



## Notice of a meeting of Audit Committee

**Wednesday, 21 September 2016**  
**6.00 pm**  
**Pittville Room - Municipal Offices**

<b>Membership</b>	
<b>Councillors:</b>	Colin Hay (Chair), Steve Harvey (Vice-Chair), Matt Babbage, Paul McCloskey, John Payne, Dennis Parsons and David Willingham

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

## Agenda

<b>1.</b>		<b>APOLOGIES</b>	
<b>2.</b>		<b>DECLARATIONS OF INTEREST</b>	
<b>3.</b>		<b>MINUTES OF THE LAST MEETING</b> 15 June 2016	(Pages 3 - 10)
<b>4.</b>		<b>PUBLIC QUESTIONS</b> These must be received no later than 12 noon on the fourth working day before the date of the meeting	
<b>5.</b>		<b>AUDIT HIGHLIGHTS MEMORANDUM - ISA 260 2015/16</b> <b>INCLUDING FINANCIAL RESILIENCE</b> Grant Thornton	(Pages 11 - 50)
<b>6.</b>		<b>STATEMENT OF ACCOUNTS 2015-16</b> Deputy Section 151 Officer (see recommendations)	(Pages 51 - 180)
<b>7.</b>		<b>INTERNAL AUDIT MONITORING REPORT</b> Audit Cotswolds (see recommendations)	(Pages 181 - 202)
<b>8.</b>		<b>WHISTLE BLOWING POLICY</b> Counter Fraud Unit (see recommendations)	(Pages 203 - 216)
<b>9.</b>		<b>COUNTER FRAUD UNIT UPDATE AND COUNTER FRAUD UNIT BUSINESS CASE</b>	(Pages 217 -

		Counter Fraud Unit (see recommendations)	254)
10.		<b>FUTURE PROVISION OF INTERNAL AUDIT SERVICES</b> Section 151 Officer (see recommendations)	(Pages 255 - 264)
11.		<b>WORK PROGRAMME</b>	(Pages 265 - 268)
12.		<b>ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION</b>	
13.		<b>DATE OF NEXT MEETING</b> Wednesday 11 January 2017	

**Contact Officer:** Saira Malin, Democracy Officer, 01242 775153  
**Email:** [democratic.services@cheltenham.gov.uk](mailto:democratic.services@cheltenham.gov.uk)

## Audit Committee

**Wednesday, 15th June, 2016**  
**6.00 – 8.05pm**

Attendees	
<b>Councillors:</b>	Colin Hay (Chair), Steve Harvey (Vice-Chair), Matt Babbage, Paul McCloskey, John Payne, Dennis Parsons and David Willingham
<b>Also in attendance:</b>	Emma Cathcart (Counter Fraud Unit), Lucy Cater (Head of Internal Audit – Operations), Sarah Didcote (Deputy Section 151 Officer), Paul Jones (Section 151 Officer), Jackson Murray (Grant Thornton) and Bryan Parsons (Corporate Governance, Risk and Compliance Officer)

## Minutes

### 1. APOLOGIES

Apologies had been received from Peter Barber (Grant Thornton).

### 2. DECLARATIONS OF INTEREST

No interests were declared.

### 3. MINUTES OF THE LAST MEETING

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

The Chairman suggested that the word 'distinction' under Agenda Item 2 of the minutes of the last meeting (Declarations of Interest), should instead read 'jurisdiction'. The minutes of the last meeting would be amended accordingly.

Upon a vote it was

**RESOLVED that the minutes of the meeting held on the 23 March 2016, as amended, be agreed and signed as an accurate record.**

### 4. PUBLIC QUESTIONS

No public questions had been received.

### 5. AUDIT COMMITTEE UPDATE

Jackson Murray of Grant Thornton, introduced the Audit Committee Progress and Update Report as circulated with the agenda. For the benefit of new members he explained that a paper such as this was tabled at each meeting of the committee and was presented in two parts. Section one outlined Grant Thornton's progress in delivery of their responsibilities and section two included reports which may be of interest to the committee and updates on national issues. He reported that work on the Value for Money (VfM) conclusion had commenced and that the results of the VfM audit work and any key messages arising from it would be reported to the next meeting of the committee, with the

final accounts audit scheduled for the July/August. Grant Thornton had also arranged a free demonstration of their CFO (Chief Finance Officer) Insights tool for members of the management at the Council and its GO Partners. The Council subscribed to Maiden from Gloucestershire County Council, which provided data, but the CFO Insight tool was able to produce interrelated data. Section two of this report included a summary of the Grant Thornton report 'Better Together: Building a successful joint venture company' and focussed on the key areas to consider when deciding to set up a joint venture. The Council had various arrangements already in place but the report could prove useful to Officers when considering different options and members when formulating challenging questions in response to future proposals. The second report in this section was a CIPFA publication 'Fighting Fraud and Corruption Locally'.

In response to a member question, Jackson Murray explained that only one of the criteria for the assessment associated with the VfM conclusion was 'Informed decision making' and that rather than looking at all decisions they used a risk assessment to identify significant risks to the VfM conclusion against this and the other 2 criteria of 'Sustainable resource deployment' and 'Working with partners and other third parties'. As reported in the Audit Plan presented in March 2016, the 2 significant risks identified in 2015/16 related to the MTFS and 2020. In respect of 'informed decision making', rather than delving into each decision in minutia detail, they would simply consider if the council had proper arrangements in place to ensure that it took properly informed decisions.

### **6. ANNUAL AUDIT FEE LETTER (2016/17)**

Jackson Murray referred members to the fee letter which had been sent to the Section 151 Officer in April. The letter set out the proposed work programme and associated fees for the ensuing year (2016/17) of £49,406. The scale fees were set nationally by the Public Sector Audit Appointments Limited (PSAA) and had been set at the same level as the scale fees for 2015/16. The Council's grant certification fee had been also been set by the PSAA at £9,015 and this fee covered the cost of certifying the housing benefit subsidy claim only and was based on the final 2014/15 certification fees.

The following responses were given to member questions;

- The PSAA did not prescribe the level of resource required to undertake the audit work and nor had the Audit Commission in the past.
- Section 151 of the Local Government Act 1972 required every local authority to make arrangements for the proper administration of their financial affairs and for one officer to be nominated to take responsibility for the administration of those affairs, the Section 151 Officer. The roles and responsibilities for the Section 151 Officer were set out in the constitution.

There were no resolutions arising from this report.

### **7. AUDITING STANDARDS (COMMUNICATING WITH THE AUDIT COMMITTEE)**

In accordance with the International Auditing Standards, Grant Thornton were required to obtain an annual understanding of how those charged with

governance had exercised oversight of management's processes for identifying and responding to risks of fraud and the internal control that management had established to mitigate these risks. At Cheltenham, the Audit Committee were 'those charged with governance' and as such a letter had been sent to the Chairman (Councillor Hay) with a set of questions designed to cover the requirements of the auditing standards. It was good practice for the Audit Committee to review and agree the responses made by the Chair on their behalf, though admittedly, the majority of members were new to the committee following the recent elections.

The following responses were given to member questions;

- The answer to the question about instances of actual, suspected or alleged fraud within the council or other entities within the Group, the answer should in fact have been listed as yes, as Cheltenham Borough Homes were included. This would be amended.
- Potential litigation in relation to the Joint Core Strategy would be noted in the AGS for this year, rather than the AGS for 15/16, which was being considered by the committee at this time.
- The Leckhampton planning appeal was identified as a risk but for commercially sensitive reasons this was deemed confidential. The risk was managed on an ongoing basis, so whilst it was assessed as having a high impact, it was considered that there was a low likelihood.
- The figure of £82k is the "clearly trivial" level, below which errors or omissions would not be reported to members. Any issues above £82k would be referred to within the Audit Findings Report that will be presented in September.
- 

The response would be amended to include any details of fraud relating to Cheltenham Borough Homes.

Upon a vote it was unanimously

**RESOLVED that the response, as amended, be approved and signed by the Chairman.**

**8. INTERNAL AUDIT OPINION (2015/16)**

Lucy Cater, Head of Internal Audit (Operational), introduced the Internal Audit Annual Opinion. The Annual Opinion, set out at Appendix A, was based on the assessed adequacy of control; based on risk-based audits which had been undertaken during the year and other advice work on control systems, as well as the results of any external inspections. Overall, the opinion was that a 'satisfactory assurance' level could be given for the controls in place, within the audit areas where audit activity had taken place. Where operational control issues had been identified, the risks associated with those issues had been raised in the audit reports and were being actively managed. Executive summaries for those audits that had been concluded since the last committee meeting had been included at Appendix B, rather than submitting a quarterly monitoring report which is usually tabled at each meeting.

The following responses were given to member questions;

- There were four levels of assurance that could be given under the Annual Audit Opinion; High, Satisfactory, Limited and No.
- A new audit management system has been procured and has the functionality (which needs to be explored) to report in colour the status and opinions of audits.
- Audit activity in relation to Business Continuity Management had been deferred at the request of the Director Resources, given the level of work currently being undertaken by the ICT Shared Service. The Safeguarding Adults and Children had been deferred due to resourcing issues but it was important to note that work on both was ongoing, the table referred only to audit work in relation to those areas, rather than the areas themselves.
- The audit activities were not listed in order of importance, but were instead based on the audit plan and grouped under 'core' and 'risk', etc.

The Chairman was pleased with the assurance level (Satisfactory) which had been achieved.

Upon a vote it was unanimously

**RESOLVED that the report be noted.**

**9. ANNUAL GOVERNANCE STATEMENT**

The Corporate Governance, Risk and Compliance Officer introduced the Annual Governance Statement (AGS) to be approved as part of the annual statement of accounts. The AGS, which the council had a statutory duty to prepare, covered the period for 1 April 2015 and 31 March 2016. The committee needed to satisfy itself that the AGS fairly reflected the arrangements within the Council, and that the suggested action plan would address the significant governance issues identified by the review. In March, assurance tables and evidence tables were issued to the Directors for completion, with the evidence tables acting as an internal control checklist which confirms and reviews the existence and adequacy of governance and control arrangements and identifies any significant absence of, or weaknesses in, the control. If any of the issues identified are considered to be significant, they are added to Significant Issues Action Plan and three issues had been included this year; Delivery and effective testing of the new ICT disaster recovery plan, business continuity plans and the Purchase Order management system. The statement had already been reviewed by the Senior Leadership Team, Corporate Governance group, Internal Audit, the Leader of the Council and the Head of Paid Service. The committee were being asked to approve the AGS and recommend that the Leader and Head of Paid Service sign the AGS so that it could be included within the statement of accounts.

The following responses were offered to member questions;

- Quotation marks had been positioned around the words 'business case' at 9c of the AGS as the level of detail contained within a business case

depended on the complexity of the project. These would be removed to avoid any confusion.

- There had always been a standard PID template and this had been updated following the AG&M review. As agreed, following that review, the Overview and Scrutiny Committee were given the opportunity to consider PIDs and decide how and when they wanted to scrutinise a particular project.
- Client Officers at the Council were involved in monitoring shared services. Within each agreement (which were much like Service Level Agreements but not always necessary given this title), certain requirements are specified. Performance was monitored on a quarterly basis and it was at this stage that the continued relevance of any measured would be discussed. It was agreed that the paragraph 3b would be amended to read 'The client officers monitor contractual arrangements and key performance indicators within the contract and report findings to the Senior Leadership Team.'
- The CIPFA code stated what had to be included in the AGS but this did not preclude the Council from adding something in addition. Whilst there was not specific mention of it, the Equalities policy fell under the title of 'Human Resources policies'.
- It wasn't within the remit of the AGS to make specific mention of those that apposed something on ethical grounds but this was something that Emma Cathcart from the Counter Fraud Unit would look at, at this could well be an issue that her team would encounter as part of their work, from an internal or external standpoint.
- All Project Managers overseeing significant projects at the Council were PRINCE 2 qualified.

The Chairman was reluctant to agree any changes to the AGS given that it was a retrospective but he was happy for Officers to review the Whistle Blowing policy and add something about ethics.

Upon a vote it was unanimously

**RESOLVED that;**

- 1. The Annual Governance Statement be approved**
- 2. The Leader and Head of Paid Service be recommended to sign the Annual Governance Statement so that it can be included within the statement of accounts**

### **10. REVIEW OF DRAFT ACCOUNTING POLICIES**

The Deputy Section 151 Officer introduced the draft accounting policies to be included in the 2015/16 draft Statement of Accounts, ahead of the approval of the final audited 2015/16 Statement of Accounts in September 2016. GO Shared Services had completed a thorough review of the accounting policies to ensure that they were up to date and relevant to the statements and the main change from the 2014/15 statements related to the adoption of the FRS13 definition of 'fair value', which was used as a valuation basis for Surplus Assets

and properties held for Investment purposes. These assets now needed to be valued at their 'highest and best use', which could well differ from how the asset was historically used by the council. Gains and losses on revaluation were posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Such gains and losses however, were not permitted by statutory arrangements to have an impact on the General Fund Balance and as such, were reversed out in the Movement in Reserves Statement and credited to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve. The accounting policies were required to include those adopted in relation to the council's group accounts. In 2014/15 the council jointly owned Ubico with Cotswold District Council, resulting in the company being included in the group accounts as a Joint Venture. However, Ubico now had 6 shareholders, each with a share of 16.66% in the company. This change in ownership meant that Cheltenham no longer needed to include the company in its group accounts, since it no longer has a 'significant influence' over the company.

The following responses were given to member questions;

- The best use evaluation was based on the best market use of an asset at a point in time without benefiting from any investment. The Council was not required to state what the best use would be, simply the value.
- The capital assets in relation to Ubico were held by the Council. The land was held by Council, as were the vehicles, which were leased to Ubico for use.

Upon a vote it was unanimously

**RESOLVED that the content of the draft accounting policies be noted.**

**11. WORK PROGRAMME**

The work programme had been circulated with the agenda.

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

The Chairman referred members to the briefing notes which had been circulated with the agenda. He explained that whilst briefing notes were not usually discussed, he felt that, given the subjects matter, the committee should talk through them at the very least.

**Evaluation of Internal Audit provision**

Lucy Cater, Head of Internal Audit (Operational), declared an interest in this item and left the meeting.

Paul Jones, the Section 151 Officer explained that the Internal Audit was a service which had been delegated to the Joint Committee. Audit Cotswolds provided internal audit to Cheltenham, Cotswold and West Oxfordshire Council's, whilst Forest of Dean received its internal audit service from the South West Audit Partnership (SWAP). SWAP is a Teckal company, wholly owned and controlled by its Members. Since 2012, the GO shared services had been jointly audited by Audit Cotswolds and SWAP with a joint protocol in place which aimed to avoid the service areas being audited twice. However, in



practice, a number of GOSS services are audited twice, by internal audit and external audit and there were often third audits by either SWAP or Audit Cotswolds in order to gain assurances that 'local' processes were operating in accordance with the main system (e.g payroll) internal controls. With an increasing number of shared services, this is not considered an efficient arrangement and therefore the proposal is that an independent evaluation of the two internal audit service providers is undertaken to enable the Joint Committee to decide upon the Internal Audit service provider for the partner councils. Grant Thornton, external auditor for the partner councils will provide the Joint Committee with independent advice on the cost and quality offered by each internal audit provider. This will be undertaken by a separate team to those that fulfil the external audit function. The bids would be assessed against 40% cost and 60% quality and a proposal would be tabled with this committee in September. He assured members that this would be a fair and transparent process and also took the opportunity to assure them that SWAP were a proven provider, and that he was a Director of the Company in his capacity as a member of the SWAP Board, as Chief Finance Officer for the Forest of Dean.

In response to a member question, the Section 151 Officer said that in his opinion, Devolution would not influence the decision, as irrespective of whatever the devolution deal would be (unitary, elected Mayor, etc), the internal audit function would still be required.

#### **Purchase Order Monitoring**

The Deputy Section 151 Officer introduced this briefing which was the first formal update that had been produced for this committee. GO Shared Services (GOSS) were able to generate a report (Appendix A) to identify non-compliance and the report was reviewed on a monthly basis, with additional training and support offered to staff, with the aim of improving performance. Financial rules stated that the system should be being used and full compliance would enable Finance to be aware of all commitments.

The following responses were given to member questions;

- The percentages in the April 2016/17 table represented the percentage of all payments processed in April. Only 28.94% had been made using the PO system. Supplier payments had been broken down for the purposes of providing clarity, as some eligible payments had been made in respect of expenditure generated from the Property Services division (Uniform) and Cheltenham Borough Homes, who both used stand-alone work order systems which had no direct interface with Agresso. Investigations were made into the possibility of an interface between the Uniform and Agresso. The statistics showed that in April 2016, 32% of eligible payments were non-compliant.
- The briefing note did not include details of the values associated with the purchase orders as it was felt that this could skew the figures and it was noted that purchase orders were not required for sums below £100.
- There was a variance in the number of payments that were processed from month to month and whilst no analysis of this

had been undertaken, it was likely that this could be due to seasonality.

- It was likely that a cultural change was required to address the majority of those that were not complying with the policy. Some officers had given feedback to a survey, had cited the urgent need for supplies as the reason that a purchase order was not raised.
- Executive Board and the Senior Leadership Team had fully supported the implementation of the No Purchase Order, No Pay policy and service areas which were repeatedly non-compliant, would be reported to them in the first instance.
- All suppliers that were known to the Council had been advised in writing, of the requirement for a Purchase Order Number.
- The Senior Leadership Team would be asked if Purchase Order Compliance could be added to the appraisal form of relevant officers.

Some members felt that the Council needed to adhere to the policy and refuse to process eligible payments that did not have a purchase order; suggesting that this would make suppliers more aware that this policy was in place. This was something that councillors have been reluctant to enforce due to the cash flow implications of non-payment on local businesses.

The point was made that some staff worked across a number of authorities and therefore a number of policies and that Internal Audit might like to communicate with partners, the suggestion that this policy be adopted by all.

The committee were satisfied that there was a mechanism in place to monitor the compliance, but felt that given the current level of non-compliance, it would be appropriate for further update to be tabled with this committee in six months (January 2017). Officers also committed to presenting the information in graph format in addition to the table format shown.

### **13. DATE OF NEXT MEETING**

The next meeting was scheduled for the 21 September 2016.

Colin Hay  
**Chairman**

# The Audit Findings for Cheltenham Borough Council

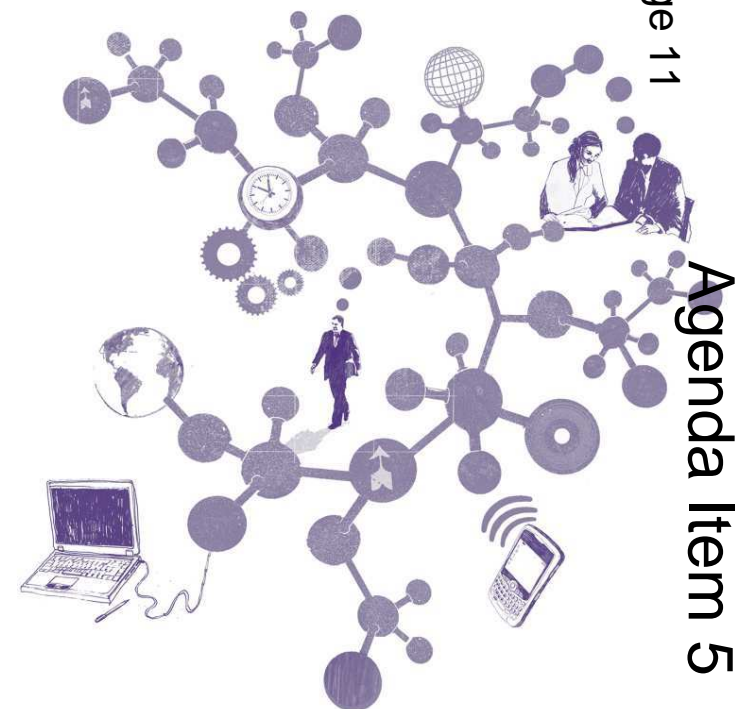
**Year ended 31 March 2016**

**12 September 2016**

**Peter Barber**  
Engagement lead  
T 0117 305 7897  
E [Peter.A.Barber@uk.gt.com](mailto:Peter.A.Barber@uk.gt.com)

**Jackson Murray**  
Manager  
T 0117 305 7859  
E [Jackson.Murray@uk.gt.com](mailto:Jackson.Murray@uk.gt.com)

**Katie Haines**  
Assistant Manager  
T 0117 305 7697  
E [Katie.v.haines@uk.gt.com](mailto:Katie.v.haines@uk.gt.com)



Cheltenham Borough Council  
Municipal Offices  
Promenade  
Cheltenham

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

T +44 (0)117 305 7600  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

12 September 2016

Dear Members of the Audit Committee

**Audit Findings for Cheltenham Borough Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Cheltenham Borough Council the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming an opinion and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Peter Barber  
Engagement Lead

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# 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

## Purpose of this report

This report highlights the key issues affecting the results of Cheltenham Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

Following discussions with the Council, we reported in our Audit Plan dated 2 March 2016 that the ownership structure of Ubico Ltd changed in 2015/16 with the addition of three more partners, meaning that ownership consisted of five partners, each with a one-fifth shareholding. We reported that the Council was reviewing arrangements in place to determine whether group accounts would be required in 2015/16.

The councils in the ownership structure subsequently confirmed that Stroud District Council became an additional partner on 29 January 2016, and therefore the individual councils' shareholdings decreased to a one-sixth share. The relevant councils concluded that this reduction in share resulted in the individual bodies no longer having joint-control or significant influence over the company. Following liaison with the Council, we considered the rationale for their assessment, including the separate operating practices, management structure, the application of majority-voting on the Ubico Ltd board and the reduction in the Council's shareholding, and were satisfied that the change in structure resulted in a loss of joint-control and significant influence.

We agreed, following these discussions with officers, that group accounts were no longer required in relation to Ubico Ltd and the Council's interest has therefore been classified as an investment in Ubico Ltd in the Balance Sheet.

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

- Receipt of final assurances from Cheltenham Borough Homes' auditors
- Review of the final version of the financial statements
- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## **Key audit and financial reporting issues**

### **Financial statements opinion**

We have identified no adjustments affecting the group and Council's reported revenue position. The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £12.944 million. This was unchanged as a result of our audit.

Our audit has resulted in an increase of £3.568 million increase in the value of the Council's Property, Plant and Equipment figure in the Balance Sheet. This has been matched by an equal increase in the Revaluation Reserve.

We have recommended a number of adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Our work has not identified any issues with the Annual Governance Statement.

### **Controls**

#### **Roles and responsibilities**

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.

### **Findings**

Our work has identified that actions in relation to control weaknesses highlighted in the 2014/15 audit findings report have been actioned.

Our 2015/16 audit has identified control weaknesses in relation to IT controls which we wish to highlight for your attention. These weaknesses did not alter our proposed audit strategy. Further details are provided within section two of this report.



## Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

## Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

## Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and the deadline for reporting is 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee.

## The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Section 151 Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Section 151 officer and the finance team.

## Acknowledgement

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 2016

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# 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

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,644,000 (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £82,000.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure\	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings, members allowances and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000

# 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 (UK&I) 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
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheltenham Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Cheltenham Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>We rebutted the presumed significant risk in relation to fraudulent revenue recognition.</p> <p>Our audit work on revenues has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries and year end adjustments</li> <li>• Review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<b>Financial statement level risk arising from the systems upgrade of Agresso</b> The Council uses Agresso as its main financial system which was upgraded in February 2016. The upgrade involved data migration from the old system to the new system and therefore there is a risk of loss of data integrity.	We have reviewed the arrangements set up to plan and execute the upgrade from a finance and IT perspective.  We have also reviewed the reconciliations of balances before and after the transfer, and agreed these balances to underlying transactions.	We concluded that the upgrade has been effective, and only minor inconsistencies and problems have been identified by officers.  Our work on the Council's IT Systems has identified a number of potential improvements. See findings and recommendations made on page 20.
4.	<b>Valuation of property, plant and equipment</b> The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>Reviewed the competence, expertise and objectivity of the experts used by management.</li> <li>Reviewed the instructions issued to valuation experts and the scope of their work.</li> <li>Tested revaluations made during the year to ensure they are input correctly into the Council's asset register.</li> <li>Held discussions with the valuer about the basis on which the valuation is carried out and challenged the key assumptions.</li> <li>Evaluated the assumptions made by management for those assets not revalued during the year.</li> <li>Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>Considered management's assertion that the current value of PPE assets not revalued as at 31 March 2016 are not materially different to their carrying value.</li> </ul>	Our work has resulted in a £3.568 million increase in the value of Council's Property, Plant and Equipment reported in the Balance Sheet.  The Code requires that the carrying value of assets is not materially different to their fair value. Our audit work identified that there may have been a material difference for five significant assets.  We requested additional information from the valuer on these assets which were last valued in 2014. Although this was not a formal valuation, this suggested a material difference between their carrying value and fair value.  The Council has updated the asset values on the basis of indices, which is a departure from the Code. This does however achieve the wider objective of ensuring that the values are materially stated.  We have raised a recommendation that the Council consider their valuation programme to ensure that values remain materially stated.

# Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	<p><b>Valuation of surplus assets and investment property</b></p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Reviewed the competence, expertise and objectivity of the management experts used.</li> <li>Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>Held discussions with valuer about the basis on which the valuation is carried out and challenged the key assumptions.</li> <li>Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>Tested revaluations made during the year to ensure they are input correctly into the Council's asset register.</li> <li>Reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS13.</li> </ul>	<p>In 2015/16 the Council revalued surplus assets and investment properties in line with the IFRS 13 requirements. However, we identified a small number of surplus assets which were not valued as at 31 March 2016 due to omission, and are therefore not valued using the correct method.</p> <p>We sought additional assurance from the valuer for those surplus assets not valued in 2015/16. This provided us with sufficient assurance that the value of these assets in the Balance Sheet is not materially different to the valuation they would have been given if subject to revaluation. As such, the values were updated in the Council's Balance Sheet.</p> <p>For those assets which have been valued in line with IFRS 13, including investment properties and surplus assets, we held discussions with the valuer to understand the assumptions behind the valuations and these were deemed to be appropriate.</p>

# Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
6.	<b>Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out.</li> <li>• We undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	Our audit work has not identified any issues in this area.

# 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
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of controls operating in the employee remuneration system</li> <li>• Performed a walkthrough to confirm that controls are operating as described</li> <li>• Performed a reconciliation of the payroll system outputs to the general ledger and financial statements</li> <li>• Performed trend analysis on payroll expenditure data for the year to identify any areas that require further investigation</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of the controls operating in the operating expenditure system</li> <li>• Performed a walkthrough to confirm that controls are operating as described</li> <li>• Obtained an understanding of the accruals process and sample tested accruals to ensure that these are calculated on a reasonable basis</li> <li>• Tested for unrecorded liabilities through a review of payments made after the year end</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.



# Significant matters discussed with management

	Significant matter	Commentary
1.	Business conditions affecting the Council and business plans and strategies that may affect the risks of material misstatement.	<p>The structure of Ubico Ltd changed on the 1<sup>st</sup> April 2015 with the addition of three more partners to the company. As a result, membership consisted of five partners, each with a one-fifth shareholding. At this point we concluded that group accounts incorporating Ubico Ltd were required, as had been the case in previous years. We discussed with officers changes to the structure of Ubico Ltd following the appointment of Stroud District Council as a partner on the 20 January 2016, when the Council's shareholding in Ubico Ltd decreased to a one-sixth share. The Council considered that this change in structure resulted in a loss of joint control and significant influence, and that as a result group accounts were no longer required.</p> <p>We considered the separate operating practices, management structure, the application of majority-voting on the Ubico Ltd board and the reduction in the Council's shareholding and concluded that we agreed with the Council's view that the arrangements no longer constituted the Council having joint-control or significant influence over the company. The Council's interest has therefore been classified as an investment in Ubico Ltd in the Balance Sheet.</p>
2.	Accounting standards, Property Plant and Equipment (valuation)	<p>The CIPFA Code of Practice requires that assets are revalued with sufficient regularity to ensure that their carrying value in the Balance Sheet is not materially different to their fair value. The Council adopts a rolling programme of valuations, which is allowable under the Code.</p> <p>During our audit, we identified five high value properties that were last valued in 2014. We applied indices to the values, which suggested that the fair value of these assets could be materially different to their carrying values. We discussed this with the Council's valuer, and whilst they did not undertake a formal valuation, they considered their own indices and this confirmed that there was a material difference between the suggested fair value and the carrying value.</p> <p>The Council has revalued these five assets based upon indices, resulting in a £3.568 million increase in the value of property, plant and equipment in the Balance Sheet. This is offset by an equal increase in the Revaluation Reserve. The Code states that assets should not be revalued based upon indices, and therefore this is a departure from the Code requirements. This treatment does however achieve the wider objective of ensuring that the Council's property, plant and equipment is fairly stated.</p> <p>We have recommended that the Council consider their rolling valuation programme, to ensure that high value property, plant and equipment assets are valued with sufficient regularity to ensure that they remain materially stated in the Balance Sheet.</p>



# Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Gloucestershire Airport	No	A high level analytical review	N/A	Desktop review performed by Grant Thornton UK LLP	Our audit work has not identified any issues in respect of Gloucestershire Airport.
Cheltenham Borough Homes	Yes	Comprehensive	None	Full scope UK statutory audit performed by Grant Thornton UK LLP	Our audit work has not identified any issues in respect of Cheltenham Borough Homes.  The audit of Cheltenham Borough Homes is in its final stages of completion and no significant issues have been identified as part of the audit to date which impact the consolidation into the group accounts.

# Accounting policies, estimates and 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
<b>Revenue recognition</b>	<p>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. It is accounted for in the year that it takes place and not when the payment is made.</p> <p>Revenue grants received are accounted for on an accruals basis when the conditions of their receipt are met.</p>	<p>Accounting policies are appropriate and compliant with the Code of Practice on Local Authority Accounting 2015/16 (the Code) and accounting standards</p> <ul style="list-style-type: none"> <li>The revenue recognition policy covers all material revenue streams including non-exchange transactions (Council tax and non-domestic rates)</li> <li>We have undertaken substantive testing of grants and other revenues and are satisfied that the Council has recognised income in accordance with its accounting policies.</li> <li>The disclosure of accounting policies are adequate.</li> </ul> <p>During our testing of grant income, we identified a balance totalling £0.083m disclosed as receipts in advance. Subsequent review of supporting documentation identified that these monies relate to Section 106 bond deposits. They relate to 2 Section 106 agreements, with £0.063m of the balance relating to an agreement that was signed in 2004. The monies are repayable to the contractor upon completion of the works per the signed agreement.</p> <p>The above information suggests that the funds should have been held as a creditor in the Balance Sheet rather than grant received in advance. The Council should consider the most appropriate accounting treatment for these monies in future financial years.</p>	 <b>Amber</b>
<b>Judgements and estimates</b>	PPE Revaluations	<p>The Council adopts a rolling programme of valuations for its land and buildings. This is allowable under the CIPFA Code. Our audit resulted in an increase in the value of land and buildings of £3.568 million, as discussed on page 15.</p> <p>We have raised a recommendation that the Council consider their revaluation programme to ensure high value assets are valued with sufficient regularity.</p>	 <b>Amber</b>




## 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

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Estimates and judgements</b>	Other estimates and judgements <ul style="list-style-type: none"> <li>• NDR appeals provision</li> <li>• Depreciation and asset values</li> <li>• Pension fund valuations</li> <li>• Financial Instruments Fair Values</li> </ul>	<ul style="list-style-type: none"> <li>• The Council has appropriately disclosed its significant judgements and estimates</li> <li>• The Council has calculated its provision using a reasonable methodology</li> <li>• The Council has appropriately relied upon the work of experts for pension fund valuations</li> <li>• In 2015/16 the Council derecognised a number of assets from its Fixed Asset Register which were carried at a nil value. We recognise that going forward, the Council will undertake an annual review of asset lives, as assets with nil values could be an indication that asset lives are too short.</li> </ul>	 <b>Green</b>
<b>Going concern</b>	The S151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed management's assessment and are satisfied with their assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p> <p>The accounting policies were approved by members at the June 2016 Audit Committee.</p>	 <b>Green</b>

## Assessment

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.


