 2010/11 and 2011/12, based on the best information and guidance available at the time. Further details are given in the Statement of Accounts for these years. As the amounts and timings of any remaining payments to be made by the administrators and receivers are not definite, it is likely that further adjustments will be made to the accounts in future years.

Kaupthing, Singer and Freidlander Ltd (KS&F)

KS&F 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 covering the period up to 7th April 2013 indicates a return to creditors in the range of 84% to 86.5%. Claims are based on the principal and interest outstanding at 7th October 2008. Up until 31st March 2013 repayments of 76% had been received, with a further distribution of 3% (£92,154) received in June 2013.

For the purpose of calculating the impairment adjustment in 2012/13 the authority has assumed the mid point in the latest range (i.e.85.25%), as recommended by current accounting guidance. The remaining 9.25% outstanding at 31st March 2013 has been assumed to be received in three annual instalments beginning in June 2013. The increase in the recoverable amount compared to that assumed at 31st March 2012 (83.5%), offset only by a slight extension in the repayment profile, results in a reduced impairment adjustment for these deposits in 2012/13, of £42,367, which has been credited to the Comprehensive Income and Expenditure Statement.

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 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 outstanding at 22nd April 2009, however as the loans matured after 22nd April 2009, interest can only be claimed up to that date at the contractual rate.

Up until 31st March 2013 49.65% of the claim (as denominated in Sterling) had been repaid to the authority, however a small proportion of this (approximately 1%) continues to be held in an interest-earning 'escrow' account, denominated in Icelandic Krona, which is included on the Balance Sheet in short term investments at 31st March 2013. This is because, under applicable currency controls operating in Iceland, the permission of the Central Bank of Iceland is required to release Icelandic Krona payments held within the Icelandic banking system.

For 2012/13 the authority has therefore assumed a recovery rate of 100% as denominated in Sterling. The future pattern of the remaining payments (50.35% of the claim) is not known, so it has been assumed that 7.5% will be received in December annually until 2018, with the remaining 5.35 in December 2019, in accordance with the best information available. An adverse movement in the effect of exchange rates during the year, offset by a slightly improved repayment profile compared to that assumed for 2011/12, results in an increased impairment adjustment of £56,417 for these deposits in 2012/13, which has been charged to the Comprehensive Income and Expenditure Statement.

However there is an exchange rate risk arising from:

* a proportion of the repayments to date continuing to be held in Icelandic Krona (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.

There is also an ongoing dispute over whether the total claims should be valued at the 22 April 2009 exchange rates or at spot rates. This is being trialled in the Icelandic Courts shortly and is likely to be subject to appeal to the Icelandic Supreme Court. For the purposes of stating the carrying value of the deposits, the 22 April 2009 exchange rates have been assumed as this is more prudent.

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 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 Krona (ISK), which is included on the Balance Sheet in short term investments at 31 March 2013.

The council has therefore received all of the money to which it is entitled from the Glitnir winding up board, albeit a proportion is held in Icelandic Krona in the 'escrow' account. The value of this account is subject to changes in exchange rates.

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 2013. Repayments include amounts subsequently held in 'escrow' accounts as short term investments.

Bank	Interest rate %	Amount invested £'000	Add Interest due to 31st March 2013 £'000	Less Impairments 2008/09 -2011/12 £'000	Less Repayments (including interest) to 31st March 2013 £'000	Less Impairment adjustments 2012/13 £'000	Carrying amount at 31st March 2013 £'000
Kaupthing, Singer & Friedlander	5.86	1,000	140	266	796	-12	90
Kaupthing, Singer & Friedlander	5.30	2,000	186	502	1,539	-30	175
Landsbanki Islands Hf	5.40	1,000	228	259	510	12	447
Landsbanki Islands Hf	5.31	2,000	377	496	989	22	870
Landsbanki Islands Hf	5.29	2,000	375	494	990	22	869
Glitnir Bank Hf	5.56	3,000	624	386	3,238	-	-
Total		11,000	1,930	2,403	8,062	14	2,451

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 £0.468 million, have been classified as short term, leaving £1.983 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 Krona they were valued on the dates received and re-valued at 31st March 2013 (including interest receivable from the date of repayment), with

the interest and any exchange rate gain credited to the Comprehensive Income and Expenditure Statement:

	Repayments credited to escrow account 2011/12 £'000	Carrying amount of escrow account at 31 st March 2013 (including interest receivable) £'000	Exchange rate gain / loss (-) In year £'000
Landsbanki Islands HF	39	40	3
Glitnir Bank Hf	606	670	44
Total	645	710	47

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.

However, since 2009/10 significant improvement in the recovery rates for the deposits has resulted in reduced impairment adjustments to the Comprehensive Income and Adjustment Statement, which have been used to reduce borrowing. In 2012/13 a further £700,000 in such Voluntary Revenue Provision was made which, together with minimum revenue provision provided, reduces the original borrowing to £0.5 million at 31st March 2013.

The reduced impairment adjustments, interest receivable and exchange rate gains in 2012/13 have been transferred to a 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 2013/14 to make further debt repayments.

Debtors

	Short term		Long term	
	31st March 2013 £'000	31st March 2012 £'000	31st March 2013 £'000	31st March 2012 £'000
Loans and Receivables	6,664	4,883	6,681	3,727

Further details of short term debtors are given in note 29, page 63. Long term debtors at 31st March 2013 mainly comprise an outstanding loan of £0.986 million to the Cheltenham Everyman Theatre (made in 2011/12 for 25 years towards the redevelopment of the theatre), loans totalling £3.384 million made to Cheltenham Borough Homes for 50 years for housing redevelopment, finance lease principal of £0.994k due from Ubico Ltd (made in 2012/13 for vehicles) 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 at 31 March 2013 %	31st March 2013 £'000	31st March 2012 £'000
Long Term (over 1 year)			
Financial liabilities at amortised cost			
- Public Works Loan Board (PWLB) loans	3.30% - 4.875%	40,652	38,774
- Bank loans	3.82% - 4.95%	15,900	15,900
		56,552	54,674
Current or Short term (less than 1 year)			
Financial liabilities at amortised cost			
- Public Works Loan Board (PWLB) loans	3.91 – 4.52%	390	2,055
- Bank loans	N/A (interest only)	248	248
- Other local authority loans	0.3%	2,000	5,101
- Other temporary borrowing	0 – 0.31%	20	20
		2,658	7,424

Analysis of PWLB loans by maturity:			
1 year		390	2,055
2-5 years		-	-
6-10 years		-	-
More than 10 years		40,652	38,774
		41,042	40,829
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 council took out further PWLB borrowing in 2012/13 in order to advance a loan to Cheltenham Borough Homes for £2 million. This loan was taken on an annuity basis and is being repaid to the council in full, based on the loan terms taken out with the PWLB.

Creditors

	Short term		Long term	
	31st March 2013	31st March 2012	31st March 2013	31st March 2012
	£'000	£'000	£'000	£'000
Financial liabilities at amortised cost	11,397	9,495	-	-

Further details of short term creditors are given in note 31, page 70.

Reclassifications

There were no reclassifications of financial instruments during the year.

Income, Expense, gains and losses

	Financial Liabilities measured at amortised cost £'000	2012/13 Financial Assets: Loans and receivables £'000	Total £'000	Financial Liabilities measured at amortised cost £'000	2011/12 Financial Assets: Loans and receivables £'000	Restated Total £'000
Interest expense	2,094	-	2,094	1,224		1,224
Impairment losses	0	14	14		(253)	(253)
Fee expense	2	17	19	7	14	21
Total expense in Surplus or Deficit on the Provision of Services	2,096	31	2,127	1,231	(239)	992
Interest Income	-	(74)	(74)	-	(190)	(190)
Interest Income accrued on impaired financial assets						
		(178)	(178)	-	(380)	(380)
Total income in Surplus or Deficit on the Provision of Services	-	(252)	(252)	-	(570)	(570)
(Net gain)/loss for the year	2,096	(221)	1,875	1,231	(809)	422

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:

- For loans from the PWLB and other loans payable, borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures
- 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 2013 is £41,547,616 (£45,024,416 at 31st March 2012) compared to the carrying value of £41,042,453, at 31st March

2013 (£40,829,000 at 31st March 2012). The fair value is higher than the carrying amount because the authority's portfolio includes fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the authority would have to pay if it requested early repayment of the loans.

For all other long term borrowing the fair value equates to £15,437,414 at 31st March 2013 (£18,725,045 at 31st March 2012) compared to the carrying value of £15,900,000 at 31st March 2013 (£15,900,000 at 31st March 2012).

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's activities expose it to a variety of financial risks. The key risks are:

- 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 council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations
- by approving annually in advance prudential and treasury indicators for the following three years
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk

in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 10th February 2012. The two key issues were:

- The Authorised Limit for 2012/13 was set at £109m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary for 2012/13 was expected to be £96m. This is the expected level of debt and other long term liabilities during the year.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices- TMPs) covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Council used the creditworthiness services of Arlingclose from April to November 2012, and Sector from December 2012 to March 2013. The maximum investment that can be made with an approved counterparty was £7 million in 2012/13. No credit limits were exceeded during the year.

Liquidity risk

The authority has ready access to borrowings from the money markets to cover any day to day cash flow need, and the Public Works Loans Board and money markets for access to longer term funds ensuring 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.

Market risk

The authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. By way of illustration, if interest rates were 1% higher in 2012/13, this would have had the following effect:

	Amount outstanding (weighted average) in year £'000	Average actual interest rate %	Actual Interest paid / (receivable) £'000	Projected interest rate %	Projected interest paid / (receivable) £'000	Variation £'000
Borrowing						
Fixed rate	56,478	3.88	2,192	4.88	2,756	564
Variable rate	1,805	0.31	6	1.31	23	17
	58,283	3.77	2,198	4.77	2,779	581
Lending						
Fixed rate	-	-	-	-	-	-
Variable rate	(6,980)	1.05	(73)	2.05	(143)	(70)
	(6,980)	1.05	(73)	2.05	(143)	(70)
Net loss / (gain) on surplus / deficit for year	51,303		2,125		2,636	511

Due to the large proportion of borrowing held at fixed rates the impact on interest payable is limited. Conversely, the higher proportion of lending at variable rates allows the authority to benefit from any increase in interest rates in the future.

Borrowings and investments are not carried at fair value, so nominal gains and losses would not impact on the Comprehensive Income and Expenditure Statement or the Movement in Reserves. However, changes in interest payable and receivable on variable rate borrowings and investments, as illustrated above, will affect income and expenditure and the general fund balance.

The authority has a number of strategies for managing interest risk. The policy is to aim to keep a maximum of 50% of borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

Foreign exchange risk

The authority has short term investments held in 'escrow' accounts denominated in Icelandic Kroner (ISK) (see section on Icelandic banks, pages 60 - 63), 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 2013/14 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 2013 £'000	31st March 2012 £'000	31st March 2013 £'000	31st March 2012 £'000	31st March 2013 £'000	31st March 2012 £'000
Balance outstanding at start of year	108	102	16	22	124	124
Purchases	756	841	-	54	756	895
Recognised as expenses in year	(806)	(835)	(16)	(60)	(822)	(895)
Written off balances	-	-	-	-	-	-
Reversals of write offs in previous years	-	-	-	-	-	-
Balance outstanding at year end	58	108	-	16	58	124

Consumable stores purchases includes £0.718 million of fuel for vehicles, all of which was sold during the year to Ubico Ltd.

29. Short Term Debtors

	31st March 2013 £'000	31st March 2012 £'000
Amounts falling due in one year		
Central Government Bodies	1,335	740
Other Local Authorities	1,899	547
NHS bodies	10	-
Public corporations and trading funds	-	-
Other entities and individuals-		
- Council Taxpayers	269	231
- Cheltenham Borough Homes	130	587
- Ubico Ltd	905	-
- Housing Rents	201	193
- Sundry Debtors	1,915	2,585
Total	6,664	4,883

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 2013 £'000	31st March 2012 £'000
Cash held by the Authority	9	19
Bank current accounts	2	2
Short term deposits	3,836	2,600
Cash and cash equivalent assets	3,847	2,621
Cash and cash equivalent liabilities - bank overdraft	(87)	(1,772)
Net Cash and cash equivalents per Cash flow Statement	3,760	849

31. Short Term Creditors

	31st March 2013	31st March 2012
	£'000	£'000
Central Government Bodies	4,053	4,169
Other Local Authorities	1,161	692
NHS bodies	7	40
Public corporations and trading funds	-	185
Other entities and individuals-		
- Council Taxpayers	75	66
- Cheltenham Borough Homes	1,322	610
- Ubico Ltd	675	
- Housing Rents	174	141
- Sundry Creditors	3,930	3,592
	11,397	9,495

32. Provisions

	Balance at 1st April	Additional provisions made in Year	Amounts used in Year	Unused Amount Reversed	Balance at 31st March
	£'000	£'000	£'000	£'000	£'000
General Fund Insurance	141	68	(95)	-	114
MMI	-	63	-	-	63
Business rates retention		186			186
2012/13	141	317	(95)	-	363
2011/12	96	127	(82)	-	141

Insurance provision:

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.

Municipal Mutual Insurance:

The Council has a potential liability in respect of the run-off of Municipal Mutual Insurance (MMI) to the value of £360,415 as at 31st March 2013 (£424,018.56 31st March 2012). The liability will only materialise if the assets of the company do not cover the insurance claims yet to be settled. (See Contingent Liability note 37).

In 2012/13 Ernst & Young (who managed MMI's business affairs and assets) set a levy of 15% (£63,603) against clients/owners potential liabilities as an estimate of the amount that would be needed to achieve a solvent run-off. This figure has been included in the 2012/13 accounts as a provision. The likelihood and timing of any additional liabilities is unknown at this stage.

Business Rates Retention:

The Local Government Finance Act 2012 introduced a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1st April 2013.

From this date, local authorities assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts paid over to Central Government in respect of 2012/13 and prior years.

Under the regulations, 'safety net thresholds' were set to provide local authorities protection against significant decreases in their business rates income. The safety net exposure for Cheltenham amounts to £186,000 in 2013/14. It is likely that Cheltenham will be exposed to this threshold as the baseline figure provided by Central Government is higher than that presented in the NNDR 1 (estimate of what will be collected in the year), the main reason relating to those appeals which may be successful in respect of 2012/13 and prior years, which has already been paid over to Central Government.

Therefore, as a consequence of the above, a provision of £186,000 has been established to meet this shortfall in 2013/14.

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 19. Movements in the *earmarked* reserves shown on the statement are detailed below.

	Balance at 1 April 2011 £'000	Transfers out 2011/12 £'000	Transfers in 2011/12 £'000	Balance at 1 April 2012 £'000	Transfers out 2012/13 £'000	Transfers in 2012/13 £'000	Balance at 1 April 2013 £'000
Earmarked Reserves							
Capital Reserve	1,804	(383)	752	2,173	(606)	700	2,267
Equalisation Reserves	3,041	(2,640)	794	1,195	(885)	498	808
Repairs & Renewals Reserve	1,468	(1,123)	693	1,038	(1,175)	1,252	1,115
Reserves for Commitments	303	(351)	1,415	1,367	(1,336)	1,581	1,612
Other earmarked reserves	4,428	(850)	447	4,025	(2,377)	698	2,346
	11,044	(5,347)	4,101	9,798	(6,379)	4,729	8,148

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 2012 £'000	31st March 2013 £'000	Purpose of Reserve
Revaluation Reserve	37,592	43,775	Store of gains on revaluation of non-current assets not yet realised through sales
Capital Adjustment Account	179,457	178,032	Store of capital resources set aside to meet past expenditure
Financial Instruments Adjustment Account	(2,734)	(2,583)	Balancing account to allow for differences in statutory requirements and proper accounting practices relating to borrowings and investments
Collection Fund Adjustment Account	55	4	Balancing account to allow for differences in statutory requirements and proper accounting practices for council tax surpluses/deficits
Pensions Reserve	(46,472)	(53,724)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet
Deferred Capital Receipts Reserve	113	1,092	Capital receipts to be received in future years e.g. from mortgage repayments
Accumulating Compensated Absences Adjustment Account	(84)	(61)	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	167,927	166,535	

Revaluation Reserve

	2012/13 £'000	2011/12 £'000
Restated balance at 1st April	37,592	36,142
Revaluation gains on non-current assets	7,104	1,555
Downward revaluation of assets and impairments	(712)	-
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	43,984	37,697
Difference between fair value and historic cost depreciation	(271)	(280)
Accumulated gains on assets sold	-	(36)
Adjustment for previous revaluation gains on investment property	-	211
Adjustment for previous impairment charged to revaluation gains	62	-
Amount written off to the Capital Adjustment Account	(209)	(105)
Balance at 31st March	43,775	37,592

The Revaluation Reserve contains gains arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are re-valued downwards or impaired, depreciated or disposed of. The Reserve formally came into existence at midnight on 1st April 2007 with a nil balance. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

The balance on the reserve therefore represents the amount by which the fair values of non-current assets carried on the Balance Sheet are greater because they are carried at re-valued amounts rather than at depreciated historical cost.

Capital Adjustment Account

	2012/13	2011/12
	£'000	£'000
Balance at 1st April	179,457	202,577
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	(9,853)	(6,000)
• Revaluation gains/(losses) on Property, Plant and Equipment		-
• Amortisation of intangible assets	(108)	(96)
• Revenue expenditure funded from capital under statute	(810)	(1,382)
• 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	(3,418)	(1,965)
• Self Financing Payment-write the revenue transaction out of the HRA as defined by statute	-	(27,414)
	165,268	165,720
Capital receipt on payment of long term loan	(32)	(7)
Adjusting amounts written out of the Revaluation Reserve	209	105
	165,445	165,818
Net written out amount of the cost of non-current assets consumed in the year		
Capital Financing applied in the year:		
• Use of Capital Receipts Reserve to finance new capital expenditure	513	1,012
• Use of the Major Repairs Reserve to finance new capital expenditure	4,727	3,541
• 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	2,364	1,493
• Statutory provision for the financing of capital investment charged against the General Fund Balance	875	748
• Voluntary provision for the financing of capital investment charged against the general fund balance	2,092	2,500
• Capital expenditure charged against the general fund and HRA balances	2,016	2,139
	178,032	177,251
Movements in the market value of Investment properties debited or credited to the Comprehensive Income and Expenditure Statement	-	2,206
Balance at 31st March	178,032	179,457

The Capital Adjustment Account accumulates the resources that have been set aside to finance capital expenditure, which are then reduced by the write-down of the historical cost of non-current assets as they are consumed by depreciation and impairments, or written off on disposal. 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

	2012/13 £'000	2011/12 £'000
Balance at 1st April	(2,735)	(2,889)
Premiums incurred in previous years charged against the General Fund Balance	152	155
Balance at 31st March	(2,583)	(2,734)

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.

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.

	2012/13 £'000	2011/12 £'000
Balance at 1st April	55	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	(51)	(38)
Balance at 31st March	4	55

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.

	2012/13 £'000	2011/12 £'000
Balance at 1st April	(84)	(72)
Settlement or cancellation of accrual made at the end of the preceding year	84	72
Amounts accrued at the end of the year	(61)	(84)
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	23	(12)
Balance at 31st March	(61)	(84)

Pensions Reserve

Further information is shown within note 42, pages 80 to 85.

Deferred Capital Receipts Reserve

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

The amount at 31st March 2013 includes £0.984 million for vehicles leased to Ubico Ltd under a finance lease.

35. Impairment Losses and Adjustments

The only impairments made during the year related to Housing Revenue Account (HRA) properties. HRA assets are revalued every five years (the last revaluation was undertaken on 1st April 2010). In interim years changes in dwelling valuation are based on movement in regional land registry values. Where these show a reduction in value an impairment charge is charged firstly against any prior revaluation surplus (£711,529 in 2012/13) with any residue chargeable to the HRA income and expenditure statement (£2,190,072 in 2012/13). This charge is reversed through the Movement on HRA statement in accordance with the Item 8 Determination published by the Department of Communities and Local Government.

36. Termination Benefits

The Authority terminated the contracts of 2 employees in 2012/13 (25 in 2011/12). Total costs incurred were £9,790 (£232,111 in 2011/12), of which £0 (£99,397 in 2011/12) related to early retirement costs and £9,790 (£132,714 in 2011/12) related to 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:

2012/13			2011/12		
No of staff	£	Bands	No of staff	£	
2	9,790	£0 - £20,000	24	194,803	
		£20,001 - £40,000	1	37,309	
		£40,001 - £60,000	-	-	
		£60,001 - £ 80,000	-	-	
2	9,790		25	232,112	

37. Contingent Liabilities**Municipal Mutual Insurance Ltd:**

The Council's former insurers Municipal Mutual Insurance Ltd ceased trading in 1992; the Council became a party to the scheme of administration for liabilities outstanding at that time. Whilst there is a very low risk that the assets of the company will not meet the liabilities from insurance claims, the scheme guarantees that the Council will reimburse the total of payments made in respect of claims less £50,000. At 31 March 2012 this potential liability equated to £424,018.56. This is kept under review annually to ensure that a solvent run-off of the company's business is still anticipated.

In 2012/13 Ernst & Young (who managed MMI's business affairs and assets) set a levy of 15% (£63,602.79) against clients/owners potential liabilities as an estimate of the amount that would be needed to achieve a solvent run-off. This figure has been included in the 2012/13 accounts as a provision. (See Provisions note 32).

The 15% provision is not a definitive final figure. Following the trigger of the scheme of arrangement KPMG carried out an actuarial review of the insurance liabilities and predicted that an amount between 9.5% and 28% would need to be levied on creditors to achieve a solvent run off. The potential liability at 31st March 2013 is £55,122.42, based on the maximum predicted levy of 28%, and after allowing for the provision of 15%. The likelihood and timing of any additional liabilities is unknown at this stage

Property Searches:

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.

A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not yet been issued. The Council's potential cost of those claims at present is estimated at £163k plus interest and costs. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

38. Contingent Assets

There are no known material contingent assets at 31st March 2013.

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 draft 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 25th September 2013. This is the date after which any events are not recognised in the audited accounts for the year 2012/13.

40. Events after the Reporting Period

Business Rates Retention

The financial year 2012/13 is the last where the government will give a fixed formula grant to local authorities. From the 1st April 2013 this grant will be split into two elements, a fixed revenue support grant with the balance being made up by a proportion of the business rates we collect. This now adds an element of uncertainty, positive or negative, to the level of funding available to the Council.

When these new arrangements come into effect, local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their businesses on the rating list and this will include amounts that were paid over to Central Government in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by this Council, but would have been transferred to the Department of Communities and Local Government (DCLG).

This liability is not easy to quantify however our best estimate is that it could cost the Council a further £510,000 to make provision.

41. Trust Funds

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

	Balance at 31 st March 2012	Receipts in Year	Payments in Year	Balance at 31 st March 2013
	£	£	£	£
Major Mason	459	7	-	466
Miss Privett	7,357	23	-	7,380
Garden of Remembrance	9,028	1,030	721	9,337
	16,844	1,060	721	17,183

The purpose of each of the funds is as follows:

- Major Mason To fund the maintenance of parks in Charlton Kings.
- Miss Privett To fund the maintenance and upkeep of Charlton Kings cemetery.
- Garden of Remembrance Donations from the public to fund the enhancement of the garden of remembrance at the cemetery.

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.

The actuarial assessment for 2012/13 takes into account the bulk transfer of staff from Cheltenham Borough Council to Cotswold District council and Ubico Ltd on 1st April 2012.

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 £2,868,000 (£3,228,000 in 2011/12) 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 £1,457,000 for 2012/13 (£1,996,000 in 2011/12).

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 £18,000 for 2012/13 (£74,000 costs in 2011/12) and are included in the cost of services as non-distributed costs.

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 £346,000 for 2012/13 (£102,000 for 2011/12).

The expected return on employer assets is based on the long-term future expected investment return on assets as at 31st March 2013. This is £3,349,000 for 2012/13, representing 42.5% of pensionable pay (£4,684,000 in 2011/12, being 41.4%) 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 £5,137,000 for 2011/12, representing 65.2% of pensionable pay (£5,911,000 for 2011/12, being 52.2%) 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	2012/13 £'000	2011/12 £'000
<i>Cost of Services:</i>		
current service cost	1,457	1,996
past service costs	18	74
past service costs	346	102
<i>Financing and Investment income and Expenditure:</i>		
expected return on scheme assets	(3,349)	(4,684)
interest on pension scheme liabilities	5,137	5,911
Total post employment benefit charged to the deficit on the provision of services	3,609	3,399
<i>Movement in Reserves Statement:</i>		
reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with IAS 19	(3,609)	(3,399)
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>		
employer contributions payable to scheme	2,868	3,228

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, net actuarial losses of £6,511,000 (£8,230,000 losses in 2011/12) are included in Other Comprehensive Income and Expenditure, within the Comprehensive Income and Expenditure Statement. This is comprised of £11,917,000 actuarial losses and £5,406,000 actuarial gains, as included in the tables below. The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement to 31st March 2013 is £36,789,000 (£30,278,000 cumulative losses to 31st March 2012).

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:

	31 st March 2013 £'000	31 st March 2012 £'000	Net Increase /(Decrease) £'000
Fair value of scheme Assets (A)	68,897	71,573	(2,676)
Present value of Scheme Liabilities	(120,917)	(116,430)	(4,487)
Present value of Unfunded Liabilities	(1,704)	(1,615)	(89)
Total value of Liabilities (B)	(122,621)	(118,045)	(4,576)
Net Pension Asset/(Liability) (A-B)	(53,724)	(46,472)	(7,252)

(A) Fair value of scheme assets	31 st March 2013	31 st March 2012	Net Increase /(Decrease)
	£'000	£'000	£'000
Opening balance 1st April	71,573	70,405	1,168
Expected return on assets	3,349	4,684	(1,335)
Contributions by members	533	760	(227)
Contributions by the employer	2,868	3,228	(360)
Actuarial gains / (losses)	5,406	(2,521)	7,927
Assets distributed on settlements	(10,000)	0	(10,000)
Unfunded benefits paid	(99)	(99)	0
Benefits	(4,733)	(4,884)	151
Closing Balance 31st March	68,897	71,573	(2,676)

(B) Present value of Liabilities	31 st March 2013	31 st March 2012	Net Increase /(Decrease)
	£'000	£'000	£'000
Opening balance 1st April	118,045	108,476	9,569
Current service cost	1,457	1,996	(539)
Interest on obligation	5,137	5,911	(774)
Contributions by members	533	760	(227)
Past service costs	18	74	(56)
Losses (gains) on curtailments	0	102	(102)
Actuarial losses (gains)	11,917	5,709	6,208
Liabilities extinguished on settlements	(9,654)	0	(9,654)
Unfunded benefits paid	(99)	(99)	0
Benefits paid	(4,733)	(4,884)	151
Closing balance 31st March	122,621	118,045	4,576

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 £8,769,000 (2011/12 £2,178,000).

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:

	31 st March 2013	31 st March 2012
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)	2.8%	2.5%
Pension increase rate	2.8%	2.5%
Rate of increase in salaries	4.6%	4.3%
Rate of discounting scheme liabilities	4.5%	4.8%
Expected return on assets	4.5%	5.5%
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 31 st March 2013				Assets at 31 st March 2012			
Value		Expected long term return		Value		Expected long term return	
£'000	%	%		£'000	%	%	
51,673	75	4.5	Equities	50,818	71	6.2	
11,712	17	4.5	Bonds	15,030	21	3.9	
4,134	6	4.5	Property	4,294	6	4.4	
1,378	2	4.5	Cash	1,431	2	3.5	
68,897	100		Total	71,573	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.

Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Changes in assumptions at 31 st March 2013	Approximate % increase to employer liability	Approximate value £000
0.5% decrease in real discount rate	9%	11,015
1 year increase in member life expectancy	3%	3,679
0.5% increase in the salary increase rate	2%	2,305
0.5% increase in the pension increase rate	7%	8,642

Scheme History

Amounts for current and previous accounting periods	31 st March 2013 £'000	31 st March 2012 £'000	31 st March 2011 £'000	31 st March 2010 £'000	31 st March 2009 £'000
Fair value of employers assets	68,897	71,573	70,405	72,946	51,561
Present value of liabilities	(122,621)	(118,045)	(108,476)	(143,351)	(88,642)
Surplus / (Deficit)	(53,724)	(46,472)	(38,071)	(70,405)	(37,081)

The liabilities show the underlying commitments that the council has in the long-term to pay retirement benefits. The net liability of £53.7m has a substantial impact on the net worth of the council as recorded in the Balance Sheet, although the overall balance remains positive at £186m. 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 2013/14 is £2,879,000.