	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Chair of the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	We obtained direct confirmations from the PWLB for loans and requested from management permission to send confirmation requests for confirmation for borrowing, bank and investment balances . This permission was granted and the requests were sent and received.
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>A small number of disclosure issues were identified within the draft statement of accounts . These are detailed later in the report.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>The Council does not exceed the specified group reporting threshold and therefore a detailed review of the WGA is not required to be completed.</p>

# 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. We considered and walked through the internal controls for Property, Plant and Equipment valuations, the Pension Fund valuation, Employee Remuneration and Operating Expenses as set out on page 11 to 14 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1.	 <b>Deficiency</b>	<p><b>Weaknesses in Agresso system management</b></p> <p>As a result of our IT work we identified the following control weaknesses:</p> <ul style="list-style-type: none"> <li>A high number of system administrators (16 active). System administrator access and activities should be restricted to staff who do not have financial reporting or operational management responsibility within the organisation. This would remove any segregation of duty conflicts within Agresso and provide a more secure environment.</li> <li>The control environment has been weakened further by the practice of allowing users to set up system services against their own accounts, therefore not following a robust change control process.</li> <li>Security logs are not subject to independent review</li> </ul> <p>We discussed the above issues with officers from across Go Shard Service on the 6<sup>th</sup> July and agreed the actions outlined in appendix A.</p>	<p>Management should:</p> <ul style="list-style-type: none"> <li>Review all user access based on segregation of duties principles</li> <li>Restrict administration activities to the independent system administration team and ICT</li> <li>remove elevated access from those that have responsibility for functional and operational management of financial Services, HR and Payroll.</li> <li>Restore service processes to system accounts only</li> <li>Implement a risk-based security log review process with independent review.</li> <li>Ensure an effective change management procedure is implemented to review system changes processed.</li> </ul>

## Assessment

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

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	It is good practice for senior financial reporting staff to not have the ability to post journals as their adjustments would not be subject to authorisation by a more senior officer. We recommend that the S151 Officer's ability to raise journals should be removed	<ul style="list-style-type: none"> <li>The Section 151 Officer no longer has access to post journals and it was confirmed that no journals were posted in 2015/16 by them.</li> </ul>
2.	✓	<p>The Council encountered a number of issues in 2014/15 with their fixed asset module. This led to a number of errors within the PPE disclosures in the statement of accounts due to the fixed asset module not being up to date as at 31 March 2015.</p> <p>A recommendation was made in the prior year around ensuring the fixed asset register is kept up to date. Due to a number of issues encountered by the finance team during 2014/15 closedown of the accounts, the asset register was not fully updated to reflect 2014/15 movements in PPE balances. We recommend that a review is undertaken of the effectiveness of the fixed asset module and a decision to be made by the GO Shared Services Head of Finance on how to move forward with this to ensure that the fixed asset register is able to be used effectively in 2015/16.</p>	<ul style="list-style-type: none"> <li>In 2015/16, the Council decided not to use the Agresso Fixed Asset Module due to the issues identified in previous years and instead created a Fixed Asset Register outside of the Agresso system.</li> <li>Officers have put a considerable amount of time and effort into ensuring the position shown by the fixed Asset Register in 2015/16 is materially correct and we have four the new Fixed Asset Register to be robust and a significant improvement on the previous year.</li> </ul>

## Assessment

- ✓ Action completed  
 X Not yet addressed

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The valuations for five properties were increased by £3.568 million. This was to ensure that their carrying value was not materially different to their fair value.	-	DR Property, Plant and Equipment £3,568  CR Revaluation Reserve £3,568	-
Overall impact		-	£3,568	-



# Unadjusted misstatements

The table below provides details of adjustments identified during the audit 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 Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	<p>Property, plant and equipment</p> <p>£0.095m was reclassified from community assets to other land and buildings and then shown as a disposal.</p> <p>This should have been shown as a de-recognition rather than a disposal. This is a disclosure point in the Property, Plant and Equipment note (Note 19) and does not have any impact on the Council's Comprehensive Income and Expenditure Statement or it's Balance Sheet.</p>	-	-	Error not material and has no overall impact on Property, Plant and Equipment balance.
Overall impact		-	-	

# Misclassifications and disclosure changes

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

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Disclosure	(7,628)	Financial Instruments	The fair value disclosure of PWLB Loans has been changed to ensure that it is measured in line with IFRS13. In the draft statement of accounts the fair value was calculated based on the PWLB premature repayment rates, as was used in prior years. The introduction of IFRS 13 in 2015/16 means this is no longer the correct method, and the figure has been updated using discounted cash flows based on estimated market rates. This has reduced the fair value disclosure of the PWLB loans by £7.63m. This is a disclosure change, and does not change the value of the loans shown in the Council's Balance Sheet.
2	Disclosure	-	Financial Instruments	An additional disclosure has been added to the financial statements note regarding the fair value hierarchy of financial instruments. This is a new requirement in 2015/16 due to the introduction of IFRS 13.
3	Disclosure	-	Property, Plant and Equipment	An additional disclosure has been added to the property, plant and equipment note regarding the fair value hierarchy of assets valued using IFRS 13. This is a new requirement in 2015/16 due to the introduction of IFRS 13.
4	Disclosure	-	Various	There was a number of other minor presentational adjustments made to improve the quality of disclosures in the accounts.

# 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

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment and identified the following significant risks, which we communicated to you in our Audit Plan dated 2 March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Medium term financial position</b></p> <p>The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward.</p> <p>The current Medium Term Financial Strategy (MTFS) includes a balanced position for 2016-17, but includes a number of unidentified savings over the period to 2019-20.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the MTFS, including the assumptions that underpin the plan.</li> <li>Reviewed how savings are identified and monitored to ensure that they support the delivery of budgets.</li> </ul>	<p>A Medium Term Financial Strategy (MTFS) paper was presented to Cabinet in October 2015, which included financial projections to 2019/20. The projections showed a funding gap of £3.903m over the period 2016/17 to 2019/20, with a gap of £1.825m in 2016/17. During the budget setting process, the MTFS was updated to reflect the proposed funding settlement and other known changes. The update taken to Cabinet and Council meetings in February 2016 showed a deficit to 2019/20 of £4.198m and a funding gap of £1.881m in 2016/17. The changes were mainly driven by a funding settlement that was lower than expected.</p> <p>The updated MTFS identified proposed savings, which are detailed by area and linked to specific projects. The latest 'Bridging the Gap Strategy' for 2016/17 to 2019/20, included in the February 2016 Cabinet and Council papers, identifies total savings of £3.964m, leaving savings of £0.234m still to identify. The 2016/17 year is balanced, with a £0.671m shortfall currently identified in 2017/18. Savings are 'RAG' rated, with all but two of the 2016/17 projects rated as green. As would be expected, savings further into the future are rated amber or red.</p> <p>Savings are identified as part of the budget build and MTFS planning and are clearly linked to projects. Key savings in 2016/17 relate to the Leisure &amp; Culture Trust, with the identified savings included within the contract, and in relation to 2020 Vision Shared Services. These savings in 2016/17 have already been identified, and are linked to the change in the Council's management structure as a result of moving toward the 2020 Vision. The savings strategy includes a total of £0.808m in relation to 2020 Vision to 2019/20. This programme is considered over the page. The potential changes to the Council's involvement in the 2020 Vision Programme will have to be considered, and additional savings identified to cover any shortfalls. Should these or any other savings not be realised, the Council will either have to use general fund balances or cut discretionary services. Discussions with the Council have identified other potential savings or income growth areas, however these have not been fully identified or quantified.</p> <p>In 2015/16 the 'Budget Strategy (Support) Reserve' was created totalling £0.973m. The current funding strategy relies on £0.400m and £0.337m of this reserve to balance the revenue budgets in 2016/17 and 2017/18. The use of New Homes Bonus received by the Council is also increased in 2016/17, with 81% of the total expected income of £2.152m being used to support the revenue budget. In 2014/15, 65% of the New Homes Bonus was used to support the revenue budget. The Government has consulted on changes to the New Homes Bonus scheme, and there is therefore a risk that future New Homes Bonus funding will change. The Council recognise this in the 2016/17 budget paper.</p> <p>The Council's MTFS takes into account the factors we would expect, is updated sufficiently regularly and is responsive to significant events in the annual financial cycle. The assumptions employed within the projections appear to be appropriate and reasonable, and are based upon known contractual obligations where these are known. The Council has also explored alternatives before deciding on the medium term financial strategy.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</b></p>

## Key findings

Significant risk	Work to address	Findings and conclusions
<b>2020 Vision</b> The Council continues to progress the 2020 Vision partnership arrangement with Cotswold, West Oxfordshire and Forest of Dean District Councils. The success of 2020 Vision, through the members working together effectively, is critical to the medium term financial plan at Cheltenham.	We have: <ul style="list-style-type: none"> <li>Review of the progress made in the development of the 2020 Vision.</li> <li>Understand how the Joint Committee is operating and how the Councils are working together to deliver the planned savings.</li> </ul>	<p>In early 2015 the four Councils involved in the 2020 Vision partnership established a Member Governance Board and an interim management team (made up of a Partnership Managing Director, a Lead Commissioner and a Programme Director) to progress the 2020 Vision programme prior to creating more permanent arrangements. All partner councils voted to go forward with the 2020 Vision programme.</p> <p>A Joint Committee for all partner Councils came into operation in February 2016. Each Partner has appointed two of its elected members as its representatives on the Joint Committee, one of whom will be a member of that Partner Council's Executive, and the other a member of the Partner Council. The 2020 Programme has appointed a number of 'Group Managers' to plan business cases to incorporate a cross section of services from the partner Councils into the 2020 Programme. The overall business case for the Programme is currently being reviewed and updated and initial indications are that the original savings programme will be achieved. Some savings have already been taken by partner the Councils.</p> <p>Savings have already been achieved through the establishment of the 'core' 2020 project team to which a number of staff were seconded. As a result of share of the employment cost of the Chief Executive, Strategic Director and Business Improvement manager have been funded by the 2020 Project. Further savings from the programme have been delivered earlier than anticipated. Cashable savings to date are on profile with savings already delivered in 2015/16 and 2016/17 of £2.3m. Programme spend to date is within budget.</p> <p>Governance arrangements are developing, a Constitution and Scheme of Delegation was approved by the Joint Committee in February 2016.</p> <p>At the public Joint Committee meeting in June 2016, a Councillor of Cheltenham Borough Council delivered a statement confirming that Cheltenham Borough Council would not vote to agree a proposal to set up a company operating model for discussion with the partner Councils and develop detailed implementation plans to establish the new companies. The statement indicated that Cheltenham Borough Council may not wish to include their Revenues and Benefits and Customer Services in the 2020 Vision programme as had been originally indicated. This has an implication of the savings that can be delivered for Cheltenham and the other Councils through the programme. These potential changes to the Council's involvement in the 2020 Vision Programme will have to be considered, and if applicable additional savings identified, with detailed plans developed to cover any shortfalls.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</b></p>

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.



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## 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

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

**Fees**

	Budget £	Actual £
Council audit	49,406	49,406
Grant certification	8,361	TBC
<b>Total audit fees (excluding VAT)</b>	<b>57,767</b>	<b>TBC</b>

**Grant certification**

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

**Fees for other services**

Service	Fees £
<b>Non-audit services</b>	
Accommodation Strategy Workshop	3,000
Vat and employment tax support – Go Shared Services*	417

\* This service is provided to six GO Shared Services partners. Total fee is £2,500, the amount disclosed above is the element which relates to Cheltenham Borough Council.

**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 to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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	✓	✓ Page 44
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

# 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	IT should implement the recommendations arising from our IT review as set out on page 20.	Medium	We have recently completed a Solution Architect review of the ABW system including data control roles. We are now developing an action plan to improve the functionality of the system. Part of the action plan will address data control processes and will resolve the issues identified in the audit. We will also implement the change of password recommendation on Accounts used to run system services.	31 March 2017 Group Manager for Go Shared Services
2	The Council should consider the rolling valuation programme, to ensure that high value property, plant and equipment assets are valued with sufficient regularity to ensure that they remain materially stated in the Balance Sheet.	Medium	Agreed that the rolling valuation programme will be reviewed each year, to ensure high valued PPE are valued regularly and material values are correctly reflected in the balance sheet	31 March 2017 Group Manager for Go Shared Services

# Appendix B: Audit opinion

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

## DRAFT INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CHELTENHAM BOROUGH COUNCIL

We have audited the financial statements of Cheltenham Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the 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 2015/16.

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

### Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities, the Section 151 Officer 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing 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 Section 151 Officer; and the overall

presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the Group audited financial statements.

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

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority’s arrangements to secure value for money through economic, efficient and effective use of its resources**

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

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

*Signature – to be added*

Name – to be added  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

Date – to be added





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## Cheltenham Borough Council Audit Committee

21 September 2016

### Statement of Accounts 2015/16

### Report of the Section 151 Officer

<b>Accountable member</b>	<b>Cabinet Member Finance, Rowena Hay</b>
<b>Accountable officer</b>	<b>Section 151 Officer, Paul Jones</b>
<b>Accountable scrutiny committee</b>	<b>Audit Committee</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Significant Decision</b>	<b>Yes</b>
<b>Executive summary</b>	The purpose of this report is to present the audited Statement of Accounts 2015/16 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.
<b>Recommendations</b>	<p>a) Audit Committee is requested to formally approve the accounts for the year ended 31<sup>st</sup> March 2016.</p> <p>b) The Chair of the Audit Committee is recommended to sign the Statement of Accounts and the letter of representation.</p>

<b>Financial implications</b>	<p>As included in Appendix 1 –Statement of Accounts 2015/16.</p> <p><b>Contact officer: Sarah Didcote</b>  <b>E-mail: <a href="mailto:sarah.didcote@cheltenham.gov.uk">sarah.didcote@cheltenham.gov.uk</a></b>  <b>Tel no: 01242 264125</b></p>
<b>Legal implications</b>	<p>This report adopts relevant guidance issued in the Accounts and Audit Regulations 2003 and 2011.</p> <p><b>Contact officer: Peter Lewis</b>  <b>E-mail: <a href="mailto:Peter.Lewis@teWKesbury.gov.uk">Peter.Lewis@teWKesbury.gov.uk</a></b>  <b>Tel no: 01684 272012</b></p>
<b>HR implications (including learning and organisational development)</b>	<p>None</p> <p><b>Contact officer: Julie McCarthy,</b>  <b>E-mail <a href="mailto:julie.mccarthy@cheltenham.gov.uk">julie.mccarthy@cheltenham.gov.uk</a>,</b>  <b>Tel no: 01242 264355</b></p>

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

## 1. Introduction

- 1.1 The Accounts and Audit Regulations 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. Council has delegated authority to the Audit Committee to review and approve the audited statement of accounts.
- 1.3 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.
- 1.4 The 'Audit Findings' report from Grant Thornton to this meeting highlights any key changes to the original draft accounts presented for audit.

## 2. Background

- 2.1 The draft Statement of Accounts was signed by the Section 151 Officer on 30th June 2016. The public inspection period operated from 1st July to 11th August 2016 and a public notice to that effect was publicised on the Council's website.
- 2.2 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).
- 2.3 The accounts were audited during July and August 2016 and have been signed by the Section 151 Officer.

## 3. Auditor's Report

- 3.1 The council's external auditors, Grant Thornton UK LLP, conducted a full audit of the financial statements and will issue a 'Report to those charged with governance (ISA 260) for 2015/16', which is anticipated to give the Statement of Accounts an unqualified audit opinion.

## 4. Reasons for recommendations

- 4.1** The Council is required to formally approve its audited Statement of Accounts by 30<sup>th</sup> 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 2015/16 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. Letter of representation**

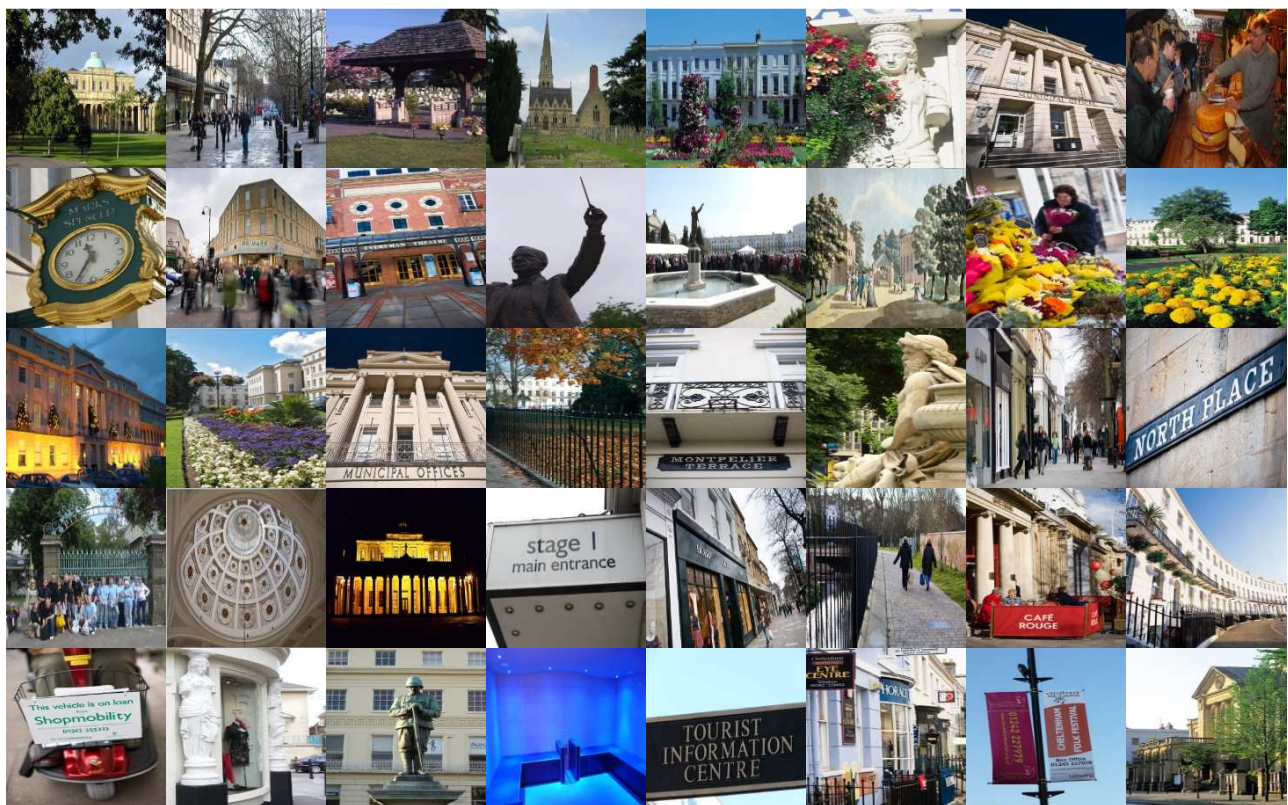
- 5.1** As part of the approval process for the Statement of Accounts, the Council is required to provide a Letter of Representation to the external auditor. This is to confirm or notify any material factors that could affect the auditor's view of the accounts since formal closure at 31st March 2016.
- 5.2** Note 31 outlines contingent liabilities; these are issues that currently exist but had not materialised by 31st March 2016. As Section 151 Officer I can confirm there has been no resolution to date of these matters, nor any other changes that I need to report to the external auditor.
- 5.3** It is seen as best practice for both the Section 151 Officer and the Chair of the Audit Committee to sign the Letter of Representation. A copy of this letter is given at Appendix 2 to this report.

<b>Report author</b>	<b>Contact officer: Sarah Didcote</b>  <b>Sarah.didcote@cheltenham.gov.uk</b>  <b>01242 264125</b>
<b>Appendices</b>	1. Statement of Accounts 2015/16  2. Letter of representation
<b>Background information</b>	External Audit Working paper files 2015/16  Code of Practice on Local Authority Accounting in the UK 2015/16 Accounts  Service Reporting Code of Practice 2015/16  Ledger records for 2015/16.



# CHELTENHAM BOROUGH COUNCIL

# Statement of Accounts 2015/16



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## NARRATIVE REPORT

### AN INTRODUCTION TO CHELTENHAM BOROUGH COUNCIL

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 115,600 (2011 mid-year census based 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, the Playhouse Theatre and Cheltenham Town Hall, all of which offer a rich and varied programme of professional and amateur performing arts. It is also home of The Wilson art gallery and museum, hosting a wide range of collections, exhibitions and cultural events.

Cheltenham Borough Council has an extensive property portfolio including a number of listed buildings that are operated by The Cheltenham Trust including the Town Hall, Pittville Pump Room and Art Gallery and Museum (renamed "The Wilson" in 2014). The council acquired a new property, Delta Place, in 2015/16. This building is held for investment purposes, currently fully occupied by local businesses. The council has secured a long term revenue stream from tenancy arrangements.

The council also has an interest 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 in the 2015/16 Municipal year

The council has 40 elected members representing 20 wards within the Cheltenham Borough. Elections are held every two years for which 50% of the seats are put up for re-election, with the most recent elections held in May 2016. There are also 5 parish councils within the Borough. Additional elections may arise from time to time if a councillor or parish councillor resigns from office.

The political make-up of the council in the 2015/16 municipal year was:

Liberal Democrat Party	24 councillors
Conservative Party	11 councillors
People Against Bureaucracy Party	4 councillors
Independent	1 councillors

The result of the local election in May 2016 increased the overall control of the Liberal Democrat Party, with a majority of 29 seats now held.

The council has adopted the Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The Leader of the Council has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions. Cabinet Members are held to account by a system of scrutiny which is set out in the Constitution.

The council, chaired by the Mayor, is responsible for setting the budget and policy framework within which decisions are made. 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.

The Cabinet for 2015/16 was made up as follows:

Leader of the Council	Councillor Steve Jordan
Cabinet Member Corporate Services	Councillor Jon Walklett
Cabinet Member Healthy Lifestyles	Councillor Rowena Hay
Cabinet Member Development and Safety	Councillor Andrew McKinlay
Cabinet Member Finance and Deputy Leader	Councillor John Rawson
Cabinet Member Housing	Councillor Peter Jefferies
Cabinet Member Clean and Green Environment	Councillor Chris Coleman

The Mayor and Deputy Mayor for 2015/16 were:

Mayor	Councillor Duncan Smith
Deputy Mayor	Councillor Chris Ryder

Full details of all the council's committees, including chairs and membership can be found on the council's website at [www.Cheltenham.gov.uk](http://www.Cheltenham.gov.uk).

## Management Structure

Supporting the work of councillors is the organisational structure of the council, headed by the Executive Board team, led by the Chief Executive, Mr Andrew North. During 2015/16 the Executive Board was comprised of the Chief Executive, three Executive Directors and the statutory section 151 officer, Mr Paul Jones. The statutory role of monitoring officer / borough solicitor to the council is held by Ms Sara Freckleton.

The management structure of the council has changed with effect from 1st April 2016, to align with the new joint committee and partnership arrangements detailed in 'Service Delivery' on page 5. The role of Chief Executive has been deleted from the establishment and a new role of Head of Paid Services for Cheltenham Borough Council has been created, held by Mrs Pat Pratley.

## Bankers

The council's banking services are provided by Lloyds Bank, 130 High Street, Cheltenham, GL50 IEW.

## External Auditor

The appointed external auditor in 2015/16 was Grant Thornton UK LLP, Hartwell House, 55 – 61 Victoria Street, Bristol, BS1 6FT.

## COUNCIL VISION

The council's vision is for 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. The Sustainable Community Strategy has adopted a twenty year vision for Cheltenham.

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"***

The council's Corporate Strategy and its associated action plan for 2015/16 was agreed in April 2015. This strategy focuses efforts on four high level outcomes covering the issues that matter most to our

residents, businesses and visitors. There is also an internal “transformation” outcome covering commissioning, asset management, business improvement and financial management.

The outcomes are:

- Cheltenham’s environmental quality and heritage is protected, maintained and enhanced
- Sustain and grow Cheltenham’s economic and cultural vitality
- People live in strong, safe and healthy communities
- Transform our council so it can continue to enable delivery our outcomes for Cheltenham and its residents.

## 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 continues to deliver on the issues that matter most to local people and to improve 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 2015/16. We continue to get recognition for our high standards, good performance, sound financial management and value for money. The council’s Annual Report for 2015/16 should be read in conjunction with the Statement of Accounts 2015/16 to give you a balanced view of the council’s work and finances.

The corporate strategy set out our commitment to deliver 28 projects across the 4 corporate outcomes and the proposed milestones and indicators by which the council’s performance is measured. In the 2015-16 action plan, the council identified 78 milestones to track our progress against the corporate strategy, 85% of which were completed in 2015/16.

## SERVICE DELIVERY

The council is a multifunctional organisation that has adopted a strategic commissioning approach, which puts a strong focus on designing community-focused outcomes and working closely with other parts of the public service and the voluntary and community sector (VCS), 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.

The council has entered several shared service and partnership arrangements with other organisations, to ensure the delivery of quality services in an efficient, cost-effective manner, including GO Shared services, providing Human Resources, Payroll, Finance and Procurement functions, shared with Cotswold District Council, Forest of Dean District Council and West Oxfordshire District Council, using a common platform (Agresso Enterprise Resource Planning (ERP) system). The council’s Information, Communications and Technology (ICT) is shared with Forest of Dean District Council, also using common ICT platforms, enabling service resilience within the councils.

## 2020 Vision

Further joint working savings are planned to be delivered by increasing the shared services between this council and its “GO Partners” (West Oxfordshire District Council, Forest of Dean District Council and Cotswold District Council). In June 2014, the four councils approved a vision document “2020 Vision for Joint Working” which set out the outline business case for extending joint working. Funding has been received from central government to support the transitional costs of this work.

In October 2015 each of the four councils' Cabinets and Full Councils approved the decision to proceed with the 2020 programme. A Joint Committee was set up on 1st April 2016, with delegated authority on behalf of the partner councils to oversee the partnership core functions (Finance, HR and IT), partnership shared services and the 2020 Vision programme. The purpose of the Joint Committee is to provide political direction and guidance, and ensure the 2020 Vision business case benefits are delivered to each council as well as the partnership.

In October 2015 the councils also agreed to receive a report and business case during 2016 on the potential establishment of a local authority company for the delivery of the functions of the 2020 Partnership. Work is currently underway on that business case.

A key principle of the partnership is that each council will retain its own identity, have its own elected members and continue to make decisions taking account of the needs of its local community. There will still be staff working in each location, as at present. Some members of staff will provide a service predominantly to one council; others will provide a service to more than one council.

The Partnership Services Managing Director is Mr David Neudegg and he is accountable to the Joint Committee. Each partner council has a Head of Paid Service who is responsible for the partner council services which are not delegated to the Joint Committee.

### **Ubico Ltd**

Ubico Ltd. was originally formed in 2012 as 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. The Forest of Dean District Council, Tewkesbury Borough Council and West Oxfordshire District Council joined the partnership on 1st April 2015. Stroud District Council joined in January 2016 and each of the six authorities are now equal shareholders.

### **Social housing scheme developments**

During 2015/16 the council's Arms-Length Management Organisation or ALMO, Cheltenham Borough Homes Ltd (CBH), completed the second phase of the regeneration of St Paul's by providing an additional 15 affordable rent dwellings at the 'Festival Way' development. This scheme was part funded by social housing grant from the Homes and Communities Agency (HCA), capital grant from the council and borrowing through the council.

In 2015/16, a number of schemes redeveloping Housing Revenue Account (HRA) sites were approved by the council with construction activities commencing on 5 sites that will provide a total of 20 new homes by February 2017. These developments are being part funded by Right to Buy (RTB) receipts with the balance expected to be funded by a combination of reserves and borrowing. The council, working in partnership with CBH, continues to evaluate a number of other opportunities to redevelop HRA sites across Cheltenham.

### **The Cheltenham Trust**

The council's Leisure and Culture services were transferred to The Cheltenham Trust on 1st October 2014. This is a new independent charitable trust, contracted to supply leisure and cultural related services to Cheltenham Borough Council. The Cheltenham Trust operates from the Art Gallery & Museum (The Wilson), Town Hall, Pittville Pump Rooms, Leisure@ Recreation centre and the Prince of Wales Stadium, the buildings of which are all still owned by the council. Leisure and Culture Staff were TUPE transferred into The Cheltenham Trust on 1st October 2014.

### **Cheltenham Development Task Force**

The purpose of the Task Force is to bring together the private, public and voluntary sectors to regenerate Cheltenham town centre for the people of Cheltenham, and its many visitors. The Task Force's strategy is

to promote council owned sites for inward investment by supporting our economy and communities for the benefit of Cheltenham.

The Task Force has brought together volunteer specialists from the private, public and voluntary sectors who work in partnership, with a shared passion for Cheltenham. Their remit is to consider specific issues or sites and recommend action to Cheltenham Borough and Gloucestershire County Council.

The Honeybourne Gate scheme is now completed, whilst progress on the Brewery II and Regency Place schemes have completely changed the local landscape, and have encouraged new commercial activities within the town. North Place has re-opened on an interim basis as a car park pending the development of a new scheme, since the Morrisons superstore will not now be built and Portland Street is under the ownership of a local developer.

In addition to these schemes, a range of other initiatives have been progressing during the year. On a site basis the largest town centre scheme will be the redevelopment of the Beechwood shopping centre to a John Lewis store, whilst elsewhere attention has focussed upon the need for new employment land.

The Cheltenham Transport Plan has now started its implementation phase, with works on site at Albion Street. Gloucestershire County Council, as the highways authority, plan to carry out a trial at Boots Corner in 2017. Other projects completed include the refurbishment of the iconic phone boxes on the Promenade as cultural hubs and various elements of High Street public realm, plus progress on projects such as the alleyways at St Marys Minster and Lower High Street.

The scheme to upgrade Cheltenham Spa station continues to make progress and has secured funding from 5 different sources. First Great Western plan to start consulting on a scheme during 2016/17.

The major focus of the Cheltenham Development Task Force for 2016/17 will be working with partners to upgrade the remaining parts of the High Street.

## CHALLENGES

### Local Government Finance

The General Election in May 2015 returned a majority Conservative Government. As expected, work to reduce the national deficit continued with the Chancellor's Summer Budget in July 2015, confirming that an additional £20 billion of public sector spending reductions would be required by 2020. The Chancellor's Budget in March 2016 included further proposals for Government policies and strategies aimed at reducing the national budget deficit.

The outcome of the Spending Review was announced by the Chancellor on 25th November 2015. The review was wide-ranging and raised some new issues not previously anticipated. It set out fundamental changes to Local Government and its future financial arrangements, including the end of Revenue Support Grant (the main non-ringfenced grant received by councils), and the proposal for local authorities to retain 100% of Business Rates. Whilst the Spending Review did not have a direct impact on the council's financial position in 2015/16, it is important to consider some of the measures announced as they will begin to have an effect in 2016/17 and beyond.

The Welfare Reform Act - introduced in 2012 with the aim of reducing the national welfare bill by £5.5 billion by 2016, including the withdrawal of Local Welfare Provision monies from 2015/16. The Chancellor announced in his July 2015 Summer Budget that there would be a further £12 billion reduction in spending on welfare, although there have been some changes to the proposals initially announced.

Economic proposals - Government austerity measures aimed at getting the public sector deficit under control have continued to affect the resources available to the council, with the authority having to make considerable budget reductions. As the Governments' own targets have changed, it has meant that the austerity measures have been extended to 2020.

In addition to pressures arising from cuts in Government funding, the council is also facing cost pressures from the triennial valuation of the Gloucestershire Local Government Pension Scheme. The council has made provision for growth in contributions to the Pension Fund. The most recent valuation took place in March 2016, the results of which will be confirmed in Autumn 2016 and will set the contribution rates for the period 2017/18 – 2019/20.

There are a number of local challenges facing the council including bridging the funding gap, delivery of our town centre regeneration aspirations, service improvements 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's 'Bridging the Gap' programme and the commissioning process have helped the council to move towards a robust five-year strategy for closing the funding gap. The work done on leisure and culture services, shared services with our 2020 partner councils, management restructuring and the accommodation strategy, as well as a number of smaller pieces of work, have given the council the opportunity to plan ahead over a period of several years.

In determining the budget strategy in October 2015, the Section 151 Officer recommended the creation of a specific earmarked reserve: a 'budget strategy (support) reserve', to provide greater resilience for the council's medium term financial strategy. The new reserve will also help protect the council against the challenges which we know we will encounter in the coming year, some of which are expected to be short term.

## INTRODUCTION TO THE FINANCIAL STATEMENTS

The purpose of this narrative report is to provide electors, local taxpayers, members of the council 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 council'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 2015/16 and the council's assets and liabilities at the year end.

The accounts for the year ending 31<sup>st</sup> March 2016 have been prepared and published in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This incorporates International Financial Reporting Standards (IFRSs), ensuring the accounts are compliant with these standards. The following statements are included:

<b>Statement of Responsibilities for the Statement of Accounts</b>	Sets out the respective responsibilities of the council and the Section 151 Officer for the accounts.
<b>Statement of Accounting Policies</b>	This explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. This includes changes in policy, the basis of charges to revenue and the calculation of items in the Balance Sheet.
<b>Comprehensive Income and Expenditure Statement</b>	This reports the net cost in the year of all the functions for which the council is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
<b>Balance Sheet</b>	This summarises the overall financial position of the council at 31 <sup>st</sup> March 2016, showing its assets, liabilities and reserves.
<b>Movement in Reserves Statement</b>	This details the movement during the year in the council's reserves.
<b>Cash Flow Statement</b>	This summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
<b>Group Accounts</b>	These bring together the accounts of Cheltenham Borough Council, Cheltenham Borough Homes and the council's share of the net assets of Gloucestershire Airport Ltd.
<b>Housing Revenue Account</b>	A separate account, required by law, which shows income and expenditure associated with the provision of council housing.
<b>Collection Fund</b>	Reflects the statutory requirement to maintain a separate account showing transactions in relation to non-domestic (business) rates and council tax, indicating how the amounts collected are distributed to the Government, Gloucestershire County Council, Gloucestershire Police and Crime Commissioner and Cheltenham Borough Council.
<b>Annual Governance Statement</b>	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 and a glossary of terms to provide readers with further information.



## THE COUNCIL'S FINANCIAL PERFORMANCE IN THE YEAR AND ITS POSITION AT THE YEAR END

### General Fund Revenue Budget

During 2015/16 the council continued with the process of the formal monitoring of budgets, reporting 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. This has resulted in council services being delivered within revised budget, with an overall saving compared to budget of £239k. This budget saving has been transferred to the Budget Strategy (Support) reserve and is included in the "use of balances and reserves" line in the Financial Outturn table below.