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 31 st March 2013 £'000	Year to 31 st March 2012 £'000	Year to 31 st March 2011 £'000	Year to 31 st March 2010 £'000	Year to 31 st March 2009 £'000
Experience gains / (losses) on Assets	5,406	(2,521)	(7,073)	17,730	(19,148)
Fair value of employers assets	68,897	71,573	70,405	72,946	51,561
Experience gains / (losses) as a percentage of fair value of Assets	0.9%	(3.5)%	(10.0)%	24.3%	(37.1)%

Experience Gains/(Losses) on Liabilities	171	(1,714)	13,268	(53)	(55)
Actuarial gains / (losses) on liabilities	(11,917)	(5,709)	28,490	(49,827)	7,951
Present value of liabilities	(122,621)	(118,045)	(108,476)	(143,351)	(88,642)
Experience gains / (losses) as a percentage of present value of Liabilities	0.14%	(1.4)%	12.2%	(0.0%)	(0.1)%
Actuarial gains / (losses) as a percentage of present value of Liabilities	(9.72)%	(4.8)%	26.3%	(34.7)%	9.0%

GROUP ACCOUNTS

The Group Accounts bring together the council's accounts with its share of 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 the accounts of Cheltenham Borough Homes (CBH), a company limited by guarantee where the council is the sole member. From 2012/13, the Group Accounts also include the council's share of the accounts of Ubico Ltd, a joint venture company operating from 1 April 2012, in which the council has a 50% (£1) shareholding (the remaining 50% of shares (£1) are owned by Cotswold District Council).

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, which requires income and expenditure, assets and liabilities to be consolidated on a line-by-line basis, eliminating inter-organisation debtors and creditors. The operating income and expenditure of the company has been included within the local authority housing (HRA) line in the Group Income and Expenditure Statement before the net cost of services.

Both Gloucestershire Airport Limited and Ubico Ltd have been categorised as Joint Venture companies as any decisions regarding their operating and financial policies require the consent of another party in addition to the council (i.e. the companies are jointly controlled). The companies' assets and liabilities have therefore been consolidated with the council's in accordance with IAS 31, which 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 company before tax is reported as a separate line after the net surplus or deficit on the provision of services within the Group Comprehensive Income and Expenditure Statement. Any taxation is disclosed as a separate line.

In the Group Balance Sheet the council's share of the joint venture companies' net assets or liabilities are included as a long-term investment or liability, matched by the council's share of the companies' reserves. There is no requirement to adjust for transactions carried out and balances held between the council and the companies. The joint venture companies are also not included in the Group Cash Flow Statement.

PRIOR YEAR ADJUSTMENTS

The Group Accounts for 2011/12 have been restated to take into account a restatement of Gloucestershire Airport accounts for that year, in order to recognise a deferred tax asset in relation to the company's pension scheme liability.

STATEMENT OF ACCOUNTING POLICIES FOR THE GROUP ACCOUNTS

These are set out on pages 21 to 34 and note 1(xxvi) on page 33.

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.

2011/12			2012/13		
Gross expenditure	Gross income	Net expenditure	Gross expenditure	Gross income	Net expenditure
£'000	£'000	£'000	£'000	£'000	£'000
Restated	Restated	Restated			
Continuing Operations					
9,877	(8,747)	1,130	9,610	(8,078)	1,532
9,926	(3,474)	6,452	9,823	(3,758)	6,065
7,540	(4,550)	2,990	7,541	(4,284)	3,257
2,989	(1,475)	1,514	2,951	(1,707)	1,244
4,590	(6,158)	(1,568)	4,998	(6,364)	(1,366)
17,233	(18,079)	(846)	18,099	(19,269)	(1,170)
27,414	-	27,414	-	-	-
34,808	(33,969)	839	35,022	(34,453)	569
2,384	(361)	2,023	4,056	(2,028)	2,028
1,656	(150)	1,506	1,990	(153)	1,837
118,417	(76,963)	41,454	94,090	(80,094)	13,996
882	(676)	206	793	(1,029)	(236)
265	(1,573)	(1,308)	4,460	(1,208)	3,252
-	(17,011)	(17,011)	16	(18,089)	(18,073)
119,564	(96,223)	23,341	99,359	(100,420)	(1,061)
		(54) Share of Surplus or deficit of Joint Ventures			(46)
		8 Share of Tax expenses of Joint ventures			20
		23,295 Group (Surplus) or Deficit			(1,087)
		4,712 (Surplus) / Deficit on revaluation of non-current assets (note 34)			(7,104)
		- Revaluation Reserve - Impairments not charged to I&E (note 34)			712
		9,302 Actuarial (gains) / losses on pension fund assets / liabilities (note 50)			7,711
		199 Share of other comprehensive income and expenditure of Joint Ventures			367
		14,213 Other Comprehensive Income and Expenditure			1,686
		37,508 Total Comprehensive Income and Expenditure			599

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 2012	Note	31 March 2013
£'000		£'000
Restated		
242,718 Property, Plant & Equipment	49	244,157
28,196 Heritage Assets	22	31,221
22,784 Investment Property	23	21,651
543 Intangible Assets	25	733
2,220 Long Term Investments	51	1,983
15,800 Investments in Joint Ventures	51	15,681
2,335 Long Term Debtors	51	3,297
314,596 Long Term Assets		318,723
4,093 Short term Investments	27	1,528
- Assets held for sale	26	281
124 Inventories	28	58
4,751 Short term Debtors	46	7,011
2,845 Cash and cash equivalents	47	4,637
11,813 Current assets		13,515
(1,772) Bank overdraft	47	(87)
(7,424) Short term borrowing	27	(2,658)
(10,241) Short term creditors	48	(11,909)
(141) Provisions	32	(363)
(19,578) Current Liabilities		(15,017)
(54,674) Long term borrowing	27	(56,552)
(83) Grants receipts in advance - capital	19	(83)
(184) Grants receipts in advance - revenue	19	(184)
- Long Term liabilities of Joint Ventures	51	(223)
(47,451) Other long term liabilities	50	(56,339)
(102,392) Long term liabilities		(113,381)
204,439 Net Assets		203,840
(17,299) Usable Reserves	52	(20,113)
(187,140) Unusable Reserves	54	(183,727)
(204,439) Total Reserves		(203,840)

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 £'000	Authority's share of Usable Reserves of subsidiaries and Joint Ventures £'000	Total Group Usable Reserves £'000	Total Authority Unusable Reserves £'000	Authority's share of Unusable Reserves of subsidiaries and Joint Ventures £'000	Total Group Unusable Reserves £'000	Total Group Reserves £'000
Balance at 31 March 2011	19,546	533	20,079	197,932	23,784	221,716	241,795
<u>Movement in Reserves during 2011/12 Restated</u>							
Group surplus or (deficit)	(23,542)	241	(23,301)	-	-	-	(23,301)
Other comprehensive Income & expenditure			-	(6,675)	(7,380)	(14,055)	(14,055)
Total comprehensive Income & Expenditure	(23,542)	241	(23,301)	(6,675)	(7,380)	(14,055)	(37,356)
Adjustments between company and authority reserves (Note 53)	(1,496)		(1,496)		1,496	1,496	-
Adjustments between company reserves (Note 53)		(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)	(1,072)	(2,780)	(30,005)	(4,571)	(34,576)	(37,356)
Transfers to/from earmarked reserves (Note 33)	-		-				
Increase / (decrease) in 2011/12	(1,708)	(1,072)	(2,780)	(30,005)	(4,571)	(34,576)	(37,356)
Balance at 31 March 2012 Restated	17,838	(539)	17,299	167,927	19,213	187,140	204,439
<u>Movement in Reserves during 2012/13</u>							
Group surplus or (deficit)	128	959	1,087	-	-	-	1,087
Other comprehensive Income & expenditure		(1,567)	(1,567)	(119)		(119)	(1,686)
Total comprehensive Income & Expenditure	128	(608)	(480)	(119)	-	(119)	(599)
Adjustments between company and authority reserves (Note 53)	-		-		-	-	-
Adjustments between company reserves (Note 53)		2,021	2,021		(2,021)	(2,021)	-
Adjustments between accounting basis and funding basis under regulations (Note 6)	1,273		1,273	(1,273)		(1,273)	-
Net decrease before transfers to reserves	1,401	1,413	2,814	(1,392)	(2,021)	(3,413)	(599)
Transfers to/from earmarked reserves (Note 33)	-		-				
Increase / (decrease) in 2012/13	1,401	1,413	2,814	(1,392)	(2,021)	(3,413)	(599)
Balance at 31 March 2013	19,239	874	20,113	166,535	17,192	183,727	203,840

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.

2011/12 Restated £'000	2012/13	
	£'000	£'000
Operating activities		
(7,327) Council Tax receipts	(7,565)	
(4,658) National non-domestic rate receipts from national pool	(5,608)	
(39,975) DWP grants for benefits	(40,491)	
(3,137) Other government grants	(2,771)	
(7,203) Rents (after rebates)	(7,931)	
(18,980) Cash received for goods and services	(13,855)	
(284) Interest received	(76)	
- Other receipts from operating activities	(4,608)	
(81,564) Cash inflows generated from operating activities		(82,905)
21,977 Cash paid to and on behalf of employees	14,005	
20,723 Housing Benefit paid	21,088	
204 Precepts paid	180	
460 Payments to Capital Receipts Pool	271	
21,765 Cash paid to suppliers of goods and services	18,931	
1,301 Interest paid	1,629	
7,537 Other payments for operating activities	6,741	
73,967 Cash outflows generated from operating activities		62,845
(7,597) Net cashflows from operating activities		(20,060)
Investing activities		
Purchase of property, plant and equipment, investment		
11,301 property and intangible assets	11,919	
1,001 Other payments for investing activities	1,450	
Proceeds from the sale of property, plant and equipment,		
(1,909) investment property and intangible assets	(3,609)	
(8,397) Proceeds from the sale of short and long term investments	(4,463)	
(347) Other receipts from investing activities	(14)	
1,649 Net cashflows from Investing activities		5,283
Financing activities		
(135,677) Cash receipts of short and long term borrowing	(16,990)	
- Other receipts from financing activities	(418)	
114,092 Repayments of short- and long-term borrowing	20,400	
27,414 Payment to Secretary of State - Self Financing of HRA	-	
Other payments for financing activities	8,308	
5,829 Net cash flows from financing activities		11,300
(119) Net increase (-) / decrease in cash and cash equivalents		(3,477)
954 Cash and cash equivalents at beginning of the year		1,073
1,073 Cash and cash equivalents at the end of the year (note 47)		4,550
119		3,477

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 operations on 1st April 2003, with a seven year contract to manage and maintain the council's 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 liabilities at 31st March 2013 of £1,442,952 (net liabilities of £356,934 at 31st March 2012) and a trading profit of £113,982 in the year to 31st March 2013 (compared to a profit of £185,793 in the year to 31st March 2012). The net liabilities have increased mainly due an increased pension liability of £1.29 million, resulting from actuarial losses.

The net liabilities 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 2013. 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 2013 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 £2 million towards the cost of a new housing development at St. Pauls.

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 draft accounts of the company show net assets at 31st March 2013 of £633,996 (compared to restated net assets of £903,441 at 31st March 2012) and an after tax profit of £28,155 for the year to 31st March 2013 (£92,103 to 31st March 2012 as restated). 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 £0.364 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 2012/13 £'000	Council's share 2012/13 £'000	Gloucester -shire Airport Limited 2011/12 £'000	Council's share 2011/12 £'000
Turnover	4,369	2,184	4,249	2,124
Profit on ordinary activities before taxation	68	34	109	55
Tax on profit on ordinary activities	40	20	16	8
Profit for the financial year after taxation	28	14	92	46
	31 March 2013 £'000	31 March 2013 £'000	31 March 2012 Restated £'000	31 March 2012 Restated £'000
Fixed Assets	5,250	2,625	4,379	2,189
Current Assets	1,113	556	1,187	593
Liabilities due within one year	1,370	685	1,222	611
Liabilities due after one year	2,373	1186	1,769	884
Net Pension Liability	1,937	968	1,672	836

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 2013 (nil to 31st March 2012). 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 2011/12 the council loaned £1.195 million to the Airport towards the cost of the runway safety project. This loan is shown as a long term debtor on the council's balance sheet. In addition the council provided the Airport with a temporary overdraft facility during 2012/13 of £0.350 million.

The accounts of Gloucestershire Airport Ltd for the year ending 31st March 2013 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.

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 been completed and await Civil Aviation Authority (CAA) approval.

The financing was fully expended and in April 2013 the council converted the borrowing to an annuity loan of £1.2m from the Public Works Loan Board.

45. UBICO Limited

Ubico Ltd was established during 2011/12 and commenced operations on 1 April 2012, providing environmental services (street cleaning, refuse collection, recycling and grounds maintenance) to Cheltenham Borough Council for the full financial year 2012/13, and for Cotswold District Council from 6 August 2012.

The company provides services to the shareholder councils on a not-for-profit basis and therefore qualifies for the Teckal exemption (named after the EU case that established the principle). In these circumstances the company is treated as if it were an in house department and the shareholder councils are able to enter into service contracts with the company without undertaking an EU compliant procurement process. The company must ensure that the percentage of work undertaken outside of the shareholder contracts is less than 10% of its total activity. The company also provides ad-hoc services to third parties and provides supplies and services to Tewkesbury Borough Council and Cheltenham Borough Homes.

The company (registration No. 07824292) is limited by guarantee and 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 audited accounts of the company show a net liability at 31st March 2013 of £446,901 and an after tax

profit of £25,097 for the 17 months ending 31 March 2013, both attributable mainly to pension costs.

The company's accounts for the 17 months ending 31st March 2013 can be obtained from the Managing Director at the company's registered office – Central Depot, Swindon Road, Cheltenham GL51 9JZ.

46. 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.

47. Cash and Cash Equivalents

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

	31st March 2013 £'000	31st March 2012 £'000
Cash held by the Authority and subsidiaries	9	21
Bank current accounts of the Authority and subsidiaries	792	222
Short term deposits	3,836	2,602
Cash and cash equivalent assets	4,637	2,845
Cash and cash equivalent liabilities - bank overdraft	(87)	(1,772)
Net Cash and cash equivalents per Cash flow Statement	4,550	1,073

48. Short term Creditors

	31st March 2013 £'000	31st March 2012 £'000
Central Government Bodies	4,562	4,474
Other Local Authorities	1,161	748
NHS bodies	7	40
Public corporations and trading funds	-	185
Other entities and individuals-		
- Council Taxpayers	75	66
- Ubico Ltd	675	-
- Housing Rents	174	141
- Sundry Creditors	5,255	4,587
	11,909	10,241

STATEMENT OF ACCOUNTS 2012/13

49. Group Property, Plant & Equipment

2011/12 Restated								2012/13								
Dwellings	Other Land and buildings	Vehicles, Plant and equipment	Infra-structure assets	Community assets	Surplus assets	Assets under construction	Total	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																
152,037	75,537	5,578	8,454	226	25	3,075	244,932	At 1 April	158,634	75,519	7,662	9,114	226	4,017	4,598	259,770
6,749	79	2,102	660	-	-	1,523	11,113	Additions	4,137	404	488	541			6,181	11,751
713	(47)	-	-	-	-	-	666	Revaluation increases / (decreases) recognised in the Revaluation Reserve						3,759		3,759
-	-	-	-	-	-	-	-	Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services								-
(277)	(50)	(18)	-	-	-	-	(345)	Derecognition - disposals	(1,504)		(1,654)			(188)		(3,346)
-	-	-	-	-	3,404	-	3,404	Assets reclassified to/from held for resale						(281)		(281)
(588)	-	-	-	-	588	-	-	- Other Reclassifications	6,178	(49)				31	(6,263)	(103)
-	-	-	-	-	-	-	-	- Other movements								-
158,634	75,519	7,662	9,114	226	4,017	4,598	259,770	At 31 March	167,445	75,874	6,496	9,655	226	7,338	4,516	271,550
Accumulated Depreciation and Impairment																
(3,172)	(3,777)	(2,866)	(845)	-	-	-	(10,660)	At 1 April	(6,431)	(5,612)	(3,617)	(1,072)	-	(320)	-	(17,052)
(3,259)	(1,842)	(783)	(227)	-	-	-	(6,111)	Depreciation charge	(5,064)	(1,805)	(665)	(241)				(7,775)
-	-	-	-	-	-	-	-	Depreciation written out to the Revaluation Reserve		6				(6)		-
-	-	-	-	-	-	-	-	Depreciation written out to the surplus / deficit on the provision of services								-
-	-	-	-	-	-	-	-	Impairment losses / (reversals) recognised in the Revaluation Reserve	(712)					320		(392)
-	-	-	-	-	-	-	-	Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services	(2,190)	(102)						(2,292)
-	7	32	-	-	-	-	-	39 Derecognition - disposals			118					118
-	-	-	-	-	(320)	-	(320)	Assets reclassified to/from held for resale								-
-	-	-	-	-	-	-	-	- Other Reclassifications								-
-	-	-	-	-	-	-	-	- Other movements								-
(6,431)	(5,612)	(3,617)	(1,072)	-	(320)	-	(17,052)	At 31 March	(14,397)	(7,513)	(4,164)	(1,313)	-	(6)	-	(27,393)
152,203	69,907	4,045	8,042	226	3,697	4,598	242,718	Net Book Value at 31 March	153,048	68,361	2,332	8,342	226	7,332	4,516	244,157

50. Other Long term liabilities

These mainly 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 80 to 85 and for CBH in their accounts. Due to an actuarial loss of £1.2 million during the year the CBH accounts show a pension liability at 31st March 2013 of £2.272 million (liability of £0.979 million at 31st March 2012).

51. 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 £15.681 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 £3.384 million.

Long term liabilities comprise the council's share of the net liabilities of Ubico Ltd.

52. Usable Reserves

These are detailed in the Group Movement in Reserves Statement.

53. Group Movements in the Movement in Reserves Statement

Adjustments are required between Group usable and unusable reserves for the receipt by CBH of social housing capital grants of £1.290 million in 2012/13 (£1.490 million in 2011/12). These 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 (part of unusable reserves) in the Group Balance Sheet, as they have been used to finance new housing properties under construction by CBH.

In addition transfers are required between the Group 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.

54. Unusable Reserves

Reserve	31st March 2012 Restated £'000	31st March 2013 £'000
Revaluation Reserve	46,677	52,610
Capital Adjustment Account	189,385	189,046
Financial Instruments Adjustment Account	(2,734)	(2,583)
Collection Fund Adjustment Account	55	4
Pensions Reserve	(46,272)	(56,380)
Deferred Capital Receipts Reserve	113	1,091
Accumulating Compensated Absences Adjustment Account	(84)	(61)
Total Unusable Reserves	187,140	183,727

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.

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

The Housing Revenue Account (HRA) deals with the provision and maintenance of Council houses and flats. There is a statutory requirement to keep this account separate from those for other housing activities.

	2012/13	2011/12
	£000's	£000's
Expenditure		
Repairs and maintenance	(3,777)	(3,974)
Supervision and management	(6,092)	(6,024)
Rents, rates, taxes and other charges	(28)	(35)
Payment to Secretary of State - Self Financing Settlement	-	(27,414)
Negative HRA Subsidy payable	5	(3,255)
Depreciation and impairment of non-current assets	(7,419)	(3,447)
Debt management costs	(47)	(56)
Movement in the allowance for bad debts	(91)	(156)
Rent rebates subsidy limitation	(65)	(87)
Total Expenditure	(17,514)	(44,448)
Income		
Dwelling rents	17,706	16,660
Non-dwelling rents	433	420
Charges for services and facilities	534	536
Contributions towards expenditure	357	364
Total Income	19,030	17,980
Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	1,516	(26,468)
HRA services' share of Corporate and Democratic Core	(146)	(127)
Net Cost for HRA Services	1,370	(26,595)
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	690	385
Interest payable and similar charges	(1,737)	(548)
Interest and investment income	40	83
Capital contributions	0	72
Deficit for the year on HRA Services	363	(26,603)

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:

2011/12 £000's		2012/13 £000's
(26,603)	Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	363
26,027	Adjustments between accounting basis and funding basis under statute	102
(576)	Net Increase in year on the HRA	465
3,673	Balance on the HRA at the end of the previous year	3,097
3,097	Balance on the HRA at the end of the current year	3,562

NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)**1. Note of reconciling items for the Movement on the HRA Statement**

2011/12 £000's		2012/13 £000's
	Items included in the HRA Income and Expenditure Account but excluded from the Movement on the HRA Statement	
125	Impairment losses	2,190
(72)	Capital contributions	
27,414	Payment to Secretary of State – Self Financing Debt Settlement	
(385)	(Gain)/Loss on sale of HRA fixed assets	(690)
27,082		1,500
	Items not included in the HRA Income and Expenditure Account but included in the Movement on the HRA Statement	
(9)	Amortisation of premiums and discounts	(6)
81	Transfer from Major Repairs Reserve (net)	
	Debt Repayment	(1,392)
(1,127)	Capital expenditure funded by the HRA	
26,027	Net adjustments between accounting basis and funding basis under regulations	102

2. Housing Stock

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

Type	1 st April 2012	Additions	Sales	31 st March 2013
Houses & Bungalows	2,206		11	2,195
Flats	2,373		2	2,371
Shared Ownership (flats)	18		1	17
Total Stock	4,597		14	4,583

3. HRA Fixed Assets

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

	1 st April 2012 £000's	Transfer s £000's	Additions £000's	Impairment £000's	Disposals £000's	Depreciate £000's	31 st March 2013 £000's
Dwellings	149,585		4,138	(2,902)	(564)	(5,032)	145,225
Garages	1,001		64	(102)		(24)	939
Infrastructure	2,832		540			(71)	3,301
Surplus Assets	588	(281)					307
Assets Held for Sale		281					281
Investment Property	3,602				(130)		3,472
Total net fixed assets	157,608		4,742	(3,004)	(694)	(5,127)	153,525

4. Impairment of Assets

HRA assets are revalued every five years (the last revaluation was undertaken on 1st April 2010). In interim years changes in dwelling valuation are based on movement in regional land registry values. Where these show a reduction in value an impairment charge is charged firstly against any prior revaluation surplus (£711,529 in 2012/13) with any residue chargeable to the HRA income and expenditure statement (£2,190,072 in 2012/13). This charge is reversed through the Movement on HRA statement in accordance with the Item 8 Determination published by the Department of Communities and Local Government.

Impairment on garages recognises that capitalised repairs undertaken in the previous year have not increased the interim valuation of the assets.

5. Dwelling Valuation

The vacant possession value of dwellings within the HRA at 1st April 2012 was £473,173,048. This valuation and the lower Balance Sheet valuation show the economic cost to Government of providing council housing at less than open market rents.

6. Major Repairs Reserve

An analysis of movements on the reserve is shown below:

	£000's
Balance 1 st April 2012	
Transfer to reserve	5,126
Finance of HRA capital expenditure	<u>(4,727)</u>
Balance 31st March 2013	<u>399</u>

7. HRA Capital Expenditure

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

Sources of Finance	Total Expenditure	Major Repairs Allowance	Capital Receipts
HRA Capital Expenditure	£000's	£000's	£000's
Major Repairs & Improvements	4,123	4,123	
Garages	64	64	
Infrastructure	540	540	
Repurchase of shared ownership flats	15		15
Total	<u>4,742</u>	<u>4,727</u>	<u>15</u>

8. HRA Capital Receipts

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

	2012/13	2011/12
	£000's	£000's
Sale of Dwellings	882	507
Sale of Investment Property	275	
Mortgage Principal	16	39
Discounts repaid on former Council dwelling sales		11
Sale of Shared Ownership Flats	94	128
Land	137	15
Total	<u>1,404</u>	<u>700</u>

10. HRA Subsidy

The council's entitlement to HRA subsidy was calculated in accordance with the subsidy determination for the year and is analysed into its component elements below. The system was abolished at 31st March 2012 following the introduction of the new self financing regime. An adjustment of £5,089 relating to the final settlement for 2011/12 was recognised and received in 2012/13.

	2012/13	2011/12
	£000's	£000's
Management Allowance		2,870
Maintenance Allowance		5,725
Charges for Capital	5	791
Major Repairs Allowance		3,241
ALMO Allowance		-
Guideline Rent Income		(15,877)
Interest on Receipts		(5)
Total Net Subsidy Receivable/ (Payable)	5	(3,255)

11. Rent Arrears

Rent arrears at 31st March 2013 amounted to £548,831 (£513,705 as at 31st March 2012) and the Balance Sheet includes a bad debt provision of £348,000 relating to those arrears (£321,000 as at 31st March 2012).

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 2012/13 this amounted to £65,000 (£87,029 in 2011/12), 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 £3,166 mortgage interest and £37,350 on notional cash balances (£4,017 and £79,200 respectively in 2011/12).

THE COLLECTION FUND - INCOME AND EXPENDITURE ACCOUNT

INCOME	2012/13	2011/12
	£'000	£'000
Council Taxpayers	56,066	55,887
Transfers from General fund		
- Council Tax benefits	6,863	7,035
Income collectable from business ratepayers	51,851	50,837
Bad and Doubtful Debts		
Decrease/(increase) in provision	49	(38)
Total Income	114,829	113,721
EXPENDITURE		
Precepts & Demands from County & District Councils	63,057	62,688
Business Rates		
Payment to National Pool	51,219	50,215
Costs of Collection	186	189
Interest on Repayments	1	17
Bad and Doubtful Debts		
Write Offs	359	448
Decrease/(increase) in provision	140	-
Surplus Distribution	268	456
Total Expenditure	115,230	114,013
(Deficit) / Surplus for the Year	(401)	(292)
Balance of fund at 1st April	432	724
Fund Balance as at 31st March	31	432

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 2013 was £134.094m (£136.991m at 31st March 2012) and the national non-domestic multiplier for 2012/13 was 45.8p (43.30p in 2011/12), resulting in gross income before cost of collection and provision for bad debts and interest of approximately £51.2m (approximately £50m 2011/12). The income shown in the Collection Fund of £51.8m 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	7,136.00	6/9	4,757.30
B	10,450.50	7/9	8,128.20
C	11,802.25	8/9	10,490.90
D	7,742.75	1	7,742.80
E	4,155.50	11/9	5,078.90
F	2,282.75	13/9	3,297.30
G	1,747.00	15/9	2,911.70
H	68.50	2	137.00
			42,544.10

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 and 2nd homes. (This amounts to 1.00% of the tax base).

Council Tax Base for 2012/13

(420.40)

42,123.70

3. PRECEPTS

The precepts on the Collection Fund are as follows:-

	2012/13 £'000	2011/12 £'000
Gloucestershire County Council	46,421	46,153
Cheltenham Borough Council	7,965	7,919
Gloucestershire Police Authority	8,501	8,451
Charlton Kings Parish Council	48	47
Leckhampton Parish Council	32	32
Prestbury Parish Council	58	56
Swindon Village Parish Council	9	7
Up Hatherley Parish Council	23	23
	63,057	62,688

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 1 st April 2012	55	319	58	432
Decrease in the Year	(51)	(296)	(54)	(401)
Balance at 31st March 2013	4	23	4	31

ANNUAL GOVERNANCE STATEMENT 2012-13

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 of 1972 and 2000 (as amended) provide a current democratic the administrative governance arrangements for local government. 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, Cheltenham Borough 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. Cheltenham Borough 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. It also complies with additional guidance issued within an addendum to the framework in December 2012, which includes advice on how the Annual Governance Statement should give an increased emphasis on the Councils strategic approach.
5. A copy of the local Code of Corporate Governance (CCG) can be downloaded 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 we direct and control our activities and through which we account to, engage with and lead the community. It enables us to monitor the achievement of the 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. The system of internal control is based on an ongoing process designed to identify and prioritise risks to support the achievement of our objectives and actions.
9. The CCG for the period commencing 1st April 2012 was reviewed by the Corporate Governance Group and approved by the Audit Committee in March 2012.

The Governance Framework

10. The CCG 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. Cheltenham Borough 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.
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 committee to ensure that the Council's objectives are progressing as planned.
13. The Corporate Strategy sets out its vision for the long-term future of 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.”
14. This vision and its relevance are considered and challenged every year as part of the overall development of the Corporate Strategy Action Plan.
15. The Council formally agreed in June 2010 to adopt a strategic commissioning approach to put a strong focus on understanding the needs of Cheltenham and its people in designing outcomes for our services.
16. This approach has meant that we work much more closely (including sharing budgets where appropriate) with other parts of the public service and the voluntary and community sector (VCS) including the making of objective, transparent, evidence-based decisions about how services should be provided and by whom.
17. We are now recognised as a commissioning council that puts a strong focus on understanding the needs of Cheltenham and its people in designing outcomes for our services. By using a strategic commissioning approach we are seeking to 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.

Commissioning

18. During 2012/13 there were 5 key commissioning reviews;

➤	Leisure and Culture services (ongoing)
➤	Green Environment (ongoing)
➤	ICT (complete)
➤	Housing Options (ongoing)
➤	Car Parking (complete).

19. These reviews broadly followed the commissioning cycle and where possible took advantage of opportunities to deliver services more effectively with partners.
20. The Leisure and Culture commissioning review of the council's leisure and culture services has continued during the year, aimed at ensuring that outcomes agreed by Cabinet in

December 2011 are delivered and sustained. Following an appraisal of different management options it was recommended that, subject to the results of a procurement process, a new charitable trust be created by April 2014 to operate the services. The recommendation was agreed by Cabinet in December 2012 and the procurement process began immediately.