REVENUE OUTTURN 2015/16	Original Budget 15/16 £	Current Budget 15/16 £	Actual 15/16 £	Variance 15/16 £
<b>DIRECTORATES:</b>				
Head of Paid Service	7,231,920	7,294,570	7,354,309	59,739
Regulatory & Environmental Services	2,810,920	3,552,745	3,033,355	(519,390)
Resources Directorate	6,576,845	6,226,850	5,493,449	(733,401)
<b>Net Expenditure on Services</b>	<b>16,619,685</b>	<b>17,074,165</b>	<b>15,881,113</b>	<b>(1,193,052)</b>
Capital Charges	(1,736,900)	(3,005,830)	(3,044,560)	(38,730)
Interest payable and receivable	322,300	378,700	293,129	(85,571)
Use of balances and reserves	(91,200)	1,252,858	2,727,521	1,474,663
<b>Total net expenditure</b>	<b>15,113,885</b>	<b>15,699,893</b>	<b>15,857,203</b>	<b>157,310</b>
<b>FINANCED BY:</b>				
Council Tax income	(7,434,693)	(7,444,962)	(7,444,962)	0
Share of Collection Fund surplus (-) / deficit	(111,100)	(111,100)	(111,118)	(18)
Non-domestic rates income and expenditure	(3,017,084)	(3,562,227)	(3,682,769)	(120,542)
Revenue Support Grant (net of parish council tax support grant)	(2,110,549)	(2,100,280)	(2,100,281)	(1)
New homes bonus grant	(1,605,500)	(1,605,500)	(1,614,070)	(8,570)
Council tax freeze grant	(81,700)	(81,700)	(82,075)	(375)
S31 NDR compensation grant	(753,259)	(794,124)	(813,825)	(19,701)
Other specific government grants	0	0	(8,103)	(8,103)
<b>Total Funding</b>	<b>(15,113,885)</b>	<b>(15,699,893)</b>	<b>(15,857,203)</b>	<b>(157,310)</b>

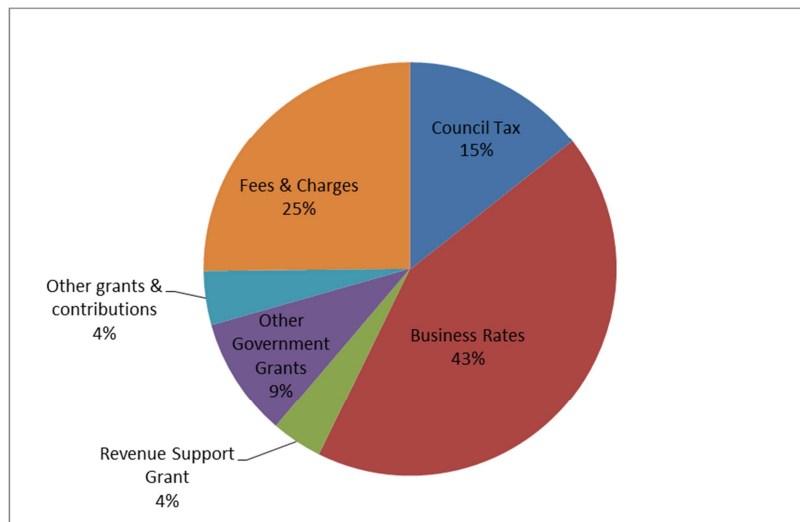
The table shows the council's expenditure grouped according to council's management structure, which is used to present budgets and monitoring statements to cabinet and the council. However in the Statement of Accounts the council is required to analyse its expenditure and income in a standard format, allowing direct comparisons to be made with other local authorities. This is shown by the Comprehensive Income and Expenditure Statement on page 16.

Note 18 to the accounts on pages 53-54 gives a breakdown of the net expenditure on services shown above between employees, support service and other expenses, fees and other income and specific government grant income. The note then reconciles this to the surplus or deficit on the provision of services shown in the Comprehensive Income and Expenditure Statement on page 16.



## 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 income in the form of general and specific grants, and determines the amount of business rates we receive through pooling arrangements.



## How the money was spent

The council provides a wide range of services, employing 275 people at 31st March 2016. The activities vary widely and include the provision and upkeep of council housing, provision for the collection of refuse and recycling, provision for culture and leisure services, car parking, cemeteries and crematoria, environmental health and many other services.

## Housing Revenue Account (HRA)

The HRA generated a surplus in the year of £3.311 million, which after statutory adjustments and transfers from earmarked reserves, resulted in an increase of £2.4 million in the HRA balance, compared to a revised budget of £2.2 million.

During the year the council sold 24 dwellings under the 'right to buy' scheme.

## Capital Expenditure

In 2015/16 the council spent £24.639 million on capital projects, grants and loans, compared with a revised budget of £30.340 million. Included in the expenditure for the year was £14.3 million for the purchase of town centre offices (Delta Place), £5.2 million on major repairs and modernisation of existing council dwellings, £0.954 million on new council dwellings, £0.475 million on disabled facilities and adaptations to the dwellings, £1.505 million on affordable housing, £0.520 million on the ICT 5 year infrastructure strategy and £0.265 million on the new Pittville play area (which will be completed in 2016/17).

In common with most local authorities, the council has been paying for a proportion of its capital expenditure from the proceeds of the sale of its assets, and £4.490 million of capital receipts were used for this purpose. Prudential borrowing of £11.250 million was used to part fund the acquisition of Delta Place. The remaining sources of finance were: government grants £0.393 million, capital contributions and partnership funding £0.233 million, Major Repairs Reserve £4.992 million and £1.781 million revenue financing.

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 major capital schemes where it is both prudent and affordable.

### **Treasury Management (Investments and borrowing)**

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 the council of an Annual Review Report at the financial year end.

The council manages the cash flow arising from the provision of all council services, using the money market to invest daily cash surpluses and borrow to fund cash shortfalls.

The challenging economic climate continues to have an impact on the council's finances. The historically low Bank of England base rate continues to dampen the level of interest earned by the council's cash investments. Interest rates have remained constant throughout the year at 0.5%, with no Bank of England interest rate changes during the period 1st April 2015 to 31st March 2016.

During the year the council's General Fund paid £2.464 million in borrowing costs (which was £8,756 less than budgeted for the year); and earned £455,838 on investments (which was £46,271 more than budgeted). This excluded interest on the written down value of Icelandic investments, details of which are shown in note 26. The overall impact was a saving to the General Fund of £55,027 compared to the revised budget.

Additional long term borrowing of £7 million was procured from the Public Works Loan Board (PWLB) during the year to part fund the Delta Place offices and long term capital loans to Cheltenham Borough Homes for affordable housing.

### **Pension Liability**

The council is required to account for retirement benefits when they are committed, even if the payment is many years in the future, in accordance with International Accounting Standard 19 (IAS 19). The pension liability or asset shown in the accounts 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 31<sup>st</sup> March 2016 was £53,619,000, a reduction of £6,499,000 over the figure for 31<sup>st</sup> March 2015 of £60,118,000. This is principally due to the fact that the financial assumptions at 31<sup>st</sup> March 2016 were more favourable than they were at 31<sup>st</sup> March 2015 as a result of increasing real bond yields and improved asset returns. All else being equal, these factors serve to reduce the value of the liabilities and thus had a positive impact on the IAS19 pension position.

## **Reserves, Balances and Provisions**

At the year-end usable reserves stood at £30.8 million, an increase of £3.5 million during the year. Of this increase, £2 million related to the General Fund and £1.5 million to the Housing Revenue Account (HRA). The General Fund increase mainly comprised £0.973 million set aside in the Budget Strategy (Support) Reserve and £1.1 million set aside in the Business Rates Retention Equalisation Reserve, both of which will be required in 2016/17 and future years to cover known budget shortfalls.

Of the usable reserves at the year-end, General Reserves or 'Balances' stood at £1.4 million for the General Fund and £6 million for the HRA.

At the year-end provisions stood at £1.4 million, an increase of £0.4 million during the year, all of which arise from the need to provide for potential reductions to business rateable values in future years.

## **Changes in accounting policies and estimates**

The council has reviewed its accounting policies during the year and revised them in accordance with the 2015/16 Code of Practice in Local Authority Accounting. The policies are detailed in note 1 to the accounts (pages 20 to 39) and the changes in accounting policies are detailed in note 2 on page 39.

The bad debt provision included in the accounts for the non-recovery of overpayment of housing benefit has been increased in 2015/16. This provision represents 70% of outstanding overpayment balances at 31<sup>st</sup> March 2016, in comparison to the corresponding rate of 60% applied at 31<sup>st</sup> March 2015. This change of estimate reflects the potential impact of changes to the recovery processes in 2017.

## **CHANGES IN STATUTORY FUNCTIONS AND IMPACT OF NEW LEGISLATION**

**The Cities and Local Government Devolution Act 2016** became law on 28th January 2016. This provides the legal framework for the implementation of devolution deals with combined authorities and other areas. It is an enabling piece of legislation, with further details for different areas to be set out in regulations that will be put before Parliament. The council awaits the outcome and the implications of this act.

### **Local government audit**

On 23rd March 2015 the Local Audit and Accountability Act 2014 (Commencement No 7, Transitional Provisions and Savings) Order 2015 was made. The Order implemented the majority of the provisions of the Local Audit and Accountability Act 2014 that had not been enabled.

On 12th February 2015 the Accounts and Audit Regulations 2015 were made. The Regulations, which came into force on 1st April 2015, revoke and replace the Accounts and Audit Regulations 2011 (although the 2011 continue to have effect in relation to financial years ending on or before 31st March 2015) and contain provisions on the internal control and annual accounts and audit procedures that apply to relevant authorities (apart from health bodies), as defined in Schedule 2 to the Local Audit and Accountability Act 2014.

### **National Audit Office (NAO) review of burdens on local authorities**

On 11th June 2015 the National Audit Office (NAO) published a review of how well the government has applied the new burdens doctrine. The review sets out how the government would ensure that new requirements that increased local authorities' spending did not lead to excessive council tax increases. The report also focuses on what local authorities could do to improve transparency in this area, pointing out that government departments have struggled in some cases to obtain reliable cost data from local authorities.

On 5th October 2015 HM Treasury announced its plans to devolve a number of powers to local government in relation to local taxes, and in particular business rates. The government's intention is that, by the end of the current parliament (2020), local authorities will:

- be able to retain 100% of local taxes to spend on local government services
- have the power to reduce business rates in their areas, given the proposal to abolish the uniform business rate.

The council awaits the details of how these new arrangements will operate and the impact on the council's finances.

### **Cap on exit payments for public sector employees**

On 31st July 2015 HM Treasury published a consultation paper on the government's proposals to introduce a cap of £95,000 on the total value of exit payments made to public sector employees. Any waiver of the cap would require consent from the relevant Minister, or from the full council in the case of local government exit payments. The reform proposals cover:

- current and future employees and office holders of all local government departments
- all types of payments made in relation to leaving employment, including voluntary and compulsory exits, and take into account the monetary value of any extra leave, allowances or other benefits granted as part of the exit process that are not payments in relation to employment.

### **EVENTS AFTER THE REPORTING PERIOD**

On 16th June 2016 the council entered into the Central Icelandic Bank's auction and sold its 'Escrow' investment (valued at £0.795 million at 31<sup>st</sup> March 2016) in the Icelandic bank Glitnir. From this date the council no longer holds any investments in Icelandic-administered banks.

### **FURTHER INFORMATION**

Further information about the accounts is available from GO Shared Services (Finance), Cheltenham Borough Council, Municipal Offices, Promenade, Cheltenham GL50 9SA. 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 during a 'period for the exercise of public rights' before the audit is completed. The accounts were available for inspection by appointment between 1st July 2016 and 11<sup>th</sup> August 2016 at the Municipal Offices, and local government electors for the area may exercise their rights to question the auditor about or make objections to the accounts for the year ended 31<sup>st</sup> March 2016, in writing, during this period.

**Paul Jones**  
Section 151 Officer

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### **THE COUNCIL'S RESPONSIBILITIES:**

The council 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 council, that officer is the GO Shared Services Head of Finance, who also undertakes the role of the Section 151 Officer.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

### **THE SECTION 151 OFFICER'S RESPONSIBILITIES:**

The Section 151 Officer is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code).

In preparing the Statement of Accounts, the Section 151 Officer 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 Section 151 Officer has also:

- kept proper accounting records which were up to date and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **CERTIFICATE OF SECTION 151 OFFICER**

I certify that the Statement of Accounts on pages 16 to 19 gives a true and fair view of the financial position of the council at the reporting date and its income and expenditure for the year ended 31st March 2016.

**PAUL JONES**  
**Section 151 Officer**

**21st September 2016**

### **COMMITTEE APPROVAL OF THE STATEMENT OF ACCOUNTS**

This statement of accounts was approved by the Audit Committee at its meeting on 21st September 2016.

**Councillor Colin Hay**  
**Chair of Audit Committee**

**21st September 2016**

## 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.

2014/15				2015/16			
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure	
£'000	£'000	£'000		£'000	£'000	£'000	
<b>Continuing Operations</b>							
2,128	(651)	1,477	Central Services to the public	1,773	(537)	1,236	
9,339	(2,614)	6,725	Cultural and related services	8,753	(940)	7,813	
10,028	(4,487)	5,541	Environment & Regulatory services	8,637	(4,750)	3,887	
3,219	(1,865)	1,354	Planning services	3,782	(2,064)	1,718	
3,359	(4,105)	(746)	Highways and Transport services	3,407	(4,154)	(747)	
15,997	(20,403)	(4,406)	Local Authority housing (HRA)	16,724	(20,888)	(4,164)	
33,865	(33,112)	753	Other housing services	33,372	(32,821)	551	
3,601	(1,496)	2,105	Corporate & Democratic core	4,817	(3,220)	1,597	
707	(242)	465	Non Distributed costs	1,053	-	1,053	
<b>82,243</b>	<b>(68,975)</b>	<b>13,268</b>	<b>Cost of Services</b>	<b>82,318</b>	<b>(69,374)</b>	<b>12,944</b>	
157	(22)	135	Other operating expenditure ( <i>note 9</i> )	655	(1,488)	(833)	
4,702	(957)	3,745	Financing and Investment (income) and expenditure ( <i>note 10</i> )	4,582	(4,503)	79	
19,623	(34,461)	(14,838)	Taxation and non-specific grant (income) and expenditure ( <i>note 11</i> )	19,063	(34,168)	(15,105)	
<b>106,725</b>	<b>(104,415)</b>	<b>2,310</b>	<b>(Surplus) or Deficit on the provision of services</b>	<b>106,618</b>	<b>(109,533)</b>	<b>(2,915)</b>	
	(15,977)		(Surplus) or Deficit on revaluation of non-current assets ( <i>note 33</i> )			(17,477)	
	3,035		Remeasurement of the net defined benefit liability/(asset) ( <i>note 35</i> )			(6,210)	
	<b>(12,942)</b>		<b>Other Comprehensive (Income) and Expenditure</b>			<b>(23,687)</b>	
	<b>(10,632)</b>		<b>Total Comprehensive (Income) and Expenditure</b>			<b>(26,602)</b>	

## BALANCE SHEET

This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category is usable reserves i.e. those reserves that the council may use to provide services, these being subject to the need to maintain a prudent level and constrained by 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 council is not able to use to provide services. This includes those that hold unrealised gains and losses (for example the revaluation reserve), where amounts only become available to provide services if the assets are sold, and those that hold timing differences which are shown in the Movements in Reserves Statement Line 'Adjustments between accounting basis and funding basis under the regulations.'

31 March 2015	Note	31 March 2016
£'000		£'000
285,696 Property, Plant & Equipment	19	297,994
33,615 Heritage Assets	20	34,677
24,216 Investment Property	22	39,824
534 Intangible Assets	24	736
496 Long Term Investments	26	462
7,572 Long Term Debtors	26	8,397
<b>352,129 Long Term Assets</b>		<b>382,090</b>
12,950 Short term Investments	26	15,300
1,427 Assets held for sale	25	396
7 Inventories		12
5,125 Short term Debtors	27	5,521
8,602 Cash and cash equivalents	28	5,668
<b>28,111 Current assets</b>		<b>26,897</b>
(742) Bank overdraft	28	(112)
(460) Short term borrow ing	26	(808)
(13,194) Short term creditors	29	(14,075)
- Grants receipts in advance - revenue	17	(1,257)
(595) Provisions	30	(906)
<b>(14,991) Current Liabilities</b>		<b>(17,158)</b>
(387) Provisions	30	(498)
(58,745) Long term borrow ing	26	(64,830)
(83) Grants receipts in advance - capital		(83)
(1,443) Grants receipts in advance - revenue	17	(1,724)
(60,118) Other long term liabilities	35	(53,619)
<b>(120,776) Long term liabilities</b>		<b>(120,754)</b>
<b>244,473 Net Assets</b>		<b>271,075</b>
(27,283) Usable Reserves	32	(30,815)
(217,190) Unusable Reserves	33	(240,260)
<b>(244,473) Total Reserves</b>		<b>(271,075)</b>

These financial statements replace the unaudited financial statements certified by the Section 151 Officer on 30<sup>th</sup> June 2016.

Signed .....Mr Paul Jones, Section 151 Officer

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year in the different reserves held by the council, 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 council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different to the statutory amount required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent purposes. The net increase or decrease before transfers to earmarked reserves line shows the statutory general fund balance and housing revenue account balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	<b>Total Usable Reserves £'000</b>	Unusable Reserves £'000	<b>Total Reserves £'000</b>
<b>Balance at 31 March 2014</b>	<b>1,752</b>	<b>6,439</b>	<b>4,204</b>	<b>12,802</b>	<b>-</b>	<b>1,043</b>	<b>26,240</b>	<b>207,601</b>	<b>233,841</b>
<b><u>Movement in Reserves during 2014/15</u></b>									
Surplus or (deficit) on the provision of services	(5,444)		3,134				<b>(2,310)</b>		<b>(2,310)</b>
Other comprehensive income and (expenditure)								12,942	<b>12,942</b>
<b>Total Comprehensive Income and (Expenditure)</b>	<b>(5,444)</b>	<b>-</b>	<b>3,134</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,310)</b>	<b>12,942</b>	<b>10,632</b>
Adjustments between accounting basis and funding basis under regulations (Note 5)	4,164	-	(1,780)	1,037	-	(68)	<b>3,353</b>	(3,353)	-
<b>Net increase/(decrease) before transfers to reserves</b>	<b>(1,280)</b>	<b>-</b>	<b>1,354</b>	<b>1,037</b>	<b>-</b>	<b>(68)</b>	<b>1,043</b>	<b>9,589</b>	<b>10,632</b>
Transfers to/from earmarked reserves (Note 32)	1,128	(1,128)					-		-
<b>Increase / (decrease) in 2014/15</b>	<b>(152)</b>	<b>(1,128)</b>	<b>1,354</b>	<b>1,037</b>	<b>-</b>	<b>(68)</b>	<b>1,043</b>	<b>9,589</b>	<b>10,632</b>
<b>Balance at 31 March 2015</b>	<b>1,600</b>	<b>5,311</b>	<b>5,558</b>	<b>13,839</b>	<b>-</b>	<b>975</b>	<b>27,283</b>	<b>217,190</b>	<b>244,473</b>
<b><u>Movement in Reserves during 2015/16</u></b>									
Surplus or (deficit) on the provision of services	(396)		3,311				<b>2,915</b>		<b>2,915</b>
Other comprehensive income and (expenditure)								23,687	<b>23,687</b>
<b>Total Comprehensive Income and (Expenditure)</b>	<b>(396)</b>	<b>-</b>	<b>3,311</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,915</b>	<b>23,687</b>	<b>26,602</b>
Adjustments between accounting basis and funding basis under regulations (Note 5)	2,373	-	(1,819)	(441)	508	(4)	<b>617</b>	(617)	-
<b>Net increase/(decrease) before transfers to reserves</b>	<b>1,977</b>	<b>-</b>	<b>1,492</b>	<b>(441)</b>	<b>508</b>	<b>(4)</b>	<b>3,532</b>	<b>23,070</b>	<b>26,602</b>
Transfers to/from earmarked reserves (Note 32)	(2,168)	2,168					-		-
<b>Increase / (decrease) in 2015/16</b>	<b>(191)</b>	<b>2,168</b>	<b>1,492</b>	<b>(441)</b>	<b>508</b>	<b>(4)</b>	<b>3,532</b>	<b>23,070</b>	<b>26,602</b>
<b>Balance at 31 March 2016</b>	<b>1,409</b>	<b>7,479</b>	<b>7,050</b>	<b>13,398</b>	<b>508</b>	<b>971</b>	<b>30,815</b>	<b>240,260</b>	<b>271,075</b>



## CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the council during the reporting period. The statement shows how the council 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 council are funded by way of taxation and grant income or from the recipients of services provided by the council. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the council'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 council.

2014/15 £'000		2015/16 £'000      £'000	
2,310	Net (surplus) or deficit on the provision of services	(2,915)	
(14,603)	Adjust net surplus or deficit on the provision of services for non-cash movements (note 36)	(13,821)	
2,045	Adjust for items in the net surplus or deficit on the provision of services that are investing or financing activities (note 36)	4,374	
(10,248)	<b>Cash (inflows) generated from operating activities</b>		<b>(12,362)</b>
19,168	Investing activities (note 37)		21,101
(1,217)	Financing activities (note 38)		(6,435)
<b>7,703</b>	<b>Net (increase) / decrease in cash and cash equivalents</b>		<b>2,304</b>
15,563	Cash and cash equivalents at beginning of the year		7,860
7,860	Cash and cash equivalents at end of the year (note 28)		5,556
<b>(7,703)</b>	<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(2,304)</b>

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### 1.1 GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the financial year and its position at the end of the financial year. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASSAC Code of Practice on Local Government Accounting in the United Kingdom (The Code) and the CIPFA Service Reporting Code of Practice (SeRCOP), supported by International Financial Reporting Standards (IFRS's), International Accounting Standards (IAS's) and statutory guidance.

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

The accounting policies of the council have as far as possible been developed to ensure that the accounts are understandable, relevant, free from material error or misstatement, reliable and comparable.

#### 1.2 ACCOUNTING CONCEPTS

Except where specified in the Code, or in specific legislative requirements, it is the council'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 the activity to which they relate takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as Inventories on the Balance Sheet.
- 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 charged 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.

## **1.3 EMPLOYEE BENEFITS**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within twelve months of the year-end. They include such benefits as salaries and wages, 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 council. 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 the 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 council 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 council 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 council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. Therefore in the Movement in Reserves Statement appropriations are required to and from the pensions reserve to remove the notional charges and credits for pension enhancement termination benefits, and replace them with the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

**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 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 on the following basis:
  - 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 the additional year of service earned - 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 - charged to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Interest cost on defined obligation: the expected increase in the present value of liabilities during the year as they move one year closer to being paid - charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - Return on plan 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: the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – charged to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Measurement of the net defined benefit liability: 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 – charged 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 amount chargeable to council tax to that 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 charges and credits for retirement benefits and replace them with 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.

### **Discretionary Benefits**

The council 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.

## **1.4 GRANTS AND CONTRIBUTIONS**

Grants and contributions received from the government and other organisations are not credited to the Comprehensive Income and Expenditure Statement until any conditions attached to the grant or contribution have been, or it is reasonably certain that they will be, satisfied. For example conditions may be 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.

Amounts received as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as Revenue or Capital Grants Received in Advance. When the conditions are satisfied, the grant or contribution is credited to the relevant service line (if ring-fenced) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

## **1.5 OVERHEADS AND SUPPORT SERVICES**

The cost of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of SeRCOP. The total absorption costing principle is used – the full cost of overheads and support services are shared between services 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 – past service costs and gains/losses on settlements relating to pensions, the cost of any unused IT facilities, and the cost of holding any surplus assets.

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.

## **1.6 COUNCIL TAX RECOGNITION**

Council Tax receivable for the financial year is recognised in the Collection Fund, a separate statutory account maintained by billing authorities. The Fund is charged with the council tax requirements ('precepts and demands') set by the major preceptors and billing authority before the start of the year, leaving (after providing for uncollectable debts) a surplus or deficit, which is then distributed to the same authorities in future years in proportion to their precepts or demands.

The council tax income included in the council's Comprehensive Income and Expenditure Statement for the year represents its 'demand' for the year, plus its share of the collection fund surplus or deficit for the year, before any distribution. Because the amount of surplus or deficit that can be credited or charged to the council's general fund is governed by statute, and is limited to that declared at the start of the year, adjustments are made in the Movement in Reserves Statement to the collection fund adjustment account to reflect the difference between the surplus or deficit due for the year and that which can be released according to statute.

There is no statutory requirement for a separate collection fund balance sheet. Instead the fund balances (arrears, over/pre-payments, bad debts provision and accumulated surpluses or deficits) are distributed across the balance sheets of the billing authority and the major preceptors, in proportion to their precepts and demands. The council, as a billing authority, therefore accounts for council tax balances on an Agency basis, showing only its share of the fund balances on its balance sheet.

## **1.7 NATIONAL NON-DOMESTIC RATES (NNDR) INCOME RECOGNITION**

NNDR income is recognised in the same way as council tax described above, with the exception that the net income and surplus/deficit credited or charged to the Comprehensive Income and Expenditure Statement is shared between the billing authority, the county council and central government in statutory proportions. NNDR balances are also distributed across their balance sheets in the same proportions.

## **1.8 ACQUISITIONS AND DISCONTINUED OPERATIONS**

Any operations or services acquired or discontinued during the financial year (for example transferred from or to another public organisation due to changes in legislation) are shown separately on the face of the Comprehensive Income and Expenditure Statement.

## **1.9 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.

## 1.10 FOREIGN CURRENCY TRANSLATION

Where the council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are converted at the spot exchange rate for 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account.

## 1.11 NON-CURRENT ASSETS - RECOGNITION OF CAPITAL EXPENDITURE

The council recognises non-current assets when expenditure is incurred on assets:

- held for use in the production or supply of goods or services, rental to others, or for administrative purposes
- expected to be used for more than one financial period
- where it is expected that the future economic benefits associated with the asset will flow to the council
- where the cost can be measured reliably.

The initial cost of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner required by management.
- Any costs of dismantling and removing an existing asset and restoring the site on which it is located.

The cost of an asset acquired other than by purchase or construction is deemed to be its fair value, except where an asset is acquired via an exchange it is deemed to be the carrying amount of the asset given up by the council.

Donated assets are measured initially at fair value. The difference between their fair values and any consideration paid is credited to the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in a Donated Assets Reserve account. Where gains are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Subsequent 'enhancement' expenditure is treated as capital expenditure when it is considered it will increase the value of the asset or its useful life or increase the extent to which the council can use the asset.

De Minimis policy - expenditure below £10,000 (excluding VAT) is not treated as capital expenditure except where the sum of identical assets purchased exceeds this figure, as is the case with waste collection bins and caddies.

Capital assets are held on the Balance Sheet as Non-Current Assets.

## 1.12 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (PPE)

Assets that have physical substance and are held for use in the provision of services, for rental to others, or for administrative or other operational purposes on a continuing basis are classified as Property, Plant and Equipment. Such assets are categorised as Council Dwellings, Other Land and Buildings, Vehicles Plant and Equipment, Infrastructure, Community Assets, Surplus Assets and Assets Under Construction.

Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset and there is no prospect for sale or alternative use. Examples include footpaths, cycle tracks, bridges, street furniture and drainage systems.

Community Assets are assets that the authority intends to hold in perpetuity, have no determinable useful lives and which may have restrictions on their disposal. Examples include parks, gardens, cemeteries land, allotments and open spaces used for recreation.

Surplus Assets are assets which are not being used to deliver services or for administrative purposes but which do not meet the definition of Investment properties or Assets Held for Sale.

### 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

PPE 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 council does not capitalise borrowing costs incurred whilst assets are under construction.

The assets are then carried on the Balance Sheet using the following measurement bases:

- Dwellings – Current value, using the basis of existing use value for social housing (EUVS-H)



- Other Land and Buildings – Current value, using the basis of existing use value (EUV) where an active market exists or Depreciated Replacement Cost (DRC), where there is no active market for the asset or it is specialised
- Infrastructure – depreciated historic cost
- Community assets – historic cost (where known). The cost of many of the council's parks, gardens and open spaces is not known and they are therefore shown at Nil value. The Code offers the option for authorities to measure community assets at valuation, which is the requirement for Heritage assets. The council 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.
- Assets under construction – historic cost
- Surplus Assets – Current value, using the Fair value basis defined by IFRS13 i.e. the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.
- In the case of assets that have short useful lives or low values (or both) i.e. Vehicles, Plant and Equipment, depreciated historic cost is used as a proxy for current value.

Assets included in the Balance Sheet at Current value are re-valued where there have been material changes during the year, and as a minimum every five years.

Where there is an upward revaluation, the carrying value is increased and the gain credited to the Revaluation Reserve. This is reflected in the Comprehensive Income and Expenditure Statement as a revaluation gain, included in Other Comprehensive Income and Expenditure. Exceptionally, gains are credited to the Surplus or Deficit on the Provision of Services (and not the Revaluation Reserve) where a revaluation loss or impairment in respect of that asset was previously charged to a service revenue account (adjusted for the depreciation that would have been charged had the revaluation or impairment losses not occurred).

Where decreases in value are identified, they are accounted for as follows:

- 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 in the Comprehensive Income and Expenditure Statement.

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**

PPE assets are assessed at the end of each year for evidence of impairment. Where evidence exists and the effect is considered 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 difference.

Where there are revaluation gains for the asset in the Revaluation Reserve the impairment loss is written down against that balance (up to the amount of the accumulated gains).

Where there are no gains in the Revaluation Reserve or an insufficient balance to meet the impairment loss, the remaining loss is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

## Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets with a determinable finite useful life, by writing down the carrying value of the asset in the Balance Sheet over the remaining periods expected to benefit from their use. Assets not depreciated are those without a determinable finite useful life (land and community assets), assets that are not yet available for use (assets under construction) and assets reclassified as Held for Sale.

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, Vehicles, Plant, Furniture and Equipment, Infrastructure, Surplus assets – straight-line allocation over the asset’s estimated useful life.

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.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged and the depreciation that would have been charged 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 reclassified as Held for Sale, in the year they were reclassified.

## Componentisation

Where a *material* item of Property Plant and Equipment has components whose cost is *significant* in relation to the total cost of that item, *and* which have different estimated useful lives and/or depreciation methods, they are identified as separate assets and depreciated separately. The council’s current Componentisation Policy defines a material item as an individual building exceeding a gross book value of £872,100 and a significant individual component as one which exceeds 20% of the gross replacement cost of that building. Significant components are identified as separate assets and separately depreciated if their estimated useful lives are considered significantly different to the ‘host’ building or other components.

‘Material’ buildings are considered for componentisation whenever such a building is acquired, enhanced, or revalued after 1 April 2010.

**1.13 NON-CURRENT ASSETS - HERITAGE ASSETS**

Assets with historical, artistic, scientific or technological qualities held principally for their contribution to knowledge or culture.

The council's collections of heritage assets are accounted for as follows:

**Ceramics, Art, Regalia and Silverware, Furniture, Textiles, Ephemera, other collectables**

These are reported in the Balance Sheet at their current insurance valuation, which is based on market values.

**Statues and Monuments**

These are reported in the Balance Sheet at their current insurance valuation, which is based on historic or replacement cost.

**Archaeology**

The council 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 council does not recognise these assets on its balance sheet.

The insurance valuations are updated for inflation on an annual basis, with gains credited to the Revaluation Reserve. The council has deemed that all the heritage assets have indeterminate lives, hence the it does not consider it appropriate to charge depreciation.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. Any impairment is recognised and measured in accordance with the council's policy on impairment for Property, Plant and Equipment. Occasionally the council will dispose of heritage assets. These are accounted for in accordance with the council's policy on disposals and assets held for sale.

**1.14 NON-CURRENT ASSETS - 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, in its highest and best use, could be exchanged between market participants at the reporting date. Properties are not depreciated but are revalued annually as necessary dependent on changes in 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. Such gains and losses, however, are not permitted by statutory arrangements to have an impact on the General Fund Balance and are therefore reversed out in the Movement in Reserves Statement and credited to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

**1.15 NON-CURRENT ASSETS - INTANGIBLE ASSETS**

Expenditure on assets that do not have physical substance and which are controlled by the entity

through custody or legal rights (e.g. software licences), is capitalised when it will bring benefits to the council for more than one financial year. Internally generated assets are capitalised where it can be demonstrated that the project is technically feasible, is intended to be completed (with adequate resources being available), where the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset, and where the expenditure during the development phase can be reliably measured.

Intangible assets are measured at cost, which is amortised over the estimated useful life of the asset to the relevant service line in the Comprehensive Income and Expenditure Statement, to reflect the pattern of consumption of benefits. Estimated remaining useful lives are reviewed annually and an asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are charged to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or cessation of use of an intangible asset is credited or charged to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance, so they reversed out of the General Fund Balance in the Movement in Reserves Statement and charged or credited to the Capital Adjustment Account with any sale proceeds greater than £10,000 credited to the Capital Receipts Reserve.

## 1.16 NON-CURRENT ASSETS – DISPOSALS AND ASSETS HELD FOR SALE

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets are classified as held for sale where the asset is available for immediate sale in its present condition and where the sale is highly probable i.e. the asset has been advertised for sale and a buyer sought and the completion of the sale is expected within twelve months of the balance sheet date. Dwellings sold under Right to Buy are deemed to become surplus on the day that the transfer to the tenant takes place (completion of the sale), and are therefore considered operational until they are sold.

Except when carried at (depreciated) historic cost, an asset is revalued immediately before its reclassification as Held for Sale, using its existing category's measurement basis. Following reclassification assets are measured at the lower of their carrying values and fair values less costs to sell. Any subsequent gains in value are first used to reverse any losses previously charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement and thereafter recognised in the Revaluation Reserve. Losses in value are charged to the Surplus or Deficit on the Provision of Services (even when there is a balance held for that asset in the Revaluation Reserve).

Depreciation is not charged on Assets Held for Sale, except in the year in which they were classified as held for sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets (Property, Plant and Equipment, Investment or Heritage 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, Heritage 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 written off 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 Revenue account (HRA) disposals, as specified by statutory regulations, 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. Such amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### **1.17 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets is charged to the relevant service revenue account in the year. To the extent the council has determined to meet the cost of this expenditure from capital resources (borrowing, capital receipts or grants) a transfer to the Capital Adjustment Account via the Movement in Reserves Statement reverses out the amounts charged to the General Fund Balance so there is no impact on the level of council tax.

#### **1.18 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 of property, plant and equipment used by the relevant service
- Amortisation of intangible assets used by the service
- Revaluation and impairment losses, where there are no accumulated gains in the Revaluation Reserve against which the losses can be charged.

The council cannot raise council tax to cover depreciation, amortisation or revaluation and impairment losses. It is, however, required to make an annual provision (known as Minimum Revenue Provision or MRP) from revenue towards reducing its overall borrowing requirement, equal to an amount calculated on a prudent basis by the council in accordance with statutory guidance. The above charges are therefore reversed out of the General Fund Balance and replaced by a MRP contribution to the Capital Adjustment Account in the Movement of Reserves Statement.

#### **1.19 LEASES**

Leases are classified as either Finance Leases or Operating Leases. Arrangements that do not have the legal status of a lease but convey the 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.

### Defining a Finance Lease

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. This is likely to apply if some or all of the following situations are met:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. in the case of hire purchase)
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised
- If the lease term is for the major part of the economic life of the asset, even if title is not transferred. The economic life of the asset is deemed to be consistent with the useful life of the asset in the depreciation policy. The council recognises the major part to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease. If this rate cannot be determined the incremental borrowing rate applicable for that year is used. The council recognises "substantially all" to mean 90% of the value of the asset. In some circumstances, a level of 75% is used if the council believes that using this level will give a result that better reflects the underlying transaction
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications
- If the lessee cancels the lease, the lessor's losses associated with the cancellation are borne by the lessee
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease)
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

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

### Lessee Accounting for a finance lease

Where the council is leasing an asset (for example as a tenant) that is deemed a finance lease, it will recognise that asset within its asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the asset, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease

payments are made. Lease payments made to the lessor are split between the reduction in the liability and interest, which is charged to the Comprehensive Income and Expenditure Statement.

### **Lessor Accounting for a finance lease**

Where the council grants a finance lease over property or items of plant or equipment the carrying values of the relevant assets are written out of the Balance Sheet to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement, as part of the gain or loss on disposal. The amount receivable on disposal (representing the minimum lease payments due), is credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal, matched by a cash receipt (if a premium has been paid) or a long term debtor (if to be settled by payments in future years) on the Balance Sheet.

The amount receivable on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due under the lease is settled by payments in future years the amount receivable on disposal is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve. When received future lease payments are apportioned between:

- a charge for the acquisition of the assets, which reduces the lease debtor
- finance interest, which is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

An amount equivalent to the charge for the acquisition of the assets is at the same time transferred from the Deferred Capital Receipts Reserve to the Capital Receipts Reserve.

### **Defining an Operating Lease**

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards arising from ownership of the asset.

### **Lessor Accounting for an operating lease**

Where the council grants an operating lease over property or items of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the relevant service income line or, if the asset is classified as an Investment property, to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Lessee Accounting for operating leases**

Rentals paid under operating leases are charged to the service using the asset in the Comprehensive Income and Expenditure Statement.

## **1.20 FINANCIAL INSTRUMENTS**

Financial assets and liabilities are recognised in the Balance Sheet when the authority becomes party to the contractual provisions of the instrument. In the case of a financial asset this is when the authority becomes committed to its purchase, except in the case of trade receivables, which are recognised when the goods or services have been supplied. Financial liabilities are recognised when the cash or goods or services have been received.

### **Financial Liabilities**

Financial liabilities are initially measured at fair value and then carried at amortised cost. Where

interest is payable this is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, 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. Transaction costs are charged to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement, unless deemed material, in which case they are added to the initial cost.

Normally this means, for the council's borrowings, the amount recognised in the Balance Sheet represents the outstanding principal repayable plus any accrued interest, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year stated in the loan agreement. For current payables with no stated interest rate the amount recognised is the outstanding invoiced amount.

Gains and losses on the early settlement of borrowing are credited or charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of settlement. However, where settlement 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 its 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**

The authority's financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments *and* 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 initially measured at fair value and carried at amortised cost. Where interest is receivable this is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. Normally this means, for the council's loans and investments, the amount recognised in the Balance Sheet is the outstanding principal receivable plus any accrued interest, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year stated in the loan agreement.

Interest attributable to the Housing Revenue Account (HRA) is calculated based on the level of its usable reserves held throughout the year and the weighted average (consolidated) rate of interest earned by the council, in accordance with statutory provisions.

Where loans and receivables 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 an



impairment charge made to the Financing and Investment Income and Expenditure line in 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.

For current receivables with no stated interest rate the amount recognised is the outstanding invoiced amount, less any allowance for impairment (provision for bad or doubtful debts).

Any gains and losses that arise on the disposal or de-recognition of the asset are credited or charged 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 initially measured and carried at fair value, except in the case of equity instruments that do not have a quoted price in an active market for which a reliable fair value cannot be established, which are measured at cost. For instruments quoted in an active market, fair values are based on their market prices at the reporting date, except where the instruments will mature within twelve months of that date, in which case they are assumed not materially different to (and therefore equal to) their carrying values.

Where the asset has fixed or determinable payments, the interest receivable is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, 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, any income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Changes in fair value (except those arising from impairments), if material, are balanced by an entry to the Available-for-Sale Reserve and the gain or loss is recognised in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement. Where impairment losses have been incurred, these are charged 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 or charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, together with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

### **1.21 INVENTORIES**

Inventories held in stores are included in the Balance Sheet at the latest price paid. 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 not considered material.

### **1.22 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 council's cash management.

## 1.23 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 event, based on its best estimate of the likely settlement. When payments are eventually made, they are charged to the provision carried on 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.

## 1.24 CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place that gives the council 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 council. 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, where material, disclosed in a note to the accounts.

## 1.25 RESERVES

The council sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund balance 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 in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure in that year.

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.

## 1.26 CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the council 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 council.

Contingent assets are not recognised in the Balance Sheet but, where material, disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **1.27 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 council's financial position or financial performance. Where a change made has a material effect, 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.

## **1.28 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.

## **1.29 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.

## **1.30 JOINTLY CONTROLLED OPERATIONS**

Jointly controlled operations are activities undertaken by the council, together with other organisations, involving the shared use of the assets and resources of the organisations, rather than the establishment of a separate entity. The council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and charges or 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.

Such operations, not being separate entities, are accounted for in the council only accounts and are not separate entities for Group account purposes.

**1.31 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 own accounts with those of Gloucestershire Airport Ltd, in which the council has a 50% shareholding, and Cheltenham Borough Homes Ltd (CBH), a company limited by guarantee in which the council is the sole member. The accounts of CBH include those of Cheltenham Borough Homes Services Ltd, a wholly owned subsidiary of Cheltenham Borough Homes Ltd.

Gloucestershire Airport Ltd has been treated as a Joint Venture (since it is jointly owned and controlled with Gloucester City Council), so has been consolidated with the council's accounts on an equity accounting basis, in which the council's share of the company's operating results and net assets or liabilities (based on its proportionate shareholding) are shown as separate lines in the main group statements. There is no requirement to adjust for inter-organisation transactions and balances.

CBH has been treated as a Subsidiary (since it is wholly controlled by the council), so its accounts have been consolidated in the main group statements on a line-by-line basis, eliminating inter-organisation transactions and balances.

At 31<sup>st</sup> March 2016 the council also had a 16.66% shareholding in Ubico Ltd., a local authority owned company which (from 2015/16) has six members, providing environmental services to the shareholder councils. Previously the company was jointly owned and controlled with Cotswold District Council. Since the council no longer has control or joint control or significant influence over the company, from 2015/16 its accounts have not been consolidated into the group accounts, however full disclosure notes are provided.

**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:

***Cheltenham Borough Homes (CBH)***

The financial statements for CBH have been prepared under the historical cost convention in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standard 102 (FRS102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing providers.

Consequently dwellings owned by CBH are initially valued at historic cost. For the purposes of the group accounts they have been re-valued at Current value to bring them into line with the council's accounting policies, using the existing use value for social housing (EUV-SH) appropriate to the dwellings' tenure as affordable homes. Any revaluation gains or losses are treated as described in paragraph 1.12 (Measurement).

In the company accounts capital grants are written off to the Income and Expenditure account over the estimated life of the asset in line with depreciation. However in the group accounts such grants are treated in accordance with paragraph 1.4, whereby they are credited to the Income and Expenditure account when any conditions attaching to the grant are met.

***Gloucestershire Airport Ltd***

The financial statements of the Airport have been prepared under the historic cost convention in

accordance with the Financial Reporting Standard for Smaller Entities (effective January 2015).

Property, Plant and Equipment assets held by Gloucestershire Airport are therefore initially valued at historic cost. For the purposes of the group accounts they have been re-valued at Current value in existing use (using depreciated replacement cost), in order to bring them into line with the council's accounting policies. Any revaluation gains or losses are treated as described in paragraph 1.12 (Measurement).

## 2. CHANGES IN ACCOUNTING POLICY AND ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

From 1st April 2015 the Code adopted the standards *IFRS13 Fair Value Measurement*, *Annual Improvements to IFRSs 2011-2013 cycle* and *IFRIC 21 Levies*. The adoption of IFRS13 has resulted in a change to the measurement requirements for assets classified as Surplus assets within Property, Plant and Equipment and Investment Properties. These assets are now measured at fair value in accordance with the definition in IFRS13, and no longer with adaptations to that definition. The change is not considered to have had a material impact on the financial statements.

The following standards will be introduced in the 2016/17 Code:

- Amendments to IAS19 *Employee benefits* (Defined Benefit Plans: Employee Contributions)
- Annual improvements to IFRSs 2010 - 2012 Cycle
- Amendment to IFRS11 *Joint Arrangements*
- Amendment to IAS16 *Property, Plant and Equipment* and IAS38 *Intangible Assets*
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS1 *Presentation of Financial Statements*
- Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of a new Expenditure and Funding Analysis.

These amendments (when adopted) are not anticipated to have a material impact on the financial statements or balances of the council.

## 3. CRITICAL JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out on pages 20-39, the council has had to make certain judgments about complex transactions or those which may be uncertain depending on future events.

### Leases

Leases have been classified in accordance with the IFRS criteria. In making these assessments the council has deemed all existing leases (with the exception of the leases of vehicles and plant to Ubico Ltd) as being operating leases. The leases of vehicles and plant to Ubico have been classified as finance leases.

### Business Rate Appeals Provision

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 district councils such as

Cheltenham assume a share of the liability for refunding ratepayers as a result of successful appeals and other reductions made by the Valuation Office in the rateable values on the rating list. A successful appeal or other reduction may mean the council having to refund rates paid in previous years. The council has therefore set aside a provision to cover its share of the repayments it estimates will be made and made a judgement as to the timescale over which they are likely to be repaid.

The provision is based on the expected success rate of appeals lodged and any known or highly probable reductions at 31st March 2016, and no allowance has been made for any successful appeals or other reductions against previous years' rate liabilities that may be received after this date.

### Non-Current Assets

The classification of non-current and Property, Plant and Equipment assets has been reassessed in accordance with the Code and judgements made as to the category, and therefore the valuation basis, in which each asset falls, including those held for investment purposes.

### Group Accounts

In assessing the need for group accounts the council has had to make judgements to establish the boundaries of the group (deciding which organisations over which it has or does not have a controlling interest), and judgements as to the classification of group entities (as subsidiaries, associates or joint ventures). Further details are given in the Group Accounts section.

### Bad Debts Provision

In estimating current debtors due at the year end the council has had to make judgements as to the likely amounts recoverable and irrecoverable and therefore the level of bad debts provision required.

## 4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items on the council's Balance Sheet at 31st March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of assets falls.  It is estimated that the annual depreciation charge for buildings (including council dwellings), vehicles, plant and equipment and Infrastructure would increase by £450,000 for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm	The effects on the net pensions' liability of changes in individual assumptions can be measured. For example, a 0.5% decrease in the discount rate assumption would result in an increase in the pension

Item	Uncertainties	Effect if actual results differ from assumptions
	of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied.	liability of approximately 9%, and a one year increase in member life expectancy would increase the pension liability by approximately 3%. A sensitivity analysis is included in note 35 on Pensions.
Non-domestic rates (NDR) appeals provision	This provision has been set up to meet losses arising from the successful appeal of businesses against the rateable value of their properties. The provision is based on an expected success rate of appeals submitted at 31 <sup>st</sup> March and an estimated reduction in rateable value. Although based on past experience, both the actual success rate and actual reduction may differ from the estimate.	A 1% increase in the assumed success rate, together with a 1% reduction in the rates payable, would result in an increase in the estimated provision required of £275,000, of which the council's share would be £110,000. This would increase the collection fund deficit to be distributed to the council in future years. Some of this reduction may be compensated by the local NDR pool if it resulted in a deficit in the year. Certain categories of appeals are estimated at 100% expected success rate, based on experience to date.

## 5. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that have been made to Total Comprehensive Income and Expenditure so that it equals the resources which, under statutory provisions, are available to meet future capital and revenue expenditure.

The following describes the major reserves and the adjustments made to each reserve:

### General Fund Balance

The General Fund is the statutory fund into which all the receipts of an council are required to be paid and out of which all liabilities of the council are to be met, except to the extent that statutory rules might provide otherwise. These rules also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.

### Housing Revenue Account (HRA) Balance

The HRA Balance reflects the council's statutory obligation to maintain a separate revenue account for local authority council housing in accordance with Part VI of the Local Government and Housing act 1989.

It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the council's landlord function.

### **Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

### **Major Repairs Reserve**

The council is required to maintain a Major Repairs Reserve, which is used to finance capital expenditure incurred by the HRA.

### **Capital Grants Unapplied Reserve**

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies, but which have yet to be applied to meet expenditure.



# APPENDIX 1 - STATEMENT OF ACCOUNTS 2015/16

2014/15						Adjustments between Accounting basis and Funding basis under regulations	2015/16					
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
						<b>Adjustments to / from the Capital Adjustment Account</b>						
						<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
(3,203)	(5,443)	-	-	-	8,646	Charges for depreciation and impairment of non-current assets	(4,286)	(5,501)	-	-	-	9,787
(2,396)	559	-	-	-	1,837	Revaluation losses on Property, Plant and Equipment	(1,582)		-	-	-	1,582
-	-	-	-	-	-	Movements in the fair value of Investment Properties	2,100		-	-	-	(2,100)
(104)	-	-	-	-	104	Amortisation of Intangible Assets	(108)	-	-	-	-	108
-	150	-	-	-	(150)	Capital grants and contributions applied	-	140	-	-	-	(140)
(592)	-	-	-	-	592	Revenue Expenditure Funded from Capital Under Statute	(550)		-	-	-	550
(1,066)	(616)	-	-	-	1,682	Amounts of non-current assets written off on sale as part of the gain/loss on disposal	(487)	(2,401)	-	-	-	2,888
28	-	-	-	-	(28)	Donated Assets	415	-	-	-	-	(415)
						<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>						
824	-	-	-	-	(824)	Statutory provision for the financing of capital investment	922	-	-	-	-	
-	-	-	-	-	-	Voluntary provision for the financing of capital investment	282	-	-	-	-	
812	726	-	-	-	(1,538)	Capital expenditure charged against the General Fund and HRA Balances	887	894	-	-	-	
						<b>Adjustments to / from Capital Grants Unapplied</b>						
496	-	-	-	(496)	-	Capital grants credited to the Comprehensive Income and Expenditure Statement	481		-	-	(482)	
-	-	-	-	564	(564)	Application of grants/contributions to fund capital expenditure	-	-	-	-	486	(486)
						<b>Adjustments to / from the Deferred Capital Receipts Reserve</b>						
-	-	-	-	-	-	Transfer of sale proceeds credited as part of the gain/loss on sale of non-current assets	344	-	-	-	-	(344)
						<b>Adjustments to / from the Capital Receipts Reserve</b>						
1,074	1,015	(2,089)	-	-	-	Transfer of sale proceeds credited as part gain/loss on the sale of non-current assets	834	3,211	(4,045)	-	-	-
-	-	1,513	-	-	(1,513)	Use of capital receipts to finance capital expenditure	-	-	4,490	-	-	(4,490)
-	(44)	44	-	-	-	Contribution towards the administrative costs of disposals	-	(15)	15	-	-	-
(310)	-	310	-	-	-	Contribution from capital receipts to finance payments to capital receipts pool	(456)	-	456	-	-	-
-	-	(254)	-	-	254	Transfer from Deferred Capital Receipts upon receipt of cash	-	-	(244)	-	-	244
32	-	(561)	-	-	529	Capital Grants and loans repaid	-	-	(231)	-	-	231
(4,405)	(3,653)	(1,037)	-	68	9,027	Carried forward	(1,204)	(3,672)	441	-	4	4,431

# APPENDIX 1 - STATEMENT OF ACCOUNTS 2015/16

2014/15							2015/16					
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
(4,405)	(3,653)	(1,037)	-	68	9,027	Brought forward	(1,204)	(3,672)	441	-	4	4,431
-	5,443	-	(5,443)	-	-	Adjustments to / from the Major Repairs Reserve (MRR)	-	5,501	-	(5,501)	-	-
-	-	-	5,443	-	(5,443)	Reversal of Major Repairs Allowance credited to the HRA	-	-	-	4,993	-	(4,993)
						Adjustments to / from the Pensions Reserve						
(3,523)	-	-	-	-	3,523	Reversal of items relating to retirement benefits charged to the Comprehensive Income and Expenditure Statement	(3,436)	-	-	-	-	3,436
3,622	-	-	-	-	(3,622)	Employers' pension contributions and payments direct to pensioners in the year	3,725	-	-	-	-	(3,725)
						Adjustments to / from the Financial Instruments Adjustment Account						
146	(10)	-	-	-	(136)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from those chargeable according to statute	146	(10)	-	-	-	-
						Adjustments to / from the Collection Fund Adjustment Account						
7	-	-	-	-	(7)	Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from that calculated according to statute	(1,603)	-	-	-	-	-
						Adjustments to / from the Accumulating Compensated Absences Adjustment Account						
(11)	-	-	-	-	11	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement is different to that chargeable according to statute	(1)	-	-	-	-	1
(4,164)	1,780	(1,037)	-	68	3,353	Total Adjustments	(2,373)	1,819	441	(508)	4	617

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## 6. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Section 151 Officer on 21<sup>st</sup> September 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

On 16<sup>th</sup> June 2016 the council entered into the Central Icelandic Bank's auction and sold its 'Escrow' investment (valued at £0.795 million at 31<sup>st</sup> March 2016 – see page 65) in the Icelandic bank Glitnir. From this date the council no longer holds any investments in Icelandic-administered banks.

## 7. CHANGES IN OPERATIONS AND DISCONTINUED OPERATIONS

Acquired operations are ones that have transferred to the council during the year, such as new geographical areas due to the reorganisation of local government or significant services acquired from another public entity as a consequence of legislation. Discontinued operations are ones that the council has transferred during the year to another public entity.

The leisure and culture activities of the council, included within the Wellbeing & Culture Directorate were transferred to a new independent trust – “The Cheltenham Trust” on 1<sup>st</sup> October 2014. A contract has been agreed for the Trust to provide the leisure and culture services for Cheltenham, for a fixed management fee payable by the council. These services comprise Leisure, Healthy Lifestyles, Entertainments and the Art Gallery & Museum services. The council has retained ownership and responsibility for the building costs of its Recreation Centre, Town Hall, Pittville Pump Rooms and Art Gallery & Museum (The Wilson).

There have been no further changes in operations or discontinued operations in 2015/16.

## 8. TRADING OPERATIONS

The council operates a number of trading activities, the surplus/(deficit) of which is included in the Comprehensive Income and Expenditure Statement. Details are as follows:

2014/15					2015/16		
Income	Expenditure	Net	Contrib-	(Surplus)	Income	Expenditure	(Surplus)
£'000	£'000	(surplus)/ deficit £'000	ution to Revenue £'000	/ deficit £'000	£'000	£'000	/ deficit £'000
					<b>Included within Net cost of Services</b>		
(529)	1,520	991		991	-	-	-
(1,017)	2,087	1,070		1,070	-	-	-
(1,564)	1,105	(459)		(459)	(1,664)	1,121	(543)
(3,506)	2,113	(1,393)		(1,393)	(3,552)	2,378	(1,174)
<b>(6,616)</b>	<b>6,825</b>	<b>209</b>	<b>-</b>	<b>209</b>	<b>(5,216)</b>	<b>3,499</b>	<b>(1,717)</b>
					<b>Other Trading Activities</b>		
(76)	62	(14)	(14)	-	(2)	2	-
<b>(76)</b>	<b>62</b>	<b>(14)</b>	<b>(14)</b>	<b>-</b>	<b>(2)</b>	<b>2</b>	<b>-</b>

Town Hall / Pump Room, TIC and Leisure@ Cheltenham trading operations were transferred to a new independent charity, “The Cheltenham Trust”, during 2014/15.

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.

## 9. OTHER OPERATING EXPENDITURE

	2015/16 £000	2014/15 £000
Parish Precepts and council tax support grant	197	187
Payments to the Government Housing Capital Receipts Pool	458	311
(Gains) / losses on disposal of non-current assets	(1,488)	(363)
<b>Total Other Operating Expenditure</b>	<b>(833)</b>	<b>135</b>

## 10. FINANCING AND INVESTMENT (INCOME) AND EXPENDITURE

	2015/16 £000	2014/15 £000
Interest payable and similar charges	2,409	2,073
Impairment of Icelandic bank investments	-	(20)
Exchange rate (profit) / loss on Icelandic bank investments	(95)	50
Net interest on the net defined benefit liability/(asset)	1,831	2,294
Interest and investment income	(487)	(215)
Income and expenditure on investment properties and changes in their fair value	(3,579)	(437)
<b>Net Financing and Investment (Income) and Expenditure</b>	<b>79</b>	<b>3,745</b>

## 11. TAXATION AND NON SPECIFIC GRANT (INCOME) AND EXPENDITURE

	2015/16 £000	2014/15 £000
Council Tax	(7,763)	(7,602)
Non -Domestic Rates (income) and expenditure		
- Billing authority share	(22,236)	(21,606)
- Collection Fund (surplus) / deficit	1,113	(102)
- Tariff payable to central government	19,084	18,726
- Levy payable to central government	122	550
- NDR local pool contribution	(143)	346
General government grants	(4,628)	(4,795)
Net gains from donated assets	(415)	(29)
Capital grants and contributions	(239)	(326)
<b>Net Taxation and Non Specific Grant Income</b>	<b>(15,105)</b>	<b>(14,838)</b>

## 12. MEMBERS' ALLOWANCES

In 2015/16 the council paid £323,852 (2014/15 £319,472) in allowances to its 40 members. The expenditure reflects members' allowances approved by council for 2015/16. Full details of the Members' Allowances scheme for 2015/16 can be found on the council's website.

## 13. OFFICERS' REMUNERATION

Senior Officers whose salary is equal to or more than £50,000 per annum:

### 2015/16

Post Title	Salary £	Expenses/ Allowances £	Compensation for loss of office £	Other payments £	Total remuneration excluding pension contributions £	Pension contributions £	Total Remuneration including pension contributions £
Chief Executive (note i below)	110,366	937	59,910	5,328	176,541	136,266	312,807
Deputy Chief Executive	90,917	645	-	-	91,562	13,428	104,990
Civic Pride Managing Director	91,975	933	-	-	92,908	13,428	106,336
Director, Corporate Resources	77,113	101	-	-	77,214	11,259	88,473
Managing Director, Place & Economic Development (note ii)	12,274	169	-	-	12,443	1,792	14,235
Director , Environment	70,183	117	-	-	70,300	10,247	80,547
Director , Wellbeing & Culture	62,985	377	-	-	63,362	9,196	72,558
Director, Planning (note iii)	52,323	411	-	-	52,734	7,639	60,373
<b>TOTAL</b>	<b>568,136</b>	<b>3,690</b>	<b>59,910</b>	<b>5,328</b>	<b>637,064</b>	<b>203,255</b>	<b>840,319</b>

### 2014/15

Chief Executive (note i)	109,764	750	-	8,037	118,551	17,641	136,192
Deputy Chief Executive	90,490	420	-	-	90,910	13,212	104,122
Civic Pride Managing Director	90,490	843	-	-	91,333	13,212	104,545
Director, Corporate Resources	75,868	173	-	-	76,041	11,077	87,118
Director , Environment	63,513	108	-	-	63,621	9,238	72,859
Director , Wellbeing & Culture	61,968	341	-	-	62,309	9,047	71,356
<b>TOTAL</b>	<b>492,093</b>	<b>2,635</b>	<b>-</b>	<b>8,037</b>	<b>502,765</b>	<b>73,427</b>	<b>576,192</b>

### Notes:

- i) 'Other payments' relate to Returning Officer fees paid in respect of elections
- ii) Managing Director, Place & Economic Development started in post during the year (February 2016).
- iii) Director, Planning started in post during the year (October 2015).

For the purposes of this disclosure 'senior employee' means Head of Paid Service, their direct reports and statutory chief officers whose salary is between £50,000 and £150,000.

The council does not operate a Performance Pay System and does not pay bonuses to any member of staff.

The position of statutory role of Section 151 Officer for the council is now carried out by the Chief Finance Officer, Paul Jones, under a secondment arrangement with Cotswold District Council. This arrangement is with effect from 1st July 2015, at a cost of £22,500 to the council in 2015/16 (full year equivalent cost £30,000). The role of Section 151 Officer is included in the position of Director, Corporate Resources in 2014/15 and 2015/16 to 30th June 2015.

The position of statutory role of Monitoring Officer for the council is carried out by Ms Sara Freckleton, under a shared arrangement with Tewkesbury Borough Council. This council pays a contribution of 35% of her costs, being £35,676 in 2015/16 (£34,252 in 2014/15).

The council did not employ any other staff receiving more than £50,000 remuneration (excluding employer's pension contributions) in the year. Hence no separate banding note is required.

#### **14. TERMINATION BENEFITS**

The council terminated the contract of one employee in 2015/16 (8 in 2014/15). Total costs incurred were £179,285 (£88,408 in 2014/15), of which £119,375 (£15,733 in 2014/15) related to early retirement costs and £59,910 (£72,675 in 2014/15) related to redundancy payments. All staff redundancies were made on a compulsory basis, with no voluntary redundancies. These costs have been charged to the relevant service lines within the Comprehensive Income and Expenditure Statement.

These termination benefits are summarised in the table below:

2015/16		Bands	2014/15	
No. of staff	£		No. of staff	£
		£0 - £20,000	6	36,336
		£20,001 - £40,000	2	52,072
		£40,000 - £60,000		
		£60,001 - £80,000		
		£80,001 - £100,000		
		£100,001 - £150,000		
1	179,285	£150,001 - £200,000		
<b>1</b>	<b>179,285</b>		<b>8</b>	<b>88,408</b>

## 15. 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 a large proportion 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. council tax bills, housing benefits). Grants received from government departments are shown in note 17.

### **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 2015/16 is shown in note 12. 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 84 local bodies and voluntary organisations (103 2014/15) totalling £650,524 (£653,020 in 2014/15). 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.

Grants over £35,000 made during 2015/16 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. of Members
Everyman Theatre	200,050	(62,770)	137,280	1
County Community Projects (CCP)	108,000	5,900	113,900	
Playhouse Theatre	65,700	(57,450)	8,250	
	<b>373,750</b>	<b>(114,320)</b>	<b>259,430</b>	

The Gloucestershire Everyman Theatre leases the Everyman building from the council. In 2011/12 the council approved a loan of £1 million to the Theatre company to fund restoration costs, of which £0.572 million was outstanding at 31<sup>st</sup> March 2016.

### **Other public bodies (subject to common control by central government)**

The council collects precepts on behalf of Gloucestershire County Council, the Gloucestershire Police and Crime Commissioner and the Parish Councils within the borough. Precepts for the County and Police and Crime Commissioner are shown in the Collection Fund.

Five members of the borough council are also members of Gloucestershire County Council. Seven members of the borough council are also members of parish councils. Parish Precepts are shown in the Comprehensive Income and Expenditure Statement.

Council employees are eligible to be members of the Local Government Pension Scheme, administered by Gloucestershire County Council. The total employer's contributions to the Pension Fund by the council were £4,014,000 in 2015/16 (£3,622,000 in 2014/15).

### **Companies and joint ventures**

#### **Gloucestershire Airport Ltd**

The council has a 50% shareholding in Gloucestershire Airport Ltd. The airport's accounts have been consolidated into the Group Accounts. One member serves on the airport's Board of Directors.

The airport purchased goods and services from the council totalling £21,459 during 2015/16 (£15,633 in 2014/15). At 31st March 2016 £6,203 was owed by the Airport to the council (£25,032 at 31st March 2015) in respect of these goods and services. A loan of £0.867 million to the airport is shown as a long term debtor on the council's balance sheet, whilst the balance of an overdraft facility also provided to the airport by the council to support their Runway Safety Project was £140,000 at 31<sup>st</sup> March 2016.

#### **Cheltenham Borough Homes (CBH) Ltd**

The council wholly owns an Arm's Length Management Organisation (Cheltenham Borough Homes), which is limited by guarantee. The accounts for this company have been consolidated into the Group Accounts. Four councillors serve on the company's Board of Directors.

The council procured supplies and services totalling £12,686,644 from CBH during 2015/16 (£12,521,880 in 2014/15), £2,267,123 (£747,709 in 2014/15) of which is included as short term creditors in the council's balance sheet at the year end. CBH procured supplies and services from the council totalling £745,580 during 2015/16 (£683,941 in 2014/15), £328,550 (£61,543 in 2014/15) of which is included as short term debtors in the council's balance sheet at the year end.

In 2011/12 the council loaned CBH £1.4 million for housing development at St Paul's and Brighton Road. A further £2 million was loaned in 2012/13, £1.4 million in 2014/15 and £2.2 million in 2015/16. The outstanding loans totalled £6.818 million at 31<sup>st</sup> March 2016.

#### **Ubico Ltd**

On 1<sup>st</sup> April 2012, the council set up a local authority 'Teckal' company, jointly owned with Cotswold District Council to deliver environmental services. On 1st April 2015 Forest of Dean District Council, Tewkesbury Borough Council and West Oxfordshire District Council joined the company as shareholders. Subsequently Stroud DC joined in January 2016. No members of Cheltenham Borough Council serve on the company's Board of Directors.

The council procured supplies and services totalling £8,724,728 from Ubico Ltd during 2015/16 (£8,375,382 in 2014/15), £34,118 (£620,583 in 2014/15) of which is included in the council's balance sheet as a short term creditor at the year end. The company procured supplies and services from the council totalling £1,094,140 during 2015/16 (£684,147 in 2014/15), £522,305 (£470,560 in 2014/15) of which is included in the council's balance sheet as a short term debtor at the year end.

Vehicles and plant used by Ubico to provide environmental services in the borough are initially purchased by the council and then leased to the company in the year of purchase under a finance lease arrangement. At 31<sup>st</sup> March 2016 the amount owing to the council in more than one year under these leases totalled £318,306.



## 16. EXTERNAL AUDIT COSTS

The total audit fees payable to the council's external auditor and the Audit Commission in 2015/16 were £62,367 (£86,766 in 2014/15), made up as follows:

	2015/16 £	2014/15 £
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor	49,406	65,874
Audit Commission rebate	-	(6,678)
Fees paid to the External Auditor for the certification of grant claims and returns	8,361	12,020
Audit Commission – National Fraud Initiative	-	2,300
Other work provided by the appointed auditor:		
Audit of Pooling of Capital Receipts return	2,100	-
Supplementary work on Art Gallery and Museum	-	13,250
Accommodation Strategy Workshop	3,000	-
VAT and employment tax support – GO Shared Services*	417	-
	<b>63,284</b>	<b>86,766</b>

\*This service is provided to six GO shared Services partners. Total fee is £2,500.  
The amount disclosed above is the element which relates to Cheltenham.

## 17. GRANT INCOME

The council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

	2015/16 £'000	2014/15 £'000
<b>Credited to Taxation and Non Specific grant income</b>		
Revenue Support Grant	(2,111)	(2,921)
New Homes Bonus	(1,614)	(1,098)
Section 31 Business Rates compensation grants	(814)	(673)
Council Tax Freeze Grant	(82)	(81)
Community Right to Challenge New Burdens Grant	-	(8)
Assets of Community Value New Burdens Grant	-	(8)
Transparency Code Set Up Grant	(8)	(6)
Capital Grants and Contributions	(544)	(1,214)
<b>Total</b>	<b>(5,173)</b>	<b>(6,009)</b>
<b>Credited to Services</b>		
Election grants	(193)	(50)
Homelessness grants	(13)	(4)
Housing Benefits subsidy & administration grants	(31,833)	(32,005)
Council Tax Benefit administration grants	(110)	(125)
NNDR – Cost of Collection	-	(5)
Recycling grants	(241)	(80)
Art Gallery & Museum Grants	-	(30)
Transformational Change Award	(2,186)	(356)
Other Grants	(28)	(13)
Other partnership funding and contributions	(1,748)	(973)
<b>Total</b>	<b>(36,352)</b>	<b>(33,641)</b>

The council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them which have yet to be met. The balances at the year end are as follows:

	2015/16 Current £'000	2015/16 Long Term £000	2014/15 Long Term £000
<b>Receipts in Advance – Revenue</b>			
Transformation grant from central government	(1,257)	-	-
Commuted Grounds Maintenance contributions		(42)	(226)
Affordable Housing contributions		(1,502)	(1,037)
Other contributions		(180)	(180)
		(1,724)	(1,443)
<b>Receipts in Advance – Capital</b>		(83)	(83)

#### 18. 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) for 2015/16. 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 to that used in preparing the financial statements. Specifically:

- the effects of any 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 (REFCUS) and capital grants are excluded.