21. Cheltenham Borough Council and Cotswold District Council formed a Local Authority Company (Ubico) from April 2012 and are partners in the wider Gloucestershire Joint Waste Partnership. 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.
22. The Cabinet agreed a Medium Term Financial Strategy which is in line with the priorities as set out in the Council's Corporate Strategy and identifies any expenditure which may need to be incurred to meet new legislation, community needs and financial restraints. In order to address year on year budget shortfalls, efficiency savings and new or improved income, the Council has described within its Budget 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 gain additional income, by not impacting on its ability to deliver in priority areas.
23. 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.

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

24. 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 and decision making. The Council 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).
25. The Council's Constitution and Policy Framework are approved by Council, and is subject to periodic review. The Council has a Constitution Working Group comprising of elected Members and officers.
26. The Council's Constitution and Policy Framework are approved by Council, and is subject to periodic review. The Council has a cross party Constitution Working Group comprising of elected Members and is supported by officers.
27. There were three Overview and Scrutiny committees that held the bodies exercising executive functions to account through the scrutiny process and assisted with policy formulation via their overview function; from May 2012, this was reduced to one with the objectives of making the scrutiny process more effective and achieving positive outcomes for local people. The new committee has a managing and co-ordinating role and commissions scrutiny task groups to carry out the more detailed work.
28. Scrutiny task groups are set up by the Overview and Scrutiny Committee to examine specific issues in detail and they tend to work more flexibly and informally. The review could be of an existing policy or service but scrutiny task-groups can also look to develop new policies. Their terms of reference are set by the main committee and the task group

reports are reviewed by that committee before forwarding their recommendations to Cabinet or other body as appropriate.

29. 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 2013 to ensure that they reflected the changes brought because of the Commissioning activities.
30. The Localism Act 2011 abolished the statutory national standards framework for elected Members and removed the requirement for a Statutory Standards committee. In May 2012 the Council decided to retain a local Standards committee.
31. The Appointments Committee conducts the recruitment, assessment and interview process for the appointment of the Chief Executive, Executive Directors and Directors. It is also responsible for determining the conditions on which those officers hold office, including deciding matters relating to their early retirement.
32. 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.
33. 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 2013 which is available to employees through the intranet and to the public through the internet.
34. The Council approved revisions to the Constitution in March 2012; Article 2 refers to the roles and functions of elected Members while Article 12 refers to the roles and responsibilities of the statutory officers.
35. The Council also approved a revised Code of Conduct for all employees on the 26th March 2012 and was revised again in December 2012, providing additional information on roles and responsibilities.
36. The Council designated the Borough Solicitor as Monitoring Officer. The Monitoring Officer function is to ensure compliance with established policies, procedures, laws and regulations. The Monitoring Officer must report to the Council, after consulting with the Head of Paid Service (Chief Executive) and Director of Resources (section 151 officer), if any proposal, decision or omission would give rise to unlawfulness or maladministration.
37. To ensure compliance with the Financial Procedure Rules set out in the constitution, the Council has designated the Director of Resources as Chief Finance Officer, in accordance with Section 151 of the Local Government Act 1972. The role is supported through a robust system of financial management. This officer is a key member of the Leadership Team, helping it to develop and implement the authority's strategic objectives ensuring alignment with the authority's financial strategy
38. 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 public reports identify options, the financial, legal and HR implications as well as any risks associated with the issue.
39. The Council's internal audit function is provided by Audit Cotswolds which reports to the Council's Audit Committee. In September 2009 the Audit & Assurance Services for

Cheltenham Borough Council entered into a partnership with the Internal Audit Services at Cotswold District Council. This was expanded in 2010 to include West Oxfordshire District Council. Audit Cotswolds is managed by a Partnership Board with its own Terms of Reference through a Section 101 Agreement and representatives from each authority.

40. The Audit Cotswolds partnership is managed by the Head of Internal Audit whose role has been defined in the S101 and a job description; both of which help to ensure the CIPFA 'Role of the Head of Audit' standard is delivered as set out below:

- Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments
- Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control
- Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee
- Must lead and direct an internal audit service that is resourced to be fit for purpose
- Must be professionally qualified and suitably experienced

41. Annually the Head of Internal Audit produces a report summarising the work of Internal Audit (IA) and gives an overall opinion on the level of internal control that exists within the systems audited.

42. The Council has a Corporate Governance Group with 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.

43. From October 2012 the external audit function was provided by Grant Thornton who were appointed by the Audit Commission to replace KPMG. In September 2012 KPMG published its report to those charged with governance (ISA 260) where they confirmed that the wording of the 2011/12 Annual Governance Statement accords with their understanding;

- *that it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE in June 2007; and*
- *that it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.*

44. 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 in line with the Medium Term Financial Strategy.

-
45. 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.

46. 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.
47. The CCG was reviewed and revised then approved by the Audit Committee in March 2012. This code is the Council's Internal Control Framework and clearly sets the aspirations of the Council in ensuring that there are effective governance arrangements.
48. All Members and officers are subject to codes of conduct and periodically training sessions are held. A wide range of training was made available to all Members following the May elections in 2012. This included Code of Conduct and Standards, introduction to planning, introduction to licensing, risk management and what is meant by being a commissioning Council.
49. Members and officers must declare any interests and registers of such declarations are maintained by Democratic Services and HR respectively. The Council's Monitoring Officer is responsible for ensuring that reported breaches of the Code of Members' Conduct are investigated appropriately. The Code of Members' Conduct was reviewed in June 2012 in the light of the abolition of the national standards framework.
50. The Chief Executive, members of the Senior Leadership Team and the Corporate Governance Group routinely promote good governance messages to employees and elected Members via email and the intranet.
51. The Council's Whistle Blowing Policy was revised in August 2010 and its Anti-Fraud and Anti-Corruption Policy was replaced by the Counter Corruption and Fraud Policy in September 2012 to align them to the requirements of the new Bribery Act and the working arrangements of the Audit Cotswolds. These documents are available to the public on the Council web site, and accessible to Members and employees from the intranet site.
52. There is a competency framework for its employees who are assessed through the annual appraisal process and these competencies reflect the core values of the Council which underpin good governance arrangements.
53. Certain Members are 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.
54. 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. Members and officers that sit on the boards of companies are expected to be trained in line with the guidance specified within the UK Corporate Governance Code.

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

55. 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 operated executive style arrangements the main differences with the new model is that the Leader is appointed for a 4 year term (subject to removal by Council) and must appoint a deputy leader.
56. Prior to May 2012 there were three overview and scrutiny committees that held the Cabinet to account. 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.
57. Arrangements are in place for publishing all Council committees' agendas and minutes.
58. The Council has embraced the government's transparency agenda and regularly publishes information on spending, contracts, senior officer roles and responsibilities together with their salaries.
59. The Council has agreed data sharing protocols with GO shared service, Ubico and the Gloucestershire Joint Waste Partnership, which allows for the sharing of data between the organisations and provides arrangements for making sure that it remains secure.
60. The Council has a complaints and comments system for members of the public. Complainants may also refer matters to the Local Government Ombudsman for investigation once they have been through the Council's complaint system.
61. 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.
62. 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.
63. The Audit Committee annually review the Corporate Risk Management Policy and a report on the risk management activities that have taken place during the year.
64. The Senior Leadership Team are responsible for the management of the corporate risk process, including the identification of risks, mitigating actions, deadlines and the details of the responsible officers. These are updated and reported to them on a monthly basis. 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.
65. The Information Management Group reviewed a range of policies including Data Quality and Record Management Policy. The Council put in place Data sharing Protocols that reflect partnership working and the sharing (where appropriate) of information with other organisations.
66. Internal audit reviewed the 2011/12 Annual Assurance process in May 2012; the outcome of which was used to improve the review for 2012-13.
67. Cheltenham Borough 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.

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

68. All Members were offered training across a whole range of subjects following the May 2012 elections this included Risk management, corporate governance and the Code of Conduct and Standards and what is meant by being a commissioning Council. Members also have access to the Learning Gateway and can attend any training course that is currently being offered to employees.
69. Officer learning and development needs are identified through the appraisal process and 1-2-1s and fed into the professional and corporate training programmes.
70. In addition to supporting delivery of the Council's Corporate Strategy during 2012-13 the Chief Executive Officer introduced the Cheltenham Futures programme to build on the progress of commissioning services from external providers.
71. This programme comprises of three work streams, one of which considers the council's performance and organisational culture. This includes culture, pay and reward. Work on culture and behaviours (review of competencies) is underway, linked to appraisal as is work on how best to ensure that pay and conditions continue to attract, retain and reward employees of Cheltenham Council of the future.
72. The other two themes to the strategic based Futures programme are;
1. Direct Council Provision/Unified Management
 - To provide for the management of services currently part of Wellbeing and Culture but not part of the Leisure and Culture review
 - To place all direct provision under a single senior manager on an interim basis to facilitate rationalisation and restructuring
 - To deliver efficiency savings in 2013/14
 - To establish a permanent service structure.
 2. Central Services
 - To take early steps to 'right size' the Resources and Commissioning divisions to meet future Council requirements
 - To introduce service failure scenario and risk planning
 - To prepare for the amalgamation of the Resources and Commissioning divisions.
73. The programme will create a Council whose function, form and culture is being adapted to the strategic and operational needs of its customers and of a commissioning organisation.

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

74. Cheltenham Borough Council through the Cabinet is accountable for allocating resources. There are a range checks and systems in place to provide assurance that they achieve value for money.
75. 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 communities need. These decisions are based on a range of information including consultation exercises and advice from officers.
76. Cheltenham Borough Council engages with local residents via a number of different mechanisms; council officers and elected members attend regular meetings of the 14

neighbourhood co-ordination groups where local priorities for action are agreed by local residents, the council also supports and engages with 11 “Friends of...” groups, plus resident associations, trader associations and PACT (Partners and Communities Together) groups. The council also supports and engages with communities of interest via groups such as the Cheltenham Pensioners Forum and the Sahara Saheli women’s group.

77. Cheltenham Borough Council engages with stakeholders who represent the local community and with the key service providers through the well established Cheltenham Partnership whose vision is that;

“All people in Cheltenham are able to live happy, successful and productive lives in strong, resilient and healthy communities”.

78. The Council contributes towards providing strategic leadership for Cheltenham through the partnership structures, ensuring that we use our resources carefully to make the greatest difference to people’s lives through aligning our commissioning arrangements.

79. The three main elements of the structure are:

- **Positive Participation Partnership**
- **Positive Lives Partnership**
- **Strategic Leadership Group**

80. The Cheltenham Partnership has agreed an Action Plan which identifies the most-pressing issues for partnership activity. It also identifies where there is a willingness from partners to work collectively on solutions and where there is alignment with priorities set at a county level e.g. by the Police and Crime Commissioner, the Health and Wellbeing Board, the Children’s Partnership and the Local Enterprise Partnership.

81. The Council’s Corporate Strategy Action Plan includes specific commitments to support the delivery of these priorities.

82. The Council has an established web site which provides access to 14 of its services online, which was accessed 9639 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.

Delivery of services and outcomes through third parties

83. The legal services function is delivered through a Section 101 Agreement with Tewkesbury Borough Council who are the lead authority for One Legal. The effectiveness of the governance arrangements of One Legal are monitored on a regular basis through a number of means including; One Legal management team meetings and a Joint Monitoring liaison Group.

84. The Council formed a partnership with Cotswold District Council for the delivery of environment services using the Local Authority Company governance framework; the company is called Ubico Ltd. 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. This approach provided the first step towards joined up waste services across Gloucestershire.

85. Ubico has its own internal control procedures and arrangements which are subject to internal and external audit. Annually, Audit Cotswolds review elements of the control procedures and report on the adequacy of arrangements. The company is overseen by a board of directors.
86. In October 2012 the Council agreed with Cotswold District Council, Forest of Dean District Council and Gloucestershire County Council to form the Gloucestershire Joint Waste Committee from the 1st April 2013.
87. 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 shared service 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.
88. 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.
89. The Council's internal audit function is provided by Audit Cotswolds which reports to the Council's Audit Committee. The Head of Audit Cotswolds is responsible for the Councils internal audit arrangements, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion.
90. 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 elements of the control procedures and report on the adequacy of arrangements. The company is overseen by a board of directors which includes tenants and has an Audit and Risk Committee.
91. The Building Control Service was formed with Tewkesbury Borough council during November 2009 under the governance framework of a Section 101 Agreement for a 10 year period. There is a Joint Monitoring and Liaison Group made up of representatives from both authorities who monitor and manage the operational delivery of the service and any complaints.
92. The Council is a 50% 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 Board of Directors including a Managing Director and Head of Operations. The statutory accounts are audited each year by a private firm of

accountants, and presented to the board and shareholders; they are approved at the AGM. The Council's Director of Resources or designated representative receives regular management accounts for the airport, and either he or the Executive Director or their designated representative, attends the monthly airport programme board meetings.

93. Gloucestershire Airport hosts an Airport Consultative Committee whose purpose is to foster and maintain the best possible relations with local communities and other interest groups, including the shareholders. The committee has agreed terms of reference that include the contribution of the airport to the local, regional and national economy.

94. The Localism Act 2011 provides for a Community Right to Challenge and for a Community Right to Bid. The Council has published a process that allows eligible groups to express an interest in bidding to run a particular Council service. The Council has also published a process on the Community Right To Bid which aims to give community and voluntary sector groups, charities, parish and town Councils a right to identify a property that is believed to be of value to their social interests or social wellbeing and gives them a fair chance to make a bid to buy the property on the open market if the property owner decides to sell.

Review of effectiveness

95. 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 Cotswolds annual opinion report and also by comments made by the external auditors and other review agencies and inspectorates.

96. 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.

97. The Council has an approved CCG and it has established a Corporate Governance Group which oversees the review of the effectiveness of the CCG governance and internal control. All executive directors and directors have to complete an Annual Statement of Assurance which outlines the key control areas to which the division should comply.
98. There were 45 areas of control considered by each of the 4 Directors (resulting in 180 comments), of which 138 were deemed to have been 'Met', 37 were 'Partial', 1 'Not Met' and 4 were regarded as being not applicable. This compared favourably with the previous year, however, there were 3 control areas where non or partial compliant issues identified within the context of the review,

Level of compliance	2012/13	2012/13	2011/12
Met	138	77%	75%
Partially Met	37	21%	20%
Not Met	1	1%	3%
N/A	4	2%	2%
Total	180	100%	100%

99. **Risk Management;** identifies planning for business continuity and disaster recovery as an area of partial compliance by all 4 directors. This was identified as a corporate risk last year and remains on the register with a score of 12. These issues are being addressed by the ICT shared service through a separate action plan that also addresses additional recommendations from the Internal Audit report on a virus attack. These issues remain on to the Significant Issues Action Plan and the Corporate Risk Register.
100. **Equalities;** This area of the review identified a high number of partial compliance issues and one submission of not being able to meet the corporate objective of being able to promote equality and diversity. It is considered that this response may be due in part to the need for an updated Equality Policy. The Senior Leadership Team recognised that this was an on-going issue and that legislation and guidance had recently changed and asked the Director of Commissioning to review the policy and guidance and provide additional training. SLT's view is that this is not considered to be a significant issue and will be monitored through the Corporate Risk Register
101. **Staffing;** Employees currently receive training to meet the legislative requirements of the Children's Act 1989 and 2004 and the council's policy as set out in the Safeguarding Children and Vulnerable Adults Handbook as approved at cabinet in March 2013. The training is provided by a number of different external and internal training providers including Gloucestershire County Council.
102. The council's policy states that the successful completion of safeguarding training must be recorded on the Learning Gateway by the person who has undertaken the training. The level of training needed by each member of staff will be recorded within the gateway by the Learning and Development Team using information provided by Human Resources and service managers. The learning gateway will be used to monitor up take of training and produce reports for Senior Leadership Team.
103. All employees, casual staff, volunteers and elected members are now asked to acknowledge that they have read and understood the Safeguarding Children and Vulnerable Adults Handbook when they first begin undertaking duties on behalf of the Council.

104. Both the registering of training and acknowledging the understanding of the Safeguarding Children and Vulnerable Adults Handbook via the learning gateway have been placed on the Action Plan for monitoring.
105. The staffing section of the review also highlighted the need for consideration to be given to readily available management information in respect of the recording of internal declarations, training requirements, what had been delivered and what refresher training was still required.
106. In addition to the internal review, additional assurance checks were made with Client Officers in respect of compliance with agreements with Ubico, Cheltenham Borough Homes, Building Control Partnership and Gloucestershire Airport Ltd. These will all help inform the work of Audit Cotswolds during 2013-14.

107. The outcome of these external reviews were that the;

➤ Director of Commissioning was asked to review of the effectiveness of internal controls In respect of the services delivered to Cheltenham Borough Council by Ubico Ltd. There were no new significant issues of concern.

➤ Director of Commissioning who is the client officer was asked to review of the effectiveness of internal controls In respect of the services delivered to Cheltenham Borough Council by CBH. There were no significant issues of concern.

➤ Director of Built Environment who is the client officer was asked to review of the effectiveness of internal controls In respect of the services delivered by the Cheltenham and Tewkesbury Building Control Service. There were no significant issues of concern.

➤ Executive Director who is the client officer was asked to review of the effectiveness of internal controls In respect of the Gloucestershire Airport. There were no significant issues of concern.

108. The Finance and HR functions are delivered through the Go Shared Service, Cotswold District Council is the lead authority. The Internal Audit function is provided through the Audit Cotswolds partnership, Cotswold District Council is again the lead authority and will need to comply with their Code of Corporate Governance to meet the requirements of regulation 4(3) and (4) of The Accounts and Audit (England) Regulations 2011 in relation to the publication of their Annual Governance Statement.

109. A copy of Cotswold District Council assurance statements for these services has been requested, together with the details of any significant issues that they identify. If there are any issues that affect this Council's internal controls and statutory obligations they will be reported to Audit Committee for inclusion on the Significant Issues Action Plan.
110. The Legal services function is delivered through a Section 101 Agreement with Tewkesbury Borough Council which is the lead authority for One Legal. The effectiveness of the governance arrangements of One Legal are monitored on a regular basis through a number of means including; One Legal management team meetings, Head of Legal Services attending Cheltenham's Senior Leadership Team, periodic meetings with Cheltenham's Client Officer and formal reporting to the JMLG. JMLG meetings have taken place on 6 July 2012, 8 November 2012 and 21 February 2013. The Head Legal Service meets on a routine basis with the client officer to discuss performance and operational issues. In addition, One Legal also formally report quarterly on business and financial performance through Tewkesbury's performance management framework.
111. An assurance review of the One Legal service was carried out on behalf of Tewkesbury Borough Council by the Borough Solicitor - One Legal Lead Officer. A copy of the Assurance Statement 2012/13 was provided to Cheltenham Borough Council which stated that the governance arrangements were operating effectively within One Legal. Improvements to the service had been identified but were not considered to be significant governance issues.
112. The Corporate Governance Group reviews the statements and any issues highlighted by the check lists to identify any significant issues that need to be reflected in the Significant Issues 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, Head of Audit Cotswolds 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.
113. 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 are then responsible for monitoring progress against the actions proposed or taken, to deal with the identified significant issues.
114. 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 by Directors with that Cabinet Member so that they are aware of any issues.

115. The Head of Audit Cotswolds Annual Audit Opinion identified that overall there is a satisfactory opinion for the internal controls in operation at Cheltenham BC. However, this is set against a considerable change to key financial services (the GO Shared Service). This service received some limited assurance reports for 2012/13 as detailed in his report. Furthermore, there was an investigation into ICT issues in the year that identified several control weaknesses that have been detailed in an action plan which is to be monitored by the Audit Committee.

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 identified in the previous section of this statement, and an action plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant Issues Action Plan

Significant Issues Action Plan – Review 1st March 2014

Control issue and source	Action	Deadline as per AGS	Action planned	Lead officer
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	March 2014	Deliver ICT Business Continuity back up arrangements through ICT shared service with FoDDC that have been tried and tested.	Director of Resources
Safeguarding Children and Vulnerable Adults	1. Review of operational processes related to maintaining a register which identifies the training needs that relate to child protection and		The Learning and organisational Development Team will upload the suitable declarations to the Learning gateway and the appropriate declaration for the 'level' of training needed by each member of staff will be added to their development plans by	Strategy and Engagement Manager

Control issue and source	Action	Deadline as per AGS	Action planned	Lead officer
	<p>safeguarding for each appropriate post in the Council.</p> <p>2. Hold a register of acknowledgements from all employees, casual staff, volunteers and elected members that they have read and understood the Safeguarding Children and Vulnerable Adults handbook.</p>		the service manager	
GO Shared Services	There were limited assurance reports issued for key systems within the GO Shared Service. Action Plans to address these weaknesses have been created.		A follow-up review will be conducted by Internal Audit in 2013/14 as part of the annual review work. Progress will be managed by the Client Officer Group and any issues relating to Cheltenham will be reported to Audit Committee during the current year	GO Shared Services
ICT Service	There was an investigation into weaknesses in the control framework in ICT which was reported to Audit Committee. An action plan to address these weaknesses has been created.		The Audit Committee will be reviewing the Action Plan every six months until complete.	ICT Service

Significant governance issues

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 that 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

Chief Executive

Andrew North

GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 st 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 1 st April and finishes 31 st 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**Opinion on the financial statements**

We have audited the financial statements of Cheltenham Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Cheltenham Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources Responsibilities, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, 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 Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group'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 Cheltenham Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources***Respective responsibilities of the Authority and the auditor***

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 November 2012, 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 2013.

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 November 2012, 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 ended 31 March 2013.

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 issued by the Audit Commission.

Peter Barber

Associate Director

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

Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

25th September 2013

This page is intentionally left blank
Page 150



The Audit Findings for Cheltenham Borough Council

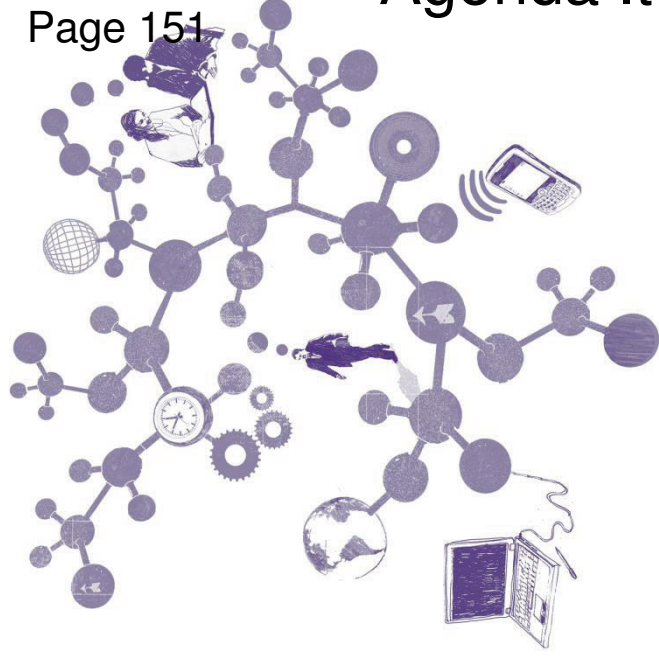
Year ended 31 March 2013

16 September 2013

Peter Barber
Engagement Lead
T +44 (0)1173 057 897
E peter.a.barber@uk.gt.com

Peter Smith
Audit Manager
T +44 (0)1173 057 832
E peter.w.smith@uk.gt.com

Paul Benfield
In Charge
T +44 (0)1173 057 894
E paul.m.benfield@uk.gt.com



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
1. Executive summary	[4]
2. Audit findings	[7]
3. Value for Money	[20]
4. Fees, non audit services and independence	[23]
5. Communication of audit matters	[25]

Appendices

- A Action plan
- B Audit opinion
- C Overview of audit findings by account

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Cheltenham Borough Council's (the Council) financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan on 22 April 2013.

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

- finalising our work in the following areas:
- employee remuneration, group accounts, accounts disclosures and WGA
- obtaining and reviewing the final management letter of representation
- review of the final version of the financial statements
- confirming the final status of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements on 2 July 2013 and accompanying working papers on 5 July which was marginally later than the agreed timetable. We were able to re-arrange our on site visit to commence on Monday 8 July 2013.

Key issues arising from our audit Financial statements opinion

We have identified no material errors in the accounts. We did however, identify 2 non material errors. The Council has amended the accounts to reduce the value of debtors and creditors as a result of incorrect grossing up but has decided not to adjust the accounts to include Civic Regalia within heritage assets this year, but will include them in future accounts. In addition, a small number of adjustments and changes have been made to enhance disclosures in the accounts.

We anticipate providing an unqualified opinion on the financial statements.

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

- the accounts contained only a small number of non trivial errors
- the Council's accounts were, for the first time, prepared by Go Shared Services (GOSS) under the new shared service arrangement. It was also the first year of our audit appointment. As expected some teething problems were encountered which made the audit process difficult to complete within our planned deadlines. However, we will work with the Council and GOSS to help make the process smoother in future. These problems had no impact on the cost of our audit to the Council.

Further details are set out in section 2 of this report.

Value for money conclusion

We intend to give an unqualified VFM conclusion stating that , in all significant respects Cheltenham Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

Work is underway and will be completed before the 4th October 2013 in accordance with the national timetable.

Controls

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

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

Whilst our work has not identified any control weaknesses within the Council's financial systems that we wish to highlight for your attention, our preliminary work assessing the Council's IT controls did identify some weaknesses regarding access controls.

Full details are provided within section 2 of this report.

The way forward

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

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

Acknowledgment

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

**Grant Thornton UK LLP
September 2013**

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 20 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 22 April 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

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

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>1. Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Our work to address this presumed risk included:</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>2. Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<p>Our work to address this presumed risk included:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period</p>	<ul style="list-style-type: none"> • Documentation of accounting system processes • Identification and walkthrough of, activities-level controls • Detailed substantive testing of the cost of services gross expenditure • Consideration of existence of unrecorded liabilities • Consideration of disclosures made through supporting notes to the accounts 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>
<p>Employee remuneration</p>	<p>Remuneration expenses not correct Employee remuneration accruals understated</p>	<ul style="list-style-type: none"> • Documentation of accounting system processes • Identification and walkthrough of, activities-level controls • Attribute testing of employee remuneration expenses and agreement to source documentation • Detailed substantive testing of employee remuneration expenses • Consideration of the work of the actuary • Consideration of disclosures made through supporting notes to the accounts 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Welfare expenditure</p>	<p>Welfare benefits improperly computed</p>	<ul style="list-style-type: none"> • Documentation of accounting system processes • Identification and walkthrough of, activities-level controls • Review of Northgate system parameters • Detailed substantive testing of the cost of services gross expenditure • Consideration of the existence of unrecorded liabilities • Consideration of disclosures made through supporting notes to the accounts 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>
<p>Property, Plant & Equipment</p>	<p>Revaluation measurement not correct PPE activity not valid</p>	<ul style="list-style-type: none"> • Review of the work of the Council's expert property valuer • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to determine if those controls are designed effectively • Substantive testing of samples of additions and disposals 	<p>Our audit work has not identified any significant issues in relation to the risks identified</p> <p>However, we note that</p> <ul style="list-style-type: none"> • there is no regular reconciliation between the Orchard Rents system and the Council's property register. We are satisfied that this does not create a significant uncertainty or risk of significant error. • although the net book value of assets shown in note 21 is correct the Gross Book Value of some categories of asset do not agree to the fixed asset register. The non trivial differences are Vehicles, Plant and Equipment £1,791k, Surplus Assets £320k and Intangible Assets £272k • We identified a trivial misclassification in relation to statues which suggests that the Council does not include all statues as heritage assets. We are satisfied the impact of not including statues would not result in a material misstatement.



Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Housing Rent Revenue Account	Revenue transactions not recorded.	<ul style="list-style-type: none"> • Documentation of accounting system processes & walkthrough of controls • Identification and walkthrough of controls. • Substantive testing of HRA income 	Our audit work has not identified any significant issues in relation to the risk identified

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Revenue from the provision of services is recognised when the Council can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the Council. Government Grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments 	<ul style="list-style-type: none"> The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice Minimal judgement is involved Accounting policy is properly disclosed 	
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> Key estimates and judgements included: <ul style="list-style-type: none"> – useful life of capital equipment – pension fund valuations and settlements – revaluations – impairments – provisions 	<ul style="list-style-type: none"> The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice Reliance on experts is taken where appropriate Accounting Policy is properly disclosed The Council may wish to consider whether in the current fluctuating property market it is appropriate at least for some categories of non current assets to carry out a rolling programme of property valuations rather than rely on a full valuation every five years The valuation of Cheltenham Borough Homes non Housing Revenue Account dwellings is included in their accounts at cost. the Council are required, when consolidating the accounts of subsidiaries into the Group Accounts to make adjustments if the valuation is not on the same basis as the Council would value the assets. The Council would use a fair value methodology to value the assets. The Council's view is that there is no significant difference between the two valuation methods in respect of the assets as current cost is an adequate proxy for fair value and has provided evidence that there is no risk of a material error in the Group Accounts. We have recommended that management review the situation for next year. 	<p style="text-align: center;">Page 163</p> 

Assessment

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

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Other accounting policies</p>	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has highlighted that the Council's policies are appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice subject to the following: <ul style="list-style-type: none"> the policy for valuing assets was amended to clarify the methodology of valuing non HRA dwellings owned by Cheltenham Borough Homes in the Group Balance Sheet In addition, we identified a number of minor issues from our audit work: <ul style="list-style-type: none"> we identified a trivial example (Pittville Gates) where the Council had not reviewed whether there were conditions attached to a grant which suggests it may be appropriate to review whether this consideration is being applied to all capital grants and contributions. The accounting policy referring to depreciation was amended to provide specific information on the depreciation basis used in respect of community assets and surplus assets, the range of useful expected lives of each category of asset. 	<p style="text-align: center;">●</p> <p style="text-align: center;">Page 164</p>

Assessment

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

Adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Invoices raised in the Accounts Receivable system before the year end relating to the next financial year were treated as a creditor and then reversed out of the accounts by increasing receipts in advance. Both short term debtors and short term creditors in the Balance Sheet are overstated as a result.		470 -470	
Overall impact	£NIL	£NIL	£NIL

Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	478	Grant Income	<p>Within Note 19 an amendment was made as follows:</p> <ul style="list-style-type: none"> Disabled Facilities Grant of £378k has been misclassified as a capital grant when it should have been classified as other partnership funding; and High Street Funding Grant of £100k has been misclassified as being credited to service grants when it should be shown as a non specific grant. <p>These adjustments ensure consistency with other notes in the accounts..</p>
2 Disclosure	181	Creditors	<p>Within Note 31 an amendment was made as follows: £181k of Go Shared Services (GOSS) and Audit Fees payable to Cotswold DC had been incorrectly classified as sundry creditors rather than Other Local Authority Creditors.</p>
3 Disclosure	187	PPE	<p>Within Note 21 an amendment was made as follows: £187k of surplus assets were incorrectly disclosed as reclassification of assets rather than as disposals.</p>
4 Disclosure	1,392	Sources of Capital Financing	<p>Within Note 21 an amendment was made as follows: £1,392k voluntary set aside from the HRA was incorrectly shown as part of the Minimum Revenue Provision rather than the Voluntary Revenue Provision.</p>
5 Disclosure	107	Segmental Reporting	<p>The total net cost of services reported in Note 20 of £13,608k and the analysis over Directorates is inconsistent with the Council's budget out-turn report which shows a total net cost of services of £13,715k. This is not being amended in the accounts.</p>

Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
6 Disclosure	130	HRA disposals	Within Note 3 of the HRA a further £130k of disposals has been added.

Unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 Civic Regalia has been excluded from Heritage Assets when it was included in the previous year move to unadjusted		141 -141	Not material to the financial performance of the Council
Overall impact	£NIL	£NIL	

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

Assessment	Issue and risk	Recommendations
<p>1. ●</p>	<p>Our work on reviewing high level IT controls identified that:</p> <ul style="list-style-type: none"> • there is no review of audit logs or user account access in relation to Civica Finance, Civica Open Revenues and Benefits or the network. • Some staff involved in systems development still have administrative access rights • It is not clear whether the Council has adopted any change management and patching process for the elements of its own network and internal applications on the same lines as agreed with GOSS for operation by the centre of excellence • There are a number of areas within the GOSS centre of excellence where the high level controls are not as strong as they could be i.e. <ul style="list-style-type: none"> • Password security does not enforce the use of complex passwords and password expiry is not enabled • There is no formal review of access to GOSS or review of access or level of authority on the GOSS Agresso system 	<p>Management should :</p> <ul style="list-style-type: none"> • identify the more critical audit logs and review them on a periodic basis for any anomalies. • Implement a regular, formal review of user access rights (e.g. quarterly) to ensure access rights are appropriate to individual roles • Ensure that there is clarity over the change management and patching process which apply to Cheltenham's own network and applications • Discuss the issues identified in relation to GOSS with GOSS management to ensure that there is no significant risks to the Council's overall IT security

Assessment

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

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and been made aware of a number of instances of potential benefits claimant fraud. We are satisfied that these have no impact on our opinion. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. However, <ul style="list-style-type: none"> Heritage assets are not analysed between donated and purchased assets as the information is not available Note 27 Financial Instruments was amended to show the investment with Glitnir as a fair value through profit and loss transaction rather than loans and receivables
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Our overall conclusion is that whilst the Council faces challenges, particularly in 2013/14 and 2014/15, its current arrangements for securing financial resilience are good.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have completed the following work:

Our work concentrated on how the council performed against its £480k savings plan for 2012/13 and its plans for delivering further savings of £3.299m over the next five years.

Our overall conclusion is that the Council is responding well to the challenges of the Local Government Finance Settlement, delivering savings and targeting its resources effectively.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risk to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>The Council has a negative working capital ratio when the comparator group average is a positive working capital ratio.</p>	<p>Although the Council has a negative working capital ratio it has a higher value of non current assets than similar authorities and a reported positive balance on its Total Comprehensive Income and Expenditure with net income of 9k as at 31.3.2013. It is unlikely that all the current liabilities will be payable at once and the Council has access to additional borrowing if required.</p>	<p>We are satisfied that the risk is being addressed and there is no adverse impact on our VfM conclusion.</p>

Section 4: Fees, non audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence**
- 05. Communication of audit matters

Fees, non audit services and independence

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

Fees

	Per Audit plan	Actual fees
	£	£
Council audit	64,974	64,974
Grant certification*	12,750	12,750
Total audit fees	77,724	77,724

*Certification work is on-going. The final fee will be reported to the Audit Committee later in the year in our annual certification report.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters**

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	A reconciliation should be made on a regular basis between the Council's Orchard Housing Rents System and the property terrier.	Medium		
2	The differences in gross book values between the Fixed Asset Register and the Ledger should be investigated	Medium		
3	A review should be undertaken to ensure that all statues in the Council's ownership are included in the schedule of heritage assets	Medium		
4	The Council should consider carrying out a rolling revaluation of its assets	Medium		
5	A review of whether capital grants and contributions carry any conditions should be undertaken to ensure correct accounting treatment.	Medium		
6	Consideration should be given to the internal control issue included in this report	Medium		

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
7	When consolidating the Group Accounts in future the Council should make appropriate disclosures and adjustments where accounting policies are not aligned.	Medium		

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHELTENHAM BOROUGH COUNCIL

Opinion on the financial statements

We have audited the financial statements of Cheltenham Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Cheltenham Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources Responsibilities, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, 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 Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group'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 Cheltenham Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
 in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
 we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
 we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
 we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 November 2012, 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 2013.

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 November 2012, 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 ended 31 March 2013.

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 issued by the Audit Commission.

Peter A Barber
 Associate Director
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor
 Hartwell House
 55-61 Victoria Street
 Bristol BS1 6FT

August 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 20 April 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded		See our comments on Page 11
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	See our comment on page 14

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	See our comments on pages 11, 13 and 14
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	See our comment on page 17
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	See our comment on pages 13 and 15
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grantthornton.co.uk

This page is intentionally left blank

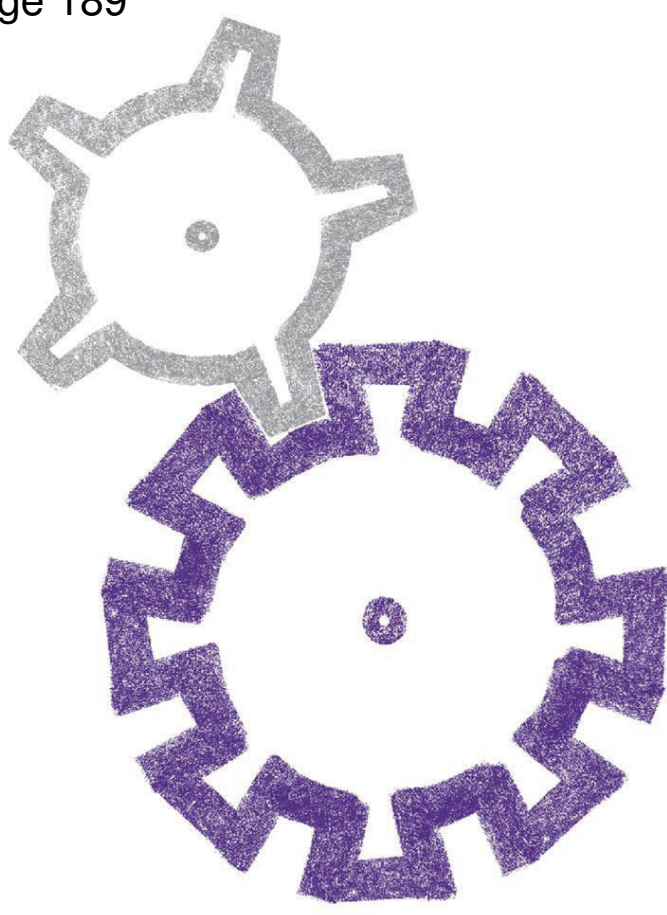
Page 188

Cheltenham Borough Council

Review of the Council's Arrangements for Securing Financial Resilience

Draft 16.9.2013

Page 189



Peter Barber
Engagement Lead
T +44 (0)1173 057 897
E peter.a.barber@uk.gt.com

Peter Smith
Audit Manager
T +44 (0)1173 057 832
E peter.w.smith@uk.gt.com

Grant Thornton UK LLP Public Sector Assurance

Contents

1 Executive Summary	Page xx
2 Key Indicators	Page xx
3 Strategic Financial Planning	Page xx
4 Financial Governance	Page xx
5 Financial Control	Page xx
Appendix - Key indicators of financial performance	Page xx

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VFM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces some risks and challenges during 2013/14 and beyond, its current arrangements for achieving financial resilience are adequate.

We have used a red/amber/green (RAG) rating with the following definitions.



Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014/15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011/12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015/16 and 2016/17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013/14 and 2014/15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014/15, with local authorities being exempt from additional savings in 2013/14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013/14 and 2014/15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015/16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

Local Context

Cheltenham Borough Council is situated on the edge of the Cotswold Hills and has an estimated population of 115,300 (2010 mid-year). Cheltenham is the largest town in Gloucestershire and is one of Britain's spa towns and home to a number of renowned music and cultural festivals, historic buildings as well as Cheltenham Racecourse.

Although a relatively affluent place there are some areas of deprivation and poverty within the Borough. To address these needs, the 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 and making objective, transparent, evidence-based decisions about how services should be provided and by whom.

There are a number of challenges facing the Council including bridging the funding gap, delivery of its town centre regeneration aspirations, service improvement and service commissioning. The Council is innovative and has put in place extensive plans to ensure that services are delivered at a reasonable cost.

The Council has engaged in a savings programme (bridging the gap) which is expected to save the Council £3.3m over the 5 year period to 2017/18. Savings will come mostly from further re-organisation, use of shared services, commissioning and property management.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
-----------	----------------------	----------------------------

In comparison to the Audit Commission's nearest neighbours, the Council's financial performance is generally in line with the average and is consistent with the trends indicated by other councils. The Council does have a negative working capital ratio when the comparator group average is a positive working capital ratio. Council tax collection and NNDR collection rates remain high but there was a small reduction in the NNDR collection rate for 2012/13. Whilst sickness absence has increased, it is still in line with averages for local government and the public sector. Sickness levels are not currently being reported to Cabinet.

Key Indicators of Performance

Page 194

Green



Strategic Financial Planning

The Council has sound arrangements in place to plan its finances over the next five years. The Medium Term Financial Strategy 2012/13 to 2017/18 incorporates financial forecasts, budget gaps and savings plans to bridge the gaps. The MTFS is usually reviewed annually but this did not happen in 2012/13 but it has been updated subsequently. The Bridging the Gap strategy is reviewed each year as part of the budget setting process so that savings can be incorporated into the budget and the savings plan extends beyond the period of the Corporate Plan. There is evidence of benchmarking being used as a strategic planning tool with each individual business case incorporates benchmarking. Performance against key financial indicators is reported to Cabinet annually as part of the annual Treasury Management report.

Green



Financial Governance

The Council has good arrangements in place to ensure understanding of the financial environment with appropriate engagement from stakeholders and Members. There are appropriate financial governance and monitoring arrangements in place at Member and officer level with quarterly financial reporting and annual performance reporting to Members. The Council is considering whether its performance management arrangements remain fit for purpose given the significant service changes during the year and the continuing focus on commissioning.

Green



Financial Control

The Council's track record of strong financial management continued during 2012/13 with council services being delivered within revised budget, with an overall residual underspend of £201,801. The establishment of GO Shared Services (providing Human Resources, Payroll, Finance and Procurement functions shared with Cotswold DC, Forest of Dean DC and West Oxfordshire DC) was a new initiative during the year. Internal Audit gave 'limited assurance' opinions on some of the core financial systems as a result of the GO shared service arrangements not being in place or fully embedded. It is not yet clear if the finance team have sufficient capacity given the teething problems that have arisen.

Green



Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	<p>The Council should monitor its working capital ratio to ensure that no financial risk arises from having current liabilities in excess of current assets.</p> <p>Performance monitoring reports to members should include a workforce reports covering areas such as sickness absence.</p>			
Strategic Financial Planning	<p>The Council should consider reporting on key financial ratios more regularly than annually, say every six months.</p>			
Financial Governance	<p>The Council should consider, as planned, whether the existing performance management arrangements are fit for purpose for the future strategy of the Council. i.e. to respond to the continuing focus on commissioning.</p>			
Financial Control	<p>The Council should monitor the impact of the transfer of finance staff to GO Shared Services to assess the risk of a capacity problem arising, especially if teething problems continue.</p>			

- 1 Executive Summary
- 2 Key Indicators**
- 3 Strategic Financial Planning
- 4 Financial Governance
- 5 Financial Control

- Appendix - Key indicators of financial performance

Key Indicators

Introduction




This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves – Balances to DSG allocations

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

- Canterbury District Council
- Cheltenham Borough Council
- Colchester District Council
- Exeter City Council
- Gloucester City Council
- Harrogate Borough Council
- Ipswich Borough Council
- Maidstone Borough Council
- North Hertfordshire Borough Council
- Rushmoor Borough Council
- Tunbridge Wells Borough Council
- Warwick Borough Council
- Watford Borough Council
- Worcester City Council
- Wyre Forest District Council

Key Indicators

Area of focus	Summary observations	Assessment
Liquidity	<p>Cheltenham's working capital ratio as at 31.3.2012 was, at 0.62, towards the lower end of its comparator group (see slide 22). A ratio of 1 indicates that current assets match current liabilities. The Council will need to satisfy itself that arrangements are in place to meet all its future liabilities as they arise.</p> <p>Council Tax and NNDR collection rates remain high. In 2012/13 the Council Tax collection rate was as expected, i.e. 98.2%, compared to a District Council average of 98.1%. The NNDR collection rate was slightly lower than expected at 98% compared to a District Council average of 98.1%.</p>	 Green
Borrowing	<p>Cheltenham's long term borrowing to tax revenues ratio as at 31.3.2012 was, at 3.85, slightly higher than the average for the comparator group of 3.2. (see slide 26) Borrowing of £54.674m was marginally lower than average and income from tax revenues of £14.204 was significantly below average. Borrowing in 2011/12 included £27.4m in respect of Housing Revenue Account self financing arrangements.</p> <p>The Council are compliant with the Prudential Code and performance against the indicators in 2012/13 was reported to members as part of the out-turn reporting process. Performance was broadly consistent with expectations.</p>	 Green
Workforce	<p>The Council continues to reduce its directly employed workforce as it focuses on its commissioning role. Sickness absence data is regularly reported to the leadership team and periodic reports go to Overview and Scrutiny Committee. The latest report being in January 2012. For 2012/13 the average days of sickness absence per full time equivalent, was 7.04 compared to the latest national public sector average figures of 7.9 days for 2011/12 and the Council's target of 7.5 days. Any comparison with previous years is of limited value given the significant numbers of staff that transferred out of the Council to UBICO and GO shared services during 2012/13. Until the new arrangements settle down we have concluded an amber rating is appropriate.</p>	 Amber
Performance Against Budgets: revenue & capital	<p>Despite a challenging savings programme the Council underspent against its revenue budget in both 2011/12 and 2012/13. In 2012/13 the Council spent £11.625m on capital projects and grants, compared with the revised budget of £14.435m.</p>	 Green
Reserve Balances	<p>Total reserves of are in line with the comparator group average (see slide 24), although the General Fund balance of £2.253m at 31.13.2012 was lower than the average of £4.3m. In 2013.14 the General Fund balance fell slightly to £2.021m but the level of balances is in line with the Council's policy and external guidance received.</p>	 Green

- 1 Executive Summary
- 2 Key Indicators
- 3 Strategic Financial Planning**
- 4 Financial Governance
- 5 Financial Control

- Appendix - Key indicators of financial performance

Strategic Financial Planning






Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	<p>The Medium Term Financial Strategy is focussed on delivering the annual corporate action plan, agreed budget and eliminating the potential budget gap with specific measures to achieve savings. The budget gap strategy is updated annually to reflect changes in the annual corporate action plan and annual budget and incorporates all the measures planned to eliminate the budget gap for the next 5 years. The MTFP was not updated in 2012/13 but has been updated subsequently. The Bridging the Gap savings plan is agreed in time to be incorporated within the annual budget. The savings plan extends beyond the life of the current corporate plan and progress is discussed by the Bridging the Gap working group monthly. As a consequence of the volatile economic climate no longer term plan covering say 10 years exists as the Council feels that monitoring against such a long term horizon is not appropriate given the recent spending round announcement only covered the period to 2015/16.</p>	 Amber
Adequacy of planning assumptions	<p>The budget forecasts made in setting the MTFP and particularly the 2013/14 revenue & capital budgets respond to both local and national issues. The key considerations within the 2013/14 budget included:</p> <ul style="list-style-type: none"> - Providing a standstill budget with growth only as a result of statutory requirements or on an invest to save basis - A freeze on increasing Council Tax in line with the Government's request, on the basis that it will be funded through a specific grant equivalent to a 1% increase - The impact of the introduction of the change in Council Tax, Benefits and NNDR - Consideration of price, fees and charges (increase 2.5%) and pay inflation (increase 1%) and prevailing interest rates 	 Green
Scope of the MTFP and links to annual planning	<p>The Council's MTFP reflects the corporate strategy and annual action plan.</p>	 Green
Review processes	<p>The MTFP is reviewed each year prior to the budget setting process. Benchmarking is used as a strategic planning tool with each individual business case incorporates benchmarking. Performance against key financial indicators is reported to Cabinet annually as part of the annual Treasury Management report. We feel that more regular reporting of these ratios would be re-assuring to members.</p>	 Amber
Responsiveness of the Plan	<p>The MTFP is responsive to changing circumstances with both short term and long term measures taken to eliminate the budget gap. Budget savings initiatives are subject to option appraisal e.g. GO shared services, and UBICO. Savings required and set out in the Bridging the Gap strategy are built into annual budgets.</p>	 Green

- 1 Executive Summary
- 2 Key Indicators
- 3 Strategic Financial Planning
- 4 Financial Governance**
- 5 Financial Control

- Appendix - Key indicators of financial performance

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement



- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).




Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
<p>Understanding the Financial Environment</p> <p>The Executive Board and Leadership team fully understand the financial environment in which they operate. There is regular communication with members regarding changes in the financial environment such as the pooling of business rates and the localisation of council tax.</p> <p>Quarterly budget reports clearly set out the financial pressures facing the Council. The Corporate risk register recognises financial risks such as reducing business rates.</p> <p>Governance arrangements have been reviewed recently as a result of the introduction of the GO Shared Services partnership between Cheltenham Borough Council and Cotswold District Council, Forest of Dean District Council and West Oxfordshire District Council.</p>	<p>The Section 151 officer is part of the Council's leadership team which meets regularly to discuss key strategic, financial and performance issues.</p> <p>Senior management engage with Cabinet portfolio holders on the budget setting process and produce reports for Overview and Scrutiny Committee and Cabinet. e.g. HR reports and business cases,</p> <p>During 2012/13, the Council's Audit Committee operated as an effective committee providing robust challenge.</p>	<p style="text-align: center;"> Green</p>
<p>Executive and Member Engagement</p>		<p style="text-align: center;"> Green</p>

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	<p>The Audit Commission's Value for Money profile 2011/12 show that Council spending is broadly in line with other similar Council's. However, spending on culture and sport per head is in highest 10% of district councils. Culture spending is down about 8% in 2012/13. Cheltenham is a spa town with significant heritage and culture offerings and enhancing this offering is part of the Council's corporate strategy. Spend on housing services per head is also high and in the top 20% of District Council's. This is due mainly to high advice costs. The Council is currently reviewing its housing strategy to reduce these costs. Sustainable economy costs were also comparatively high and this was largely due to the highways agency agreement with the County Council which ended on 31.3.2013. Expenditure was down in 2012/13..</p> <p>The formation of UBICO waste and environmental services company and the establishment of the Go Shared Services partnerships in 2012/13 are a large part of the Council's savings programme</p>	 Green
Budget reporting: revenue and capital	<p>The Council's corporate strategy on which the annual budgets are based takes into account comments from stakeholders via the place survey conducted in 2010. Budgets are based on complete and accurate information.</p>	 Green
Adequacy of other Committee/Cabinet Reporting	<p>The quarterly budget monitoring reports to Cabinet are comprehensive and include a suite of reports covering relevant information on revenue, capital expenditure, variances, forecast HRA and Treasury Management.</p> <p>The explanations for the variances against income and expenditure are in sufficient detail for Members to understand the reasons and the implications. As savings are incorporated within the budget, these are monitored along with other budget variations.</p> <p>The Council is considering whether its performance management arrangements remain fit for purpose given the significant service changes during the year and the continuing focus on commissioning</p> <p>Full Council receive reports from Cabinet members on key projects e.g. UBICO and GO shared services following so consideration by both the Overview and Scrutiny Committee (who receive reports from individual task groups) and Cabinet e.g. budget proposals, corporate strategy and governance reports.</p>	 Green

- 1 Executive Summary
- 2 Key Indicators
- 3 Strategic Financial Planning
- 4 Financial Governance
- 5 Financial Control**
- Appendix - Key indicators of financial performance

Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.





Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	<p>The budget setting process is largely unchanged from previous years. Full Council approved the 2013/14 budget in its meeting on 8 February 2013. There is robust scrutiny of the budget before it is set as the budget was considered by a budget sub-group of the Overview and Scrutiny Committee on 7 January 2013 and their comments considered by Cabinet on 5 February 2013 prior to the budget being recommended to Full Council.</p>	 Green
Performance against Savings Plans	<p>Budgetary control arrangements are set out in the Council's Financial Regulations and annually reflected in a Budget strategy and process report which is received by Cabinet. Internal Audit's recent report on budgetary control concluded that the system of expected control, although sound, had some weaknesses. In particular budget managers felt that although they had had support from the GO Shared Services, they would benefit from further training to fully exploit the functionality of the new system.</p> <p>The Council manages its budgets effectively and this is demonstrated by the good track record in achieving the overall budget. The Council underspent its budget in 2011/12 by £149,777 and by £174,086 the previous year. The unaudited 2012/13 accounts show an underspend of £201,801.</p>	 Green
Key Financial Accounting Systems	<p>The 'Bridging the Gap' programme has delivered savings and additional income to bridge the £1.1m funding gap in 2012/13, with £1.245m of further savings anticipated for 2013/14. A significant element of the savings plan relates to re-organisation, shared services and commissioning. A project board has been set up for both UBICO and GO Shared Services and these board receive regular reports on savings against targets.</p> <p>The Council's 2012/13 financial statements were produced for the first time by the GO Shared Services team using the new ERP financial system for the first time. Internal Audit concluded for 2012/13 that the Council's internal control arrangements covering financial systems were satisfactory but some of the systems operated by GO Shared Service received a limited assurance assessment. Internal Audit made a number of recommendations which are being implemented to improve the situation for the future. The Council's Annual Governance Statement recognises that action plans are in place and confirms that the Client Officer Group will manage a further review of progress in 2013/14. None of the issues raised by Internal Audit represented a significant risk to our audit of the Council's accounts.</p>	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<p>The Finance Team is largely provided by GO Shared Services. The 2012/13 accounts were produced by 30 June as planned and it is too early to say whether or not sufficient capacity exists (we have therefore rated this area as amber).</p>	 Amber
Internal audit arrangements	<p>The Internal Audit service is delivered by Audit Cotswolds which also provides services to other local councils. The aim of the partnership is to enhance the resilience and skills base of the service. The service through 2012/13 was delivered by a team with a variety of professional backgrounds including CIPFA.</p>	 Green
External audit arrangements	<p>The Internal Audit Plan for 2012/13 was risk based with a clear link between audit activity and the Council's risk management process. The majority of planned activities were completed in the year and all work had been completed as at 19 June 2013, although some reports relating to GO Shared Services were not finalised.</p> <p>In line with the requirements of the Accounts and Audit Regulations 2011, Audit Cotswolds undertook a self assessment of the service against the CIPFA 2006 Code of Practice for Internal Audit in Local Government. This identified no areas of non-compliance and only a small number (4%) of partial compliance.</p>	 Green
Assurance framework/risk management	<p>In 2011/12 the Council's external auditors, KPMG concluded that the financial statements gave a true and fair view of the council's financial position and concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>The Council has a risk management policy which is reviewed and updated annually. The corporate risk register is reviewed by the Senior Leadership Team monthly with residual risks are scored and prioritised and monitored quarterly by the Economy and Business Improvement Overview and Scrutiny committee and Cabinet.</p>	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix – Key indicators of financial performance

Key Indicators of Financial Performance

Working Capital - Benchmarked

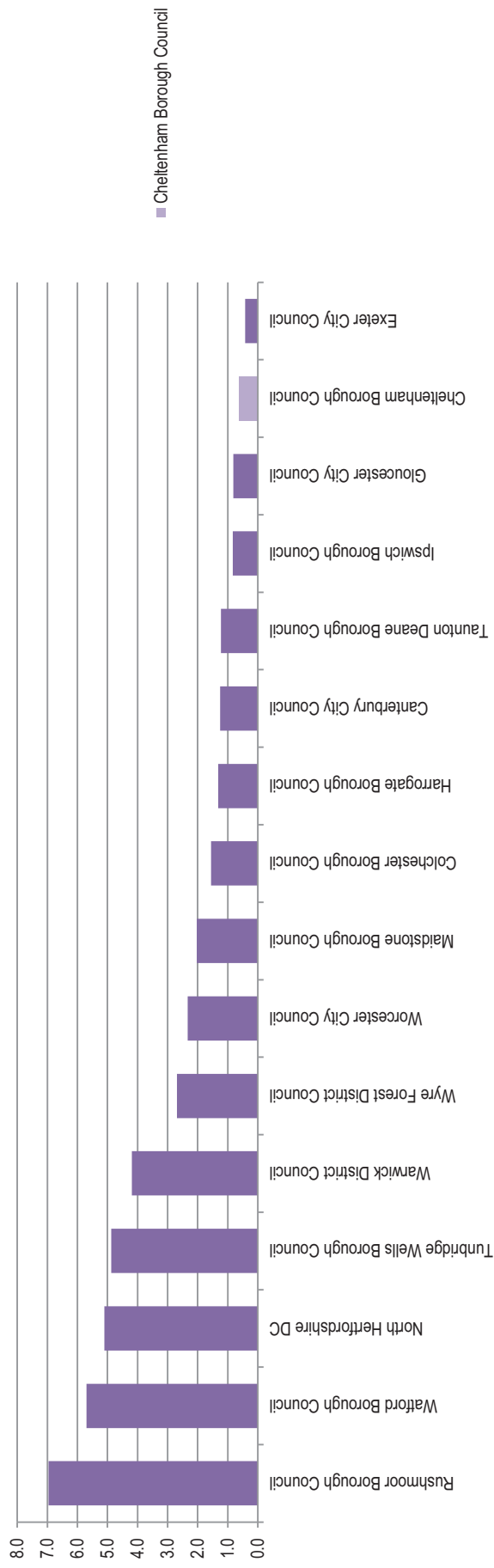
Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Cheltenham's working capital ratio as at 31.3.2012 was, at 0.62, towards the lower end of its comparator group. A ratio of 1 indicates that current assets match current liabilities. The Council will need to satisfy itself that arrangements are in place to meet all its future liabilities as they arise. The ratio fell in 2011/12 from 0.89 from 2012/2013 to 0.85 (source unaudited accounts).