The income and expenditure of Directorates recorded in the budget reports for the year, together with a reconciliation to the figures shown in the Comprehensive Income and Expenditure Statement, is shown below. The figures for 2014/15 have been restated to reflect a new directorate structure which took effect in March 2016.

**APPENDIX 1 - STATEMENT OF ACCOUNTS 2015/16**

<b>Directorate Income and Expenditure General Fund Services 2015/16</b>	<b>Employee costs £'000</b>	<b>Other service expenses £'000</b>	<b>Support service costs £'000</b>	<b>Total expenditure £'000</b>	<b>Fees &amp; other income £'000</b>	<b>Government grants £'000</b>	<b>Total Income £'000</b>	<b>Net expenditure £'000</b>
Head of Paid Service	1,891	10,616	230	12,737	(2,809)	(2,574)	(5,383)	7,354
Environmental & Regulatory Services	3,972	7,098	1,303	12,373	(8,248)	(1,091)	(9,339)	3,034
Resources Directorate	5,140	37,918	(1,533)	41,525	(3,044)	(32,988)	(36,032)	5,493
	<b>11,003</b>	<b>55,632</b>	<b>-</b>	<b>66,635</b>	<b>(14,101)</b>	<b>(36,653)</b>	<b>(50,754)</b>	<b>15,881</b>

<b>Directorate Income and Expenditure General Fund Services 2014/15 RESTATED</b>	<b>Employee costs £'000</b>	<b>Other service expenses £'000</b>	<b>Support service costs £'000</b>	<b>Total expenditure £'000</b>	<b>Fees &amp; other income £'000</b>	<b>Government grants £'000</b>	<b>Total income £'000</b>	<b>Net expenditure £'000</b>
Head of Paid Service	3,033	10,165	312	13,510	(4,863)	(888)	(5,751)	7,759
Environmental & Regulatory Services	3,825	6,636	1,068	11,529	(8,314)	(788)	(9,102)	2,427
Resources Directorate	4,735	38,356	(1,380)	41,711	(2,260)	(33,119)	(35,379)	6,332
	<b>11,593</b>	<b>55,157</b>	<b>-</b>	<b>66,750</b>	<b>(15,437)</b>	<b>(34,795)</b>	<b>(50,232)</b>	<b>16,518</b>

## APPENDIX 1 - STATEMENT OF ACCOUNTS 2015/16

### Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income & Expenditure Statement (CIES)

2014/15							2015/16						
Directorate Analysis	Not Reported to Management	Not included in CIES	Net Cost of Services	Corporate Amounts	Total		Directorate Analysis	Not Reported to Management	Not included in CIES	Net Cost of Services	Corporate Amounts	Total	
£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000	
16,518	(4,259)	433	16,951 (4,259)	3	16,954 (4,259)	Cost of Services in General Fund Service Analysis	15,881	(4,076)	1,480	17,361 (4,076)	-	17,361 (4,076)	
	591 (32)		591 (32)		591 (32)	Add HRA income less expenditure		550 (383)		550 (383)		550 (383)	
	11 (2,393)		11 (2,393)		11 (2,393)	Add amounts not reported to management:-		1 (2,120)		1 (2,120)		1 (2,120)	
						Revenue funded from capital under statute		205 (247)		205 (247)		205 (247)	
						Capital grants		(246) 1,899		(246) 1,899		(246) 1,899	
						Accumulated Absences							
						IAS 19 Pensions adjustment							
						- Capital expenditure reclassified as Revenue							
						- Commuted grounds maintenance							
						- HRA Investment Property - changes in fair value							
	2,396		2,396		2,396	Revaluation losses on property, plant and equipment							
16,518	(3,686)	433	13,265	3	13,268	Net Cost of Services in the CIES	15,881	(4,417)	1,480	12,944	-	12,944	
			-	(7,602)	(7,602)	Income from council tax				-	(7,763)	(7,763)	
			-	(2,086)	(2,086)	Income from NNDR				-	(2,060)	(2,060)	
			-	(4,795)	(4,795)	Government grants				-	(4,629)	(4,629)	
			-	(326)	(326)	Capital grants and contributions receivable				-	(238)	(238)	
			-	(29)	(29)	Net gains from donated assets				-	(415)	(415)	
-	-	-	-	(14,838)	(14,838)	Total Income	-	-	-	-	(15,105)	(15,105)	
		1	-	2,073	2,073	Interest payments				-	2,409	2,409	
			1	30	30	Impairment, gains and losses on financial instruments				-	(95)	(95)	
				-	1	Trading Account (Surplus) / Deficit				-	-	-	
				187	187	Precepts and levies				-	197	197	
				(215)	(215)	Interest and investment income				-	(487)	(487)	
				310	310	Payments to Housing Capital Receipts Pool				-	456	456	
				(363)	(363)	(Gain)/Loss on disposal of non-current assets				-	(1,486)	(1,486)	
		(434)	(434)	(3)	(437)	Income from investment properties			(1,480)	(1,480)	(2,099)	(3,579)	
				2,294	2,294	Pension scheme interest costs				-	1,831	1,831	
-	-	(433)	(433)	4,313	3,880	Total Operating Expenses	-	-	(1,480)	(1,480)	726	(754)	
					(10,522)	2,310	(Surplus)/Deficit on provision of services					(14,379)	(2,915)

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**APPENDIX 1 - STATEMENT OF ACCOUNTS 2015/16**

**19. PROPERTY, PLANT & EQUIPMENT**

2014/15								2015/16							
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	RESTATED £'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
163,481	113,966	6,331	10,548	226	402	357	295,311	152,295	121,726	7,620	11,146	226	367	484	293,864
6,069	742	851	546	-	-	408	8,616	5,207	155	816	655	-	-	1,264	8,097
(17,287)	8,864	209	-	-	-	-	(8,214)	6,659	6,042	-	-	(143)	995	-	13,553
559	(2,396)	-	-	-	-	-	(1,837)	-	(315)	-	-	(1,565)	(20)	-	(1,900)
(527)	-	-	-	-	(35)	-	(562)	(968)	(95)	(344)	-	-	(56)	-	-
-	-	-	-	-	-	-	-	-	-	(3,621)	-	-	-	-	-
-	550	-	-	-	-	-	550	-	(275)	-	-	-	-	-	-
-	-	229	52	-	-	(281)	-	(26)	(1,578)	(59)	(63)	1,613	369	632	-
<b>152,295</b>	<b>121,726</b>	<b>7,620</b>	<b>11,146</b>	<b>226</b>	<b>367</b>	<b>484</b>	<b>293,864</b>	<b>163,167</b>	<b>125,660</b>	<b>4,412</b>	<b>11,738</b>	<b>131</b>	<b>1,655</b>	<b>2,380</b>	<b>3</b>
<b>Cost or valuation</b>								<b>At 31 March</b>							
<b>At 1 April</b>								<b>Accumulated Depreciation and Impairment</b>							
<b>Additions</b>								<b>At 1 April</b>							
<b>Revaluation increases / (decreases) recognised in the Revaluation Reserve</b>								<b>Depreciation charge</b>							
<b>Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services</b>								<b>Depreciation written out to the Revaluation Reserve</b>							
<b>Derecognition - disposals</b>								<b>Impairment losses / (reversals) recognised in the Revaluation Reserve</b>							
<b>Derecognition - other</b>								<b>Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services</b>							
<b>Assets reclassified (to)/from held for resale</b>								<b>Derecognition - disposals</b>							
<b>Other Reclassifications</b>								<b>Derecognition - other</b>							
								<b>Assets reclassified (to)/from held for resale</b>							
								<b>Other Reclassifications</b>							
(17,880)	101	(3,990)	(1,566)	-	(8)	-	(23,343)	-	(1,990)	(4,323)	(1,839)	-	(8)	(8)	(8,168)
(5,300)	(2,746)	(333)	(273)	-	-	-	(8,652)	(5,333)	(3,700)	(450)	(305)	-	-	-	(9,788)
23,180	655	-	-	-	-	-	23,835	-	3,568	-	-	-	-	-	3,568
-	-	-	-	-	-	-	-	-	(388)	-	-	-	-	-	(388)
-	-	-	-	-	-	(8)	(8)	-	-	-	-	-	-	(6)	(6)
-	-	-	-	-	-	-	-	-	-	-	-	-	8	-	8
-	-	-	-	-	-	-	-	-	-	3,621	-	-	-	-	3,621
-	-	-	-	-	-	-	-	-	4	-	-	-	-	-	4
-	-	-	-	-	-	-	-	-	4	(14)	14	-	(4)	-	-
-	<b>(1,990)</b>	<b>(4,323)</b>	<b>(1,839)</b>	-	<b>(8)</b>	<b>(8)</b>	<b>(8,168)</b>	<b>(5,333)</b>	<b>(2,502)</b>	<b>(1,166)</b>	<b>(2,130)</b>	-	<b>(4)</b>	<b>(14)</b>	<b>(11,149)</b>
<b>152,295</b>	<b>119,736</b>	<b>3,297</b>	<b>9,307</b>	<b>226</b>	<b>359</b>	<b>476</b>	<b>285,696</b>	<b>157,834</b>	<b>123,158</b>	<b>3,246</b>	<b>9,608</b>	<b>131</b>	<b>1,651</b>	<b>2,366</b>	<b>297,994</b>
<b>Net Book Value at 31 March</b>															

### Depreciation

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

- Council dwellings - depreciation is deemed equivalent to the Major Repairs Allowance calculated by the Government, as permitted by the Code and statutory guidance, equivalent to 28.5 years
- Other Buildings – between 15 - 60 years, depending on the type of asset
- Vehicles, Plant, Furniture and Equipment - between 5 - 15 years, depending on the type of asset
- Infrastructure - 40 years.

The individual remaining useful lives of each asset are reviewed annually or on revaluation and amended as necessary.

### Revaluations

The council formally re-values its land and buildings on a rolling programme to ensure they are revalued at least every five years, however in accordance with the Code all land and building values are reviewed annually for material changes and re-valued at 31<sup>st</sup> March if necessary. Valuations were carried out both internally by the council's property section, headed by David Roberts MRICS, and externally by JLL. 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 table below summarises the valuation basis and date of valuation (if applicable):

	Council Dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at (depreciated) historical cost			3,246	9,608	131		2,366	15,351
Valued at fair value as at 31 <sup>st</sup> March:								
2012						273		273
2013						38		38
2014		82,342				34		82,376
2015	157,834	29,447				26		187,307
2016		11,369				1,280		12,649
<b>Total cost or valuation</b>	<b>157,834</b>	<b>123,158</b>	<b>3,246</b>	<b>9,608</b>	<b>131</b>	<b>1,651</b>	<b>2,366</b>	<b>297,994</b>

### Componentisation

Under the Code the council is required to account separately for significant building components as defined in the council's Componentisation policy. This is to ensure material components are depreciated over their respective useful lives. The only component separately identified is the cremators at the Crematorium.

### Reclassifications and effect of changes in estimates

A number of reclassifications were made in 2015/16 between classes of Property, Plant and Equipment and Investment property, based on a reassessment of the nature and reasons for holding each asset. These changes, together with upward revaluations and additions in 2014/15, have resulted in additional depreciation of £1.1 million in 2015/16.

### Fair value measurement of Surplus assets

The fair values of surplus assets valued at 31<sup>st</sup> March 2016 have been based on a market approach using current market conditions, recent sale prices and other relevant information for similar assets in the local area. The level of observable inputs is therefore significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

## **20. HERITAGE ASSETS**

The council's buildings house most of the authority's heritage assets, held to support the provision of arts and culture in Cheltenham. In addition the council owns a number of statues and monuments located within the town.

The heritage assets housed in the council's buildings comprise the collections either exhibited or stored at the Cheltenham Art Gallery and Museum (The Wilson), the Pittville Pump Room, the Holst Birthplace Museum, the Municipal Offices and the Town Hall. These assets include many items donated by local people.

The four principal collections are:

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

The council 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.

The museum holds significant collections in the following areas:

- Fine art: British and foreign paintings, drawing and prints from the 16th century onwards, including English water colours from the 18th century onwards
- Decorative art: British and European ceramics, British furniture, clocks, glass, metalwork and treen from the 16th century onwards
- Oriental art: Chinese ceramics, costume, armour and artefacts from the 9th century to the present day
- Costumes 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. Any proceeds are accounted for in accordance with statutory accounting requirements relating to capital receipts.

The collections are managed by curators employed by the Cheltenham Trust, who manage the collections on behalf of the council in accordance with council policy and guidance.

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

	Ceramics	Art Collection	Furniture	Civic Regalia & Silver	Textiles, Ephemera and other collectables	Statues and Monuments	Total
	£'000	£'000	£'000	£'000	Restated* £'000	Restated* £'000	£'000
<b>Valuation</b>							
1 April 2014	2,167	21,609	4,000	197	4,294	962	33,229
Additions	9	4	-	-	16	-	29
Revaluations	4	(16)	-	-	(31)	-	(43)
Removal of long term loans	-	-	-	-	(245)	-	(245)
Update for inflation	43	432	80	4	86	-	645
<b>31 March 2015</b>	<b>2,223</b>	<b>22,029</b>	<b>4,080</b>	<b>201</b>	<b>4,120</b>	<b>962</b>	<b>33,615</b>
Additions	-	98	29	-	288	-	415
Update for inflation	47	440	83	4	73	-	647
<b>31 March 2016</b>	<b>2,270</b>	<b>22,567</b>	<b>4,192</b>	<b>205</b>	<b>4,481</b>	<b>962</b>	<b>34,677</b>

\*The figures for 2014/15 have been restated to separate out the statues and monuments from the textiles and other collectables.

The major works of art were last revalued at 1 April 2010 by the valuer Gulls. In 2014/15 the insured value of objects loaned to the council was removed from the total value. The additions comprise donated items.



## 21. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred (investment made) in the year is shown in the table below, together with the resources used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, 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.

	2015/16 £'000	2014/15 £000
<b>Opening Capital Financing Requirement</b>	<b>73,870</b>	<b>72,594</b>
<b>Capital Investment</b>		
Property, Plant and Equipment (see Additions in note 19 for breakdown)	8,097	8,615
Investment properties	14,305	-
Intangible assets	187	-
Long Term Loans (see note 26 on long term debtors)	1,500	2,100
Revenue Expenditure Funded from Capital under Statute	550	592
	<b>24,639</b>	<b>11,307</b>
<b>Sources of Finance</b>		
Capital Receipts	(4,490)	(1,513)
Government Grants	(393)	(344)
Capital Contributions	(207)	(212)
Partnership Funding	(26)	(157)
Revenue Financing:		
Minimum Revenue Provision (MRP)	(922)	(824)
Voluntary Revenue Provision	(282)	-
Major Repairs Reserve	(4,992)	(5,443)
Revenue	(1,781)	(1,538)
	<b>(13,093)</b>	<b>(10,031)</b>
<b>Closing Capital Financing Requirement</b>	<b>85,416</b>	<b>73,870</b>
<b>Explanation of movement in year</b>		
Increase in underlying need to borrowing (unsupported by Government financial assistance)	12,750	2,100
Minimum Revenue Provision (MRP)	(922)	(824)
Voluntary Revenue Provision	(282)	-
<b>Increase (Decrease) in Capital Financing Requirement</b>	<b>11,546</b>	<b>1,276</b>

### Commitments under capital contracts

At 31st March 2016 the council was committed to completing the schemes within its capital programme for 2015/16. A total of £1.335 million had not been spent but was contractually committed at 31st March 2016, including £1.314 million for works on housing properties (£0.956 million at 31st March 2015). In addition a contract was committed for the Pittville Play Area Improvements scheme which straddled 2015/16 and 2016/17 and was completed in May 2016.

## 22. INVESTMENT PROPERTIES

The following items of income and expenditure relating to Investment Properties have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2015/16 £'000	2014/15 £'000
Rental income from Investment Property	3,921	846
Depreciation	-	(25)
Direct Operating Expenses	(342)	(384)
<b>Net gain / (loss)</b>	<b>3,579</b>	<b>437</b>

There are no restrictions on the council'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 council has no contractual obligations to purchase, construct, enhance or develop investment property, however some lease agreements require the council to repair and maintain properties.

	2015/16 £'000	2014/15 £'000
<b>Balance at 1st April</b>	<b>24,216</b>	<b>25,244</b>
Additions - purchases	14,300	-
- subsequent expenditure	5	-
Disposals	-	(1,028)
Transfers (to)/from - Property, Plant and Equipment	(1,009)	-
- Assets Held for Sale	(33)	-
Net gains / (losses) for the period included in the surplus or deficit on the provision of services resulting from changes in fair value	2,345	-
<b>Balance at 31st March</b>	<b>39,824</b>	<b>24,216</b>

The fair values of Investment properties have been based on a market approach using current market conditions, recent sale prices and other relevant information for similar assets in the local area. Where existing rents have been capitalised, the yield has been obtained by using market knowledge and evidence. The level of observable inputs is therefore significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

In estimating the fair values of the investment properties, the highest and best use of the properties is their current use.

## 23. ASSETS HELD UNDER LEASES

### The council as Lessee

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

### The council as Lessor

#### **Finance Leases**

The council's policy is to purchase the vehicles and plant required by Ubico Ltd to provide environmental services within Cheltenham and then lease them to the company. The vehicles and plant used on these services at 1st April 2012 were transferred under a finance lease to the company when it commenced operations on that date. The present value of the lease at the date of transfer was £1.364 million. Subsequent purchases of £0.4 million have been subject to further finance leases.

The repayments due under the leases are based on recovering the cost of each vehicle or item of plant over its remaining estimated useful life, together with a finance charge on the amounts outstanding. The council does not anticipate residual values for the items at the end of the leases as they are not considered material, consequently the gross investment in the leases is deemed equal to the present value of the lease payments due. These are due as follows:

	31st March 2016 £'000	31st March 2015 £'000
Not later than 1 year	312	239
1 – 5 years	311	286
More than 5 years	7	-
	<b>630</b>	<b>524</b>

#### **Operating Leases**

The council seeks to obtain income from property it owns but does not need for its own occupation by granting operating leases. Where the council grants leases it does so at best consideration unless it wishes to support the tenant financially, for example where tenants 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 authority's 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 from the council in lieu of some or all of the rent, depending on the service provided from the property.

The council received £2,468,778 in rental income in 2015/16 from its granted leases (£1,571,282 in 2014/15).

The future minimum lease payments receivable in future years under non-cancellable operating leases are:

	31st March 2016 £'000	31st March 2015 £'000
Not later than 1 year	2,365	1,012
1 – 5 years	7,675	2,635
More than 5 years	7,927	2,985
	<b>17,967</b>	<b>6,632</b>

During 2015/16 the council purchased Delta Place from which a significant annual rental stream is now received and is included in the future minimum lease payments outlined above.

## 24. INTANGIBLE ASSETS

All of the intangible assets held relate to computer software, licenses being held for a number of the council's main software packages e.g. the Financial Management System. The intangible assets include both purchased licences and internally generated assets relating to the software. The balance is amortised to the relevant service revenue account over the useful life of the software (normally 5 – 10 years) on a straight line basis. The movement on intangible asset balances during the year is as follows:

	2015/16 Software £'000	2014/15 Software £'000
Balance at 1st April		
- Gross carrying amounts	1,282	1,282
- Accumulated amortisation	(748)	(650)
<b>Net carrying amount at start of year</b>	<b>534</b>	<b>632</b>
Additions - purchases	187	-
Reclassifications from Property, Plant and Equipment	123	-
Amortisation in Year	(108)	(98)
<b>Balance at 31st March</b>	<b>736</b>	<b>534</b>
<b>Comprising:</b>		
- Gross carrying amounts	1,099	1,282
- Accumulated amortisation	(363)	(748)
	<b>736</b>	<b>534</b>

## 25. ASSETS HELD FOR SALE

	Current	
	31st March 2016 £'000	31st March 2015 £'000
<b>Balance outstanding at start of year</b>	<b>1,427</b>	<b>644</b>
Assets newly classified as held for sale from		
- Property, Plant and Equipment	271	-
- Investment Property	33	-
Revaluation gains	98	-
Fair value of assets sold	(1,433)	(94)
Assets reclassified as Property, Plant and Equipment	-	(550)
Transfers from non-current to current	-	1,427
<b>Balance outstanding at year end</b>	<b>396</b>	<b>1,427</b>

## 26. FINANCIAL INSTRUMENTS

### Overall Investments

	31st March 2016 £'000	31st March 2015 Restated* £'000
<b>Long Term</b>		
Loans and Receivables – Icelandic banks	27	61
Unquoted equity investments – Gloucestershire Airport	435	435
	<b>462</b>	<b>496</b>
<b>Current</b>		
Loans and Receivables - Icelandic banks	825	703
- Other banks	5,015	2,002
- Building Societies	5,312	3,003
- Other organisations	140	210
Available-for-Sale – Bank Certificates of Deposit	4,008	7,032
	<b>15,300</b>	<b>12,950</b>
<b>Total Investments</b>	<b>15,762</b>	<b>13,446</b>

\*A number of investments previously shown as Loans and Receivables have been reclassified as Available-for-Sale and investments previously shown as Fair Value through Profit and Loss have been reclassified as Loans and Receivables. The latter have also been broken down into categories of financial institution.

### 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 (KS&F), went into administration. The council had £11 million deposited across three of these banks with varying maturity dates and interest rates.

Although most of the deposits have now been repaid or recovered, the remaining amounts invested with KS&F 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 amount invested (plus interest due to the claim dates) of £11.640 million, cash repayments of £9.958 million (86%) had been received to 31st March 2016. In addition the council received repayments of £0.605 million in 2011/12 which continue to be held in an 'Escrow' account, resulting in total recoveries to 31<sup>st</sup> March 2016 of £10.563 million (91%).

In order to recognise any potential losses (including loss of interest from the original maturity date until the estimated date of repayment), the council has made impairment charges to its Income and Expenditure Statement since 2009/10, based on the best information and guidance available at the time. Further details are given in the Statement of Accounts for previous 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 October 2015 indicates a return to creditors in the range of 85% to 86.5%. Claims are based on the principal and interest outstanding at 7th October 2008. Up until 31st March 2016 repayments of 83.75% had been received.

For the purpose of calculating any impairment adjustment in 2015/16 the council has assumed the mid-point in the latest range (i.e. 85.75%). The remaining 2% outstanding at 31<sup>st</sup> March 2016 has been assumed to be received in three annual instalments beginning in December 2016.

**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 22<sup>nd</sup> April 2009 (the claim date), or 97% of the claim, as denominated in Sterling at the time of conversion. However 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 cannot be released without authorisation of the Icelandic Central Bank.

The accounting entries made in respect of the remaining original loans are therefore as follows. All impairments have been recognised as at the balance sheet date of 31st March 2016.

Bank	Interest rate	Amount invested	Add Interest due to 31st March 2016	Impairment adjustments 2008/09 -2014/15	Less Repayments (including interest) to 31st March 2016	Impairment adjustments 2015/16	Carrying amount at 31st March 2016
	%	£'000	£'000	£'000	£'000	£'000	£'000
KSF	5.86	1,000	148	(252)	(877)	-	19
KSF	5.30	2,000	199	(466)	(1,695)	-	38
<b>Total</b>		<b>3,000</b>	<b>347</b>	<b>(718)</b>	<b>(2,572)</b>	<b>-</b>	<b>57</b>

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 £29,481, have been classified as short term, leaving £27,166 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 (ISK) they have been converted to Sterling at the prevailing ISK exchange rate on 31st March 2016, with the interest and the exchange rate gain credited to the Comprehensive Income and Expenditure Statement.

	Repayments credited to escrow account 2011/12 £'000	Add Interest due to 31st March 2015 £'000	Add interest due in year £'000	Exchange rate gains / (losses) to 31st March 2015 £'000	Exchange rate gain / (loss) In year £'000	Carrying amount of Escrow account at 31st March 2016 (including interest receivable) £'000
Glitnir Bank Hf	605	78	26	(9)	95	795

### Debtors

	Current		Long term	
	31st March 2016 £'000	31st March 2015 £'000	31st March 2016 £'000	31st March 2015 £'000 Restated*
Total debtors	5,521	5,125	8,397	7,572
Less payments in advance	(189)	(111)	-	-
Less non-exchange transactions	(2,272)	(2,202)	-	-
<b>Loans and Receivables</b>	<b>3,060</b>	<b>2,812</b>	<b>8,397</b>	<b>7,572</b>

\* The long term figures at 31st March 2015 have been restated to include £0.525 million finance lease repayments due from Ubico Ltd.

Further details of current debtors are given in note 27, page 71. The figures shown above exclude payments in advance and non-exchange transactions, such as taxes and grants due, which are not classified as financial instruments.

Long term debtors at 31<sup>st</sup> March 2016 mainly comprise:

- an outstanding loan of £0.554 million to the Cheltenham Everyman Theatre (made in 2011/12 for 25 years towards the redevelopment of the theatre)
- loans totalling £6.722 million made to Cheltenham Borough Homes for between 30 and 50 years for housing redevelopment
- finance lease repayments of £0.318 million due from Ubico Ltd (relating to leases of vehicles and plant)
- loans totalling £0.751 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.

### Cash and Cash Equivalents

These financial instruments are detailed in note 28, page 71.

### Borrowing

	Range of Interest rates payable at 31st March 2016 %	31st March 2016 £'000	31st March 2015 £'000
<b>Financial Liabilities at amortised cost</b>			
<b>Long Term</b>			
- Public Works Loan Board (PWLB) loans	1.80% - 4.875%	48,930	42,845
- Bank loans	3.82% - 4.95%	15,900	15,900
		<b>64,830</b>	<b>58,745</b>
<b>Current</b>			
- Public Works Loan Board (PWLB) loans	1.80 – 4.52%	541	192
- Bank loans	N/A (interest only)	246	247
- Other temporary borrowing	0 – 0.32%	21	21
		<b>808</b>	<b>460</b>
<b>Analysis of PWLB loans by maturity</b>			
1 year		541	192
2-5 years		2,264	612
6-10 years		2,619	872
More than 10 years		44,047	41,361
		<b>49,471</b>	<b>43,037</b>
<b>Analysis of Bank loans by maturity</b>			
1 year		246	247
2-5 years		-	-
6-10 years		2,000	2,000
More than 10 years		13,900	13,900
		<b>16,146</b>	<b>16,147</b>

The council took out further PWLB borrowing in 2015/16 of £6.950 million in order to advance a loan to Cheltenham Borough Homes (CBH) and to part fund the purchase an investment property (Delta Place). The loan to CBH 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

	Current	
	31st March 2016 £'000	31st March 2015 £'000
Total creditors	14,075	13,194
Less receipts in advance	(953)	(514)
Less non-exchange transactions	(5,332)	(7,488)
<b>Financial liabilities at amortised cost</b>	<b>7,790</b>	<b>5,192</b>

Further details of short term creditors are given in note 29, page 71. The figures stated above exclude receipts in advance and non-exchange transactions, such as taxes, grants and subsidies, which are not classified as financial instruments.



Income, Expense, gains and losses

	2015/16			2014/15		
	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Total £'000	Financial Liabilities measured at amortised cost Restated* £'000	Financial Assets: Loans and receivables Restated* £'000	Total £'000
Interest expense	2,410	-	2,410	2,236	-	2,236
Fee expense	3	1	4	2	14	16
<b>Total expenses in Surplus or Deficit on the Provision of Services</b>	<b>2,413</b>	<b>1</b>	<b>2,414</b>	<b>2,238</b>	<b>14</b>	<b>2,252</b>
Interest Income	-	(456)	(456)	-	(345)	(345)
Interest Income accrued on impaired financial assets	-	(31)	(31)	-	(32)	(32)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>(487)</b>	<b>(487)</b>	<b>-</b>	<b>(377)</b>	<b>(377)</b>
<b>(Net gain)/loss for the year</b>	<b>2,413</b>	<b>(486)</b>	<b>1,927</b>	<b>2,238</b>	<b>(363)</b>	<b>1,875</b>
*The figures for 2014/15 have been restated to show interest receivable and payable on long term loans separately						

Fair Value of financial assets and liabilities carried at amortised cost

Financial liabilities and loans and receivables are carried in the Balance Sheet at amortised cost.

The long term investments in 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.

The unquoted equity investment of £435,222 (shown at cost), consists of shares held in Gloucestershire Airport, for which a fair value cannot reliably be measured. This is because the council has agreed to retain its investment in the airport as it is of economic benefit to Gloucestershire and contributes to the attractiveness of the area for inward investment, rather than purely as a commercial investment. The range of reasonable fair value estimates could therefore be significant. There are no current plans to dispose of the shares.

In addition the council holds shares costing £1 in Ubico Ltd. The fair value of the council's interest in the company at 31st March 2016 is considered to be nil, since it is a wholly local authority owned not-for-profit 'Teckal' company. As a 'Teckal' company it 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.

As regards borrowing, the fair value of PWLB loans held at 31st March 2016 was £54,983,806 (£48,217,351 at 31st March 2015) compared to the carrying value of £49,459,574 at 31st March 2016

(£43,025,505 at 31st March 2015). The increase in fair value compared to the previous year is due to an increase in borrowing of £6.4 million and a change in the methodology for calculating fair values. Previously fair values were based on PWLB premature rates; from 1st April 2015 they are based on PWLB new loan rates.

The fair value is higher than the carrying amount because the council's loan 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 council would have to pay if it requested early repayment of the loans.

For all other long term borrowing the fair value equates to £19,648,039 at 31st March 2016 (£19,004,340 at 31st March 2015) compared to the carrying value of £15,900,000 at 31st March 2016 (£15,900,000 at 31st March 2015). The fair value is higher than the carrying amount because the interest rates payable by the council are higher than the rates available for similar loans at the Balance Sheet date.

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.

The 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, the new maturity rates from the Public Works Loan Board (PWLB) as available at 31st March have been applied. The valuation basis therefore uses Level 2 inputs (i.e. observable inputs other than quoted prices) in the fair value hierarchy.
- no early repayment or impairment is recognised
- where an instrument will mature in the next twelve months, the carrying amount (amortised cost) 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.

#### 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 council
- 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 council 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 or before the start of the year to which they relate. The 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 14<sup>th</sup> February 2015. The two key issues were:

- The Authorised Limit for 2015/16 was set at £110.79 million. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary for 2015/16 was expected to be £100 million. 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 or 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 council'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 Capita Asset Services during 2015/16. The maximum investment that can be made with an approved counterparty was £7 million in 2015/16. No credit limits were exceeded during the year.

#### Liquidity risk

The council has ready access to borrowings from the money markets to cover any day to day cash flow needs, 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 council 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 council 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 2015/16, 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
<b>Borrowing</b>						
Variable rate	859	0.32	3	1.32	11	8
<b>Lending</b>						
Fixed rate (up to 1 year)	(15,187)	0.76	(115)	1.76	(267)	(152)
Variable rate	(7,684)	0.42	(32)	1.42	(109)	(77)
	<b>(22,871)</b>		<b>(147)</b>		<b>(376)</b>	<b>(229)</b>
<b>Net loss / (gain) on surplus / deficit for year</b>			<b>(144)</b>		<b>(365)</b>	<b>(221)</b>

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 council 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 council has a number of strategies for managing interest risk. 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 council has short term investments held in an 'escrow' account denominated in Icelandic Kroner (ISK), 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.

## 27. SHORT TERM DEBTORS

	31st March 2016 £'000	31st March 2015 £'000
Central Government Bodies	1,051	731
Other Local Authorities	468	854
Public corporations and trading funds	-	72
Other entities and individuals-		
- Council Taxpayers	328	331
- Business Ratepayers	324	483
- Cheltenham Borough Homes	424	61
- Ubico Ltd	522	471
- Housing Rents	259	279
- Sundry Debtors	2,145	1,843
<b>Total</b>	<b>5,521</b>	<b>5,125</b>

Each line is presented net of any allowance for impairments (provision for bad debts).

## 28. CASH AND CASH EQUIVALENTS

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

	31st March 2016 £'000	31st March 2015 £'000
Cash held by the Authority	5	5
Bank current accounts	2	2
Short term deposits	5,661	8,595
<b>Cash and cash equivalent assets</b>	<b>5,668</b>	<b>8,602</b>
Cash and cash equivalent liabilities - bank overdraft	(112)	(742)
<b>Net Cash and cash equivalents per Cash flow Statement</b>	<b>5,556</b>	<b>7,860</b>

## 29. SHORT TERM CREDITORS

	31st March 2016 £'000	31st March 2015 £'000
Central Government Bodies	2,573	4,079
Other Local Authorities	3,023	2,890
Other entities and individuals-		
- Council Taxpayers	92	88
- Business Ratepayers	1,769	1,720
- Cheltenham Borough Homes	2,267	915
- Ubico Ltd	34	621
- Housing Rents	223	215
- Sundry Creditors	4,094	2,666
	<b>14,075</b>	<b>13,194</b>

### 30. PROVISIONS

	Balance at 1st April £'000	Additional provisions made in Year £'000	Amounts used in Year £'000	Unused Amount Reversed £'000	Balance at 31st March £'000
<b>Short term</b>					
Insurance	87	50	(44)		93
MMI Scheme (see note 31)	-	42	-	-	42
Business rates retention – appeals	387	1,120	(736)	-	771
Land Charges	121	-	(121)	-	-
	<b>595</b>	<b>1,212</b>	<b>(901)</b>	-	<b>906</b>
<b>Long term</b>					
Business rates retention – appeals	387	111	-	-	498
<b>Total 2015/16</b>	<b>982</b>	<b>1,323</b>	<b>(901)</b>	-	<b>1,404</b>
<b>Total 2014/15</b>	<b>854</b>	<b>672</b>	<b>(519)</b>	<b>(25)</b>	<b>982</b>

#### Insurance

The Insurance Provision was established to fund the cost of insurance policy excesses arising from claims against the council by third parties. 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) of £318,014 as at 31st March 2016 (£360,416 31st March 2015). 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 31).