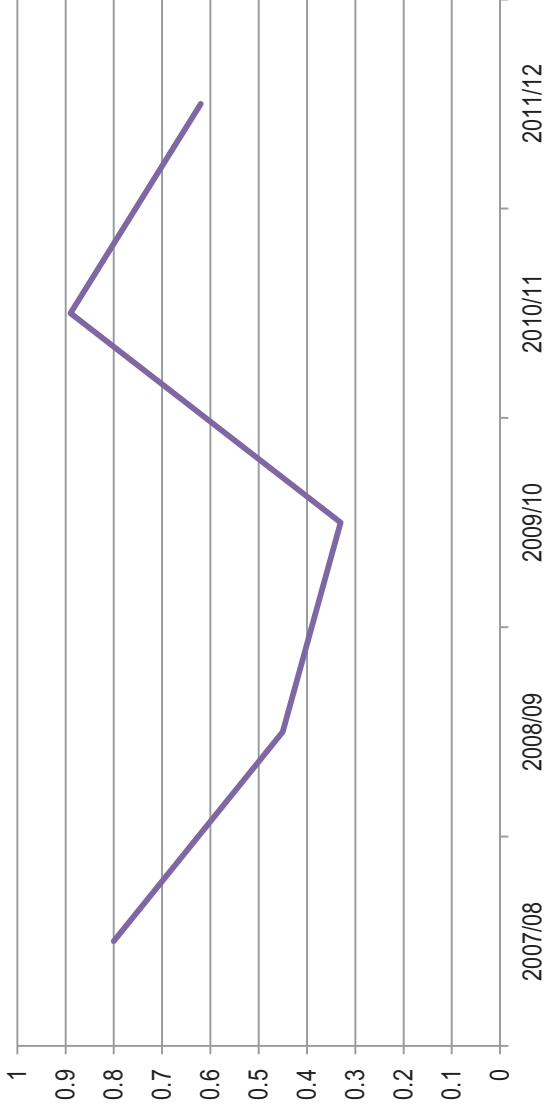
Working Capital ratio - 2011-12



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Working Capital - Trend



Source: Audit Commission's Technical Directory

The Council's working capital ratio varies year to year but remains negative i.e. below 1

Key Indicators of Financial Performance

Usable Reserves - Benchmarked

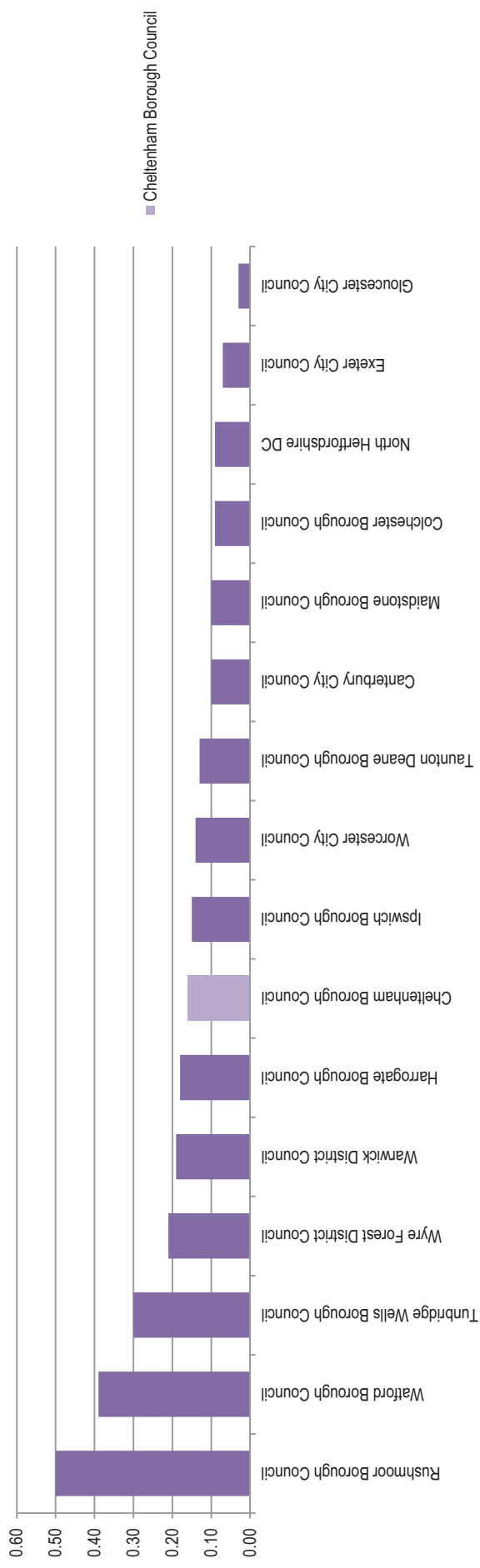
Definition

This shows total capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

Cheltenham's usable reserves to expenditure ratio is typical of its comparators

Usable Reserves to Gross Revenue Expenditure ratio 2011-12



Key Indicators of Financial Performance

Useable Reserves - Trend by Type

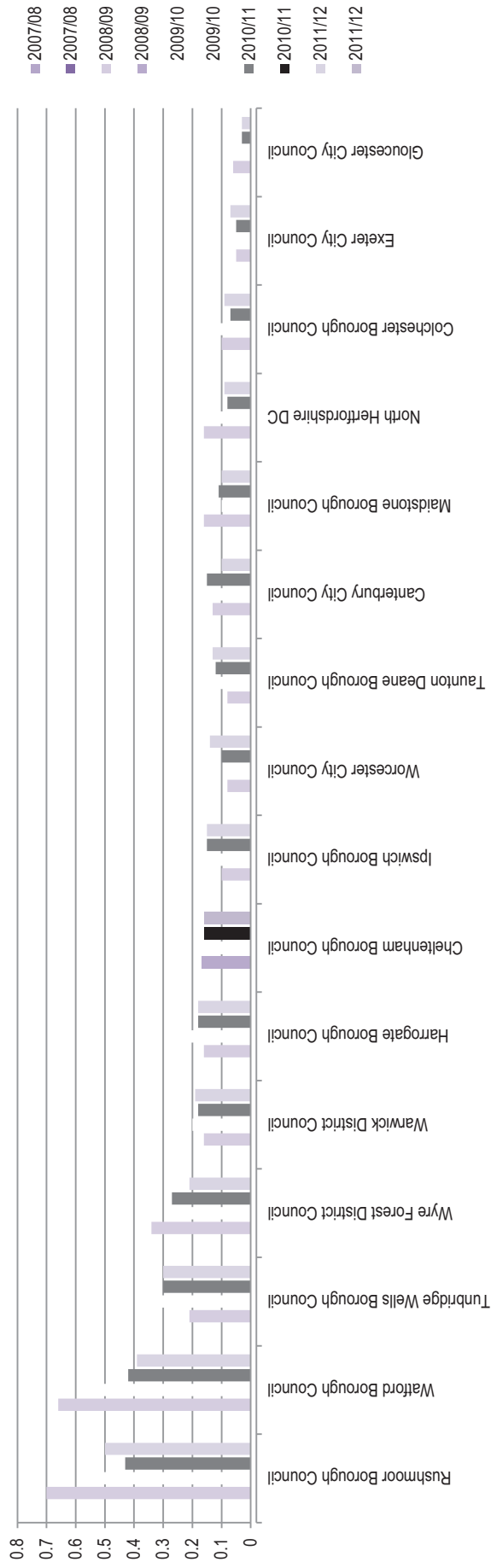
Definition

This shows the trend in usable reserves

Findings

Cheltenham's usable reserves have been relatively static over the past 5 years which is typical of the comparator group.

Usable Reserves to Gross Revenue Expenditure ratio - trend [in order of 2011-12]



Key Indicators of Financial Performance

Long Term Borrowing to Tax Revenue - Benchmarked

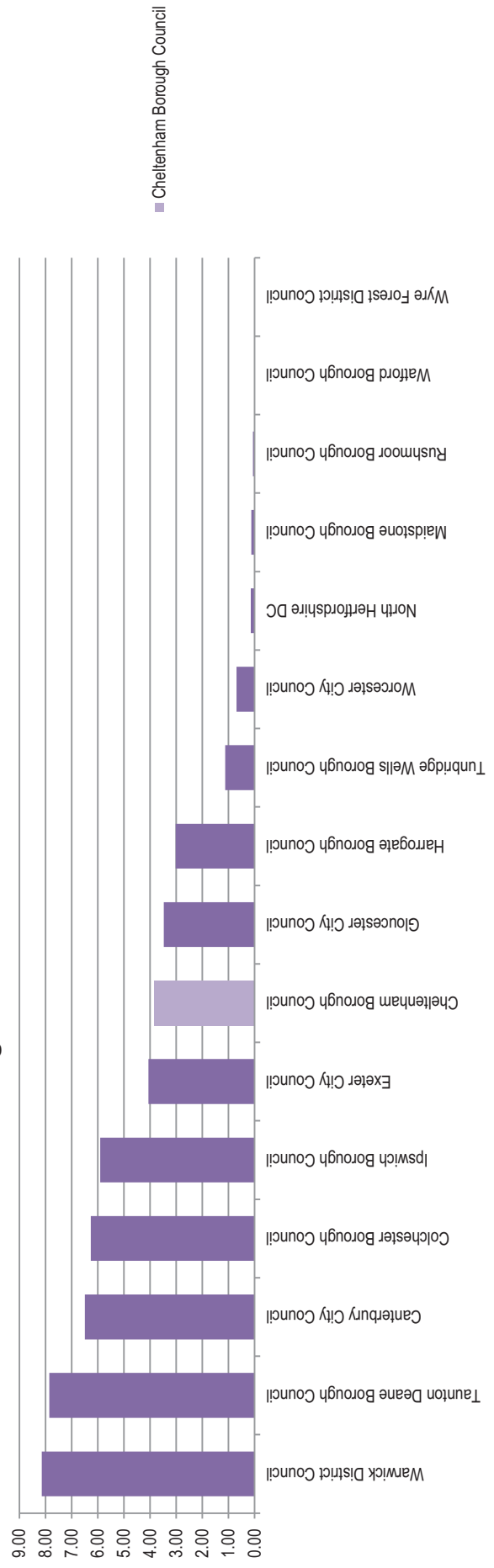
Definition

Shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

Cheltenham's ratio of 3.85 indicates that it has long term borrowing which exceeds tax revenue by almost four times. Cheltenham's ratio is reasonable and consistent with its comparators whose average is 3.2. In 2011/12 Cheltenham's long term borrowing increased by £24.7m as a result of the self financing settlement in respect of the Housing Revenue Account. Prior to that in 2010/11 Cheltenham's ratio would have been much closer to 1 at 1.59.

Long Term Debt to Tax Revenue ratio 2011-12



Key Indicators of Financial Performance

Long-term borrowing to Long-term assets - Benchmarked

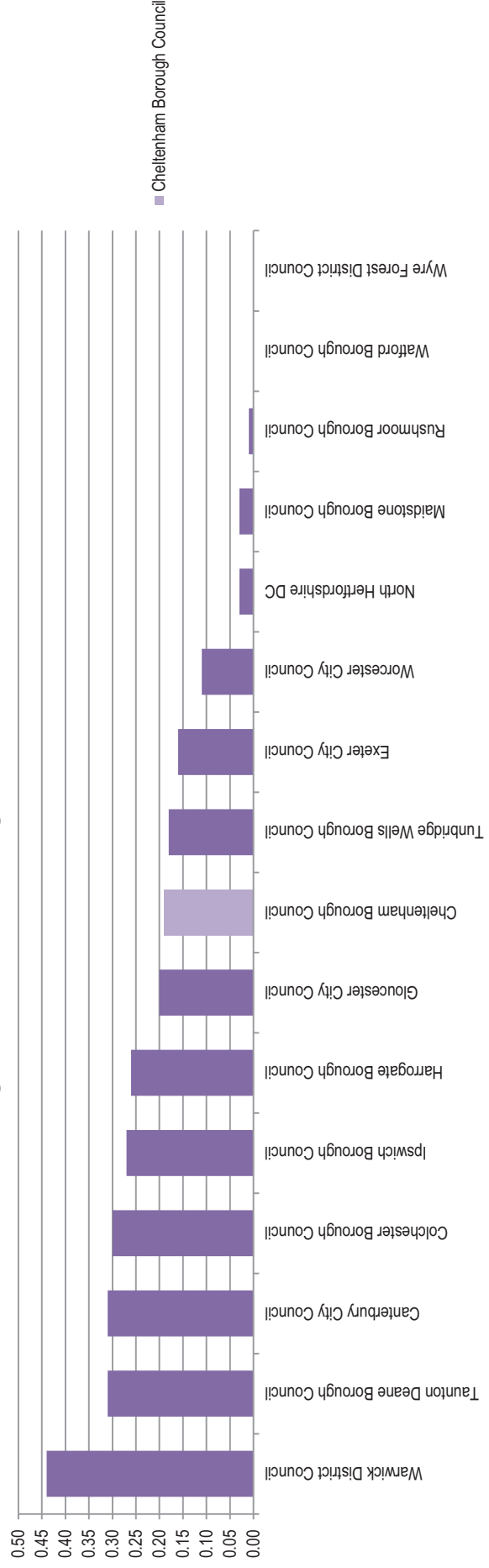
Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

This shows that the Council's long term borrowing represents approximately one fifth of its long term assets - i.e. long term borrowing does not exceed its long term assets. Cheltenham's ratio of 0.19 is consistent with the comparator group.

Long Term Debt to Long Term Assets ratio 2011-12



Key Indicators of Financial Performance

Sickness Absence Levels

Background

The average sickness absence level for the public sector in 2011/12 was 7.9 days per FTE, whilst the private sector average was 5.7. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

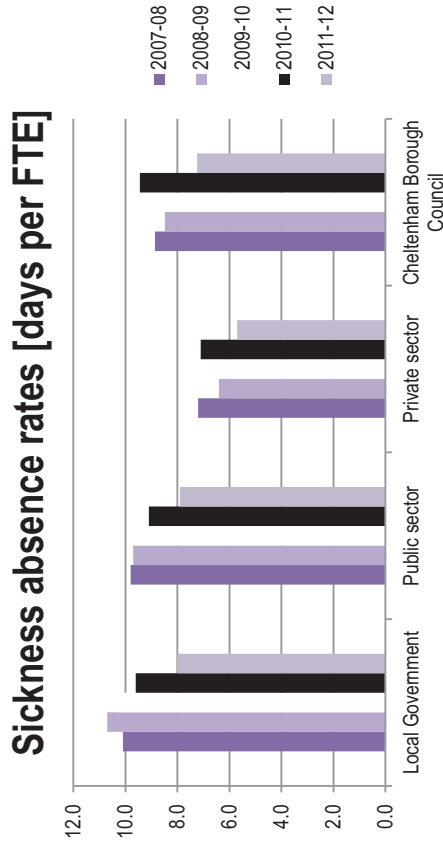
- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".

Findings

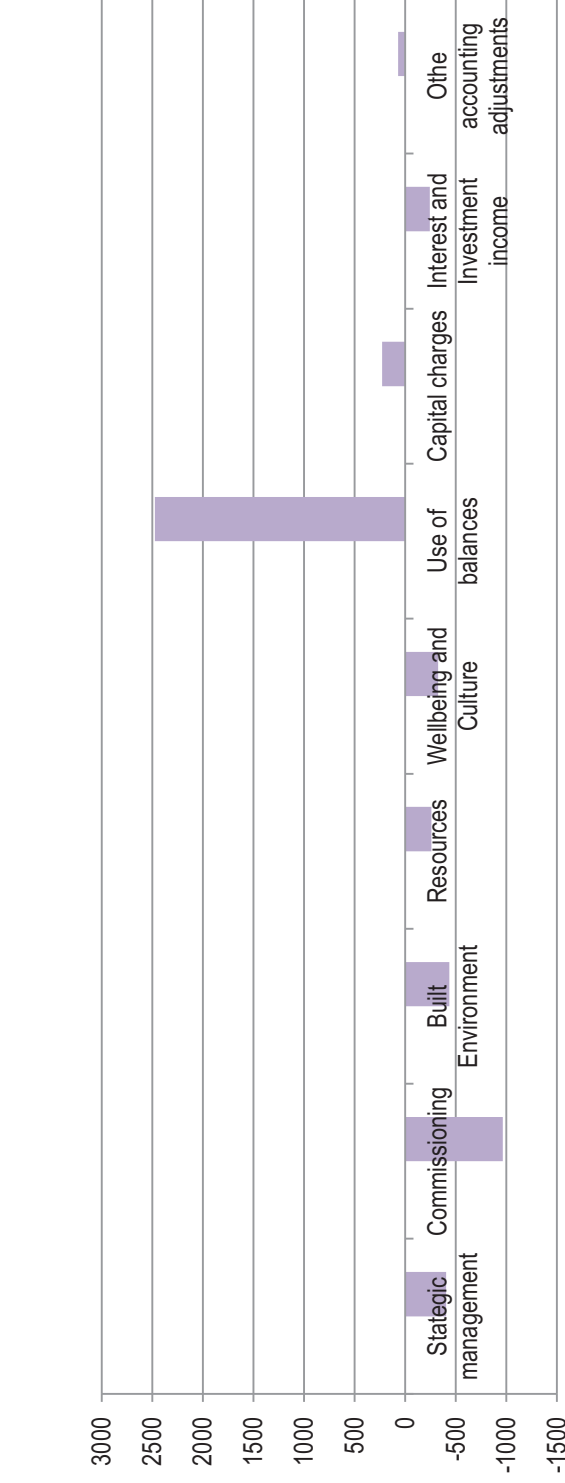
Cheltenham's sickness absence levels have been fairly consistent over the past four years and generally below the public sector average. As a result of the transfer of staff to UBICO and GO in 2012/13 the reported figure for 2012/13 is 7.04 days which compares with the target figure of 7.5 days.

Note: The figure for 2011/12 is an estimate based on six months data only.



Key Indicators of Financial Performance

Performance Against Budget: Major Variances from Working Budget

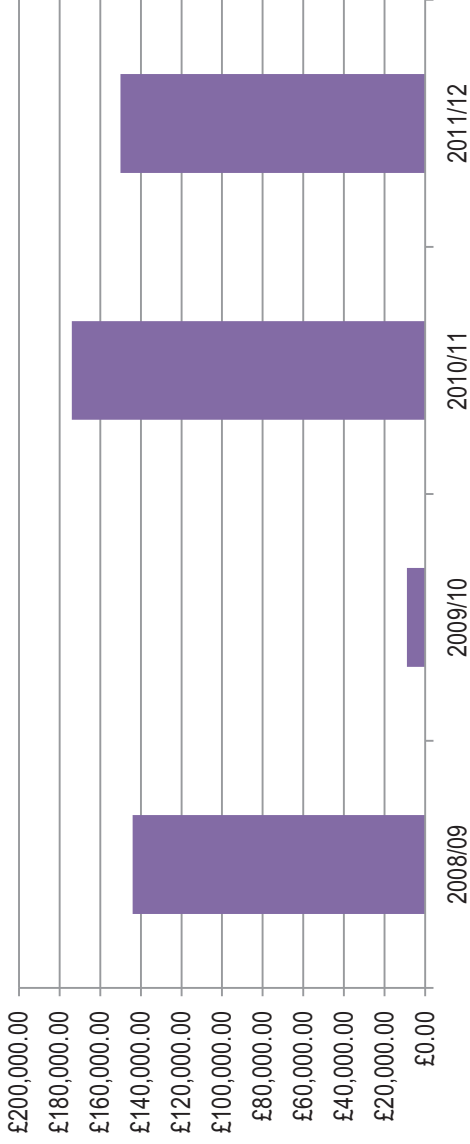


The Council has reported an underspend against each service line. in 2012/13. The total underspend against budget was £201,801

Source: Unaudited Accounts

Key Indicators of Financial Performance

Performance Against Budget: Track Record



The Council has made a surplus of between £7k and £174k for each of the past four years. A reported surplus of just over £200k has been made in 2012/13.

Note: The 2008/09 figure excludes a VAT windfall refund of £1.1m

Source: Unaudited Accounts



© 2012 Grant Thornton UK LLP. All rights reserved

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership.

Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.



Grant certification work plan for Cheltenham Borough Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

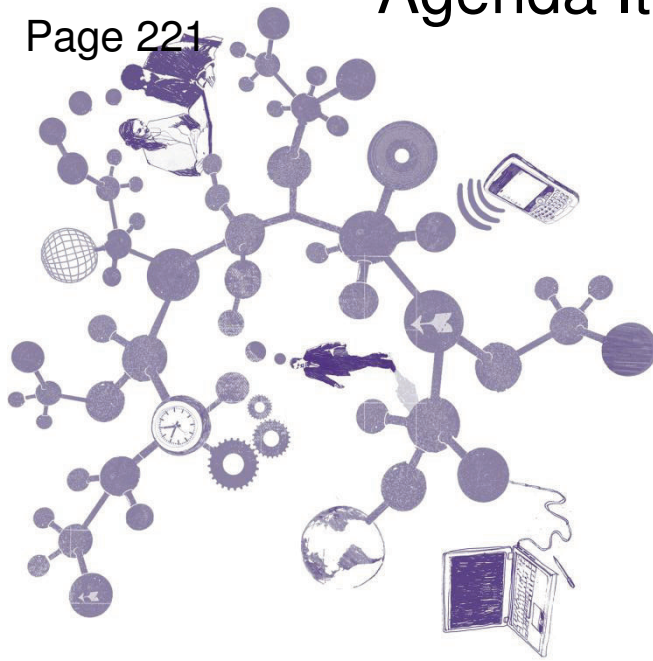
Year ended 31 March 2013

25 September 2013

Peter Barber
Engagement Lead
T +44 (0)1173 057 897
E peter.a.barber@uk.gt.com

Peter Smith
Audit Manager
T +44 (0)1173 057 832
E peter.w.smith@uk.gt.com

Paul Benfield
In Charge
T +44 (0)1173 057 894
E paul.m.benfield@uk.gt.com



Contents

Section	Page
1. Our approach to grant certification work	4
Appendix A Summary of expected claims and returns for the year ended 31 March 2013	7

Our approach to grant certification work

Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information.

The Audit Commission makes certification arrangements with grant-paying bodies, including confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and set out the specific procedures to be applied in examining the claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

As the Council's appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission.

Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return. The arrangements for 2012-13 are:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data

- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work where possible.

Role of all parties

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role & responsibility
Grant paying body	Sets conditions of grant and deadline for submission for pre-certified and certified claims
Audit Commission	Issues certification instructions for auditor work
Council	Submits claims for certification to the Appointed Auditor within grant paying body submission deadlines
Appointed Auditor	Certifies claims in accordance with Audit Commission certification instructions and within certification deadlines

The Council’s role is set out in more detail below:

- the Director of Resources is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to claims and returns
- the Council should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement
- the Council should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from grant paying bodies
- grant-paying bodies usually require the Council’s certificate to be given by an appropriate senior officer. This is typically Director of Resources or an officer authorised by written delegated powers
- the Council should monitor arrangements with any third parties involved in the certification process.

Claims history

The most significant claims and returns in 2011-12 were:

- housing and council tax benefit claim
- national non-domestic rates return
- pooling of housing capital receipts

Due to changes in government funding, there are a number of schemes that either finished in 2011-12 or where funding is no longer ring-fenced. For the Council this means that there will be no certification of the following schemes this year:

- HRA (Housing Revenue Account) subsidy

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification
- without qualification but with agreed amendments incorporated by the Council or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which may impact on the certification fee.

Certification work fees

The Audit Commission sets an indicative scale fee for grant claim certification based on 2010/11 actual certification fees for each Council. The indicative scale fee for the Council is £12,750 for 2011/12. This fee is based on the following assumptions:

- there will be no change in the scope of our work due to the control environment in place during the year
- the Council provides adequate working papers to support each entry in the claim/return
- the Council's staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries.

Where there is any significant variation from these assumptions, we will discuss a variation to the indicative scale fee with the Council and the Audit Commission.

The Council has identified all claims and returns requiring certification and this information is incorporated into Appendix A to this plan.

Administration

When each expected claim or return is completed, a copy of the signed claim should be sent to Peter Smith at the following address:

Grant Thornton UK LLP
The Canterbury Business Centre
18 Ashchurch Road
Tewkesbury
GL20 8BT

- The **original** claims and returns should be retained by the Council.
- If additional claims and returns are identified by either us or the Council they will be incorporated into the appendix in this plan
- All claims and returns listed in appendix A should be sent to us, even if below the de minimis limit so that we can confirm that no certification is required. We are required to report the value of these claims to the Audit Commission in our annual certification report.

Managing the certification process – our role

- We intend to certify all claims and returns in accordance within the deadlines set by the Audit Commission. If we receive any claims after the Council's submission deadline, we will endeavour to certify them within the Audit Commission deadline but, where this is not possible, within three months from receipt
- A copy of each certified claim or return will be sent to the relevant named contact when the certification process is complete, along with a copy of the qualification letter, where applicable
- Copies of the certification instructions can be provided on request for any new claims or returns
- We expect to complete the certification of all claims by late 2013 and will issue a grant certification report highlighting any issues that need to be brought to the Council's attention.

Appendix A: Summary of expected claims & returns for the year ended 31 March 2013

Claim (CI reference)	Authority deadline	Certification deadline	Claim certified in prior year	Prior year outcome
Housing and council tax benefits scheme (BEN01)	30/04/13	30/11/13	Yes	
Pooling of housing capital receipts (CFB06)	28/06/13	27/09/13	Yes	
National non-domestic rates return (LA01)	28/06/13	27/09/13	Yes	



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grantthornton.co.uk

Cheltenham Borough Council
Audit Committee – 25 September 2013
REGULATION OF INVESTIGATORY POWERS (RIPA)
Office of Surveillance Commissioner’s Inspection Report

Accountable member	Councillor Jon Walklett - Cabinet Member for Corporate Services
Accountable officer	Mark Sheldon - Director of Resources,
Ward(s) affected	None
Key Decision	No
Executive summary	To update Audit Committee on the inspection and report by His Honour Norman Jones QC, Assistant Commissioner from the Office of Surveillance Commissioners (OSC) on the Councils arrangements for the use of the powers under the Regulation of Investigatory Powers Act 2000 (RIPA)
Recommendations	<ol style="list-style-type: none"> 1. To note the findings and recommendations within the OSC report following the inspection on the 26th July 2013 regarding the Councils arrangements for the use of RIPA (Appendix 2) 2. To agree the action plan to deliver changes required to meet the Assistant Commissioners recommendations (Appendix 3) 3. To recommend to Cabinet that it agrees the revised RIPA guidance (Appendix 4)

Financial implications	<p>There are no direct financial implications arising from this report. Where initiated, the RIPA process may support the safeguarding of public funds.</p> <p>Contact officer: Mark Sheldon</p> <p>Email: mark.sheldon@cheltenham.gov.uk, Tel: 01242 264123</p>
Legal implications	<p>The Council may, where it is necessary and proportionate, need to undertake surveillance. RIPA provides a legal framework for the control and regulation of surveillance and information techniques which public authorities undertake as part of their duties. The Council’s procedural guide will provide information and advice to those seeking authorisation and those officers granting authorisation. It will also provide the public with information about how the Council approaches the use of surveillance.</p> <p>Contact officer: sarah.farooqi@teWKesbury.gov.uk, 01684 272693</p>

HR implications (including learning and organisational development)	HR implications are only for those employees directly involved in dealing with surveillance ensuring that RIPA legislation is adhered to. Contact officer: donna.sheffield@cheltenham.gov.uk, 01242 774972
Key risks	<i>If surveillance is carried out without due regard to RIPA, Ministry of Justice Codes of Practice and the CBC procedural guidance then there are risks to an individual's rights and to the Councils reputation. Appendix 1</i>
Corporate and community plan Implications	None
Environmental and climate change implications	None

1. Background

- 1.1** RIPA provides the Office of Surveillance Commissioners with the powers to carry out inspections and to provide effective and efficient oversight of the conduct of covert surveillance and covert human intelligence sources by public authorities in accordance with:
- Part III of the 1997 Act
 - Parts II and III of RIPA.
- 1.2** On 26th July 2013, His Honour Norman Jones QC, Assistant Surveillance Commissioner with the Office of Surveillance Commissioners (OSC) conducted a comprehensive inspection of the Council's use and governance arrangements for conducting covert surveillance.
- 1.3** The use of covert surveillance is strictly governed by RIPA. The responsibility for the overall governance arrangements rests with the Executive Director who acts as the RIPA Senior Responsible Officer.
- 1.4** The Audit Committee recommended to Cabinet on the 20th March 2013 RIPA Guidelines to ensure that its officers comply with the legal requirements of the Regulation of Investigatory Powers Act 2000. These were approved by Cabinet on the 16th April 2013.

2. The Assistant Commissioner in his report concluded that:-

- i. the Council has made excellent and commendable progress since the last inspection in April 2010.
- ii. the Council had not used its powers under RIPA since his last report.
- iii. the Central Record of Authorisations is compliant with the requirements of the Codes of Practice but will need some additional fields to accommodate the new Magistrates' Court procedure. (recommendation)
- iv. all of the recommendations made in the April 2010 report had been implemented.
- v. there is a structured RIPA training programme in place and that it was encouraging to note that attendance at the professional sessions run in 2010 and 2012/13 were high and

included the CEO who takes an active interest in RIPA.

- vi. an active auditing system exists within the Council and at regular audits the possible unauthorised usage of covert surveillance is a subject of the review. No such activity has been identified.
- vii. each Authorising Officer is provided with an excellent folder which contains the Council's *RIPA Procedural Guide*.
- viii. because the Councils guidelines allow for the Senior Responsible Officer (SRO) to deputise for the Chief Executive who is an Authorising Officer, the RIPA guidelines are amended to nominate the SRO as an Authorising Officer, to authorise only in exceptional circumstances. (Recommendation).
- ix. the Councils RIPA Procedural Guide is a first class document which provides all the information and guidance necessary for an Authorising Officer or an applicant.
- x. the Council has made good preparation for authorisation under the recent legislation. The RIPA Procedural Guide has been amended to accommodate the provisions and a procedure is outlined for appearances before the Magistrates. The issues relating to urgency and duration, missed by most Councils, had been identified and appropriate note taken and guidance given.
- xi. the Council can barely envisage circumstances when it is likely to employ Covert Human Intelligence Sources. It has never done so but does recognise that occasionally circumstances arise when to do so is unavoidable. CBC officers have not received any training to be controllers or handlers and this should be considered for future training events. (Recommendation)
- xii. one matter that gave some concern to the Assistant Commissioner is the emphasis placed in the forward to the document on the possible usage of the non-RIPA authorisation system outlined above (recommendation)

3. Action Plan to Implement Recommendations

- 3.1 The Assistant Commissioners report stated that there were 4 recommendations of a minor nature, these have been considered by the SRO and the Corporate Governance Group and an Action Plan (Appendix 3) has been put in place to ensure that the Council will do as much as possible to meet them.

4. Alternative options considered

- 4.1 None

5. Consultation and feedback

- 5.1 The Corporate Governance Group. Advice has also been sought from One Legal.

6. Performance management – monitoring and review

- 6.1 There will be reports to the Audit Committee on the use of RIPA.

Report author	Contact officer: Bryan Parsons Email: bryan.parsons@cheltenham.gov.uk, 01242 264189
Appendices	<ol style="list-style-type: none">1. Risk Assessment2. OSC report3. Action Plan4. Revised RIPA guidance

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likely-hood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If surveillance is carried out without due regard to RIPA, Codes of Practice and the CBC procedural guidance then there are risks to an individual's rights and to the Councils reputation.	Borough Solicitor	20/03/2013	4	2	8	Accept	<ul style="list-style-type: none"> Put in place effective internal controls to ensure compliance with guidance. Promote the guidance with Service managers and investigation staff. 	Ongoing	Borough Solicitor	
<p>Explanatory notes</p> <p>Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)</p> <p>Likelihood – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)</p> <p>Control - Either: Reduce / Accept / Transfer to 3rd party / Close</p>											

This page is intentionally left blank
Page 234

Chief Surveillance Commissioner,
Office of Surveillance Commissioners,
PO Box 29105,
London,
SW1V 1ZU.

8th. August 2013.

**INSPECTION REPORT
CHELTENHAM BOROUGH COUNCIL**

Inspection 26th. July 2013.

Inspector His Honour Norman Jones QC.
Assistant Commissioner

Cheltenham Borough Council.

1. Cheltenham Borough Council administers an area of some 18 square miles in the Cotswolds with a population of about 115,000. The principal township is Cheltenham where the Council Headquarters are situated.
2. The corporate Senior Management Structure continues to be lead by the Chief Executive, Mr. Andrew North who is directly supported by two Executive Directors, four Directors and the Borough Solicitor and Monitoring Officer. In turn they lead teams headed by Service Managers.
3. Since the last OSC inspection the Council has undergone a dramatic reorganisation which has seen the reduction of some 650 staff to 200. Certain services, including legal, are now shared with adjoining Councils under collaborative agreements.
4. The *Senior Responsible Officer (SRO)* for RIPA is Ms. Pat Pratley, Executive Director and the *RIPA Co-ordinating Officer* is Mr. Bryan Parsons, Corporate Governance, Risk and Compliance Officer.
5. I conducted the last inspection of the Council for the OSC in April 2010.
6. The Council has authorised no RIPA covert surveillance since the last inspection.
7. The Council headquarters is at the Municipal Offices, The Promenade, Cheltenham, Gloucestershire, GL50 9SA.

Inspection.

8. A warm welcome to Cheltenham was extended by both Ms. Pratley and Mr. Parsons who were the officers attending the inspection.

9. The inspection was conducted by interview and discussion with the officers and a later interview with Mr. Mark Sheldon, Director of Resources and Authorising Officer. Among the issues discussed were the Council's actions taken on the recommendations of the last report, the reasons for non usage of *RIPA*, the management of *RIPA*, Authorising Officers, Policy and Procedures, Training, the *Protection of Freedoms Act 2012* and the *RIP(Directed Surveillance and CHIS)(Amendment)Order 2012, SI 2012/1500, Covert Human Intelligence Sources (CHIS)*, CCTV and reporting to Elected Members.
10. Gratitude must be extended to all officers who afforded full assistance and enthusiastic participation throughout the inspection.

Central Record

11. The Central Record of Authorisations is in a spreadsheet format and is compliant with the requirements of the *Codes of Practice*. It will need some addition to accommodate the new Magistrates' Court procedure.

See recommendation

Previous Recommendations.

12. Five recommendations were made in the previous report:
 - I. *The recommendations from the last inspection report should be discharged.*

Three recommendations had featured in H.H. Dr. Kolbert's report of April 2007. At the time of the last inspection none of these had been fully discharged. This failure has been fully addressed since the last inspection. This recommendation has been discharged.

- II. *Further training should be urgently undertaken by authorising officers, including the Chief Executive and his Deputy, the RIPA Co-ordinator and potential RIPA applicants from all departments. Such training should be conducted by a reputable external trainer and should cover those matters identified as weaknesses within this report.*

Professional external training was conducted for all relevant officers in September and October 2010 and again in December 2012 and January 2013. The issues raised in the last report were covered. This recommendation has been discharged.

- III. *Steps must be taken within the Council to raise RIPA awareness.*

A high standard of awareness is now maintained at the Council. This is achieved by publishing contact details of the *SRO* and *RIPA Co-ordinating Officer* who are available to provide assistance to any officer; the active encouragement of officers to approach the *RIPA Co-ordinating Officer* before submitting any authorisation; the

use of the intranet to publicise *RIPA* and the cascading down of *RIPA* information through the Corporate Governance Group, the membership of which includes officers from most likely participant departments. Additionally the reduction in staff numbers means that the Council officers are operating within a close community where it is easy to dissipate information. This recommendation has been discharged.

- IV. *The number of authorising officers should be reduced and they should be identified in Annex A of the Procedural Guide both by office and name.*

The six Authorising Officers at the time of the last inspection have been reduced to three. The CEO and Mr. Grahame Lewis, Executive Director, are included in that number though it is anticipated that the CEO is unlikely to authorise other than for the sensitive *confidential information* and juvenile and vulnerable *CHIS* authorisations. Additionally he would authorise all *CHIS* applications. All are named in Appendix 1 of the Procedural Guide and have received appropriate training. This recommendation has been discharged.

- V. *Amendments should be made to the Procedural Guide.*

This recommendation has been discharged.

Training

13. There is now a structured *RIPA* training programme at Cheltenham BC. It is intended that the practice of engaging professional external training at regular intervals of every year or so will continue and is to be encouraged. It is hoped that the cost of this may be shared with other local authorities to reduce the economic demands on individual Councils.
14. In addition we discussed the possibility that additional training could be provided within those periods by the *SRO*, the *RIPA Co-ordinating Officer* or members of the legal staff if it was considered necessary. It is encouraging to note that attendance at the professional sessions run in 2010 and 2012/13 were high and included the CEO who takes an active interest in *RIPA*.

Unauthorised Surveillance

15. The risks of officers undertaking unauthorised covert surveillance were discussed. As indicated above (paragraph 12(III)) *RIPA* awareness is high within the Council and this acts as a primary bulwark against unauthorised surveillance. An active auditing system exists within the Council and at regular audits the possible unauthorised usage of covert surveillance is a subject of the review. No such activity has been identified. The auditing process also requires an examination of a sample of departmental files including looking for unauthorised covert

surveillance. Any cases which are prosecuted by the Council pass through the hands of the Council's prosecuting solicitor and any information gathered by unauthorised means would be immediately identified.

16. The Council has produced a form which emulates *RIPA* procedures but which could be used if it were to conduct covert surveillance outside the parameters of *RIPA* authorisation. This system was discussed and it was indicated to the officers that whilst such surveillance may not be illegal nevertheless a Court would be unlikely in the current climate to look favourably on any evidence gathered by a process beyond the limits identified within the *Protection of Freedoms Act 2012* and the *RIP(Directed Surveillance and CHIS)(Amendment)Order 2012, SI 2012/1500* . The officers indicated that it would be extremely unlikely that such intelligence/evidence gathering would be permitted in any event.

SRO and RIPA Co-ordinating Officer

17. Ms. Pratley has been *SRO* only since March of this year. Her background lies in auditing although she has had experience of *RIPA* some considerable time ago. Since undertaking the role she has re-familiarised herself with the *RIPA* process. She reviewed the last OSC report and determined that all issues raised had been actioned before this latest inspection. She has maintained close contact with the auditors who have undertaken audits of three local councils and determined that the *RIPA* system adopted at Cheltenham was the best of the three. In the event of any authorisation being granted she would review it probably with the assistance of legal officers.
18. At the time of the last OSC report Mr. Parsons had only assumed the role of *RIPA Co-ordinating Officer* three weeks before the inspection. The report was not favourable to the Council and Mr. Parsons took immediate steps to oversee the action programme which was devised following its reception. It is therefore largely due to his efforts that such a robust system is now installed at Cheltenham. Additionally the production of the excellent *RIPA Procedural Guide* is again due to his efforts.
19. The *SRO and RIPA Co-ordinating Officer* meet before each Council Audit Committee meeting to whose members Ms. Pratley would report any usage of *RIPA*.

Authorising Officers.

20. The decision to reduce the number of Authorising Officers has enabled the Council to concentrate the authorisation function largely in the hands of Mr. Sheldon and Mr. Lewis. In discussion with Mr. Sheldon it was clear that he was fully aware of the role he undertakes as Authorising Officer although he has had no resort to it since the last inspection. Whilst there has been an intention that the Authorising Officers should authorise mainly within their own fields of responsibility the point was made that an Authorising Officer should be capable of

authorising for any department since the role requires the exercise of good judgement rather than specific knowledge of departmental functions.

21. It is to be noted that each Authorising Officer is provided with an excellent folder produced by Mr. Parsons which contains the Council's *RIPA Procedural Guide*, all of the Home Office forms, a number of guidance documents provided by the external trainer and other *RIPA* information including a model completed form all of which provides an invaluable aid to the Authorising Officer.
22. The *SRO* is not specifically identified as an Authorising Officer though note 29 to the *Code of Practice for Covert Surveillance and Property Interference* appears to imply that she should be so. In any event she is likely to deputise for the CEO in his absence and thus could theoretically find herself required to authorise under one of the sensitive heads. In practice she should only authorise in exceptional circumstances.

See recommendation

23. The likelihood of the Council resorting to the use of Social Networking Sites (SNS) for the gathering of intelligence was discussed with Mr. Parsons and Mr. Sheldon. Whilst the Council holds an account on "Facebook" it is used solely for the promotion of Council services. A request by Housing Benefits to use the site for information gathering has been previously refused. The Council has no intention of permitting the use of SNS for intelligence gathering. It is aware of the risks involved and actively prevents any such usage.

CHIS

24. Cheltenham Council can barely envisage circumstances when it is likely to employ *CHIS*. It has never done so but does recognise that occasionally circumstances arise when to do so is unavoidable. Nevertheless processes are in place for the authorisation of such (by the CEO) which would be preceded by review by the legal department, and the *RIPA Procedural Guide* contains appropriate guidance for the event. However officers have not received any training to be controllers or handlers and this should be considered for future training events.

See recommendation

Policy and Procedures

25. Cheltenham BC's *RIPA Procedural Guide* was last revised in April 2013 and undergoes annual review. It is a first class document which provides all the information and guidance necessary for an Authorising Officer or an applicant. Within its appendices are documents obtained from the professional trainer which give further guidance and examples. The one matter which gives rise to some concern is the emphasis placed in the forward to the document on the possible usage of the non *RIPA* authorisation system outlined above (paragraph 16).

This would be better replaced with a caution against such action. No further amendments were suggested.

See recommendation

CCTV

26. The extensive CCTV system in Cheltenham continues to be managed as before by the police, though the Council makes a financial contribution to its maintenance through the Cheltenham Crime and Disorder Partnership.

***Protection of Freedoms Act 2012 and
RIP(Directed Surveillance and CHIS)(Amendment)Order 2012, SI
2012/1500***

27. Cheltenham BC has made good preparation for authorisation under the recent legislation. The *RIPA Procedural Guide* has been amended to accommodate the provisions and a procedure is outlined for appearances before the Magistrates. The issues relating to *urgency* and duration, missed by most Councils, had been identified and appropriate note taken and guidance given. Liaison had been set up with the local Magistrates' Court to facilitate such applications if they were made. A copy of the Council's *RIPA Procedural Guide* and the *Codes of Practice* have been supplied by the Council to the Magistrates.
28. In the event of an application for approval being made to the Magistrates the Borough Solicitor would attend to present the case. Two other solicitors also have been trained for this purpose. Legal Services are now shared between three Councils and it is likely that they will perform this service for all. At present it is intended that the investigating officer will also attend, though it must be appreciated that there is a range of questions which s/he would not be able to respond to and which would require the attendance of the Authorising Officer. In that event the solicitor should be alert to the risk of the investigating officer giving hearsay evidence and should require an adjournment for the Authorising Officer to attend.

Elected Members.

29. *RIPA* activity is reported to the Elected Members via the Audit Committee. Both the Governance Group and the *SRO* report to that Committee and the Committee members have access to the Council intranet and can peruse the *RIPA* documentation available on the site. This does not include the actual authorisations or the Central Record. At the end of each year a fuller report is submitted to the Audit Committee to enable it to determine whether the *RIPA* policy remains fit for purpose.

Conclusions

30. Cheltenham BC has made excellent and commendable progress since the last inspection. Although it is not possible to test that progress against actual applications/authorisations nevertheless the system now in place gives confidence that any authorisations granted will be compliant with the legislation. Much of this achievement is due to the excellent work undertaken by Mr. Parsons and the Governance Group in ensuring that the recommendations of the last report and its predecessor are now fully discharged.
31. Whilst it is the determined intention of the Council to use *RIPA* only when every other avenue has been explored and there is no alternative nevertheless all officers who were interviewed now give encouragement to the view that they are competent to undertake all of the tasks which *RIPA* authorisation may require of them.
32. It is particularly encouraging to note the attention now paid to training and the production of a manual for Authorising Officers alongside the *RIPA Procedural Guide*.
33. The one word of caution relates to the devised procedure for non *RIPA* authorisation. Very great care should be exercised before engaging in such a process.
34. The few recommendations are all of a minor nature.

Recommendations

35. .
 - I. Add columns to the Central Record to reflect Magistrate Court procedures. (*Paragraph 11*)
 - II. Nominate the *SRO* as an Authorising Officer though to authorise only in exceptional circumstances. (*Paragraph 22*)
 - III. Train officers as controllers and handlers of *CHIS*. (*Paragraph 24*)
 - IV. Amend the Forward to the *RIPA Procedural Guide*. (*Paragraph 25*)

His Honour Norman Jones, QC.
Assistant Surveillance Commissioner.

This page is intentionally left blank
Page 242

Action Plan to consider and meet the recommendations within the OSC report

Recommendation	Action to be taken by	Lead officer
Add columns to the Central Record to reflect Magistrate's Court procedures. <i>(Paragraph 11)</i>	01/09/2013	Corporate Governance Risk and Compliance Officer
Nominate the SRO as an Authorising Officer though to authorise only in exceptional circumstances. <i>(Paragraph 22)</i>	Procedural Guide to be amended September 2013	Corporate Governance Risk and Compliance Officer
Train officers as controllers and handlers of CHIS. <i>(Paragraph 24)</i>	Consideration of the need for CHIS Controllers by Corporate Governance Group If training is required April 2014. CGG consider that use of CHIS would be so infrequent that any training would need to be refreshed on each occasion. It was agreed that the RIPA coordinator should identify an external agency or other local authority with the expertise that we could engage if the need arose.	Corporate Governance Risk and Compliance Officer
Amend the Forward to the RIPA Procedural Guide. <i>(Paragraph 25)</i>	Procedural Guide to be amended September 2013	Corporate Governance Risk and Compliance Officer
Write letter to OSC acknowledging report and outlining action to be taken against Recommendations	September 2013	Corporate Governance Risk and Compliance Officer And SRO

This page is intentionally left blank
Page 244

Regulation of Investigatory Powers Act (RIPA) Procedural Guide

(Including additional guidance on Non-RIPA surveillance)



Document History

Document Location S: Library drive

Control Location: Code of Corporate Governance

Review Period: Annual

Reviewed by: Corporate Governance Group

Version Number	Version Date	Summary of Changes
1.0	16/04/2013	Revised Guidance
1.2	25/09/2013	Includes amendments following OSC report

This document is owned by:

Name	Job Title	Version
Mark Sheldon	Director of Resources	1.1
Pat Pratley	Executive Director	1.2

This document has been distributed to:

Name	Job Title	Version
All CBC employees, Members, and on the Public website		1.0
All CBC employees, Members, and on the Public website		1.2

Index

Section	Section number
Introduction	1
The background to RIPA	2
The scope of this guide	2.2
Consequences of not following RIPA	2.3
The Surveillance Commissioner	2.4
Covert Surveillance	3
Directed Surveillance (DS)	3.1
Covert Human Intelligence Sources (CHIS)	3.2
Table 1 Flow chart on the procedure for making an application to a Justice of Peace	3.2.10
Table 2 Flow chart on the procedure followed by HMCTS and the Justice of the Peace	3.2.10
Intrusive surveillance	3.3
Procedure for obtaining authorisations	4.0
The Senior Responsible Officer	4.1
Authorising Officers	4.2
Authorising Officers – What you need to do before authorising surveillance	4.3
Investigating Officers – What you need to do before applying for authorisation	4.4
Duration, review, renewal and cancellation of authorisations	5.0
Duration	5.1
Review	5.2
Renewals	5.3
Cancellations	5.4
Review of Policy and Procedure	5.5
The RIPA Coordinator	6.0
Legal Advice	7.0
Designated Officers	Appendix A
RIPA Forms	Appendix B
Agents Form	Appendix C
Particulars to be contained in records for CHIS	Appendix D
RIPA Application and Authorisation Process	Appendix E
Application for judicial approval	Appendix F
Contact details for Her Majesty's Courts and Tribunal Service (HMCTS) Gloucestershire	Appendix G
Non RIPA Surveillance Application Form	Appendix H

Forward:

This revised guidance reflects two significant legislative changes.

1. **Approval of RIPA Authorisations by a Justice of the Peace:** The amendments in the Protection of Freedoms Act 2012 mean that the authorisations and notices under RIPA for the use of particular covert techniques can only be given effect once an order approving the authorisation or notice has been granted by a Justice of the Peace (JP).
2. **Directed surveillance crime threshold:** Amendments to the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010 means that we can only grant an authorisation under RIPA for the use of directed surveillance when investigating particular types of criminal offences. These are criminal offences which attract a maximum custodial sentence of six months or more or criminal offences relating to the underage sale of alcohol or tobacco.

This guidance provides advice on how Cheltenham Borough Council can best approach these changes in law and the new arrangements that need to be put in place to implement them effectively. It is supplementary to the legislation and to the statutory Codes of Practice. If there are any doubts about the guidance then the RIPA coordinator or One Legal should be consulted.

This guidance is intended for investigation officers that may use covert techniques, including Environmental Health, Benefit Fraud Officers and Enforcement Officers. However, it will also be of use to authorising officers and designated persons and to those who oversee the use of investigatory techniques including elected members.

Surveillance outside of RIPA

There may be a necessity for the Council to undertake surveillance which does not meet the criteria to use the RIPA legislation such as in cases of serious disciplinary investigations or for overt operations this guidance provides some advice on the process for those situations.

The Council must still meet its obligations under the Human Rights Act and any surveillance outside of RIPA must still be necessary and proportionate having taken account of the intrusion issues. The decision making process and the management of such surveillance must be well documented

There is a requirement for the Council's Senior Responsible Officer (SRO) to regularly monitor surveillance outside of RIPA. Therefore before any such surveillance takes place advice must be sought from Legal Services.

Cheltenham Borough Council undertakes to use these powers in line with the law, only when necessary and proportionately.

Steve Jordan - Leader
Cheltenham Borough Council

1 INTRODUCTION

- 1.1 RIPA presents some difficult judgments which must be made from time to time. Whilst individual services can and do operate their own procedures, this is an issue which affects the Council corporately and staff will never be criticised for seeking advice.
- 1.2 The first point to emphasise is that any person who is unsure about whether to seek authorisation or unsure about whether to issue an authorisation, must seek immediate advice before acting. For those seeking authorisation, advice may initially be sought from their line manager, but it is always appropriate to seek the advice of a member of One Legal. RIPA is a piece of legislation with serious human rights implications whenever it is engaged. The Council is concerned about an individual's rights, but it is also concerned to guard against serious reputational risk.
- 1.3 The purpose of this document is to ensure that the Council complies with the Regulation of Investigatory Powers Act 2000 (RIPA).
- 1.4 This document provides guidance on the regulation of any covert surveillance that is carried out by council officers. This includes the use of undercover officers, informants and private investigators and other agents of the Council.
- 1.5 Any covert surveillance will have to be authorised and conducted in accordance with RIPA, the [statutory codes of practice](#) and this Guide and shall only be for one of the purposes set out in this Guide and for a purpose which the Council is legally required or empowered to investigate as part of its functions.
- 1.6 Covert surveillance will only be used by the Council where it judges such use to be necessary and proportionate to the seriousness of the crime or matter being investigated,
- 1.7 Before requesting authorisation Investigating Officers will have regard to this document and the statutory Codes of practice issued under section 71 RIPA. The Codes of practice are available from the RIPA Co-ordinator and direct from the Office of Surveillance website at <http://www.surveillancecommissioners.gov.uk/> or the Home Office at <http://security.homeoffice.gov.uk/ripa/>.
- 1.8 Before authorising covert surveillance Authorising Officers will have regard to this Guide and the statutory Codes of Practice. The Codes of Practice are available from the Home Office, CBC RIPA Co-ordinator and direct from the Office of Surveillance [website](#) or the [Home Office](#).
- 1.9 Authorising Officers will have to consider whether it is necessary and proportionate for Investigating Officers to undertake covert surveillance and whether it is possible to obtain the evidence through other means. The role of the authorising officer is covered in greater detail within paragraph 4.2.
- 1.10 Authorising Officers must give detailed consideration to the risk of collateral intrusion i.e. the risk of intruding into the privacy of others while watching someone else. This consideration and how the intrusion should be reduced and managed will need to be recorded within the application form.
- 1.11 There must be no situation where a council officer engages in covert surveillance

without obtaining authorisation in accordance with the procedures set out in this document, the statutory Codes of Practice and from RIPA.

- 1.12 Any queries concerning the content of the document should be addressed to the RIPA Co-ordinator (Governance, Risk and Compliance officer CBC).

2 THE REGULATION OF INVESTIGATORY POWERS ACT (RIPA)

2.1 The background to RIPA

RIPA provides a legal framework for the control and regulation of surveillance and information techniques which public authorities undertake as part of their duties. As was highlighted in the introduction to the Guide the need for such control arose as a result of the Human Rights Act 1998. Article 8 of the European Convention on Human Rights states that:-

1) Everyone has the right of respect for his private and family life, his home and his correspondence.

2) There shall be no interference by a public authority with the exercise of this right except such as in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health and morals or for the protection of the rights and freedoms of others.

- 2.1.1 The right under Article 8 is a qualified right and authorities can interfere with this right for the reasons given in paragraph 2 of Article 8. RIPA provides the legal framework for lawful interference.

2.2 The scope of this Guide

- 2.2.1 This Guide intends to cover the surveillance and information gathering techniques which are most likely to be carried out by the Council.

- 2.2.2 Neither RIPA nor this Guide covers the use of any overt surveillance, general observation that forms part of the normal day to day duties of officers, the use of equipment to merely reinforce normal sensory perception such as binoculars or circumstances where members of the public who volunteer information to the Council.

- 2.2.3 RIPA does not normally cover the use of overt CCTV surveillance systems since members of the public are aware that such systems are in place.

- 2.2.4 There may however be times when the Council uses CCTV for a specific investigation or operation. This Guide does not cover in detail the use of surveillance via the Town Centre CCTV system. In such cases authorisation for directed surveillance may be required. If the CCTV is to be used for surveillance, Investigating Officers should consult and adhere to the provisions of RIPA and the Cheltenham Town Centre Closed Circuit Television Operating Procedures and the Cheltenham Town Centre Closed Circuit Television Codes of practice jointly set up by Cheltenham Borough Council and Gloucestershire Constabulary.

- 2.2.5 If an Investigating Officer envisages using any other CCTV system they should contact the RIPA Co-ordinator concerning any clarification on the administrative process or seek legal advice from One Legal before they conduct any surveillance.

2.3 Consequences of not following RIPA

2.3.1 Section 27 of RIPA provides that surveillance shall be lawful for all purposes if authorised and conducted in accordance with an authorisation granted under RIPA.

2.3.2 Lawful surveillance is exempted from civil liability.

2.3.3 Although not obtaining authorisation does not make the authorisation unlawful per se, it does have some consequences: -

- i. Evidence that is gathered may be inadmissible in court;
- ii. The subjects of surveillance can bring their own proceedings or defeat proceedings brought by the Council against them on human rights grounds i.e. we have infringed their rights under Article 8;
- iii. If a challenge under Article 8 is successful the Council could face a claim for financial compensation;
- iv. A complaint could be made to the Office of Surveillance Commissioners; and
- v. The Government has also introduced a system of tribunal. Any person who believes that their rights have been breached can have their complaint dealt with by way of a tribunal.

2.4 The Surveillance Commissioner

2.4.1 The Government has appointed a Surveillance Commissioner to review the way in which public authorities implement the requirements of RIPA. The Commissioner has a wide range of powers of access and investigation. The Council will receive periodic visits from the Office of the Surveillance Commissioners. They will check to see if the Council is complying with RIPA.

2.4.2 It is important that the Council can show it complies with this Guide and with the provisions of RIPA.

3 COVERT SURVEILLANCE

There are three categories of covert surveillance: -

1. Directed Surveillance;
2. Covert Human Intelligence Sources; and
3. Intrusive surveillance (Local Authorities are not permitted to carry out intrusive surveillance but the information is included in this procedural guide to avoid inadvertent use of intrusive surveillance. Intrusive surveillance is defined in RIPA as surveillance in respect of anything taking place on residential premises or in a private vehicle, involving the presence of an investigator on those premises/vehicles or carried out through a surveillance device.

3.1 Directed Surveillance (DS)

3.1.2 The majority of covert surveillance that will be undertaken by the Council will fall under the heading of Directed Surveillance (DS).

3.1.3 DS is defined as surveillance which is covert, but not intrusive, and is undertaken:

- a) For the purpose of a specific investigation or operation
- b) In such a manner as it is likely to result in obtaining private information about a person (whether or not that person is the target of the investigation or operation) and
- c) In a planned manner and not by way of an immediate response, whereby it would not be reasonably practicable to obtain an authorisation prior to the surveillance being carried out.

3.1.4 Any car park where Automated Number Plate Recognition (ANPR) is installed for either payment or enforcement purposes or it is intended to use that equipment to monitor a particular vehicle or person beyond that purpose then the use of RIPA legislation should be considered.

3.1.5 It is irrelevant where the subject of the DS is being observed.

If you intend to instruct an agent to carry out the DS the agent must complete and sign the form marked "agent's agreement form" contained in Appendix C. The agent will be subject to RIPA in the same way as any employee of the Council would be. They may also be inspected by the OSC in respect of that particular operation. This should be pointed out during the instruction and contract stage. If advice is required please contact One Legal.

3.1.6 The flow chart in Appendix D provides guidance on the council's procedure for making an application to a Justice of the Peace (JP) seeking an order to approve the grant of a RIPA authorisation or Notice.

3.2 Covert Human Intelligence Sources (CHIS)

This involves the establishment or maintenance of a personal or other relationship with a person for the covert purpose of obtaining or disclosing private information. A CHIS is a person who: -

- a) S/He establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within paragraph b) or c);
- b) S/He covertly uses such a relationship to obtain information or to provide access to any information to another person; or
- c) S/He covertly discloses information obtained by the use of such a relationship or as a consequence of the existence of such a relationship.

3.2.1 A relationship is established or maintained for a covert purpose if and only if it is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.

3.2.2 A relationship is used covertly, and information obtained is disclosed covertly, if and only if the relationship is used or the information is disclosed in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the use or disclosure in question.