In 2015/16 Ernst & Young (who managed MMI's business affairs and assets) set a total levy of 25%, (including 15% levy already paid in 2013/14), against clients/owners potential liabilities as an estimate of the amount that would be needed to achieve a solvent run-off. The 10% balance of the levy (£42,402) has been included in the 2015/16 accounts as a provision, payable in 2016/17. The likelihood and timing of any additional liabilities is unknown at this stage.

#### Business Rates Retention - Appeals

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 acquired a share of the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties and other reductions resulting from changes in the rating list. This includes amounts paid over to central government in respect of 2012/13 and prior years. Consequently the council considers it necessary to make a provision to cover its share of the repayments likely to be made. The provision is based on the expected success rate of appeals lodged with the Valuation Office at 31st March 2016 together with other known likely reductions, and has been split into short and long term elements to reflect the estimated time until settlement.

## Land Charges

A number of search companies commenced legal proceedings in 2014/15 regarding charges made for personal searches of the Land Charges Register. The council made provision for the estimated value of those claims (£121k) in 2014/15. These proceedings were concluded and £121k paid by the council in 2015/16.

## 31. 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 31st March 2016 this potential total liability equated to £318,014, made up as follows:

	£
Gross claim payments to date	474,019
15% levy paid 2013/14	(63,603)
10% levy provision 2015/16	(42,402)
<b>Net Payments</b>	<b>368,014</b>
Levy retention	(50,000)
<b>Potential liability 31<sup>st</sup> March 2016</b>	<b>318,014</b>

This is kept under review annually to ensure that a solvent run-off of the company's business is still anticipated.

## 32. USABLE RESERVES AND TRANSFERS TO / FROM EARMARKED RESERVES

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement. Movements in the *earmarked* reserves shown on the statement are detailed below:

	Balance at 1 April 2014 £'000	Transfers out 2014/15 £'000	Transfers in 2014/15 £'000	Balance at 1 April 2015 £'000	Transfers out 2015/16 £'000	Transfers in 2015/16 £'000	Balance at 1 April 2016 £'000
<b>Earmarked Reserves</b>							
Capital Reserve	1,613	(822)	-	791	(1,208)	599	182
Equalisation Reserves	698	(259)	567	1,006	(109)	1,464	2,361
Repairs & Renewals Reserve	1,010	(465)	681	1,226	(557)	1,147	1,816
Reserves for Commitments	1,449	(1,353)	578	674	(675)	313	312
Other earmarked reserves	1,669	(286)	231	1,614	(438)	1,632	2,808
	<b>6,439</b>	<b>(3,185)</b>	<b>2,057</b>	<b>5,311</b>	<b>(2,987)</b>	<b>5,155</b>	<b>7,479</b>

### 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 Reserve** – 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 support to the Cheltenham Trust, risk management initiatives, vehicles and equipment, and Civic Pride match funding.

### 33. UNUSABLE RESERVES

The council keeps a number of reserves which do not represent usable resources for the council as they are required to be held for statutory reasons, or to comply with proper accounting practice.

Reserve	31st March 2016 £'000	31st March 2015 £'000	Purpose of Reserve
Revaluation Reserve	113,191	100,345	Store of gains on revaluation of non-current assets not yet realised through sales
Capital Adjustment Account	183,468	178,373	Store of capital resources set aside to meet past expenditure
Financial Instruments Adjustment Account	(2,176)	(2,312)	Balancing account to allow for differences in statutory requirements and proper accounting practices relating to borrowing and investments
Collection Fund Adjustment Account	(1,148)	455	Balancing account to allow for differences in statutory requirements and proper accounting practices for council tax and NNDR (business rates) surpluses/deficits
Pensions Reserve	(53,619)	(60,118)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet
Deferred Capital Receipts Reserve	660	562	Capital receipts to be received in future years e.g. from finance lease or mortgage repayments
Accumulating Compensated Absences Adjustment Account	(116)	(115)	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
<b>Total Unusable Reserves</b>	<b>240,260</b>	<b>217,190</b>	



## Revaluation Reserve

	2015/16 £'000	2014/15 £'000
<b>Balance at 1st April</b>	<b>100,345</b>	<b>85,228</b>
Revaluation gains on non-current assets	18,082	16,090
Downward revaluation of assets and impairments	(604)	(113)
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>117,823</b>	<b>101,205</b>
Accumulated gains on assets sold, derecognised or reclassified	(2,762)	-
Difference between fair value and historic cost depreciation	(1,642)	(860)
Other adjustments relating to previous year's revaluations	(228)	-
<b>Amount written off to the Capital Adjustment Account</b>	<b>(4,632)</b>	<b>(860)</b>
<b>Balance at 31st March</b>	<b>113,191</b>	<b>100,345</b>

The Revaluation Reserve contains gains arising from increases in the value of Property, Plant and Equipment, Heritage Assets and Assets Held for Sale arising since 1<sup>st</sup> April 2007. Accumulated gains arising before that date are consolidated into the Capital Adjustment Account. The balance is reduced when assets with accumulated gains are re-valued downwards or impaired, depreciated or disposed of. The balance on the reserve therefore represents the amount by which the current 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

	2015/16 £'000	2014/15 £'000
<b>Balance at 1<sup>st</sup> April</b>	<b>178,373</b>	<b>180,833</b>
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	(9,787)	(8,652)
• Revaluation gains/(losses) on Property, Plant and Equipment	(1,582)	(1,837)
• Amortisation of intangible assets	(108)	(98)
• Donated Assets	415	28
• Revenue expenditure funded from capital under statute	(550)	(592)
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,888)	(1,682)
Capital receipts received on repayment of long term loans	163,873	168,000
Adjusting amounts written out of the Revaluation Reserve	(230)	(518)
<b>Net amount written out for the cost of non-current assets consumed in the year</b>	<b>168,275</b>	<b>168,342</b>
Capital Financing applied in the year:		
• Use of Capital Receipts Reserve to finance new capital expenditure	4,490	1,513
• Use of the Major Repairs Reserve to finance new capital expenditure	4,992	5,443
• 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	627	713
• Statutory provision for the financing of capital investment charged against the General Fund Balance	922	824
• Voluntary provision for the financing of capital investment charged against the General Fund Balance	282	-
• Capital expenditure charged against the general fund and HRA balances	1,781	1,538
Movements in the market value of Investment properties debited or credited to the Comprehensive Income and Expenditure Statement	181,369	178,373
	2,099	-
<b>Balance at 31st March</b>	<b>183,468</b>	<b>178,373</b>

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 thus represents the 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 council 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

	2015/16 £'000	2014/15 £'000
<b>Balance at 1st April</b>	<b>(2,312)</b>	<b>(2,447)</b>
Net Premiums incurred in previous years charged against the General Fund and HRA Balance	136	135
<b>Balance at 31st March</b>	<b>(2,176)</b>	<b>(2,312)</b>

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.

	2015/16 £'000	2014/15 £'000
<b>Balance at 1st April</b>	<b>455</b>	<b>448</b>
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from that calculated for the year in accordance with statutory requirements	(1,603)	7
<b>Balance at 31st March</b>	<b>(1,148)</b>	<b>455</b>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provision. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure

Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on the resources set aside to meet the costs.

However statutory arrangements require benefits earned to be financed when the council makes employer's contributions, or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Further information is shown within note 35, pages 77 to 82.

### **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 31<sup>st</sup> March 2016 includes £0.630 million for vehicles and plant leased to Ubico Ltd under finance leases.

## **34. IMPAIRMENT LOSSES AND ADJUSTMENTS**

An impairment of £0.388 million was made to the value of Housing Revenue Account (HRA) garages to reflect demolitions during the year. This was charged to the Revaluation Reserve.

## **35. DEFINED BENEFIT PENSION SCHEME**

### **Participation in the pension scheme**

As part of the terms and conditions of employment of its officers and members, the council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The council participates in the Local Government Pension Scheme, administered by Gloucestershire County Council. This is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets.

The principle risks to the authority of the pension scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute, as described in the accounting policies note 1.3 on page 21.

### **Transactions relating to post-employment benefits**

The council recognises the costs of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund in the Movement in Reserves Statement (MIRS). The following transactions have been made in the Comprehensive Income and Expenditure Statement (CIES) and the General Fund Balance via the MIRS during the year:

	2015/16 £000	2014/15 £000
<b>Comprehensive Income and Expenditure Statement (CIES):</b>		
<b>Service cost comprising:</b>		
Current service cost	(1,605)	(1,599)
Past service costs	-	(88)
(Gain)/loss from settlements	-	458
<b>Financing and Investment Income and Expenditure:</b>		
Net Interest Expense	(1,831)	(2,294)
Total post-employment benefits charged to Surplus or Deficit on Provision of Services	(3,436)	(3,523)
<b>Other post-employment benefits charged to the CIES:</b>		
<b>Remeasurement of the net defined benefit liability comprising:</b>		
Return on plan assets (excluding the amount included in the net interest expense)	(2,331)	7,370
Changes in financial assumptions	6,569	(11,666)
Other experience	1,972	1,261
<b>Total post-employment benefit charged to CIES</b>	<b>2,774</b>	<b>(6,558)</b>
<b>Movement in Reserves Statement:</b>		
Reversal of net charges made to Surplus or Deficit on Provision of Services for post-employment benefits in accordance with the Code	3,436	3,523
<b>Actual amount charged against General Fund Balance for pensions in the year</b>		
Employers' contributions payable to scheme	3,725	3,622

### Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the balance sheet arising from the council's obligation in respect of its defined benefit plan is as follows:

	2015/16 £'000	2014/15 £'000
Present value of the defined benefit obligation	(131,461)	(138,839)
Fair value of plan assets	77,842	78,721
<b>Net liability arising from defined benefit obligation</b>	<b>(53,619)</b>	<b>(60,118)</b>

**Reconciliation of the present value of the scheme liabilities (Defined Benefit Obligation)**

	Funded Liabilities Local Government Pension Scheme	
	2015/16 £'000	2014/15 £'000
<b>Opening Balance at 1st April</b>	(138,839)	(129,283)
Current service cost	(1,605)	(1,599)
Interest cost	(4,256)	(5,175)
Contributions from scheme participants	(412)	(478)
<b>Remeasurement gain/(loss):</b>		
Arising from changes in financial assumptions	6,569	(11,666)
Other experience	1,972	1,261
Past service costs	-	(88)
Liabilities extinguished on settlements	-	2,858
Benefits paid	5,008	5,230
Unfunded benefits paid	102	101
<b>Closing balance at 31st March</b>	<b>(131,461)</b>	<b>(138,839)</b>

<b>31st March 2016 – Present value of Funded liabilities</b>	<b>(129,825)</b>	<b>(137,086)</b>
<b>31st March 2016 – Present value of Unfunded liabilities</b>	<b>(1,636)</b>	<b>(1,753)</b>
<b>Closing balance 31st March</b>	<b>(131,461)</b>	<b>(138,839)</b>

**Reconciliation of movements in the fair value of the scheme (Plan) assets**

	Funded Assets Local Government Pension Scheme	
	2015/16 £000	2014/15 £000
<b>Opening fair value of scheme assets 1st April</b>	78,721	72,101
Interest income	2,425	2,881
<b>Remeasurement gain/(loss):</b>		
Return on plan assets (excluding the amount included in the net interest expense)	(2,331)	7,370
Contributions from employees into the scheme	412	478
Contributions from employer	3,623	3,521
Contributions from employer in respect of unfunded benefits	102	101
Effect of settlements	-	(2,400)
Unfunded benefits paid	(102)	(101)
Benefits paid	(5,008)	(5,230)
<b>Closing fair value of scheme assets 31st March</b>	<b>77,842</b>	<b>78,721</b>

The Local Government Pension scheme assets at 31<sup>st</sup> March comprised:

	Fair Value of Scheme Assets					
	2015/16 Quoted prices in active market £'000	2015/16 Quoted prices not in active market £'000	2015/16 Total £'000	2014/15 Quoted prices in active market £'000	2014/15 Quoted prices not in active market £'000	2014/15 Total £'000
<b>Cash equivalents</b>	854	-	854	1,191	-	1,191
<b>Equity instruments (by industry type):</b>						
Consumer	4,791	-	4,791	4,224	-	4,224
Manufacturing	2,346	-	2,346	1,878	-	1,878
Energy and Utilities	1,411	-	1,411	1,997	-	1,997
Financial Institutions	3,762	-	3,762	3,737	-	3,737
Health and Care	611	-	611	749	-	749
Information Technology	422	-	422	-	-	-
Other	1,615	-	1,615	1,887	-	1,887
<b>Debt Securities:</b>						
Corporate Bonds (investment grade)	4,013	-	4,013	3,997	-	3,997
Corporate Bonds (non-investment grade)	302	-	302	301	-	301
UK Government	7,113	-	7,113	7,410	-	7,410
Other	1,072	-	1,072	1,289	-	1,289
<b>Property:</b>						
UK Property	4,246	1,529	5,775	3,904	1,351	5,255
Overseas Property	-	399	399	-	405	405
<b>Private Equity:</b>	-	229	229	-	235	235
<b>Investment Funds and Unit Trusts:</b>						
Equities	2,600	33,283	35,883	2,599	34,347	36,946
Bonds	3,407	200	3,607	3,413	209	3,622
Other	-	3,645	3,645	-	3,603	3,603
<b>Derivatives:</b>						
Other	(7)	-	(7)	(5)	-	(5)
<b>Closing fair value of scheme assets as at 31 March</b>	<b>38,558</b>	<b>39,285</b>	<b>77,843</b>	<b>38,571</b>	<b>40,150</b>	<b>78,721</b>

**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 upon assumptions about mortality rates, salary levels, etc.

The Gloucestershire County Council pension fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the fund being based on the latest full valuation of the scheme as at 1st April 2013. The significant assumptions made in their calculations have been:

	Local Government Pension Scheme	
	2015/16	2014/15
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners		
Men	22.5 years	22.5 years
Women	24.6 years	24.6 years
Longevity at 65 for future pensioners		
Men	24.4 years	24.4 years
Women	27.0 years	27.0 years
Rate of pension increase / inflation (CPI)	2.1%	2.1%
Rate of increase in salaries *	3.6%	3.5%
Rate for discounting scheme liabilities	3.4%	3.1%

\* Salary increases are assumed to be RPI plus 0.5% plus an additional allowance for promotional salary increases

**The Local Government Pension Scheme's assets consist of the following categories by proportion of the total assets held:**

	2015/16 %	2014/15 %
Equity investments	71	74
Bonds	20	16
Property	8	8
Cash	1	2
<b>Total</b>	<b>100</b>	<b>100</b>

### Commutation

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

### Sensitivity analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the 31st March 2016 and assumes for each change that the assumption analysed changes whilst all other assumptions remain constant. The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in the previous financial year.

Change in assumptions at year ended 31 March 2016	Approximate % increase to Employer	Approximate cost to Employer £000
0.5% decrease in Real Discount Rate	9%	12,057
1 year increase in member life expectancy	3%	3,944
0.5% increase in the Salary Increase Rate	2%	2,597
0.5% increase in the Pension Increase Rate	7%	9,359

The above figures have been derived based on the membership profile of the scheme as at the most recent actuarial valuation, being 31st March 2013.

### Impact on the Council's Cash Flows

The objectives of the scheme are to keep employer's contributions at as constant a rate as possible. Funding levels are monitored on an annual basis, with the next triennial valuation due on 31<sup>st</sup> March 2016.

The council is anticipated to pay employer's contributions of approximately £3.789 million for the period 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017. The weighted average duration of the defined benefit obligation for scheme members is 16.7 years as at 31<sup>st</sup> March 2016 (16.7 years as at 31<sup>st</sup> March 2015).



### 36. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2015/16 £'000	2014/15 £'000
Interest received	(449)	(66)
Interest paid	2,408	2,019

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2015/16 £'000	2014/15 £'000
Depreciation	(9,787)	(8,653)
Impairment and downward valuations	(1,659)	(1,837)
Amortisation	(108)	(104)
Increase (-) / decrease in creditors	(2,886)	(2,971)
Increase / decrease (-) in debtors	1,027	752
Increase / decrease (-) in inventories	5	(50)
Movement in pension liability	289	99
Carrying amount of non-current assets sold or derecognised	(2,888)	(1,682)
Other non cash items charged to the net surplus or deficit on the provision of services	2,186	(157)
	<b>(13,821)</b>	<b>(14,603)</b>

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	2015/16 £'000	2014/15 £'000
Proceeds from the sale of PPE, investment property and intangible assets	4,374	2,045

### 37. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2015/16 £'000	2014/15 £'000
Purchase of property, plant and equipment, investment property and intangible assets	21,914	8,998
Purchase of Investments	23,512	24,810
Other payments for investing activities	1,500	2,100
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,274)	(2,299)
Proceeds from the sale of short and long term investments	(21,321)	(13,911)
Other receipts from investing activities	(230)	(530)
<b>Net cash (inflows) / outflows from investing activities</b>	<b>21,101</b>	<b>19,168</b>

### 38. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2015/16 £'000	2014/15 £'000
Cash receipts of short and long term borrowing	(22,471)	(9,100)
Repayments of short and long term borrowing	16,036	7,883
<b>Net cash flows from financing activities</b>	<b>(6,435)</b>	<b>(1,217)</b>

### 39. AUTHORISATION OF ACCOUNTS FOR ISSUE

IAS 10 *Events after the Balance Sheet Date* requires the establishment of a date after which events will not have been recognised in the Statement of Accounts. For the audited accounts this is the date they are signed by the Section 151 Officer. On this basis, the date beyond which there can be no reasonable expectation that events could have been taken into account by the council is 21<sup>st</sup> September 2016. This is the date after which any events are not recognised in the accounts for the year 2015/16.

### THE COLLECTION FUND - INCOME AND EXPENDITURE ACCOUNT

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities (such as Cheltenham) to maintain a separate fund to record the collection and distribution of non-domestic rates and council tax.

2014/15 £'000		Note	2015/16 £'000
<b>INCOME</b>			
59,181	<b>Council Tax</b>	1	60,427
56,144	<b>Non-Domestic Rates</b>	3	56,772
<b>115,325</b>	<b>Total Income</b>		<b>117,199</b>
<b>EXPENDITURE</b>			
58,174	<b>Precepts &amp; Demands from major preceptors and the Authority - Council Tax</b>	2	59,285
	<b>Non-Domestic Rates</b>	3	
27,008	Shares paid to county council and the billing authority		27,795
27,008	Payment of central share to government		27,795
81	Transitional protection payments		88
184	Charge payable to General Fund for Costs of Collection		183
	<b>Impairment of debts for Council Tax</b>		
84	Allowance for Impairment		123
	<b>Impairment of debts/appeals for non-domestic rates</b>		
-	Write offs of uncollectable amounts		131
1,608	Allowance for Impairment		3,563
	<b>Contribution towards previous year's surplus</b>		
367	Council Tax		864
416	Non-domestic rates		1,274
<b>114,930</b>	<b>Total Expenditure</b>		<b>121,101</b>
<b>395</b>	<b>Surplus / (Deficit) for the Year</b>		<b>(3,902)</b>
1,615	Balance of fund at 1st April		2,010
<b>2,010</b>	<b>Balance of fund at 31st March</b>	4	<b>(1,892)</b>

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

Council Tax is a property based tax with various reductions being made for differing circumstances e.g. single occupancy (25% discount). The Valuation Office has valued all domestic property in the area as at 1st April 1991 prices 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). A Band D council tax for the council and each preceptor is then calculated by dividing their requirements (their demands and precepts) by the Tax Base. Council taxes for other bands are then calculated by multiplying the Band D tax by the relevant proportion shown below.

Band	Estimated Number of Properties in each Band (adjusted for discounts)	Ratio	Band "D" Equivalents
A Disabled	4.25	5/9	2.40
A	7,732.10	6/9	5,154.70
B	11,099.75	7/9	8,633.10
C	12,080.25	8/9	10,738.00
D	7,947.50	1	7,947.50
E	4,389.75	11/9	5,365.30
F	2,359.50	13/9	3,408.20
G	1,804.25	15/9	3,007.10
H	80.50	2	161.00
			44,417.30
Less Council Tax support (Band D equivalents)			(4,126.60)
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 2 <sup>nd</sup> homes (this amounts to 1.25% of the tax base)			(503.60)
<b>Council Tax Base for 2015/16</b>			<b>39,787.10</b>

2. PRECEPTS & DEMANDS

	2015/16 £'000	2014/15 £'000
Gloucestershire County Council	43,388	42,580
Cheltenham Borough Council	7,445	7,306
Gloucestershire Police & Crime Commissioner	8,265	8,111
Charlton Kings Parish Council	64	56
Leckhampton Parish Council	29	29
Prestbury Parish Council	61	60
Swindon Village Parish Council	11	10
Up Hatherley Parish Council	22	22
	<b>59,285</b>	<b>58,174</b>

In practice the council precepts for its own requirements and for the parishes. The parishes' requirements are in turn paid out of Cheltenham's General Fund.

### 3. NON-DOMESTIC RATES

The council collects non-domestic rates for its area based on business rateable values (as assessed by the Valuation Office) multiplied by a uniform rate set by the government. Certain reliefs are available and the figure shown is net of these reliefs.

From 1<sup>st</sup> April 2013 the Local Government Finance Act 2012 introduced a business rates retention scheme that enables local authorities' general funds to retain a proportion of the business rates generated in their area, subject to their general funds paying a 'Tariff' payment to the government if the amount exceeds a 'baseline funding' level or receiving of a 'Top-up' if it is below the funding level.

District councils such as Cheltenham receive 40%, county councils 10% and central government 50% of business rates collectible, with write offs, provision for impairment of debts and any surplus or deficit generated being shared in the same proportions. If growth exceeds a certain threshold then the council's general fund must pay a 'levy' to central government on the extra growth, or if the rates collectable fall below a certain amount the council receives a 'safety net' payment from the government.

The council is a member of the Gloucestershire Business Rates Pool, in which any levy payment or safety receipt is 'pooled' across several authorities. This enables each pool member to benefit from a lower levy rate payable should the growth in its business rates exceed its levy threshold, whilst receiving from the pool a safety net payment should its rates fall below its safety net threshold, contributed by the pool members

The total non-domestic rateable value at 31<sup>st</sup> March 2016 was £133.278 million (£133.374 million at 31<sup>st</sup> March 2015) and the national non-domestic multipliers for 2015/16 were 49.3p (48.2p in 2014/15) (standard rate) and 48.0p (47.1p in 2014/15) (small business rate).

### 4. FUND BALANCE

The fund balance for council tax is shared between the council and its major precepting authorities (Gloucestershire County Council and the Gloucestershire Police & Crime Commissioner), in proportion to their precepts. The fund balance for non-domestic rates is shared between the council, Gloucestershire County Council and central government, in the statutory proportions.

The respective authorities' share of the balance is as follows:

	Borough Council share £'000	County Council share £'000	Police share £'000	Central Government share £'000	Total £'000
<b>Council Tax</b>					
Balance at 1 <sup>st</sup> April 2015	165	942	179	-	1,286
Increase/decrease (-) in the year	20	114	21		155
<b>Balance at 31<sup>st</sup> March 2016</b>	<b>185</b>	<b>1,056</b>	<b>200</b>	<b>-</b>	<b>1,441</b>
<b>Business Rates</b>					
Balance at 1 <sup>st</sup> April 2015	290	72	-	362	724
Increase/decrease (-) in the year	(1,623)	(405)	-	(2,029)	(4,057)
<b>Balance at 31<sup>st</sup> March 2016</b>	<b>(1,333)</b>	<b>(333)</b>	<b>-</b>	<b>(1,667)</b>	<b>(3,333)</b>
<b>Fund Balance at 31<sup>st</sup> March 2016</b>	<b>(1,148)</b>	<b>723</b>	<b>200</b>	<b>(1,667)</b>	<b>(1,892)</b>

## GROUP ACCOUNTS

The Group Accounts bring together the council's accounts with its share of those of:

- Cheltenham Borough Homes Ltd (CBH), a company limited by guarantee, in which the council is the sole member
- Gloucestershire Airport Ltd, in which the council has a 50% shareholding (the remaining 50% of shares are owned by Gloucester City Council).

The purpose of the Group Accounts is to show 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 actual share of the companies' assets and liabilities.

Cheltenham Borough Homes Ltd has been categorised as a subsidiary company of Cheltenham Borough Council and its interests have been consolidated in accordance with IAS 27 and IFRS10, which require income and expenditure, assets and liabilities to be consolidated with the council's accounts on a line-by-line basis, eliminating inter-organisational transactions and balances. The operating income and expenditure of the company has been included within the local authority housing (HRA) line in the Group Comprehensive Income and Expenditure Statement, before the net cost of services.

Gloucestershire Airport Ltd has been categorised as a Joint Venture as any decisions regarding its operating and financial policies require the consent of another party in addition to the council (the company is 'jointly controlled'). The company's assets and liabilities have therefore been consolidated with the council's in accordance with IAS 28 and IFRS11, which require the Equity Method to be used. Under this method, the council's share of the operating results 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 payable is also disclosed as a separate line.

In the Group Balance Sheet the council's share of the joint venture's net assets or liabilities are included as a long-term investment or liability, matched by the council's share of the company's reserves. There is no requirement to adjust for transactions incurred and balances held between the council and any joint venture companies.

Some of the figures for 2014/15 have been restated due to the adoption during the year of the accounting standard FRS102 by Cheltenham Borough Homes.

## STATEMENT OF ACCOUNTING POLICIES FOR THE GROUP ACCOUNTS

These are set out in note 1.31 on pages 38 - 39.

## 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 Group Movement in Reserves Statement.

2014/15 Restated				2015/16		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£'000	£'000	£'000		£'000	£'000	£'000
Continuing Operations						
2,128	(651)	1,477	Central Services to the public	1,773	(537)	1,236
9,339	(2,614)	6,725	Cultural and related services	8,753	(940)	7,813
10,028	(4,487)	5,541	Environment & Regulatory services	8,637	(4,750)	3,887
3,219	(1,865)	1,354	Planning services	3,782	(2,064)	1,718
3,359	(4,104)	(745)	Highways and Transport services	3,407	(4,154)	(747)
21,485	(20,697)	788	Local Authority housing (HRA)	19,437	(21,312)	(1,875)
33,865	(33,112)	753	Other housing services	33,372	(32,821)	551
3,601	(1,496)	2,105	Corporate & Democratic core	4,817	(3,220)	1,597
708	(242)	466	Non Distributed costs	1,053	-	1,053
87,732	(69,268)	18,464	Total Cost of Services	85,031	(69,798)	15,233
157	(22)	135	Other operating expenditure	655	(1,498)	(843)
5,038	(960)	4,078	Financing and Investment (Income) and Expenditure	5,041	(4,504)	537
-	-	-	Gain on disposal of Joint Venture - Ubico Ltd	-	(1,238)	(1,238)
19,633	(34,601)	(14,968)	Taxation and non-specific grant income	19,087	(34,648)	(15,561)
112,560	(104,851)	7,709	(Surplus) or Deficit on the provision of services	109,814	(111,686)	(1,872)
		(188)	Share of (Surplus) or deficit of Joint Ventures			(421)
		22	Share of Tax expenses of Joint ventures			82
		7,543	Group (Surplus) or Deficit			(2,211)
		(14,310)	(Surplus) / Deficit on revaluation of non-current assets			(17,477)
		5,494	Remeasurement of the net defined benefit liability/(asset) (note 47)			(9,033)
		1,477	Share of other comprehensive income and expenditure of Joint Ventures			(221)
		(7,339)	Other Comprehensive (Income) and Expenditure			(26,731)
		204	Total Comprehensive (Income) and Expenditure			(28,942)

## 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. The second category of reserves comprises those that the group is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences.

31 March 2015	Note	31 March 2016
<b>Restated</b>		
<b>£'000</b>		<b>£'000</b>
293,229 Property, Plant & Equipment	46	304,153
33,614 Heritage Assets	20	34,677
24,216 Investment Property	22	39,824
531 Intangible Assets	24	736
61 Long Term Investments	48	27
15,527 Investments in Joint Ventures	41	16,086
2,163 Long Term Debtors	48	1,675
<b>369,341 Long Term Assets</b>		<b>397,178</b>
12,950 Short term Investments	26	15,300
1,427 Assets held for sale	25	396
7 Inventories		12
5,221 Short term Debtors	43	5,270
8,688 Cash and cash equivalents	44	5,935
<b>28,293 Current assets</b>		<b>26,913</b>
(742) Bank overdraft	44	(112)
(460) Short term borrowing	26	(808)
(13,540) Short term creditors	45	(13,222)
- Grants receipts in advance - revenue	17	(1,257)
(595) Provisions	30	(906)
<b>(15,337) Current Liabilities</b>		<b>(16,305)</b>
(386) Provisions	30	(499)
(58,744) Long term borrowing	26	(64,830)
(82) Grants receipts in advance - capital		(83)
(1,443) Grants receipts in advance - revenue	17	(1,724)
(1,238) Long Term liabilities of Joint Ventures	42	-
(65,958) Other long term liabilities	47	(57,262)
<b>(127,851) Long term liabilities</b>		<b>(124,398)</b>
<b>254,446 Net Assets</b>		<b>283,388</b>
(27,026) Usable Reserves	49	(32,129)
(227,420) Unusable Reserves	51	(251,259)
<b>(254,446) Total Reserves</b>		<b>(283,388)</b>



## 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 group surplus or deficit line shows the true economic cost of providing the group'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
<b>Balance at 31 March 2014</b>	<b>26,240</b>	<b>1,523</b>	<b>27,763</b>	<b>207,601</b>	<b>19,286</b>	<b>226,887</b>	<b>254,650</b>
<b><u>Movement in Reserves during 2014/15 RESTATED</u></b>							
Group surplus or (deficit)	(2,310)	(5,233)	(7,543)			-	(7,543)
Other comprehensive Income & expenditure			-	12,942	(5,603)	7,339	7,339
<b>Total comprehensive Income &amp; Expenditure</b>	<b>(2,310)</b>	<b>(5,233)</b>	<b>(7,543)</b>	<b>12,942</b>	<b>(5,603)</b>	<b>7,339</b>	<b>(204)</b>
Adjustments between company reserves (Note 50)		3,453	3,453		(3,453)	(3,453)	-
Adjustments between accounting basis and funding basis under regulations (Note 5)	3,353		3,353	(3,353)		(3,353)	-
<b>Net decrease before transfers to reserves</b>	<b>1,043</b>	<b>(1,780)</b>	<b>(737)</b>	<b>9,589</b>	<b>(9,056)</b>	<b>533</b>	<b>(204)</b>
Transfers to/from earmarked reserves	-		-			-	-
<b>Increase / (decrease) in 2014/15</b>	<b>1,043</b>	<b>(1,780)</b>	<b>(737)</b>	<b>9,589</b>	<b>(9,056)</b>	<b>533</b>	<b>(204)</b>
<b>Balance at 31 March 2015</b>	<b>27,283</b>	<b>(257)</b>	<b>27,026</b>	<b>217,190</b>	<b>10,230</b>	<b>227,420</b>	<b>254,446</b>
<b><u>Movement in Reserves during 2015/16</u></b>							
Group surplus or (deficit)	2,915	(704)	2,211			-	2,211
Other comprehensive Income and (expenditure)			-	23,687	3,044	26,731	26,731
<b>Total comprehensive Income &amp; (Expenditure)</b>	<b>2,915</b>	<b>(704)</b>	<b>2,211</b>	<b>23,687</b>	<b>3,044</b>	<b>26,731</b>	<b>28,942</b>
Adjustments between company reserves (Note 50)		2,275	2,275	(2,275)		(2,275)	-
Adjustments between accounting basis and funding basis under regulations (Note 5)	617		617	(617)		(617)	-
<b>Net decrease before transfers to reserves</b>	<b>3,532</b>	<b>1,571</b>	<b>5,103</b>	<b>20,795</b>	<b>3,044</b>	<b>23,839</b>	<b>28,942</b>
Transfers to/from earmarked reserves	-		-			-	-
<b>Increase / (decrease) in 2015/16</b>	<b>3,532</b>	<b>1,571</b>	<b>5,103</b>	<b>20,795</b>	<b>3,044</b>	<b>23,839</b>	<b>28,942</b>
<b>Balance at 31 March 2016</b>	<b>30,815</b>	<b>1,314</b>	<b>32,129</b>	<b>237,985</b>	<b>13,274</b>	<b>251,259</b>	<b>283,388</b>

## GROUP CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the group (excluding those of the joint venture Gloucestershire Airport Ltd) during the reporting period. The statement shows how the group generates and uses cash by classifying cash flows as operating, investing and financing activities. Cash flows between the council/CBH Ltd with the airport are included, but the cash flows of the latter are not.

2014/15		2015/16	
Restated		£'000	£'000
£'000			
7,470	Net (surplus) or deficit on the provision of services	(634)	
(19,749)	Adjust net surplus or deficit on the provision of services for non-cash movements (note 52)	(15,143)	
2,044	Adjust for items in the net surplus or deficit on the provision of services that are investing or financing activities	4,360	
(10,235)	<b>Cash inflows generated from operating activities</b>		(11,417)
19,164	Investing activities (note 53)		19,975
(1,172)	Financing activities (note 54)		(6,435)
<b>7,757</b>	<b>Net (increase) / decrease in cash and cash equivalents</b>		<b>2,123</b>
15,703	Cash and cash equivalents at beginning of the year		7,946
7,946	Cash and cash equivalents at end of the year (note 50)		5,823
<b>(7,757)</b>	<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(2,123)</b>

## 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.

### 40. 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 draft group accounts for CBH Ltd (including CBHS Ltd) show net liabilities at 31<sup>st</sup> March 2016 of £1.39 million (restated net liabilities of £3.296 million at 31<sup>st</sup> March 2015) and an after tax loss of £0.917 million in the year to 31<sup>st</sup> March 2016 (restated £0.214 million loss in the year to 31<sup>st</sup> March 2015).