3.2.3 Covert human intelligence sources may only be authorised if the following arrangements are in place:

- that there will at all times be an officer within the council who will have day to day responsibility for dealing with the source on behalf of the authority, and for the source's security, (the handler) the investigation officer
- that there will at all times be another officer within the council who will have general oversight of the use made of the source; (controller) i.e. the responsible line manager.
- that there will at all times be an officer within the council who has responsibility for maintaining a record of the use made of the source; and
- that the records relating to the source maintained by the council will always contain particulars as laid down by the Covert Human Intelligence Sources codes of practice

- 3.2.4 Legal advice should always be sought where consideration is given to the use of CHIS.
- 3.2.5 Special consideration must be given to the use of vulnerable individuals for CHIS. A 'vulnerable individual' is a person who is or may be in need of community care services by reason of mental or other disability, age or illness and who is or may be unable to take care of himself, or unable to protect himself against significant harm or exploitation. Any individual of this description, or a juvenile as defined below, should only be authorised to act as a source in the most exceptional circumstances and only then when authorised by the Chief Executive (or, in his absence, the Deputy Chief Executive).
- 3.2.6 Before you undertake any surveillance involving a vulnerable individual (CHIS) you must consult One Legal before authorisation is sought.
- 3.2.7 Special safeguards also apply to the use or conduct of juvenile sources; that is sources under the age of 18 years. On no occasion should the use or conduct of a source under 16 years of age be authorised to give information against his parents or any person who has parental responsibility for him.
- 3.2.8 In other cases, authorisations should not be granted unless the special provisions contained within The Regulation of Investigatory Powers (Juveniles) Order 2000; SI No. 2793 are satisfied. Authorisations for juvenile sources should be granted by Chief Officers. Before you undertake any surveillance involving a juvenile you **must** consult the RIPA Co-ordinator concerning any clarification on the administrative process or seek legal advice from One Legal.
- 3.2.9 If you intend to instruct an agent to be the CHIS, the agent must complete and sign the form marked "agent's agreement form" contained in Appendix C. The agent will be subject to RIPA in the same way as any employee of the Council would be. They may also be inspected by the OSC in respect of that particular operation. This should be pointed out during the instruction and contract stage. If advice is required please contact either the RIPA Co-ordinator or One Legal.

- 3.2.10 The flow chart in Table 1 below provides guidance on the council's procedure for making an application to a Justice of the Peace seeking an order to approve the grant of a RIPA authorisation or Notice.

Table 2 is a copy of the guidance provided to JP/Magistrates on the process for dealing with an application from the council.

Appendix E provides additional information about the process the RIPA application and authorisation process by a JP/Magistrate

Table 1:

LOCAL AUTHORITY PROCEDURE: APPLICATION TO A JUSTICE OF THE PEACE SEEKING AN ORDER TO APPROVE THE GRANT OF A RIPA AUTHORISATION OR NOTICE

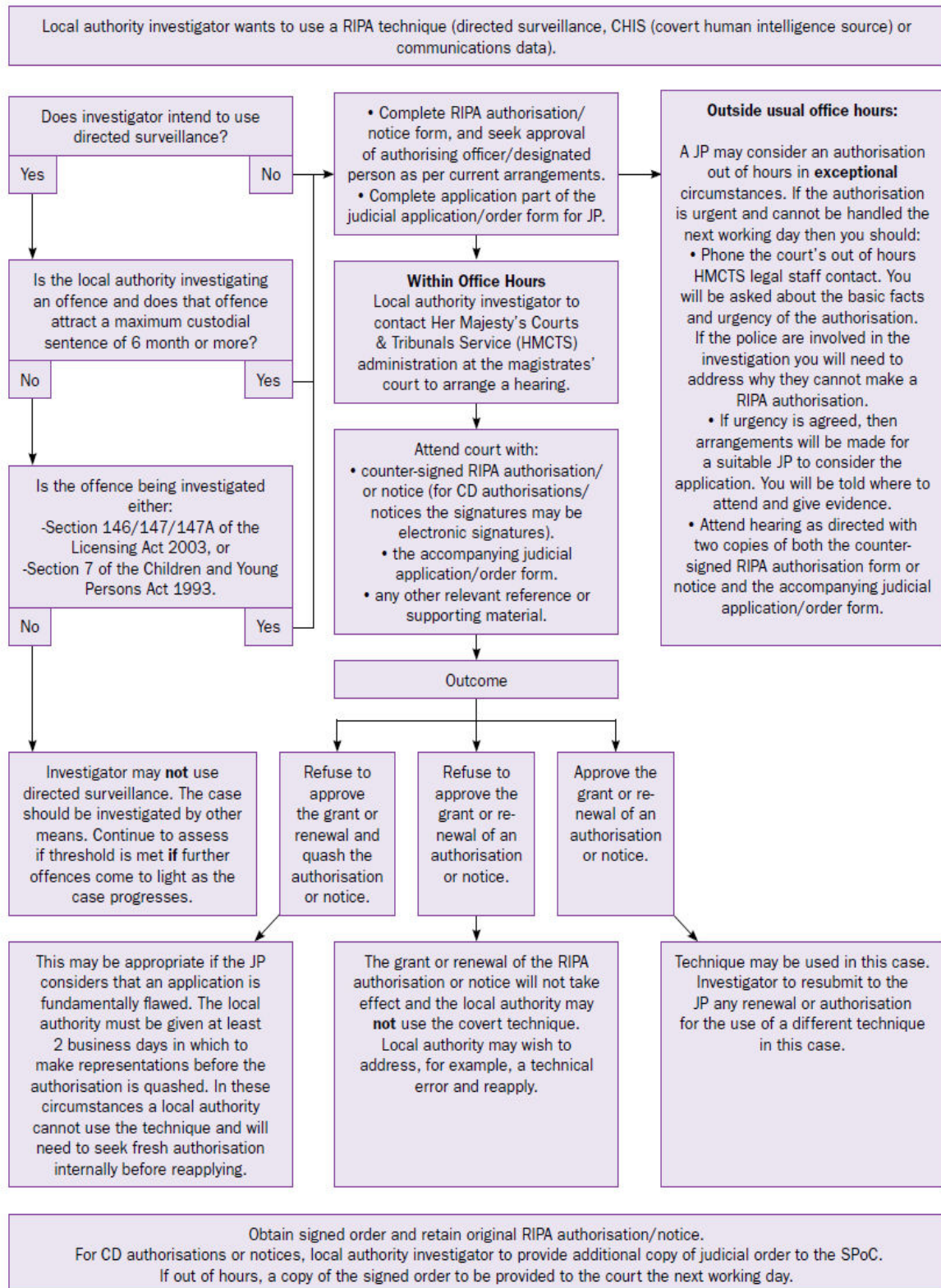
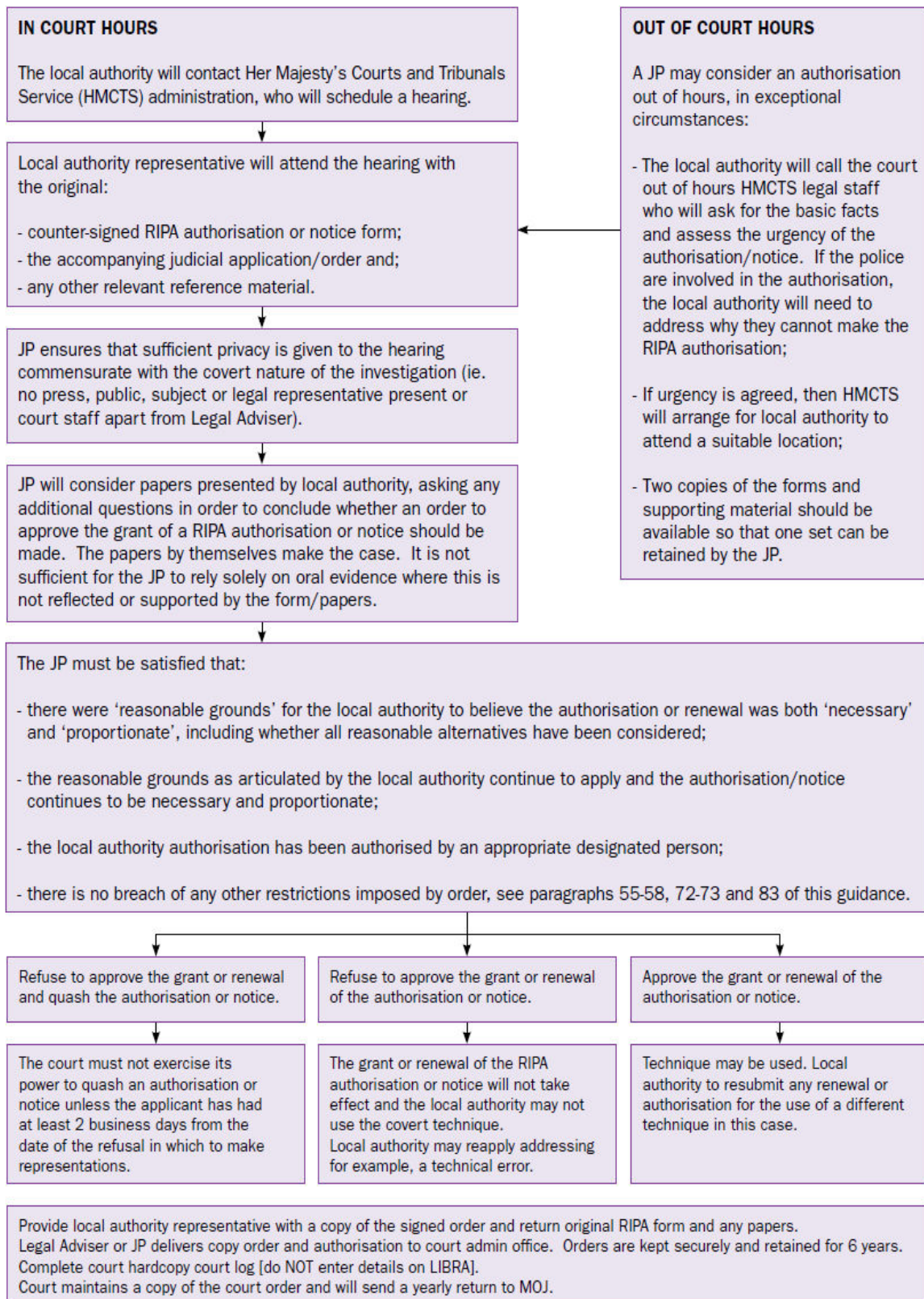


Table 2

PROCEDURE: LOCAL AUTHORITY APPLICATION TO A JUSTICE OF THE PEACE SEEKING AN ORDER TO APPROVE THE GRANT OF A RIPA AUTHORISATION OR NOTICE



3.3 Intrusive surveillance

Intrusive surveillance is defined as covert surveillance that: -

- a) is carried out in relation to anything taking place on any residential premises or in any private vehicle; and
- b) involves the presence of any individual on the premises or in the vehicle or is carried out by means of a surveillance device.
- c) If the device is not located on the premises or in the vehicle, it is not intrusive surveillance unless the device consistently provides information of the same quality and detail as might be expected to be obtained from a device actually present on the premises or in the vehicle. Operatives will need to be aware of using high powered zoom lenses or CCTV that may fall into this category.

3.3.1 *Local authorities are not authorised to conduct intrusive surveillance*

3.3.2 If you are considering conducting surveillance and the surveillance might fall within the scope of intrusive surveillance you **must** contact the RIPA Co-ordinator concerning any clarification on the administrative process or seek legal advice from One Legal before you undertake any surveillance.

4 PROCEDURE FOR OBTAINING AUTHORISATIONS

4.1 The Senior Responsible Officer:-

Role:

4.1.1 The nominated Executive Director is the Senior Responsible Officer (SRO) with responsibilities for:

- 4.1.2
 - (a) ensuring the integrity of the Council's RIPA processes;
 - (b) ensuring compliance with RIPA legislation and the Home Office RIPA Codes of practice;
 - (c) engaging with the OSC when its inspector conducts an inspection;
 - (d) overseeing the implementation of any post – inspection plans;
 - (e) ensuring that all Authorising Officers are of an appropriate standard in light of any recommendations made by the OSC inspection reports;
 - (f) ensuring that concerns are addressed, where OSC inspection reports highlight
 - (g) concerns about the standards of Authorising Officers.
 - (h) must regularly monitor covert surveillance activity which takes place outside of RIPA as mentioned in the OSC Procedures and Guidance document.

4.2 Authorising Officers

- 4.2.1 The role of the Authorising Officers is to authorise, review, renew and cancel directed surveillance.
- 4.2.2 Authorising Officers should not be responsible for authorising investigations or operations in which they are directly involved. Where an Authorising Officer authorises such an investigation or operation the Central Record of Authorisations should highlight this and it should be brought to the attention of a Commissioner or Inspector during their next inspection.
- 4.2.3 The Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010 prescribes that for local authorities the Authorising Officer shall be a Director, Head of Service, Service Manager or equivalent as distinct from the officer responsible for the conduct of an investigation.
- 4.2.4 A designated Authorising Officer must qualify **both** by rank and by competence. Officers who wish to be designated must have been trained to an appropriate level so as to have an understanding of the Act and the requirements that must be satisfied before an authorisation can be granted.

Appendix A lists the officers within the Council who can grant authorisations all of which are at Strategic or Director level.

- 4.2.5 Authorisations must be given in writing by the Authorising Officer. They must complete the relevant section on the application form. They must believe the surveillance is **proportionate** to what it seeks to achieve, taking into account the **collateral intrusion** issues, and that the level of the surveillance is appropriate to achieve the objectives.
- 4.2.6 If any equipment such as covert cameras, video cameras is to be used, the Authorising Officer should know the capability of the equipment before Authorising its use. This will have an impact on collateral intrusion, necessity and proportionality. They should not rubber-stamp a request. It is important that they consider all the facts to justify their decision. They may be required to justify their actions in a court of law or some other tribunal.
- 4.2.7 Authorising Officers are also responsible for carrying out regular reviews of applications which they have authorised and also for the cancellation of authorisations.
- 4.2.8 Authorised Officers must acquaint themselves with the relevant Codes of Practice issued by the Home Office regarding RIPA and the latest Procedures and Guidance from the Office of Surveillance Commissioner (OSC). This latter document details their latest guidance to be followed and Authorising Officers are required to hold their own copy.

4.3 Authorising Officers – What you need to do before authorising surveillance

- 4.3.1 Before giving authorisation an Authorising Officer **must** be satisfied that the reason for the request is for the **prevention and detection of crime and that** the crime attracts a custodial sentence of a maximum of 6 months or more (Appendix D Flowchart, or is an offence relating to the underage sale of alcohol or tobacco under sections 146, 147 or 147A of the Licensing Act 2003 or section 7 of the Children and Young Persons Act 1933. one of the permitted reasons under the Act and permitted under the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2003 i.e.

- the desired result of the covert surveillance cannot reasonably be achieved by other means
- the risks of collateral intrusion have been properly considered, whether the reason for the surveillance is balanced proportionately against the risk of collateral intrusion
- there must also be consideration given to the possibility of collecting confidential personal information. If there is a possibility of collecting personal information the matter should be passed to the Chief Officer for consideration

4.3.2 An Authorising Officer **must** also be satisfied the surveillance in each case is **necessary** and **proportionate in those particular circumstances**.

This is defined as:

Necessity

- Obtaining an authorisation under the 2000 Act, the 1997 Act and 1994 Act will only ensure that there is a justifiable interference with an individual's Article 8 rights if it is necessary and proportionate for these activities to take place. The 2000 Act first requires that the person granting an authorisation believe that the authorisation is necessary in the circumstances of the particular case for one or more of the statutory grounds in section 28(3) of the 2000 Act for directed surveillance and in section 32(3) of the 2000 Act for intrusive surveillance.
- The applicant and Authorising Officers must also be able to demonstrate that there were no other means of obtaining the same information in a less intrusive method.

Proportionality

- Then, if the activities are necessary, the person granting the authorisation must believe that they are proportionate to what is sought to be achieved by carrying them out. This involves balancing the intrusiveness of the activity on the target and others who might be affected by it against the need for the activity in operational terms. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means. All such activity should be carefully managed to meet the objective in question and must not be arbitrary or unfair.

4.3.3 The codes provide guidance relating to proportionality which should be considered by both applicants and Authorising Officers:

- balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence;
- explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others;
- considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result;
- evidencing, as far as reasonably practicable, what other methods had been considered and why they were not implemented.

4.3.4 When the Authorising Officer has considered if the surveillance is necessary and proportionate they must complete the relevant section of the form explaining why in his/her opinion the surveillance is necessary and proportionate.

- 4.3.5 The applicant will now be required to complete the relevant forms and attend Magistrates' Court to seek a JP's approval (see Appendices D,E or G on the RIPA Application and Authorisation Process)
Appendix I provides the contact details for Her Majesty's Courts and Tribunal Service

4.4 Investigating Officers – What you need to do before applying for authorisation

- 4.4.1 Investigating Officers should think about the need to undertake DS or CHIS before they seek authorisation. Investigating Officers need to consider whether they can obtain the information by using techniques other than covert surveillance. There is nothing that prevents an Investigating Officer discussing the issue of surveillance beforehand.
- 4.4.2 Appendix E provides guidance on the procedure for making an application to a Justice of the Peace seeking an order to approve the grant of a RIPA authorisation or Notice.
- 4.4.3 The person seeking the authorisation should complete the application form having regard to the guidance given in this Guide and the statutory Codes of Practice.
- 4.4.4 The form should then be submitted to the Authorising Officer for authorisation.

5 DURATION, REVIEW, RENEWAL AND CANCELLATION OF AUTHORISATIONS

5.1 Duration

- 5.1.1 Directed Surveillance (DS) authorisations will cease to have effect after three months from the date of approval unless renewed or cancelled.
- 5.1.2 Authorisations should be given for the maximum duration but reviewed on a regular basis and formally cancelled when no longer needed.
- 5.1.3 CHIS authorisations will cease to have effect after twelve months from the date of approval.
- 5.1.4 Investigating Officers should indicate within the application the period of time that they estimate is required to carry the surveillance, this will be proportionate to the objectives of the investigation and give due consideration to collateral intrusion
- 5.1.5 For CHIS authorisations, legal advice must be sought, particularly those that involve the use of juveniles (for which the duration of such an authorisation is one month instead of twelve months).
- 5.1.6 It is the responsibility of the Investigating Officer to make sure that the authorisation is still valid when they undertake surveillance.

5.2 Review

- 5.2.1 An Investigating Officer must carry out a regular review of authorisations. If an authorisation is no longer required or considered to be no longer *necessary* or *proportionate* it **must** be cancelled.
- 5.2.2 The results of any review must be included on the review form Appendix B
- 5.2.3 The Authorising Officer also has a duty to review authorisations that have been granted when it is necessary or practicable to do so. Particular attention should be given to authorisations involving collateral intrusion or confidential material.
- 5.2.4 The Authorising Officer should keep a copy of the review form and a copy should be given to the Investigating Officer. The original copy of the review form must also be sent to the RIPA Co-ordinator.

5.3 Renewals

- 5.3.1 An Investigating Officer must ask an Authorising Officer to grant a renewal of an authorisation before it would cease to have effect. The approval of a Justice of the Peace (JP) is required prior to undertaking any covert activity as detailed within the renewal form (Appendix B) authorised by the Authorising Officer for a renewal to take affect.
- 5.3.2 Applications for renewals should not be made until shortly before the original authorisation period is due to expire but the applicant must take account of factors which may delay the renewal process (e.g. intervening weekends or the availability of the relevant Authorising Officer and a JP to consider the application).
- 5.3.3 Applications for renewal must not be made more than 3 working days before the authorisation is due to expire.
- 5.3.4 A renewal can last for up to three months, effective from the date that the previous authorisation would ceased to have effect.
- 5.3.5 An Authorising Officer can grant more than one renewal as long as the request for authorisation still meets the requirements for authorisation. An Authorising Officer must still consider all of the issues that are required for a first application before a renewal can be granted. Each renewal will need the approval of a JP.
- 5.3.6 If the reason for requiring authorisation has changed from its original purpose it will not be appropriate to treat the application as a renewal. The original authorisation should be cancelled and a new authorisation should be granted.
- 5.3.7 An application for a renewal must be completed on the appropriate form.
Appendix B
- 5.3.8 The Authorising Officer and applicant should retain a copy of the renewal and the judicial application / order form. A copy of the original renewal form and the judicial application/order form must also be sent to the RIPA Co-ordinator for the Central Register

5.4 Cancellations

- 5.4.1 If the reason for requiring the authorisation no longer exists, the authorisation **must** be cancelled and in any event as soon as the operation for which an authorisation was sought ceases to be necessary or proportionate. This applies to both original applications and renewals.

- 5.4.2 Authorisations **must** also be cancelled if the surveillance has been carried out and the original aim has been achieved.
- 5.4.3 As soon as the decision is taken that directed surveillance should be discontinued, the applicant or other investigating officer involved in the investigation should inform the Authorising Officer. The Authorising Officer will formally instruct the investigating officer to cease the surveillance, noting the time and date of their decision. This will be required for the cancellation form Appendix B. The date and time when such an instruction was given should also be recorded in the central record of authorisations.
- 5.4.4 The Investigating Officer submitting the cancellation should complete in detail the relevant sections of the form and include the period of surveillance and what if any images were obtained and any images containing third parties. The Authorising Officer should then take this into account and issues instructions regarding the management and disposal of the images etc.
- 5.4.5 Authorisations **must** also be cancelled if the surveillance has been carried out and the original aim has been achieved. Authorising Officers will ensure that authorisations are either cancelled or renewed at the end of the appropriate statutory period.
- 5.4.3 An authorisation must be cancelled by using the form in Appendix B. An Investigating Officer should complete the details required on the first page, sections 1 and 2 of the cancellation form. The form should then be submitted to the Authorising Officer who will complete sections 3, 4 and 5.
- 5.4.4 It is the responsibility of the Investigating and Authorising Officers to monitor their authorisations and cancel them where appropriate.
- 5.4.5 The Authorising Officer should keep a copy of the cancellation form and a copy should be given to the Investigating Officer. A copy of the original cancellation form must also be sent to the RIPA Co-ordinator.
- 5.4.6 Authorising Officers must review upon cancellation of an application whether or not the objectives were achieved. Any issues identified by the review will be reported to the senior responsible officer.

5.5 Review of Policy and Procedure

- i The Audit Committee will receive reports following the use of RIPA. Those reports will contain information on;
- Where and when the powers had been used
 - The objective
 - The authorisation process
 - The job title of the Authorising Officer
 - The outcome including any legal court case
 - Any costs
- ii The Corporate Governance Group will review any use of RIPA and report to Audit Committee on an annual basis.

6 THE RIPA CO-ORDINATOR

6.1 Role

6.1.1 All original applications for authorisations and renewals including those that have been refused must be passed to the RIPA Co-ordinator as soon as possible after their completion with copies retained by the Authorising Officer and the Applicant.

6.1.2 All cancellations must also be passed to the RIPA Co-ordinator.

6.1.3 The RIPA Co-ordinator will: -

- i.. Keep the copies of the forms for a period of at least 3 years;
- ii.. Keep a register of all of the authorisations, renewals and cancellations; and Issue the unique reference number.
- iii.. Keep a database for identifying and monitoring expiry dates and renewal dates.
- iv. Along with, Directors, Service Managers, Authorising Officers, and the Investigating Officers must ensure that any electronic and paper records relating to a RIPA investigation are used, retained or destroyed in line with the Councils Information Management policies, departmental retention schedules and the Data Protection Act 1998. (DPA)
- v. Provide administrative support and guidance on the processes involved.
- vi. Not provide legal guidance or advice.
- vii.. Monitor the authorisations, renewals and cancellations so as to ensure consistency throughout the Council;
- viii.. Monitor each department's compliance and act on any cases of non compliance;
- ix.. Provide training and further guidance on and awareness of RIPA and the provisions of this Guide; and
- x.. Review the contents of the Guide.

6.1.4 It is however the responsibility of the Investigating Officer, the Authorising Officer and the Senior Responsible Officer to ensure that: -

- i. Authorisations are only sought and given where appropriate;
- ii. Authorisations are only sought and renewed where appropriate;
- iii. Authorisations are cancelled where appropriate; and
- iv. They act in accordance with the provisions of RIPA.

7.0 Legal advice

- i One Legal will provide legal advice to staff making, renewing or cancelling authorisations

- ii Requests for legal advice will be in writing and copied to the RIPA Co-ordinator to keep on file
- iii Responses to requests for legal advice will be in writing and copied to the RIPA coordinator to keep on file.

APPENDIX A

Designated Officers

The following officers are the Senior Responsible Officer and the Authorising Officers for the purposes of RIPA

Senior Responsible Officer

Executive Director - Pat Pratley

Authorising Officers

Chief Executive - Andrew North, Executive Director - Grahame Lewis,
Director of Resources - Mark Sheldon

Where the guidance states the Senior Responsible Officer but they are unavailable then the Chief Executive will undertake the duties of the Senior Responsible Officer.

There may be occasions where the SRO is nominated as a Authorising Officer, these occasions will only be in exceptional circumstances.

RIPA Co-ordinator

Corporate Governance, Risk and Compliance Officer - Bryan Parsons

APPENDIX B

AUTHORISATION FORMS

All of the forms necessary for RIPA are available from the Home Office website these forms are a mandatory part of the process and must be used in line with the guidance.

All decisions about using regulated investigatory powers must be recorded as they are taken on the required form.

This is the case for:

- applicants seeking authority to undertake regulated conduct
- Authorising Officers and designated persons who consider and decide whether to grant authority or give notice for that conduct

Select the form that you require from the hyperlinked lists below;

Directed Surveillance

1. [Application for the use of directed surveillance](#)
2. [Renewal of directed surveillance](#)
3. [Review of the use of directed surveillance](#)
4. [Cancellation of the use of directed surveillance](#)

Covert Human Intelligence Sources

5. [Application for the use of covert human intelligence sources](#)
6. [Renewal of authorisation to use covert human intelligence sources](#)
7. [Reviewing the use of covert human intelligence sources](#)
8. [Cancellation of covert human intelligence sources](#)

Reporting errors to the IOCCO

9. [Reporting an error by a CSP to the IOCCO](#)
10. [Reporting an error by a public authority to the IOCCO](#)

APPENDIX C

REGULATION OF INVESTIGATORY POWERS ACT 2000

AGENT'S AGREEMENT FORM

I(insert Agent's name) of
.....(address) confirm that
in relation to
.....
.....
.....
.....
.....
.....(name or description of the surveillance) I
agree to comply with the Regulation of Investigatory Powers Act 2000, with all statutory
provisions, statutory Codes of practice and with Cheltenham Borough Council's Procedural
Guide when undertaking any and all surveillance authorised by Cheltenham Borough
Council under the Regulation of Investigatory Powers Act 2000. I acknowledge receipt of a
copy of the Council's Authorisation Form reference numberdated the
..... and I agree not to carry out any surveillance that is contrary this
authorisation.

Signed.....

Dated.....

APPENDIX D

Particulars to be contained in records when a COVERT HUMAN INTELLIGENCE SOURCE (CHIS) is used.

The following matters are specified for the purposes of paragraph (d) of section 29(5) of the 2000 Act (which must be included in the records relating to each CHIS):

- (a) the identity of the source;
- (b) the identity, where known, used by the source;
- (c) any relevant investigating authority other than the authority maintaining the records;
- (d) the means by which the source is referred to within each relevant investigating authority;
- (e) any other significant information connected with the security and welfare of the source;
- (f) any confirmation made by a person granting or renewing an authorisation for the conduct or use of a source that the information in paragraph (d) has been considered and that any identified risks to the security and welfare of the source have where appropriate been properly explained to and understood by the source;
- (g) the date when, and the circumstances in which, the source was recruited;
- (h) the identities of the persons who, in relation to the source, are discharging or have discharged the functions mentioned in section 29(5)(a) to (c) of the 2000 Act or in any order made by the Secretary of State under section 29(2)(c);
- (i) the periods during which those persons have discharged those responsibilities;
- (j) the tasks given to the source and the demands made of him in relation to his activities as a source;
- (j) all contacts or communications between the source and a person acting on behalf of any relevant investigating authority;
- (k) the information obtained by each relevant investigating authority by the conduct or use of the source;
- (l) any dissemination by that authority of information obtained in that way; and
- (m) in the case of a source who is not an undercover operative, every payment, benefit or reward and every offer of a payment, benefit or reward that is made or provided by or on behalf of any relevant investigating authority in respect of the source's activities for the benefit of that or any other relevant investigating authority.

In addition, records or copies of the following, as appropriate, should be kept by the relevant authority:

- (a) a copy of the authorisation together with any supplementary documentation and notification of the approval given by the Authorising Officer;
- (b) a copy of any renewal of an authorisation, together with the supporting documentation submitted when the renewal was requested;
- (c) the reason why the person renewing an authorisation considered it necessary to do so;
- (d) any authorisation which was granted or renewed orally (in an urgent case) and the reason why the case was considered urgent;
- (e) any risk assessment made in relation to the source;
- (f) the circumstances in which tasks were given to the source;
- (g) the value of the source to the investigating authority;
- (h) a record of the results of any reviews of the authorisation;
- (i) the reasons, if any, for not renewing an authorisation;
- (j) the reasons for cancelling an authorisation.
- (k) the date and time when any instruction was given by the Authorising Officer to cease using a source.

The records kept by public authorities should be maintained in such a way as to preserve the confidentiality of the source and the information provided by that source. There should, at all times, be a designated person within the relevant public authority who will have responsibility for maintaining a record of the use made of the source.

APPENDIX E

RIPA Application and Authorisation Process

As from 1 November 2012 two significant changes came into force that effects how local authorities use RIPA.

- **Approval of Authorisations under RIPA by a Justice of the Peace:** The amendments in the Protection of Freedoms Act 2012 mean that the council's authorisations under RIPA for the use of Directed Surveillance or use of Covert Human Intelligence sources (CHIS) can only be given effect once an order approving the authorisation has been granted by a Justice of the Peace (JP). **This applies to applications and renewals only, not reviews and cancellations.**
- **Directed surveillance crime threshold:** Amendments to the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010 ("the 2010 Order") mean that the council can now only grant an authorisation under RIPA for the use of Directed Surveillance where the council is investigating criminal offences which attract a maximum custodial sentence of six months or more or criminal offences relating to the underage sale of alcohol or tobacco under sections 146, 147 or 147A of the Licensing Act 2003 or section 7 of the Children and Young Persons Act 1933.
- This crime threshold, as mentioned, is only for Directed Surveillance.