The net liabilities of the company are valued at cost (in accordance with company accounting rules) and may not therefore reflect their market value. The accounts of the company show a contingent liability of £53,212 at 31st March 2016.

During 2015/16 the council advanced a capital loan of £1.5 million to CBH to enable the company to continue with the construction of new rented housing stock, to be owned and managed by the company.

Since CBH's accounts show non-current assets at historic cost, the company's dwellings were re-valued at 31<sup>st</sup> March 2015 (for dwellings completed up until that date) and at 31<sup>st</sup> March 2016 (for dwellings completed in 2015/16) at Current value, to bring them into line with the council's accounting policies. The Current value was assessed by internal and external valuers using the existing use value for social housing (EUV-SH) appropriate to the dwellings' tenure as affordable homes. If CBH charged depreciation on the Current value of the dwellings, instead of their historic cost, the charge would be around £0.4 million less.

The full accounts of Cheltenham Borough Homes Ltd and Cheltenham Borough Homes Services Ltd for the year ending 31<sup>st</sup> March 2016 can be obtained from the Company Secretary at the company's registered office – Cheltenham House, Clarence Street, Cheltenham, Gloucestershire, GL50 3RD.

#### 41. Gloucestershire Airport Limited

Gloucestershire Airport Limited is a wholly owned local authority airport company which was voluntarily established during 1992/93 by Cheltenham Borough Council and Gloucester City Council, using powers available to them under the Airports Act 1986. This replaced the previous joint committee arrangements. The shares allotted were divided equally between the two councils. The market value of the shares is unknown as they are not quoted shares. They are classified within the council's individual accounts as Available-for-Sale financial assets – unquoted equity investments.

The registered name of the airport company is Gloucestershire Airport Ltd (Registration No. 02774189). The audited of the company show net assets at 31<sup>st</sup> March 2016 of £1.378 million (£0.259 million at 31<sup>st</sup> March 2015), and an after tax profit of £0.679 million for the year to 31<sup>st</sup> March 2016 (£0.160 million to 31<sup>st</sup> March 2015). 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:

	<b>Gloucester- shire Airport Limited 2015/16 £'000</b>	<b>Council's share 2015/16 £'000</b>	<b>Gloucester- shire Airport Limited 2014/15 £'000</b>	<b>Council's share 2014/15 £'000</b>
Turnover	4,039	2,020	4,650	2,325
Profit on ordinary activities before taxation	841	421	204	102
Tax on profit on ordinary activities	163	82	44	22
Profit/(loss) for the financial year after taxation	679	339	160	78

	<b>31 March 2016 £'000</b>	<b>31 March 2016 £'000</b>	<b>31 March 2015 £'000</b>	<b>31 March 2015 £'000</b>
Non-current Assets	4,830	2,415	4,986	2,493
Current Assets	1,693	846	859	430
Liabilities due within one year	(1,665)	(833)	(1,170)	(585)
Liabilities due after one year	(1,631)	(816)	(2,005)	(1,003)
Net Pension Liability	(1,775)	(888)	(2,329)	(1,164)

The net assets of the airport 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 company could, therefore, be significantly different to that suggested by the stated net assets or the share capital issued.

The airport did not pay any dividends in the year to 31<sup>st</sup> March 2016 (nil to 31<sup>st</sup> March 2015). Equity dividends proposed by the Board of Directors of the Airport are not recorded in the company'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, of which £0.867 million was outstanding at 31<sup>st</sup> March 2016. In addition the council provided the airport with a temporary overdraft facility during 2012/13 of £0.350 million, of which £0.140 million was outstanding at 31<sup>st</sup> March 2016.

The Airport's accounts for the year ended 31<sup>st</sup> March 2016 can be obtained from the Managing Director at the company's registered office - The Terminal Building, Staverton, Cheltenham, Gloucestershire, GL51 6SR.

The group balance sheet has been prepared by including the council's share of the company's net assets as a long-term investment, eliminating the share capital. However, since the airport accounts show non-current assets at historic cost, these assets have been revalued to Current value to bring them into line with the council's accounting policies, the date of the latest valuation (undertaken by an external valuer) being 31<sup>st</sup> March 2012. As a result the council's share of the value of operational assets has increased to £9.468 million and non-operational assets to £6.557 million.

This upward revaluation results in an increase in Unusable Reserves in the group accounts compared to the council's own accounts of £15.4 million, of which £8.8 million relates to operational property (so included in the Revaluation Reserve) and £6.6 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 additional charge would be around £0.4 million, based on a life of 30 years.

## **42. UBICO Limited**

Ubico Ltd was established during 2011/12 and commenced operations on 1st April 2012, providing environmental services (street cleaning, refuse collection, recycling and grounds maintenance) to Cheltenham Borough Council from that date and to Cotswold District Council from 6th August 2012. As the company was jointly controlled at 31st March 2015 the company was classified as a Joint Venture and included within the group accounts in 2014/15 as a long term investment or liability.

During 2015/16 four additional local authority members (West Oxfordshire DC, Forest of Dean DC, Tewkesbury BC and Stroud DC) became equal shareholders of the company, resulting in it no longer meeting the definition of a Joint Venture at 31<sup>st</sup> March 2016, since it is no longer jointly controlled. Consequently the council's share of the company's net liabilities shown in the group balance sheet at 31<sup>st</sup> March 2015 has been written off to the Group Comprehensive Income and Expenditure Statement in 2015/16 as a gain on disposal.

The fair value of the council's interest in the company at 31<sup>st</sup> March 2016 is considered to be nil, since it is a wholly local authority owned not-for-profit 'Teckal' company.

The company (registration No. 07824292) is limited by share capital and governed by its memorandum and articles of association. The liability in respect of the shares is set out in the memorandum of association and is limited to £1 per member of the company, of which there are six at 31<sup>st</sup> March 2016. The draft accounts of the company show a net liability at 31<sup>st</sup> March 2016 of £1,207,000 (restated liability of £2,635,000 at 31<sup>st</sup> March 2015) and an after tax loss for the year ending 31<sup>st</sup> March 2016 of £363,000 (restated loss of £171,000 for the year ended 31 March 2015).

The company's accounts for the year ending 31<sup>st</sup> March 2016 can be obtained from the Managing Director at the company's registered office – Central Depot, Swindon Road, Cheltenham GL51 9JZ.

## **43. Short term debtors**

These are as stated in note 27 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.

#### 44. Cash and Cash Equivalents

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

	31st March 2016 £'000	31st March 2015 £'000
Cash held by the Council and subsidiaries	5	5
Bank current accounts of the Council and subsidiaries	269	88
Short term deposits	5,661	8,595
<b>Cash and cash equivalent assets</b>	<b>5,935</b>	<b>8,688</b>
Cash and cash equivalent liabilities - bank overdraft	(112)	(742)
<b>Net Cash and cash equivalents per Cash flow Statement</b>	<b>5,823</b>	<b>7,946</b>

#### 45. Short term Creditors

	31st March 2016 £'000	31st March 2015 £'000
Central Government Bodies	2,573	4,422
Other Local Authorities	3,023	2,890
Other entities and individuals-		
- Council Taxpayers	92	88
- Business Ratepayers	1,769	1,720
- Ubico Ltd	34	621
- Housing Rents	223	215
- Sundry Creditors	5,508	3,584
	<b>13,222</b>	<b>13,540</b>

# APPENDIX 1 - STATEMENT OF ACCOUNTS 2015/16

## 46. Group Property, Plant & Equipment

2014/15								2015/16							
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
174,545	114,534	7,225	10,548	226	402	1,430	308,910	157,705	122,382	8,464	11,146	226	367	1,995	302,285
6,077	830	958	546			2,298	10,709	5,207	155	879	655	-	-	1,814	8,710
(19,201)	8,864	209	-	-	-	-	(10,128)	6,923	6,042	-	-	(143)	995	-	13,817
(4,641)	(2,396)	-	-	-	-	-	(7,037)	(2,036)	(315)	-	-	(1,565)	(20)	-	(3,936)
(527)	-	(157)	-	-	(35)	-	(719)	(993)	(95)	(482)	-	-	-	-	(1,570)
-	-	-	-	-	-	-	-	-	-	(3,621)	-	-	(56)	-	(3,677)
-	550	-	-	-	-	-	550	-	(275)	-	-	-	-	-	(275)
1,452	-	229	52	-	-	(1,733)	-	2,035	(1,578)	(59)	(63)	1,613	369	(1,429)	888
<b>157,705</b>	<b>122,382</b>	<b>8,464</b>	<b>11,146</b>	<b>226</b>	<b>367</b>	<b>1,995</b>	<b>302,285</b>	<b>168,841</b>	<b>126,316</b>	<b>5,181</b>	<b>11,738</b>	<b>131</b>	<b>1,655</b>	<b>2,380</b>	<b>316,242</b>
<b>Cost or valuation</b>								<b>At 1 April</b>							
At 1 April								At 1 April							
Additions								Depreciation charge							
Revaluation increases / (decreases) recognised in the Revaluation Reserve								Depreciation written out to the Revaluation Reserve							
Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services								Depreciation written out to the surplus/ deficit on the provision of services							
Derecognition - disposals								Impairment losses / (reversals) recognised in the Revaluation Reserve							
Derecognition - other								Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services							
Assets reclassified to/from held for resale								Derecognition - disposals							
Other Reclassifications								Derecognition - other							
<b>At 31 March</b>								<b>At 31 March</b>							
<b>Accumulated Depreciation and Impairment</b>								<b>At 1 April</b>							
At 1 April								Depreciation charge							
Depreciation charge								Depreciation written out to the Revaluation Reserve							
Depreciation written out to the surplus/ deficit on the provision of services								Depreciation written out to the surplus/ deficit on the provision of services							
Impairment losses / (reversals) recognised in the Revaluation Reserve								Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services							
Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services								Derecognition - disposals							
Derecognition - disposals								Derecognition - other							
Derecognition - other								Assets reclassified to/from held for resale							
Assets reclassified to/from held for resale								Other Reclassifications							
Other Reclassifications								<b>At 31 March</b>							
(18,036)	(79)	(4,697)	(1,566)	-	(8)	-	(24,386)	-	(2,221)	(4,980)	(1,839)	-	(8)	(8)	(9,056)
(5,390)	(2,797)	(441)	(273)	-	-	-	(8,901)	(5,527)	(3,761)	(580)	(305)	-	-	-	(10,173)
23,426	655	-	-	-	-	-	24,081	-	3,568	-	-	-	-	-	3,568
-	-	-	-	-	-	-	-	194	-	-	-	-	-	-	194
-	-	-	-	-	-	-	-	-	(388)	-	-	-	-	-	(388)
-	-	-	-	-	-	(8)	(8)	-	-	-	-	-	-	(6)	(6)
-	-	158	-	-	-	-	158	1	-	138	-	-	8	-	147
-	-	-	-	-	-	-	-	-	-	3,621	-	-	-	-	3,621
-	-	-	-	-	-	-	-	-	4	-	-	-	-	-	4
-	-	-	-	-	-	-	-	-	4	(14)	14	-	(4)	-	-
-	(2,221)	(4,980)	(1,839)	-	(8)	(8)	(9,056)	(5,332)	(2,794)	(1,815)	(2,130)	-	(4)	(14)	(12,089)
<b>157,705</b>	<b>120,161</b>	<b>3,484</b>	<b>9,307</b>	<b>226</b>	<b>359</b>	<b>1,987</b>	<b>293,229</b>	<b>163,509</b>	<b>123,522</b>	<b>3,366</b>	<b>9,608</b>	<b>131</b>	<b>1,651</b>	<b>2,366</b>	<b>304,153</b>
<b>Net Book Value at 31 March</b>								<b>Net Book Value at 31 March</b>							

**47. Other Long term liabilities**

These comprise the group pension fund liabilities of Cheltenham Borough Council and Cheltenham Borough Homes Ltd. Further details of the council's liabilities are included in note 35 on pages 77 - 82 and for CBH in their accounts. These show a pension liability at 31<sup>st</sup> March 2016 of £3.643 million (liability of £5.840 million at 31<sup>st</sup> March 2015).

**48. Long term investments and Long term debtors**

Long term investments differ from note 26 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 £16.086 million, shown immediately below long term investments.

Long term debtors differ from note 26 in the single entity accounts by the elimination on consolidation of the loans to CBH Ltd of £6.722 million.

**49. Usable Reserves**

These are detailed in the Group Movement in Reserves Statement.

**50. 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, which in the company accounts remain in the Income and Expenditure Reserve but in the group accounts are reversed out to the Capital Adjustment Account, as they have been used to finance newly constructed properties
- for the value of land donated to CBH by the council, which in the company accounts has been credited to Income and Expenditure Reserve but in the group accounts are eliminated as inter-organisational transactions within the Capital Adjustment Account
- for the revaluation loss in the year arising from the difference between the cost of CBH properties shown in the company accounts and their existing use for social housing value (EU-SH) included in the Group Balance Sheet.

**51. Unusable Reserves**

	31st March 2016	31st March 2015
	£'000	£'000
Revaluation Reserve	122,031	109,185
Capital Adjustment Account	189,270	185,603
Financial Instruments Adjustment Account	(2,176)	(2,311)
Collection Fund Adjustment Account	(1,148)	455
Pensions Reserve	(57,262)	(65,958)
Deferred Capital Receipts Reserve	660	560
Accumulating Compensated Absences Adjustment Account	(116)	(114)
<b>Total Unusable Reserves</b>	<b>251,259</b>	<b>227,420</b>



**52. Cash Flow Statement – Non-cash items included in the surplus or deficit on the provision of services**

	2015/16 £'000	2014/15 £'000
Depreciation	(10,173)	(8,902)
Impairment and downward valuations	(3,236)	(6,678)
Amortisations	(108)	(104)
Increase (-) / decrease in creditors	(1,972)	(3,090)
Increase / decrease (-) in debtors	1,120	1,038
Increase / decrease (-) in inventories (stock)	5	(50)
Movement in pension liability	(142)	56
Carrying amount of non-current assets sold or derecognised	(2,888)	(1,682)
Other non cash items charged to the net surplus or deficit on the provision of services	2,251	(337)
	<b>(15,143)</b>	<b>(19,749)</b>

**53. Cash Flow Statement – Investing Activities**

	2015/16 £'000	2014/15 £'000
Purchase of property, plant and equipment, investment property and intangible assets	22,229	11,094
Purchase of Investments	23,512	24,810
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,307)	(2,299)
Proceeds from the sale of short and long term investments	(21,321)	(13,911)
Other receipts from investing activities	(138)	(530)
<b>Net cashflows from investing activities</b>	<b>19,975</b>	<b>19,164</b>

**54. Cash Flow Statement – Financing activities**

	2015/16 £'000	2014/15 £'000
Cash receipts of short and long term borrowing	(22,471)	(9,100)
Repayments of short and long term borrowing	16,036	7,928
<b>Net cash flows from financing activities</b>	<b>(6,435)</b>	<b>(1,172)</b>

**HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT**

The Housing Revenue Account (HRA) reflects a statutory obligation to keep a separate revenue account for the provision and maintenance of council owned houses and flats. The HRA Income and Expenditure Statement shows the cost in the year of providing these housing services.

	2015/16	2014/15
	£'000	£'000
<b>Expenditure</b>		
Repairs and Maintenance	3,881	3,912
Supervision and Management	6,965	6,806
Rents, Rates, Taxes and Other Charges	50	50
Depreciation and Impairment of Non-current Assets	5,579	4,891
Debt Management Costs	81	81
Movement in Bad Debts	133	123
<b>Total Expenditure</b>	<b>16,689</b>	<b>15,863</b>
<b>Income</b>		
Dwelling Rents	(19,273)	(18,808)
Non-dwelling Rents	(419)	(429)
Charges for services and facilities	(568)	(556)
Contributions towards expenditure	(496)	(354)
Other Income	(97)	(122)
<b>Total Income</b>	<b>(20,853)</b>	<b>(20,269)</b>
<b>Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement</b>	<b>(4,164)</b>	<b>(4,406)</b>
HRA share of Corporate and Democratic core	159	147
<b>Net cost for HRA Services</b>	<b>(4,005)</b>	<b>(4,259)</b>
<b>HRA Share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b>		
(Gain)/loss on sale of HRA Non-current Assets	(796)	(355)
Interest Payable and Similar Charges	1,685	1,685
Interest and Investment Income	(55)	(55)
Capital Grants and Contributions Receivable	(140)	(149)
<b>Surplus for the Year on HRA Services</b>	<b>(3,311)</b>	<b>(3,133)</b>

## MOVEMENT ON THE HRA STATEMENT

This statement shows how the surplus or deficit on the HRA Income and Expenditure Statement reconciles to the movement in the Housing Revenue Account Balance, which is governed by statute.

	2015/16 £'000	2014/15 £'000
Balance on the HRA at the end of the previous year	3,656	4,205
Surplus for the year on the HRA Income and Expenditure Statement	3,311	3,133
Adjustments between accounting basis and funding basis under statute (note 1)	(1,819)	(1,779)
<b>Net Increase before transfers to or from reserves</b>	<b>5,148</b>	<b>5,559</b>
Transfers (to) / from earmarked reserves	894	(1,903)
<b>Balance on the HRA at the end of the current year</b>	<b>6,042</b>	<b>3,656</b>

## NOTES TO THE HRA STATEMENTS

**1. Adjustments between accounting basis and funding basis under the legislative framework**

	2015/16 £'000	2014/15 £'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the Movement in the HRA Balance</b>		
Revaluation losses on non-current assets	-	(559)
Capital contributions applied	(140)	(149)
(Gain)/loss on sale of HRA non-current assets	(795)	(355)
	<b>(935)</b>	<b>(1,063)</b>
<b>Items not included in the HRA Income and Expenditure Account but included in the Movement in the HRA Balance</b>		
Amortisation of premiums and discounts	10	10
Capital expenditure funded by the HRA	(894)	(726)
<b>Net adjustments between accounting basis and funding basis under the regulations</b>	<b>(1,819)</b>	<b>(1,779)</b>

**2. Housing Stock**

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

Type	1st April 2015	Additions	Sales	Demolitions	31st March 2016
Houses and Bungalows	2,152	2	17	-	2,137
Flats	2,363	-	7	-	2,356
Shared Ownership (flats)	16	-	-	-	16
<b>Total Stock</b>	<b>4,531</b>	<b>2</b>	<b>24</b>	<b>-</b>	<b>4,509</b>

**3. HRA Non-Current Assets**

The non-current assets included in the Balance Sheet that relate to the HRA are shown below:

	1 <sup>st</sup> April 2015 Restated * £'000	Revaluations/ Impairments £'000	Additions £'000	Reclass- ifications £'000	Disposals £'000	Depreciation £'000	31 <sup>st</sup> March 2016 £'000
Dwellings	152,294	6,659	5,208	(26)	(969)	(5,332)	157,834
Assets under construction	459	(6)	954	180	-	-	1,587
Garages**	2,320	(388)	152	-	-	(58)	2,026
Other land and buildings	9	(289)	-	391	-	-	111
Infrastructure	4,429	-	630	-	-	(111)	4,948
Surplus assets	311	550	-	131	-	-	992
Assets held for sale	1,427	-	-	-	(1,382)	-	45
Investment property	3,487	242	5	(500)	-	-	3,234
<b>Total non-current assets</b>	<b>164,736</b>	<b>6,768</b>	<b>6,949</b>	<b>176</b>	<b>(2,351)</b>	<b>(5,501)</b>	<b>170,777</b>

\*The figures at 1<sup>st</sup> April 2015 have been restated to include Assets Held for Resale.

\*\*Garages are included in Other Land & Buildings on the Balance Sheet.

#### 4. Impairment and Revaluation of Non-Current Assets

HRA assets are revalued every five years (the last revaluation was undertaken on 31st March 2015). In interim years between valuations the dwelling valuation is uprated for the movement in county land registry values. Any increase in value is transferred to the Revaluation Reserve, a figure of £6,659,250 in 2015/16.

#### 5. Dwellings Valuation

The vacant possession value of dwellings within the HRA at 1st April 2016 was £509,142,451.

This difference between the vacant possession value and the lower Balance Sheet valuation (existing use value for social housing (EUH-SH)) measures the economic cost of providing council housing at less than open market rents.

#### 6. Major Repairs Reserve

An analysis of the movements on the reserve during the year is shown below:

	£'000
Balance 1st April 2015	-
Transfer to reserve	5,501
Financing of HRA capital expenditure	(4,993)
<b>Balance 31st March 2016</b>	<b>508</b>

#### 7. New Build Reserve

The council has created an earmarked revenue reserve to set aside funds that will be used to deliver a programme of new affordable housing within the HRA.

	£'000
Balance 1st April 2015	1,903
Transfer from reserve to fund capital expenditure	(894)
<b>Balance 31st March 2016</b>	<b>1,009</b>

**8. HRA Capital Expenditure**

A summary of HRA capital expenditure and sources of finance for 2015/16 is shown below:

Category	Total Spend £'000	Sources of Finance			
		Major Repairs Allowance £'000	Capital Receipts £'000	Capital Contributions £'000	Revenue Contributions £'000
New Build	954	-	348	-	606
Major repairs & improvements	5,208	4,656	124	140	288
Garages	152	152	-	-	-
Infrastructure	630	180	450	-	-
Investment properties	5	5	-	-	-
<b>Total</b>	<b>6,949</b>	<b>4,993</b>	<b>922</b>	<b>140</b>	<b>894</b>

**9. HRA Capital Receipts**

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

	2015/16 £000	2014/15 £000
Sales of Dwellings	1,600	987
Sales of Land	1,611	-
Mortgage Principal	6	11
Sale of Shared Ownership Flats	-	28
<b>Total</b>	<b>3,217</b>	<b>1,026</b>

**10. Rent Arrears**

Rent arrears at 31st March 2016 amounted to £648,774 (£654,696 as at 31st March 2015) and the Balance Sheet includes a bad debt provision of £390,000 relating to those arrears (£376,000 as at 31st March 2015).

**11. Interest and Investment Income**

This includes £54,223 interest from notional cash balances and mortgage interest of £1,002 (£53,700 and £1,284 respectively in 2014/15).

**GLOSSARY OF TERMS**

<b>Accounting Code of Practice</b>	Although the preparation and control of accounting is regulated, there is no statutory basis for accounting entries. Instead, Local Authorities have to comply with the CIPFA/LASAAC Code of Practice on Local authority accounting in the United Kingdom (The Code).
<b>Accounting Period</b>	The period of time covered by the accounts, normally a period of twelve months commencing on 1 <sup>st</sup> April for local authority accounts. The end of the accounting period is the balance sheet date.
<b>Accounts</b>	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.
<b>Accounting Policies</b>	The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements.
<b>Accruals</b>	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.
<b>Actual</b>	Actual, as opposed to budget, expenditure and income directly attributable to an accounting period.
<b>Actuarial Basis</b>	The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.
<b>Amortised cost</b>	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.
<b>Audit of Accounts</b>	An audit is an examination by an independent expert of an organisation's financial affairs to check that the relevant legal obligations and codes of practice have been followed.
<b>Balances</b>	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 council, 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.
<b>Billing Authority</b>	The authority that sets council tax and collects it from council tax payers.
<b>Budget</b>	A financial plan that expresses an organisation's service delivery plans and capital programmes in monetary terms.
<b>Budget Strategy</b>	A document setting out how an organisation is going to meet its policies and priorities, taking into account the resources available to the organisation. This will include proposals for efficiency savings and possible service changes or reductions, which may free up resources for use on other policies or priorities.

<b>Capital Expenditure</b>	This is expenditure on items providing benefits to the organisation over more than one year, such as land, buildings or vehicles.
<b>Capital Financing</b>	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 contributions from revenue accounts, the proceeds from the sale of capital assets, and capital grants and contributions from developers or others.
<b>Capital Financing Requirement</b>	The capital financing requirement measures the council's underlying need to borrow for capital purposes.
<b>Capital Grants</b>	Grants received towards capital expenditure on a specific service or project.
<b>Capital Programme</b>	This is a financial plan of the capital expenditure projects that the organisation intends to carry out over a specified time period.
<b>Capital Receipt</b>	This is income resulting from the sale of assets such as land or property. The Government decides what proportion of each capital receipt can be used by the council to finance new capital expenditure. Capital receipts cannot be used to fund revenue expenditure.
<b>Cash &amp; Cash equivalents</b>	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.
<b>CIPFA</b>	The Chartered Institute of Public Finance and Accountancy. This is the professional body for accountants working in local government and other public bodies. The Institute provides financial and statistical information services for local government and advises central Government and other bodies on local government and public finance matters.
<b>Collection Fund</b>	This is a statutory fund kept separate from the main accounts of the council. It records all income due from council Tax and National Non Domestic Rates and shows how that income was shared between central government, the County Council and the Police and Crime Commissioner.
<b>Consistency</b>	One of the fundamental accounting concepts, it requires accountants to treat similar items of income and expenditure in the same way both within an accounting period and from one accounting period to the next.
<b>Contingent Asset</b>	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 a council is pursuing through the due legal process, where the outcome will only be decided by the decision of the courts.
<b>Contingent Liability</b>	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 council has given a guarantee.
<b>Council Tax</b>	A local tax levied on dwellings within the local authority area. The level of taxation is based on the capital value of the property, which is categorised into one of eight bands from A to H, and the number of people living in the dwelling.
<b>Creditors</b>	Amounts owed by the council for work done, goods received or services rendered within the accounting period, but for which payment was not made at the balance sheet date.



<b>Current Assets</b>	Assets which can be expected to be consumed or realised during the next accounting period.
<b>Current Liabilities</b>	Amounts which will become due or could be called upon during the next accounting period.
<b>Debtors</b>	An amount due to an organisation within the accounting period not received at the balance sheet date.
<b>Depreciation</b>	A charge made to the revenue account each year that reflects the reduction in value of assets used to deliver services. This is the loss in value of an asset, owing to age, wear and tear, deterioration, or obsolescence.
<b>Employee Costs</b>	These include salaries, wages and employers' national insurance and pension contributions, together with training expenses and charges relating to the index-linking of pensions of former employees.
<b>Estimates</b>	<p>Original estimate: the estimate for the new year approved before the start of the financial year, usually at the previous November's price levels.</p> <p>Revised estimate: the original estimate for the year updated by price changes since it was prepared and by supplementary estimates and virements.</p> <p>Supplementary estimate: an amount approved by the council to be spent in excess of the original estimate.</p>
<b>Final Accounts</b>	Accounts prepared for an accounting period, usually in a summarised form. They include a statement showing the net surplus (profit) or deficit (loss) on the provision of services and a balance sheet. They are produced as a record of steward-ship for interested parties. Local authorities are required by the Accounts and Audit Regulations 1993 (as amended) to publish a Statement of Accounts at the end of each financial year.
<b>Finance Lease</b>	A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee (the person or organisation leasing the asset).
<b>Financial Year</b>	The local authority financial year commences on 1 <sup>st</sup> April and finishes on 31 <sup>st</sup> March in the following year.
<b>Government Grants</b>	Grants made by the Government towards either revenue or capital expenditure to help with the cost of providing services and capital projects. Some Government grants have restrictions on how they may be used, whilst others are general purpose.
<b>Impairment</b>	Impairment of an asset is caused by a consumption of economic benefits (e.g. physical damage such as an office fire) or a deterioration in the quality of service provided by the asset (e.g. an industrial unit closing and becoming a storage facility), or by a general fall in prices of that particular asset or class of assets.
<b>Interest</b>	An amount received or paid for the use of a sum of money when it is invested or borrowed.
<b>International Financial Reporting Standards (IFRS)</b>	Provide the required accounting treatment and disclosure of transactions so that an organisation's financial statements present fairly the financial position of the organisation.
<b>Inventories</b>	Items of raw materials and stores a council has purchased to use on a continuing basis but which have not yet been used.

<b>Joint Venture</b>	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.
<b>Materiality</b>	One of the main accounting concepts, it ensures that the statement of accounts includes all the transactions that, if omitted, would lead to a significant distortion of the financial position at the end of the accounting period.
<b>Minimum Revenue Provision (MRP)</b>	The minimum amount which must be charged to a council's revenue account as a contribution towards the reduction in its overall borrowing requirement. The amount represents that which the council 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.
<b>National Non Domestic Rates (NNDR)</b>	An NNDR rate (multiplier) is set annually by central government and is applied to the rateable value of a business to calculate the non-domestic rates collected by Billing Authorities. The rates collected are shared between central government, district and county councils in statutory proportions.
<b>Non-Current Asset</b>	Assets which can be expected to be of use or benefit to the council for more than one accounting period.
<b>Operating Lease</b>	A lease under which the ownership of the asset remains with the lessor (the person or organisation leasing the asset) and is equivalent to contract hiring.
<b>Precepts</b>	The levy made by a precepting authority (County Council, Police Authority, Parish Council) on the billing authority, requiring it to collect income from Council Taxpayers on their behalf.
<b>Provision</b>	A sum of money set aside in the accounts for liabilities or losses that are due but where the amount due or the timing of the payment is not known with certainty.
<b>Revenue Expenditure</b>	Expenditure on the day to day running costs of the council such as wages and salaries, utility costs, repairs and maintenance.
<b>Revenue Expenditure funded from capital under statute (REFCUS)</b>	Expenditure which can by law be financed from capital resources (e.g. capital receipts) but which does not result in a non-current asset for the authority e.g. renovation grants.
<b>Revenue Support Grant</b>	A general grant paid by central Government to local authorities to provide the services that it is responsible for delivering.
<b>Subsidiary</b>	An entity is a subsidiary of the reporting council if the council 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.
<b>Temporary Borrowing</b>	A sum of money borrowed for a period of less than one year.
<b>Value for Money</b>	An expression describing the benefit obtained (not just in financial terms) for a given input of money. The phrase is widely used within public bodies, but there are many difficulties in its use because value is a subjective measure and there are rarely supporting objective measures. The council's external auditor 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.

**ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2015/16****Scope of responsibility**

Cheltenham Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. Cheltenham Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Cheltenham Borough Council developed and approved a code of corporate governance, which is consistent with the principles of national best practice as set out in the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". A copy of the code can be obtained on request. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011 and, from 1 April 2015 the Accounts and Audit Regulations 2015 in relation to the publication of a statement on annual governance.

In addition to this, CIPFA issued a "Statement on the Role of the Chief Financial Officer in Local Government (2010)". The Annual Governance Statement reflects compliance with the CIPFA statement for reporting purposes. The Council's Chief Financial Officer is the Statutory Section 151 Officer (s151 Officer).

**The purpose of the governance framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to deliver policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. This system is based on an ongoing process designed to identify and prioritise the risks to the achievement of Cheltenham Borough Council's policies, aims, objectives, and to evaluate the likelihood of those risks being realised and the impact should they be realised, so they can be managed effectively and economically.

The governance framework has been in place at Cheltenham Borough Council throughout the year and up to the date of the approval of the Annual Report and Statement of Accounts.

**The Governance framework**

The Council has a sound system of governance incorporating the system of internal control. The key elements of the Council's governance arrangements are outlined in the Local Code of Corporate Governance which was reviewed and approved by the Audit Committee in March 2015. The main areas of the Council's governance framework and the key evidence of delivery are set out below, under the key elements of the CIPFA/SOLACE principles of governance:

- 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.**

- (a) A corporate planning process that included consultation with Members and senior managers resulting in the approval by Council of a Corporate Strategy that reflects its Vision, Objectives and Priorities..
- (b) The annual corporate planning process is informed by 4 corporate outcomes, the annual budget, legislation and government guidance - which link to the setting of priorities and individual performance appraisals.
- (c) A system of performance management to measure the delivery of priorities and the quality of service to ensure that both are delivered in accordance with the Council's objectives and represent the best use of resources.
- (d) The Council and NHS Gloucestershire, together with the Police and other partners have worked together to identify the needs of the area including health matters and have published a Joint Strategic Needs Assessment.
- (e) The Cheltenham Partnership includes council officers working with a wide range of partners including Gloucestershire County Council, Gloucestershire Police and County NHS organisations to identify local needs and deliver priorities through an agreed action plan.
- (f) A Medium Term Financial Strategy (MTFS) which is regularly updated to support the delivery of the Council's corporate objectives.
- (g) A performance management framework which includes performance reports that are reported to Cabinet.
- (h) Consultation with the public through public meetings and other mechanisms on a regular basis.
- (i) As part of its budget setting process the Council consults with a public panel to gain an understanding of the communities' views.
- (j) The Council communicates with employees and all stakeholders via regular internal and external updates using promotional material, the web, the intranet and formal and informal briefings and 1-2-1s with their managers.
- (k) Annual accounts are published annually.
- (l) An Annual Report, which summarises financial and other performance over the previous financial.
- (m) All Cabinet, Committee and Council reports clearly outline their objectives and recommendations, so the community can understand what is trying to be achieved. Reports also address financial, legal, HR, property and environmental implications to aid understanding of the potential impact of recommendations being made.

**2. Arrangements for reviewing the authority's vision and its implications for the authority's governance arrangements.**

- (a) Consultation was used to inform the development and review of the authority's vision, objectives and financial priorities as part of the review of the Corporate Strategy.
- (b) The Audit Committee considers and approves a revised version of the Code of Corporate Governance on an annual basis that is published on the authority's website.