Application, Review, Renewal and Cancellation Forms

No covert activity covered by RIPA or the use of a CHIS should be undertaken at any time unless it meets the legal criteria (see above) and has been authorised by an Authorising Officer and approved by a JP/Magistrate as mentioned above. The activity conducted must be in strict accordance with the terms of the authorisation.

The effect of the above legislation means that all applications and renewals for covert RIPA activity will have to have a JP's approval. It does not apply to Reviews and Cancellations which will still be carried out internally.

The procedure is as follows;

All applications and renewals for Directed Surveillance and use of a CHIS will be required to have a JP's approval.

The applicant will complete the relevant application form ensuring compliance with the statutory provisions shown above. The application form will be submitted to an Authorising Officer for consideration. If authorised, the applicant will also complete the required section of the judicial application/order form (Appendix D Flow Chart)

Although this form requires the applicant to provide a brief summary of the circumstances of the case on the judicial application form, this is supplementary to and does not replace the need to supply the original RIPA authorisation as well. All applications need to be made in consultation with One Legal.

It will then be necessary within Office hours to arrange with Her Majesty's Courts & Tribunals Service (HMCTS) administration at the Magistrates' Court to arrange a hearing. The hearing will be in private and heard by a single JP.

Officers who may present the application at these proceedings will need to be formally designated by the Council under section 223 of the Local Government Act 1972 to appear, be sworn in and present evidence or provide information as required by the JP. If in doubt as to whether you are able to present the application seek advice from One Legal

Upon attending the hearing, the officer must present to the JP the partially completed judicial application/order form, a copy of the RIPA application/authorisation form, together with any supporting documents setting out the case, and the original application/authorisation form.

The original RIPA application/authorisation should be shown to the JP but will be retained by the council so that it is available for inspection by the Commissioners' offices and in the event of any legal challenge or investigations by the Investigatory Powers Tribunal (IPT).

The JP will read and consider the RIPA application/ authorisation and the judicial application/order form Appendix H. They may have questions to clarify points or require additional reassurance on particular matters. These questions are supplementary to the content of the application form. **However the forms and supporting papers must by themselves make the case. It is not sufficient for the council to provide oral evidence where this is not reflected or supported in the papers provided.**

The JP will consider whether he or she is satisfied that at the time the authorisation was granted or renewed, there were reasonable grounds for believing that the authorisation was necessary and proportionate. They will also consider whether there continues to be reasonable grounds. In addition they must be satisfied that the person who granted the authorisation or gave the notice was an appropriate designated person within the council and the authorisation was made in accordance with any applicable legal restrictions, for example that the crime threshold for directed surveillance has been met.

The JP may decide to:

Approve the Grant or renewal of an authorisation

The grant or renewal of the RIPA authorisation will then take effect and the council may proceed to use the technique in that particular case.

Refuse to approve the grant or renewal of an authorisation

The RIPA authorisation will not take effect and the council may **not** use the technique in that case.

Where an application has been refused the applicant may wish to consider the reasons for that refusal. If more information was required by the JP to determine whether the application/authorisation has met the tests, and this is the reason for refusal the officer should consider whether they can reapply, for example, if there was information to support the application which was available to the council, but not included in the papers provided at the hearing.

For, a technical error (as defined by the JP/Magistrate), the form may be remedied without going through the internal authorisation process again. The officer may then wish to reapply for judicial approval once those steps have been taken.

Refuse to approve the grant or renewal and quash the authorisation or notice

This applies where the JP refuses to approve the application/authorisation or renew the application/authorisation and decides to quash the original authorisation or notice. However the court must not exercise its power to quash the application/authorisation unless the applicant has had at least 2 business days from the date of the refusal in which to make representations. If this is the case the officer will inform the One Legal who will consider whether to make any representations.

Whatever the decision the JP will record their decision on the order section of the judicial application/order form. The court administration will retain a copy of the council's RIPA application and authorisation form and the judicial application/order form. The officer will retain the original application/authorisation and a copy of the judicial application/order form.

If approved by the JP, the date of the approval becomes the commencement date and the three months duration will commence on this date, the officers are now allowed to undertake the activity.

The original application and the copy of the judicial application/order form should be forwarded to the Central Register and a copy retained by the applicant and if necessary by the Authorising Officer.

The council may only appeal a JP decision on a point of law by judicial review. If such a concern arises, One Legal will decide what action if any should be taken.

All the relevant forms for authorisation through to cancellation must be in writing using the standard forms which are available from the Intranet site, but officers must ensure that the circumstances of each case are accurately recorded on the application form.

If it is intended to undertake both directed surveillance and the use of a CHIS on the same surveillance subject, the respective applications forms and procedures should be followed and both activities should be considered separately on their own merits.

An application for an authorisation must include an assessment of the risk of any collateral intrusion or interference. The Authorising Officer will take this into account, particularly when considering the proportionality of the directed surveillance or the use of a CHIS.

Applications

All the relevant sections on an application form must be completed with sufficient information for the Authorising Officer to consider Necessity, Proportionality and the Collateral Intrusion issues. Risk assessments should take place prior to the completion of the application form. Each application should be completed on its own merits of the case. **Cutting and pasting or using template entries should not take place as this would leave the process open to challenge.**

All applications will be submitted to the Authorising Officer via the Line Manager of the appropriate enforcement team in order that they are aware of the activities being undertaken by the staff. The Line Manager will perform an initial quality check of the application. However they should not be involved in the sanctioning of the authorisation. Completed application forms are to be initialed by Line Managers to show that the quality check has been completed. The form should then be submitted to the Authorising Officer.

Applications whether authorised or refused will be issued with a unique number (obtained from the RIPA Coordinator) by the Authorising Officer, taken from the next available number in the Central Record of Authorisations which is held by the RIPA Coordinator.

If authorised the applicant will then complete the relevant section of the judicial application/order form and follow the procedure above by arranging and attending the Magistrates' Court to seek a JP's approval. (See procedure above RIPA application and authorisation process)

Duration of Applications

- Directed Surveillance 3 Months
- Renewal 3 Months
- Covert Human Intelligence Source 12 Months
- Juvenile Sources 1 Month
- Renewal 12 months

All Authorisations must be cancelled by completing a cancellation form. They must not be left to simply expire. (See cancellations page 16)

Reviews

When an application has been authorised regular reviews must be undertaken to assess the need for the surveillance to continue. The results of a review should be recorded on the central record of authorisations. Particular attention is drawn to the need to review authorisations frequently where the surveillance provides access to confidential information or involves collateral intrusion.

The reviews are dealt with internally by submitting the review form (which is available through the link in appendix B) to the Authorising Officer. There is no requirement for a review form to be submitted to a JP.

In each case the Authorising Officer should determine how often a review should take place. This should be as frequently as is considered necessary and practicable and they will record when they are to take place on the application form. This decision will be based on the circumstances of each application. However reviews will be conducted on a monthly or less basis to ensure that the activity is managed. It will be important for the Authorising Officer to be aware of when reviews are required following an authorisation to ensure that the applicants submit the review form on time.

Applicants should submit a review form by the review date set by the Authorising Officer. They should also use a review form for changes in circumstances to the original application so that the need to continue the activity can be reassessed. However if the circumstances or the objectives have changed considerably, or the techniques to be used are now different a new application form should be submitted and will be required to follow the process again and be approved by a JP. The applicant does not have to wait until the review date if it is being submitted for a change in circumstances.

Service managers of applicants should also make themselves aware of when the reviews are required to ensure that the relevant forms are completed on time.

Renewal

A renewal form is to be completed by the applicant when the original authorisation period is about to expire but directed surveillance is still required

Should it be necessary to renew a Directed Surveillance or CHIS application/authorisation this must be approved by a JP. The renewal forms can be found by following the links in appendix B

Applications for renewals should not be made until shortly before the original authorisation period is due to expire but the applicant must take account of factors which may delay the renewal process (e.g. intervening weekends or the availability of the relevant Authorising Officer and a JP to consider the application).

The applicant should complete all the sections within the renewal form and submit the form to the Authorising Officer.

Authorising Officers should examine the circumstances with regard to Necessity, Proportionality and the Collateral Intrusions issues before making a decision to renew the activity. A CHIS application should not be renewed unless a thorough review has been carried out covering the use made of the source, the tasks given to them and information obtained. The Authorising Officer must consider the results of the review when deciding whether to renew or not. The review and the consideration must be documented.

If the Authorising Officer refuses to renew the application the cancellation process should be completed. If the AO authorises the renewal of the activity the same process is to be followed as mentioned earlier for the initial application.

A renewal takes effect on the day on which the authorisation would have ceased and lasts for a further period of three months.

Cancellation

The cancellation form Appendix B is to be submitted by the applicant or another investigator in their absence. The Authorising Officer who granted or last renewed the authorisation must cancel it if they are satisfied that the directed surveillance no longer meets the criteria upon which it was authorised. Where the Authorising Officer is no longer available, this duty will fall on the person who has taken over the role of Authorising Officer or the person who is acting as Authorising Officer

As soon as the decision is taken that directed surveillance should be discontinued, the applicant or other investigating officer involved in the investigation should inform the Authorising Officer. The Authorising Officer will formally instruct the investigating officer to cease the surveillance, noting the time and date of their decision. This will be required for the cancellation form. The date and time when such an instruction was given should also be recorded in the central record of authorisations..

The Investigating Officer submitting the cancellation should complete in detail the relevant sections of the form and include the period of surveillance and what if any images were obtained and any images containing third parties. The Authorising Officer should then take this into account and issues instructions regarding the management and disposal of the images etc.

The cancellation process should also be used to evaluate whether the objectives have been achieved and whether the applicant carried out what they stated was necessary in the application form. This check will form part of the oversight function. Where issues are identified they will be brought to the attention of the line manager and the Senior Responsible Officer (SRO). This will assist with future audits and oversight.

Appendix F

Application for judicial approval for authorisation to obtain or disclose communications data, to use a Covert Human Intelligence Source or to conduct directed surveillance. Regulation of Investigatory Powers Act 2000 sections 23A, 23B, 32A, 32B.

Local authority:.....

Local authority department:.....

Offence under investigation:.....

Address of premises or identity of subject:.....
.....
.....
.....

Covert technique requested: (tick one and specify details)

- Communications Data**
- Covert Human Intelligence Source**
- Directed Surveillance**

Summary of details

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

Note: this application should be read in conjunction with the attached RIPA authorisation/RIPA application or notice.

Investigating Officer:.....
.....

Authorising Officer/Designated Person:.....

Officer(s) appearing before JP:.....

Address of applicant

department:.....
.....
.....

Contact telephone
number:.....

Contact email address
(optional):.....

Local authority
reference:.....

Number of
pages:.....
.....

Order made on an application for judicial approval for authorisation to obtain or disclose communications data, to use a covert human intelligence source or to conduct directed surveillance. Regulation of Investigatory Powers Act 2000 sections 23A, 23B, 32A, 32B.

Magistrates'
court:.....
.....

Having considered the application, (tick one):

I am satisfied that there are reasonable grounds for believing that the requirements of the Act were satisfied and remain satisfied, and that the relevant conditions are satisfied and I therefore approve the grant or renewal of the authorisation/notice.

I refuse to approve the grant or renewal of the authorisation/notice.

I refuse to approve the grant or renewal and quash the authorisation/notice.

Notes

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

Reasons

.....
.....
.....
.....

.....
.....
.....
.....
.....
.....
.....

Signed:

Date:

Time:

Full name:

Address of magistrates' court:

Appendix G

**Contact details for Her Majesty's Courts and Tribunal Service (HMCTS)
Gloucestershire**

During normal office hours, the court support section should be contacted either by phone or email. Their number is 01452 420174 and email is gs-glosmcaadmin@hmcts.gsi.gov.uk.

The police have lists of those legal advisers that are contactable out of hours, and in the unlikely situation when an application needs to be made urgently, details can be obtained from the custody suites at Cheltenham and Gloucester and also the control room at Waterwells.

Appendix H

Non RIPA Surveillance Application Form

Public Authority <i>(including full address)</i>		Unique NO.	
--	--	-------------------	--

Name of Applicant		Department	
--------------------------	--	-------------------	--

Contact Details	
Investigation/Operation Name (if applicable)	
Investigating Officer (if a person other than the applicant)	

1. DETAILS OF APPLICATION
Describe the purpose of the specific operation or investigation e.g. Internal Disciplinary Investigation. Provide details of the investigation and intelligence case to date to include enquiries already undertaken and their result.
2. DETAILS OF SURVEILLANCE
Describe in detail the surveillance operation to be authorised and expected duration, including any premises, vehicles or equipment (e.g. camera, binoculars, video recording equipment) that may be used.
Explain the information that it is desired to obtain as a result of the directed surveillance.
3. SUBJECT OF SURVEILLANCE
The identities, where known, of those to be subject of the directed surveillance. Should include where known name, address, D.O.B. or approximate age. If persons unknown please provide any description's or other information that may be known.
4. MISDEMEANOR UNDER INVESTIGATION
Provide details of what offences or malpractice is under investigation, e.g.. Gross Misconduct against. Disciplinary Regulations.

--

5. INTRUSION AND PRIVACY ISSUES

Detail whether Confidential Information such as information relating to legal privilege, health, spiritual counselling or other sensitive information is likely to be obtained against any person as a result of the surveillance activity.

Supply details of any Collateral Intrusion.

Why the intrusion is unavoidable.

Describe precautions you will take to minimise and manage the collateral intrusion.

--

6. NECESSITY AND PROPORTIONALITY

Explain why it is necessary to use the covert methods applied for, can the evidence be obtained by less intrusive methods and explain why this surveillance is proportionate to what it seeks to achieve. How intrusive might it be on the subject of surveillance or on others? And why is this intrusion outweighed by the need for surveillance in operational terms or can the evidence be obtained by any other means?

--

7. APPLICANTS DETAILS

Name (print)		Tel No:	
Grade/Position		Date Submitted	
Signature			

AUTHORISATION SECTION

8. AUTHORISED YES OR NO? (see below)

If rejected detail the reason why.

If authorised state exactly what activity is being authorised by whom and if necessary what equipment they are authorised to use and in what circumstances. This should include any specific instructions such as the management of any images which may be obtained. Cover who, what, where, when and how.

--

9. NECESSITY AND PROPORTIONALITY

Explain why you believe the surveillance is necessary and proportionate to what is sought to be achieved by carrying out the covert activity.

--

10. CONFIDENTIAL INFORMATION

If confidential information is likely to be obtained (see box 5) state how the information will be managed and disposed of. (Seek advice from legal section and data controller if required). May require a higher level of authority.

--

11. DATE OF FIRST REVIEW

Set a review date taking into account all the circumstances. The review date should be no longer than a month to demonstrate that the process is being managed effectively

Date	
-------------	--

12. AUTHORISING OFFICER DETAILS

Name (Print)		Grade/Position	
Signature		Time and Date	

This page is intentionally left blank
Page 282

Audit Committee 2013-2014 work plan

Item	Officer	Decision / Discussion / Information
25 September 2013		
Send work plan to GT: 12 August	Chairs briefing: 21 August 5 pm	Complete reports to be with Democratic Services by: 9 am on 12 September 2013
Audit update report	Grant Thornton	Discussion
Audit highlights memorandum - ISA 260 (2012-13)	Grant Thornton	Discussion
Financial Resilience report (2012-13)	Grant Thornton	Discussion
Internal audit monitoring report (including ICT)	Rob Milford	Discussion
Review of annual statement of accounts	Finance Team	Decision
Leisure & Culture trust governance	Ken Dale	Discussion
Office of surveillance commissioners – RIPA inspection report	Bryan Parsons	Decision
15 January 2014		
Send work plan to GT: 2 December	Chairs briefing: 12 December 5 pm	Complete reports by: 6 January 2014
Audit update report	Grant Thornton	Discussion
Annual audit letter 2012 -13	Grant Thornton	Discussion
Certification of grants and returns (for the previous year)	Grant Thornton	Discussion
Internal audit monitoring report	Rob Milford	Tbc
Annual governance statement – significant issues action plan	Bryan Parsons	Decision
Report on shared service governance (briefing note)	Rob Milford	Tbc
26 March 2014		
Send work plan to GT: 10 February	Chairs briefing: 20 February 2014 5 pm	Complete reports by: 17 March 2014
Audit update report	Grant Thornton	Discussion
Audit plan (for the current year)	Grant Thornton	Discussion
Auditing Standards – communicating with the Audit Committee	Grant Thornton	Decision
Annual plan (for the upcoming year)	Rob Milford	Tbc

Audit Committee 2013-2014 work plan

Item	Officer	Decision / Discussion / Information
------	---------	-------------------------------------

Internal audit monitoring report	Rob Miilford	Tbc
Annual review of risk management policy	Bryan Parsons	Decision
Approval of the Code of Corporate Governance	Bryan Parsons	Decision
Revenue and benefits commissioning review (governance arrangements)	Mark Sheldon	Tbc
18 June 2014		
Send work plan to GT: 5 May	Chairs briefing: Officers will agree agenda owing to elections	Complete reports by: 9 June 2014
Audit update report	Grant Thornton	Discussion
Internal audit opinion (for the previous year)	Rob Miilford	Discussion
Internal audit monitoring report	Rob Miilford	Tbc
Annual governance statement	Bryan Parsons	Decision
Annual counter fraud report	Rob Miilford	Tbc

Items to be added at a future date (future dates will not be agreed until March 2014)		
Corporate Strategy – consideration of governance issue	Rob Miilford	Tbc
Joint training session with Cotswold, West Oxford and F.O.D councillors – governance of shared services (tbc)	Rob Miilford / Mark Sheldon	n/a
Policy review timetable (briefing note)	Bryan Parsons	Information
Requirements of the Localism Act (re: local audit)	Rob Miilford	Tbc

ANNUAL ITEMS (standing items to be added to the work plan each year)		
January	Audit update report	Grant Thornton
	Annual audit letter (for the previous year)	Grant Thornton
		Discussion
		Discussion

Audit Committee 2013-2014 work plan

	Item	Officer	Decision / Discussion / Information
	Certification of grants and returns (for the previous year)	Grant Thornton	Discussion
	Internal audit monitoring report	Rob Milford	Tbc
	Annual governance statement – significant issues action plan	Bryan Parsons	Decision
March	Audit update report	Grant Thornton	Discussion
	Audit plan (for the current year)	Grant Thornton	Discussion
	Auditing Standards – communicating with the Audit Committee	Grant Thornton	Decision
	Annual plan (for the upcoming year)	Rob Milford	Tbc
	Internal audit monitoring report	Rob Milford	Tbc
	Annual review of risk management policy	Bryan Parsons	Decision
	Approval of the Code of Corporate Governance	Bryan Parsons	Decision
June	Audit update report	Grant Thornton	Discussion
	Internal audit opinion (for the previous year)	Rob Milford	Discussion
	Internal audit monitoring report	Rob Milford	Tbc
	Annual governance statement	Bryan Parsons	Decision
	Annual counter fraud report	Rob Milford	Tbc
September	Audit update report	Grant Thornton	Discussion
	Audit highlights memorandum - ISA 260 (for the previous year)	Grant Thornton	Discussion
	Financial Resilience report (for current year)	Grant Thornton	Discussion
	Internal audit monitoring report	Rob Milford	Tbc
	Review of annual statement of accounts	Finance Team	Tbc

* MS and RM have not confirmed whether they are available for the briefing dates that have been proposed.

The work plan should be sent to Grant Thornton at least a week before it is circulated in advance of the briefing (proposed dates above) so that they can confirm which items they wish to table at the upcoming meeting.

This page is intentionally left blank
Page 286

Document is Restricted

This page is intentionally left blank
Page 292

Document is Restricted

This page is intentionally left blank
Page 294

Document is Restricted

This page is intentionally left blank
Page 296



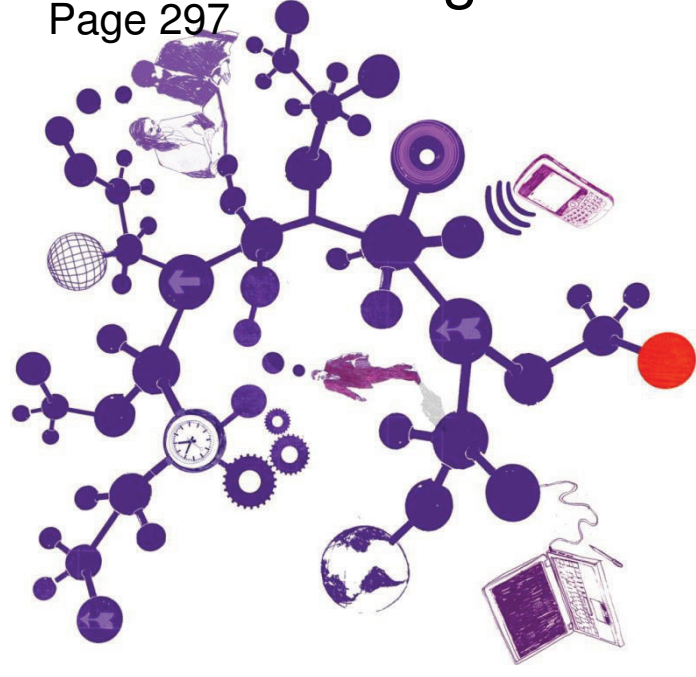
Audit Committee briefing note for Cheltenham Borough Council

Year ended 31 March 2013
25 September 2013

Peter Barber
Engagement Lead
T +44 (0)1173 057 897
E peter.a.barber@uk.gt.com

Peter Smith
Audit Manager
T +44 (0)1173 057 832
E peter.w.smith@uk.gt.com

Paul Benfield
In Charge
T 0117 305 7894
E paul.m.benfield@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
Introduction	4
Emerging issues and developments	5

Introduction

This paper provides the Audit Committee

- a summary of emerging national issues and developments that may be relevant to you as a Borough Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- 'Local Government Governance Review 2012',
- 'The developing internal audit agenda',
- 'Preparing for the future',
- 'Surviving the storm: how resilient are local authorities?',
- 'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities'

The paper would normally include a report on the progress of the Audit but at the September Audit Committee meeting we will be presenting our Audit Findings in a separate report.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Peter Barber Engagement Lead T +44 (0)1173 057 897 M +44 (0) 7880 456122 peter.a.barber@uk.gt.com

Peter Smith Audit Manager T +44 (0)1173 057 832 M +44 (0) 7880 456140 peter.w.smith@uk.gt.com

Emerging issues and developments

Local government guidance

Council tax collection – data from the value for money profiles

The Audit Commission has released a briefing on Council Tax Collection which uses the data held in the VFM profiles tool. The VFM profiles can be used to consider:

- how the cost and rate of collection compares to different comparator groups
- how changes over time compare to the overall trends described in the briefing
- how council tax collection may be affected by local arrangements in the council tax reduction scheme.

Challenge questions:

- Has your Director of Resources reviewed the costs and performance of your authority against similar organisations?
- Where issues have been identified, has an action plan been implemented?

Emerging issues and developments

Local government guidance

Local Government Pension Scheme

The Department for Communities and Local Government has launched a call for evidence on the future structure of the Local Government Pension Scheme. The consultation is asking for feedback on the objectives for structural reform and how the Local Government Pension Scheme can best achieve accountability to local taxpayers through the availability of transparent and comparable data while adapting to become more efficient and to promote stronger investment performance.

The consultation closes on 27 September 2013.

Challenge question:

- Has your Director of Resources reviewed the consultation and assessed the potential impact?
- Is your authority intending to respond to the consultation?

Local government claims and returns 2011/12

In June, the Audit Commission published 'Local government claims and returns 2011/12 – The Audit Commission's report on certification work'. The report includes information and commentary on the number and value of certified claims and returns; auditors' findings; the cost of certification work; and future certification work.

The Audit Commission concluded that:

- while 2011/12 saw a fall in the value of amendments and number of qualification letters, this was largely due to fewer claims and returns requiring certification. Proportionally, the level of claims and returns amended or qualified rose, while the most significant scheme, housing and council tax benefits, saw both the value of amendments and number of qualification letters increase.
- authorities and grant-paying bodies should continue their work to ensure schemes' terms and conditions are complied with, particularly when schemes change significantly or are in their final year.

Challenge question:

- What procedures does your Director of Resources have in place to ensure that grant schemes terms and conditions are complied with?

Emerging issues and developments

Local government guidance

Confidentiality clauses and special severance payments

In June, the National Audit Office published 'Confidentiality clauses and special severance payments'.

The report concludes that 'there is a lack of transparency, consistency and accountability in how the public sector uses compromise agreements, and little is being done to change this situation. This is unacceptable for three reasons: the imbalance of power between the employer and employee leaves the system open to abuse; poor performance or working practices can be hidden from view, meaning lessons are not learned; and significant sums of public money are at stake.'

Challenge questions:

- Have you considered how confidentiality and special severance payments are used in your authority?
- Have you identified issues and planned actions to improve HR procedures?

Emerging issues and developments

Grant Thornton

'Future Councillors – where next for local politics?'

Grant Thornton has sponsored the latest New Local Government Network (NLGN) research paper: Future Councillors – where next for local politics? Whilst more or less every aspect of what a council does is currently up for discussion, this is not the case for the role of local politicians. The report is a response to this discourse gap.

The report content is based on a series of workshops held earlier this year with a number of councillors from different local authority types, different regions and from different political parties. The workshops, which Grant Thornton attended, included a scenario-planning exercise which identified how councillors that fail to renew their democratic processes risk losing the support of their communities. The research also suggested that councils that did grasp the opportunities offered by technology and service redesign can become far more engaged with their communities, building efficient and co-operative models of local government focused on neighbourhood needs.

The report includes a chapter by Guy Clifton from Grant Thornton on the councillor's role in financial planning. The workshops identified that many elected members are keen to take a far greater role in financial planning at their authorities, particularly given the significant funding challenges being faced. During the workshops we explored the skills and capabilities that members need to effectively manage the budget setting process. These included: effective communication and stakeholder engagement, understanding financial planning tools and, perhaps most importantly, knowing what questions to ask.

Challenge question:

- Are your elected members taking a greater role in financial planning and has the authority ensured that members are trained for the task?

Emerging issues and developments

Grant Thornton

Spending Round 2013

It was announced in the June spending round that the local government resource budget will be reduced by 10 percent in 2015/16.

As Paul Dossett, Head of Local Government at Grant Thornton UK LLP, wrote on informationdaily.com, the Chancellor 'seemingly acknowledged local government's capacity to deliver the scale of savings achieved so far. No other spending department received such positive affirmation. The Chancellor's actions imply that local government leaders are more capable of meeting the national challenge than other parts of the public sector. Over the past three years, local government members and senior officers have tightened their organisational belts and most have shown they are able to deliver significant change. The government is placing continued reliance on their resourcefulness in order to help meet the fiscal shortfalls facing the broader public sector, and many in the sector recognise this.'

'In his speech, the Chancellor recognised the benefits that more collaborative working can bring, although not on the lines subsequently suggested by the LGA. The Chancellor called for more joined-up working between police forces, and between police forces and local authorities - with a £50m innovation fund to be established to support this work. He also called for greater collaboration between health and social care services, with £200m to be transferred to local authorities from the NHS in 2014-15, and a £3.8bn pooled budget in 2015-16. In addition, £35m is to be made available to local authorities in 2015-16 to help prepare for reforms to the system of social care funding, including the cap on care costs from April 2016. There is also the £200m additional funding to the Troubled Families programme being managed by the department for Communities and Local Government.'

Challenge question:

- Has your authority reviewed your medium term financial plan in light of the Spending Round announcement and considered the action to be taken?
- How is your authority planning to work with other organisations in the public sector?

Accounting and audit issues

2014/15 Code of Practice on Local Authority Accounting

At the end of July, CIPFA/LASAAC released the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The significant changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in authorities reviewing current measurements of property, plant and equipment and for some authorities, may require remeasurement of particular assets. CIPFA/LASAAC is proposing a relaxation of the measurement requirements of IFRS 13 and IAS 16 Property, Plant and Equipment for a three year period
- introduction of the new group accounting standards
- other amendments to standards issued by the International Accounting Standards Board (IASB): amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the new disclosure requirements introduced in the 2013/14 Code and clarification on comparative information from amendments to IAS 1 *Presentation of Financial Statements*
- local government reorganisations and other combinations: clarification of the Code's requirements and alignment with other public sector bodies
- options for the "dry run" for the move to depreciated replacement cost for local authority transport infrastructure assets as set out in the CIPFA Code of Practice on Transport Infrastructure Assets to the (Local Authority Accounting) Code.

CIPFA/LASAAC have also launched a consultation on simplifying and streamlining the presentation of local authority financial statements.

Both consultations close on Friday 11 October 2013.

Challenge questions:

- Has your Director of Resources reviewed the proposed amendments and assessed the potential impact?
- Has your authority considered whether it wishes to respond to the consultation?



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

This page is intentionally left blank
Page 308