- (c) The budget setting process includes detailed scrutiny of proposals by elected Members and their links to the Council's vision, priorities and stakeholder views, together with equality impact assessments.
- (d) The Council is mindful that employees are also key stakeholders and as such, senior officers and Members have taken part in consultation events including manager briefings. Internal communication approaches have been reviewed to ensure all employees are aware of all issues and new policies and practices. There are positive working relationships with trades unions through formal meetings of the Joint Liaison Forum and Joint Consultative Committee and informal regular briefings were provided to the entire workforce by the Chief Executive and Head of Paid service.
- (e) The Council has through Leadership Gloucestershire engaged with the government about how, through devolution, better outcomes for the residents, communities and businesses of Gloucestershire could be achieved. The submission "We are Gloucestershire" from Leadership Gloucestershire included proposals on new governance arrangements. Discussions are still ongoing.

**3. Arrangements for measuring the quality of services for users, for ensuring that they are delivered in accordance with the authority's objectives and that they represent the best use of resources.**

- (a) Cheltenham Borough Council is a commissioning authority and a high proportion of its services are delivered by either a shared service or a standalone organisation, for example, housing is delivered by Cheltenham Borough Homes, Waste Management is delivered by Ubico, Leisure and Culture Services are delivered by The Cheltenham Trust. There are specific and detailed contracts and agreements in place with each of these organisations which include the arrangements for performance measurement and reporting.
- (b) The client officers monitor key performance measures within the contract and report findings to the Senior Leadership Team on a quarterly basis. The delivery organisations also monitor performance including quality and the outcome of this monitoring is reported in annual reports which are published.
- (c) The Council records performance information against the delivery of corporate objectives using reporting software which is closely scrutinised by the Senior Leadership Team (SLT) and reported to Cabinet. Where quarterly performance reports to SLT highlight a concern, appropriate corrective action will be considered, implemented and monitored.
- (d) Corporate Risks are identified, recorded and monitored through an on-line system; performance against the mitigation of these risks is monitored by SLT on a monthly basis and then reported informally to Cabinet. Audit Committee receives an annual Risk Management report which includes performance data and proposals for updating the policy.
- (e) There is also a range of consultation and feedback mechanisms for stakeholder engagement and obtaining their views on the use of resources.

**4. Arrangements for defining and documenting the roles and responsibilities of Member and officer functions, with clear delegation arrangements and protocols for effective communication.**

- (a) The Constitution sets out roles and responsibilities, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.
- (b) A clear scheme of delegation for officers is included within the Constitution.
- (c) The roles and responsibilities of the three statutory officers are defined in the constitution (Head of Paid Service, Monitoring Officer and s151 Officer).
- (d) The s151 Officer leads the promotion and delivery of good financial management through the Senior Leadership Team, the Bridging the Gap programme, attendance at Cabinet and committee meetings and specialist workshops and training for officers and members.
- (e) The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- (f) In October 2015 the Council decided to enter into the 2020 Partnership and endorse and approve the establishment of a revised CBC senior management structure which included the deletion of the post of Chief Executive, from the 28 March 2016.
- (g) The Council also agreed to the internal recruitment to the post of Head of Paid Service. The officer will also be the Returning Officer/Electoral Registration Officer from 23 May 2016.
- (h) Following the decision by Council in October the Appointments and Remuneration Committee met in January 2016 to consider the options for the appointment of a new Head of Paid Service. In February 2016 the Council approved the appointment of the existing Deputy Chief Executive to the role of Head of Paid Service and Returning Officer/Electoral Registration Officer.
- (i) There is an on-going review of the Constitution by the Constitution Working Group to ensure that it reflects the 2020 Partnership and CBC management structures. The Constitution includes Rules of Procedures, Financial Regulations, Responsibility for Functions, Contract Procurement Rules and the Budget and Policy Framework. These are underpinned by Codes of Conduct for officers and Members, gifts and hospitality rules, local protocols and by the Authority's Code of Corporate Governance.
- (j) Council consists of 40 elected members and is chaired by the Mayor and is responsible for setting the budget, the policy framework and deciding on matters set out in the constitution. It elects the Mayor and the Leader and makes appointments to committees.
- (k) The Cabinet is the part of the Council which is responsible for most day-to-day decisions.
- (l) This includes the publication of a Forward Plan containing the timetable for all key decisions.
- (m) The Cabinet consists of a Leader and seven councillors who are responsible for specific portfolios. Cabinet meetings are held in public save for where confidential or exempt information is to be discussed.
- (n) The Cabinet, Cabinet Members and Officers are required to make decisions within the Council approved Budget and Policy Framework; any decision outside that framework may only be made within prescribed urgency procedures or with the agreement of Council.

- (o) The Overview and Scrutiny committee (O&S) promotes open and transparent decision-making, democratic accountability and holds the Cabinet to account for its actions.
- (p) The O&S is responsible for ensuring that the overview and scrutiny process is operating effectively and is making a difference for local people. The committee's role includes commissioning scrutiny task groups
- (q) There is an Audit Committee which is responsible for all internal and external audit matters along with some other governance associated matters.
- (r) The Audit Committee promotes and ensures effective internal control and independent assurance mechanisms, including: Risk Management; Annual Statement of Accounts; Corporate Governance Framework.
- (s) All meetings are public except for exempt / confidential matters which are considered in private. It is the Council's objective to conduct its business in public wherever possible and to keep exempt discussions and documentation to a minimum. This ensures open and transparent decision making.
- (t) The authority has Client Officers with clearly defined roles and responsibilities that liaise with service providers and partners to ensure that contractual agreements and performance measures are monitored and reported upon.

**5. Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behavior for members and staff**

- (a) The authority's intranet contains links to policies, procedures and guidance for all staff including Human Resources (HR) policies, e-learning training modules, Information Security Policy, Freedom of Information Policy and Data Protection Policy and the Corporate Plan and Constitution.
- (b) Defined codes of conduct are included in the Constitution for elected members and Council employees, along with specific codes for dealing with planning and licensing matters.
- (c) The Council's key policies stipulate roles and responsibilities for both elected Members and employees; these are reviewed and refreshed on a regular basis.
- (d) The Council has a Standards Committee to maintain and promote high standards of conduct and assists Members and co-opted Members of the Borough Council to observe and monitor the operation of the Code Conduct. The Committee is made up of 7 Borough Councillors and 2 Independent Persons who are co-opted on to the Committee and do not have voting rights.
- (e) Corporate induction courses were run for all new employees by GOSS HR on a regular basis. Managers are responsible for local induction arrangements. Officers in politically restricted posts and those responsible for negotiating contracts are required to register their personal interests; all employees complete these declarations on an annual basis.
- (f) ICTSS provided training for all employees and elected members that included the acceptable use of equipment and the internet.
- (g) The Council has a Counter Fraud, Corruption and Bribery Policy that was reviewed by Counter Fraud Team regularly and has been communicated to all staff and is available on the Council's intranet, this was approved by the Cabinet.

- 6. Arrangements for reviewing and updating Standing Orders and Financial Regulations; a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks.**
- a. The Council's Constitution including Financial Rules and Contract Rules are reviewed regularly by the Constitution Working Group to ensure the Council's governance arrangements reflect best practice. These arrangements include a scheme of delegation and are supported by guidance and notes that are available to elected members and employees on the intranet.
  - b. The Director of Corporate Resources and Projects is responsible for the implementation and monitoring of the Risk Management Policy which is also monitored by the Audit Committee and approved by Cabinet. Any report to Council or Cabinet requiring a decision is supported by a risk assessment based upon this policy.
- 7. Ensuring the Authority's financial management arrangements conform to the governance arrangements of the CIPFA statement on the role of the Chief Finance Officer (CFO) in local government.**
- (a) The Council's Financial Rules and Constitution are approved by Council and published on the website.
  - (b) The Council ensures;
    - compliance with the Financial Procedure Rules set out in the Constitution; it has designated the GOSS Head of Finance (West) as the s151 officer (Chief Finance Officer(CFO)). It is able to confirm that it conforms to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
    - that the s151 Officer is qualified and a substantially and suitably experienced accountant, who is responsible for the proper administration of the Council's financial affairs and for ensuring the lawfulness and financial prudence of financial transactions.
    - that the s151 Officer is a member of the Executive Board and Senior Leadership Team with responsibility for, leading and advising on the strategic financial decisions impacting on the Council's delivery of its objectives, ensuring continuing effective financial controls and risk management, management of the corporate finance function, which is appropriately resourced with professionally qualified management.
  - (c) All reports to Members include resource implications; prior to publication these implications are considered and approved by the CFO or one of his senior staff. These reports also cover value for money and benchmarking implications where appropriate.
  - (d) The Council approves the Treasury Management Strategy on an annual basis and all Members are briefed on key financial issues.
  - (e) The CFO has responsibility for ensuring that the Council operates secure and reliable financial and accounting systems. Audit Cotswolds undertakes the role of auditing these systems to give the assurance needed.
  - (f) The Council has a Medium Term Financial Strategy, which is reviewed and approved annually to take into account new information, changing circumstances and new priorities; this is used to inform reports to Members. Detailed forecasts are also produced as part of



the annual budget process. These represent strategic objectives and service priorities through which financial and operational performance are monitored.

**8. Undertaking the core functions of an Audit Committee, as defined in CIPFA's Audit Committee's – Practical Guidance for Local Authorities.**

- (a) The Council has a standalone Audit Committee which meets on a quarterly basis (or as required in exceptional circumstances) where reports from both Internal and External Audit are considered as well as risk and associated matters.
- (b) The role of the Audit Committee is defined within the Constitution together with the responsibilities of the Chairman, councillors and lead officers.
- (c) The Audit Committee provides a broad based audit role across all areas of the Council. The committee promotes and ensures effective internal control and independent assurance mechanisms, including: Internal Audit; External Audit; Risk Management; Annual Statement of Accounts; Corporate Governance Framework.
- (d) It approves internal and external audit plans, the annual accounts, and the Code of Corporate Governance; it also reviews and recommends to Cabinet for approval the Risk Management Policy.
- (e) The Chairman of the Audit Committee has direct access to the s151 officer and the Head of Internal Audit (Audit Cotswolds).

**9. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.**

- (a) The system of internal financial control is based on a coherent accounting and budgeting framework including Financial Rules, Contract Standing Orders, Scheme of Delegation and accountability.
- (b) The Medium-Term Financial Strategy covers both revenue and capital spends which provides a framework for the planning and monitoring of resource requirements.
- (c) The Asset Management Plan and Capital Strategy aims to ensure that investment is linked to strategic objectives. Bids for capital and other asset management funding require an effective 'business case' linked to strategic objectives and progress in delivering key projects are monitored by the Senior Leadership Team, Councillors and Lead Commissioners. The Asset Management Plan also ensures that assets are only retained for effective business purposes.
- (d) Financial stewardship in respect of both capital and revenue proposals are reviewed and challenged by the Budget Scrutiny Working Group, and considered regularly by the Strategic Leadership Team. Service\Cost Centre Managers also consider their respective budgets on a regular basis. This is supported and challenged by the Bridging the Gap programme, an established budget monitoring process by managers and finance staff and the electronic distribution of budget monitoring reports to all managers.
- (e) All projects linked to corporate objectives are supported by their own governance arrangements that are documented within a Project Initiation Document (PID). This document includes roles and responsibilities, reporting processes and key documents. The project management guidelines define what needs to be included within the PID and if it needs to be considered by Overview and Scrutiny.

- (f) Directors are required to produce an Annual Statement of Internal Control for their divisions which include statements about risk and the internal control framework. Any significant issues arising from the annual assessment are reported to Audit Committee. This is supported by Internal Audit who deliver targeted assurance, cyclical audits and help embed risk management and other management initiatives.

**10. Arrangements for whistle-blowing and for receiving and investigating complaints from the public.**

- (a) The Counter Fraud, Corruption and Bribery Policy, and the Whistle Blowing Policy are owned and revised periodically. The policies are available on the Council's website, intranet and direct from Internal Audit.
- (b) If an employee has concerns about any manager or director they are encouraged to contact the GOSS HR Manager who will undertake an independent investigation.
- (c) If a customer has concerns the Council has a three stage complaints procedure which is managed by the Customer Relations Team. The procedure provides the means for customers to feedback concerns or issues. The process and on-line form are available on the Council's website or at Municipal Offices.
- (d) Complaints are investigated and analysed and reported back to managers along with the actions taken.

**11. Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training.**

- (a) All Members have an induction and training program, corporate training needs are identified through the Democratic Services Team.
- (b) The Member Development Program provides a structured approach to member development to ensure all members are supported in their role.
- (c) The Council supports staff development which is delivered primarily by GOSS Learning and Development Team, through programs such as Institute of Leadership and Management.

**12. Arrangements for establishing clear channels of communication with all sections of the local community and stakeholders, ensuring accountability and encouraging open consultation.**

- (a) Consultation events are held with public and voluntary services, Cheltenham Business Partnership and The Cheltenham Partnership. Other consultation and feedback surveys are also undertaken as required throughout the year.
- (b) The Council has published a Statement on Community Involvement which sets out the opportunities by which the public and organisations can engage with the planning system, including the procedures and methods we use to consult on planning applications.
- (c) The website also has a dedicated webpage providing information about current and past consultation events on subjects affecting the budget, licensing and major capital expenditure.

- (d) The Council has a Transparency Policy that supports the publication of data on its web page.
- (e) The Council's website also has a 'Report It' facility where the public can report issues concerning the delivery of services or make complaints. The public can also access over 50 on-line forms and documents enabling quicker, more effective, service delivery.
- (f) The website provides access to information on the Councillors, directors and senior managers together with a description of their portfolios, roles, responsibilities and contact details.
- (g) The Council also uses and funds the Cheltenham Fiesta which is a free event that brings together many of the town's voluntary organisations enabling them to raise and promote their profile of working with the council.

**13. Incorporating good governance arrangements in respect of partnerships and other groups working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements.**

- (a) The Council's Code of Corporate Governance is reviewed annually by the Audit Committee and is available on its website.
- (b) The Leader and Head of Paid Service are Members of Leadership Gloucestershire which brings together a range of public sector organisations that allocate and spend significant resources in Gloucestershire.
- (c) The Leader is a board member of Gloucestershire Local Enterprise Partnership (LEP) whose key aim is to support growth and the creation of private sector jobs in the area. The partnership covers the district council areas of Cheltenham, Cotswold, Forest of Dean, Gloucester, Stroud and Tewkesbury.
- (d) The Cheltenham Development Task Force is an advisory body bringing together the private, public and voluntary sectors in partnership, as a way to progress the challenges and opportunities to improve the town for its citizens and businesses. The Task Force is led by its Managing Director who is an employee of Cheltenham Borough Council. The Council's Chief Executive was a member of the taskforce and since his retirement his place is now filled by the Council's Managing Director – Place and Economic Development. The Chief Executive was also the chairman of the taskforce Risk and Accountability Group which monitors the management of the Task Force key strategic risks. Following the restructure this role is now undertaken by the Director of Resources and Corporate Projects. These risks are managed by the Task Force Managing Director who ensures that any risks scoring over 16 which impact on CBC are brought to the attention of the Senior Leadership Team.
- (e) Appropriate governance arrangements in respect of service specific partnerships are approved by Cabinet or Council and published on the website. These include the Gloucestershire Waste Partnership, Gloucestershire Airport Ltd, The Cheltenham Trust, Audit Cotswolds, One Legal, ICT, and Building Control. GOSS managed the delivery of the Council's Finance and HR support services until February 2016 when responsibility transferred to the 2020 partnership.

**14. Review of effectiveness**

- (a) Cheltenham Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Executive Board who

have responsibility for the development and maintenance of the governance environment, the Head of Audit Cotswolds' (Internal Audit) annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

- (b) Overall responsibility for the governance framework, including the system of internal control rests with the Council Leader and Head of Paid Service and they receive reports from the s151 Officer on financial issues and the Monitoring Officer on legal issues as and when appropriate. This includes regular budget monitoring information and the Medium Term Financial Strategy.
- (c) The Council carries out its review of the effectiveness of the framework on an annual basis. All executive directors and directors complete an Annual Statement of Assurance which outlines the key control areas to which their division should comply. The outcome of this assessment is considered by the Senior Leadership Team who approve any appropriate action.
- (d) In addition to the internal review of the effectiveness of the governance framework evidence is also drawn upon from Commissioning and Client Officers in respect of compliance with agreements with Ubico, Cheltenham Borough Homes, ICT Shared Services, the GOSS Partnership, Gloucestershire Airport and the Cheltenham Trust.
- (e) There is also an annual review of Internal Audit by the s151 Officer which reviews compliance with the CIPFA Code of Practice and the effectiveness of the audit service. As in previous years the service undertook assurance work on behalf of the Council. The External Auditors raised no concerns about the standard of work performed by the Audit Cotswolds' Partnership. No major issues were identified and the service has maintained the level of assurance it is able to provide to management.

## **15. Internal Audit**

- a. The Audit Cotswolds' Partnership is managed by the Head of Audit Cotswolds whose role has been defined in the s101 agreement and a job description; both of which help to ensure that the requirements of the CIPFA 'Role of the Head of Internal Audit' standard are delivered.
- b. The Audit Cotswolds' Partnership began in 2009 with an agreement between Cheltenham Borough Council and Cotswold District Council to combine their Audit services. West Oxfordshire District Council then joined the partnership in 2010. The partnership is constituted under a s101 agreement. It also delivers internal audit functions for GO Shared Service, Cheltenham Borough Homes, Ubico and The Cheltenham Trust.
- c. The Council's Internal Audit Plan, which is risk based, is agreed following consultation with senior officers across the council it is agreed annually with the s151 officer and approved by the Council's Audit Committee. This provides the basis for the review of internal control and governance within the Council and includes the following: -
  - Annual reviews of the Council's key financial systems by Internal Audit against known and evolving risks;
  - Cyclical reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks based on a detailed risk assessment which considers the strategic and operational risks identified in the Corporate Risk Register; and
  - includes consideration of materiality, sensitivity and previous audit and inspection findings;

- Work in relation to the prevention of fraud and corruption and an allowance for the investigation of any potential irregularities identified either from audit work or through the Council's whistle-blowing policy;
  - Assurance advice and support to key projects and programmes to ensure safeguards are applied when implementing new systems of working;
  - Value for money work in relation to assessing the efficiency, economy and effectiveness of the Council's operations and recommending improvements as necessary;
  - Achievement of the Audit Plan is reported to the Audit Committee; this report also includes an opinion and assurance about the system of internal control throughout the Council;
  - Regular meetings were also held between the s151 officer and a representative of the Cotswolds' Audit Partnership to discuss specific issues that have arisen
- d. Changes to the Department of Work and Pensions, Benefit Fraud Investigation requirements – Single Fraud Investigation Service (SFIS) led to Cabinet agreeing an evolutionary approach for the establishment of a Counter Fraud Unit managed by the internal audit provider Audit Cotswolds. This entailed the s151 officer putting in place an agreement with Cotswold District Council (as host authority for Audit Cotswolds) to establish the Counter Fraud Unit.

## 16. Significant governance Issues

(a) The Annual Assurance Review and the work of the Audit Cotswolds' assurance work throughout the year have identified the following issues which need to be addressed;

- support effective testing of disaster recovery (DR) plan; (ICTSS responsibility)
- Ensure service area disaster recovery and business continuity plans link to the DR plan (ICTSS and CBC shared responsibility)
- Purchase Order Management System compliance (S151 officer).

(b) A Significant Issues Action Plan\* has been developed to address these issues Appendix 3.

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 and will monitor their implementation and operation as part of our next annual review.

\*Additional details are included in Appendix

Signed ..... Pat Pratley, Head of Paid Service ..... Date

Signed..... Steve Jordan, Leader ..... Date

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

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We have audited the financial statements of Cheltenham Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the 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 2015/16.

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

**Respective responsibilities of the Section 151 Officer and auditor**

As explained more fully in the Statement of the Section 151 Officer's Responsibilities, the Section 151 Officer 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing 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 Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

**Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the Group audited financial statements.

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

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

### **Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

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

#### **Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

### **Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

*Signature –*

Name – PETER BARBER  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

Date –



Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

21 September 2016

Dear Sirs

**Cheltenham Borough Council**  
**Group Financial Statements for the year ended 31 March 2016**

This representation letter is provided in connection with the audit of the group financial statements of Cheltenham Borough Council and its subsidiary undertaking(s) as shown in Appendix 1 of this letter, for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the group and parent Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the group and parent Council 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 2015/16 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

**Chartered Accountants**

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- vi We are satisfied that the material judgements used in the preparation of the group and parent Council financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the group or parent Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the group and parent Council financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the group and parent Council financial statements for these misstatements brought to our attention as they are immaterial to the results of the group and parent Council and its group and parent Council financial position at the year. The group and parent Council financial statements are free of material misstatements, including omissions.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.
- xiv We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

**Information Provided**

- xv We have provided you with:
  - a access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
  - b additional information that you have requested from us for the purpose of your audit; and
  - c unrestricted access to persons within the group and parent Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council involving:
  - a management;
  - b employees who have significant roles in internal control; or
  - c others where the fraud could have a material effect on the group and parent Council financial statements.
- xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the group and parent Council's financial statements.
- xxii We have disclosed to you the identity of all the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

**Annual Governance Statement**

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

- xxv The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

**Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 21 September 2016.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

## Cheltenham Borough Council Audit Committee – 21 September 2016 Internal Audit Monitoring Report

<b>Accountable member</b>	Cabinet Member Corporate Services, Councillor Jon Walklett
<b>Accountable officer</b>	Lucy Cater, Head of Internal Audit (Operational)
<b>Ward(s) affected</b>	<b>All</b>
<b>Key/Significant Decision</b>	<b>No</b>
<b>Executive summary</b>	<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>
<b>Recommendations</b>	<p><b>The Audit Committee considers the report and makes comment on its content as necessary</b></p> <p><b>That the Audit Committee notes the updated assurance levels and priority ratings to be applied for 2016/17</b></p>

<b>Financial implications</b>	<p>There are no financial implications arising from the report recommendations.</p> <p>Contact officer: Sarah Didcote</p> <p><a href="mailto:Sarah.Didcote@Cheltenham.gov.uk">Sarah.Didcote@Cheltenham.gov.uk</a>, 01242 264125</p>
<b>Legal implications</b>	<p>Nothing specific arising from the report recommendations.</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal</p> <p><a href="mailto:peter.lewis@tewkesbury.gov.uk">peter.lewis@tewkesbury.gov.uk</a>, 01684 272012</p>
<b>HR implications (including learning and organisational development)</b>	<p><b>No Comment Received</b></p> <p>Contact officer: Julie McCarthy</p>
<b>Key risks</b>	<p>That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.</p>

<b>Corporate and community plan Implications</b>	<i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Chartered Institute of Internal Auditing UK and Ireland).</i> Therefore the internal audit activity impacts on corporate and community plans.
<b>Environmental and climate change implications</b>	Relevant to particular audit assignments and will be identified within individual reports.
<b>Property/Asset Implications</b>	None specifically arising from the recommendation  <b>Contact officer: David Roberts@cheltenham.gov.uk</b>

## 1. Background

- 1.1 The Annual Audit Plan 2016/2017 was aligned with the corporate and service risks facing the Council as identified in the consultation with the Senior Leadership Team and supported by such systems as the risk registers. The role and responsibilities of internal audit reflect that it is there to help the organisation to achieve its 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 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 benefit to supporting 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.
- 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 co-ordinating 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 Progress against the Audit Plan (including 2015/2016 audits that were outstanding) and assurances given, is set out in **Appendix 1**.
- 3.1.2 The following summarises some of Audit Cotswolds work in progress to date:

## Completion of 2015/2016 audits

Since the last Audit Committee we have finalised:

- The GOSS Personal Security audit
- Council Tax and NNDR audit
- Housing Benefits audit
- Contract Management audit
- Performance Management (Programmes and Projects) audit
- Performance Management (Staff Performance) audit
- GOSS - Payroll

The Executive Summaries (including assurance levels) for these audit reviews are attached at **Appendix 2**, and the rationale for the audit assurance levels are attached at **Appendix 3**

We have issued draft reports in respect of:

- Safeguarding Adults and Children
- Security

## Progress on the 2016/2017 Audit Plan

Audit reviews have commenced in the following areas:

- Risk Management
- GOSS HR – Starters and Leavers Process
- Garden Waste Charging
- NNDR (Business Rates) Relief
- Fleet Management
- Food Safety

In accordance with the Shared Service Internal Audit Protocol for 2016/17 Audit Cotswolds and the South West Audit Partnership (SWAP, the auditors for the Forest of Dean DC) will undertake specific audits that fall within the 2020 Partnership, and give assurances to each other over compliance and systems of control. These assurances, and executive summaries of the reports, will be included as part of the monitoring report when they are finalised. The following table lists the audits to be undertaken in this manner.

<b>Auditable Area</b>	<b>Audit to be Undertaken By</b>	<b>Assurance to be Given to</b>
ICT	SWAP	CDC, CBC, WODC by Audit Cotswolds FoDDc by SWAP
Business Rates Pooling	SWAP	CDC, CBC by Audit Cotswolds FoDDC by SWAP
Private Water Supplies	SWAP	CDC, WODC by Audit Cotswolds FoDDC by SWAP
Review of the Outcome of the Gloucestershire Joint Waste Committee	SWAP	CDC, CBC by Audit Cotswolds FoDDC by SWAP
GOSS HR – Starters and Leavers	Audit Cotswolds	CDC, CBC, WODC by Audit Cotswolds FoDDc by SWAP
Garden Waste	Audit Cotswolds	CDC, CBC, WODC by Audit Cotswolds FoDDc by SWAP
Food Safety	Audit Cotswolds	CDC, CBC, WODC by Audit Cotswolds FoDDc by SWAP
Building Control	Audit Cotswolds	CDC, WODC by Audit Cotswolds FoDDc by SWAP

### 3.2 Other Internal Audit Involvement

We undertook an independent review for the recent Enforcement Tender following a request from the Procurement Business Partner

**3.2.1** In support of internal audit standards compliance, and to aid with the complexities of managing an internal audit service over seven clients, we have procured an Audit Management Software system. During May, June and July we designed and built the system in accordance with our working practices and specifications with a view to improving our current processes and make the service more cost efficient for our clients. The Audit Team has received training on the system and since writing this report we are due to go live in September 2016. Attached at **Appendix 4** are the new audit assurance levels and priority ratings that will be applied to all audits with effect from 2016/2017.

**3.3** During June, Audit Cotswolds and the South West Audit Partnership were invited to submit proposals for providing the Internal Audit service to the 2020 Partnership, and to each of the four partners Councils, which includes the provision of the service to Cheltenham BC, with effect from 1st April 2017. The Audit Cotswolds' proposal was drafted by two members of the team, in accordance with the set criteria, and was submitted on 1st July 2016. A presentation was made to the evaluation panel who are assessing the proposal. As this was a significant piece of unplanned work, we secured additional funding and we have used this to employ a temporary contract auditor so we can continue to meet our obligations to our clients.

<b>Report author</b>	<b>Lucy Cater, Head of Internal Audit (Operational)</b> <b>Lucy.cater@cotswold.gov.uk</b> <b>01285 623340</b>
<b>Appendices</b>	<ol style="list-style-type: none"> <li>1. Audit Plan Progress</li> <li>2. Executive Summaries</li> <li>3. Old Assurance Levels</li> <li>4. New Assurance Levels and Priority Ratings</li> </ol>



**Cheltenham Borough Council (CBC) Internal Audit Monitoring**

<b>Audit Theme / Service Area</b>	<b>Specific Topic or Activity</b>	<b>Status</b>	<b>Assurance</b>
<b>Audits outstanding as in the 2015/2016 Internal Audit Opinion</b>			
NNDR	Year 2 module of 3 year programme	Final Memo	Satisfactory
Housing Benefits	Year 2 module of 3 year programme	Final Memo	Satisfactory
Council Tax	Year 2 module of 3 year programme	Final Memo	Satisfactory
GOSS – Finance Systems	Payroll	Final Report	Satisfactory
GOSS – Procurement, Insurance, Health & Safety	Health and Safety audit undertaken as part of Security Audit	Final Report	Limited
Accommodation and property management	Review of strategy and property management	Work to be completed in 2016/17	
Security	Review of buildings and personal security	Draft Report	
Safeguarding Adults and Children	Support the Safeguarding peer review and audit	Draft Report	
Contract Management	Review of key contracts including tender processes, plus review of contractor use	Final	Limited
Performance Management	Completion of 2014/2015 audit. Review concentrated on Staff Performance	Final	Satisfactory
Art Gallery and Museum	Follow-up of the recommendations made in the Art Gallery report	Follow up in progress	
Car Parking	Follow-up of the report submitted to Audit Committee in September 2015	Follow up in progress	
<b>2016/2017 Internal Audit Plan</b>			
<b>Section 1 - Core Governance and Core Finance Audits</b>			
Annual Governance Statement	Support for and review of the production of the Annual Governance Statement and sample elements of the supporting information	Complete	
Audit Committee Effectiveness (Annual)	Annual review of the Audit Committee against appropriate guidance and standards		
Internal Audit Self-Assessment (Annual)	Annual self-assessment of Internal Audit's performance against the Public Sector Internal Audit Standards (PSIAS)		
Risk Management	Selection of risks from registers and mitigating controls and actions to test their effectiveness	In progress	
ICT Audit to be conducted by SWAP	Scope of 2016/17 to be confirmed		

Audit Theme / Service Area	Specific Topic or Activity	Status	Assurance
Council Tax Benefit	A review of an element of the Council Tax Benefit process, the programme of activity ensures full coverage of the service over a 3 year cycle		
Council Tax	A review of an element of the Council Tax process, the programme of activity ensures full coverage of the service over a 3 year cycle		
NNDR (Business Rates)	A review of an element of the NNDR process, the programme of activity ensures full coverage of the service over a 3 year cycle		
<b>GO Shared Service (GOSS) Audits</b>	<b>Days allocated to the following Audits are CBC's element of the GOSS Audit Plan</b>		
Main Accounting, Budgetary Control and Capital Accounting	A review of an element of the operating systems, the planned programme of activity ensures full coverage over a 3 year cycle. Assurances are sought for the GOSS controls operating in respect of its Clients and transactional testing is performed for each of the Clients		
Treasury Management and Bank Reconciliations			
Payroll			
Accounts Receivable (Debtors)			
Accounts Payable (Creditors)	Transactional Testing for each client, assurance over GOSS controls to be informed by SWAP auditors (the Forest of Dean DC's Internal Audit Team)		
Systems Administration of Agresso Business World (ABW)	A review of the operating system and the controls in place		
Human Resources Review to include FoDDC	A review of a Human Resources area. Scope for 2016/17 audit to be determined with GOSS Officers Scope of the audit is the Starters and Leavers process and will include HR and ICT Processes	In Progress	
Other GOSS Area	A review of Procurement / Health and Safety / Insurance. 2016/17 audit to be determined with GOSS Officers		
<b>Section 2 - Risk Based Audits</b>			
Employee Turnover	Review of the controls in place to mitigate against loss of staff. How are management addressing the risk, identification of the reasons for staff turnover, are mitigating actions effective		
Risk and Control Implications of Meeting the Funding Gap	Achievement of proposed financials in MTFS looking at the assessment of risks and achieving these projections (income / savings)		
Garden Waste Review to include FoDDC	Review of the processes and systems used for the charging of green waste. Looking at efficiencies, standardising processes etc.	In Progress	
Business Rates Pooling Audit to be conducted by SWAP	Audit of pooled assets (what / how / how are they reported), calculation of appeals. Suggestion from CBC Audit Committee		
NNDR (Business Rate) Reliefs	Review of NNDR Reliefs ensuring that the correct relief has been added to accounts in accordance with legislation	In Progress	
Fleet Management	Review of the management of fleet by Ubico on behalf CBC (and CDC) to include the replacement of vehicles, purchase and recharging	In Progress	
Planning Application Process	Review of the planning application process to ensure compliance with statutory legislation in respect of the processing cycle	In Progress	

Audit Theme / Service Area	Specific Topic or Activity	Status	Assurance
Food Safety Review to include FoDDC	Review of the policies and procedures in place in respect of Food Safety to ensure compliance with the introduction of the new act which comes into effect from 1st April 2016		
<b>Section 3 - Advice and Consultancy</b>			
New Housing and Planning Act	Review of the introduction of the New Housing and Planning Act - ensuring the Council is ready / prepared for the new act	Background research commenced	
Community Infrastructure Levy (CIL)	Support for the CIL process ensuring that the Council is prepared for the introduction of CIL	Background research commenced	
Charging Mechanisms	Review of the charging mechanisms to include statutory and discretionary charges and the potential generating, or increasing income, from some service areas		
Review of the outcomes of the Gloucestershire Joint Waste Committee Audit to be conducted by SWAP	A review to ascertain if the Gloucestershire Joint Waste Committee is delivering the outcomes envisaged when it was established		
2020 Vision Programme	Support for the 2020 Vision Programme and Projects		
Change Programmes	Support for other change programmes / projects		
<b>Section 4 - Other</b>			
Management	Preparation of IA Monitoring Reports and preparation and attendance at Audit Committee. Annual Audit Planning. Attendance at Governance and Risk Groups. High level programme monitoring. Liaison meetings with CFOs and Management Teams.		
Payment Channels and Income Streams Follow-Up	Follow-Up testing of a 'Limited Assurance' Audit	In Progress	
Contract Management	Follow-Up testing of the 2015/16 'Limited Assurance' Audit		
GOSS – Health and Safety	Follow-Up testing of the 2015/16 'Limited Assurance' Audit		
Enforcement Tender Review	Ad-hoc piece of work. Review of enforcement tenders (CDC, CBC, WODC, TBC, FoDDC) due to one point difference in scoring. Days to be taken from Contingency	Complete	
Follow Up Audits	Follow Up of Previous Year Audits		
National Fraud Initiative	On-going Support for the Scheme		
Contingency	New Work and Investigations		
Audit Management Software	Design and Build the new Internal Audit Management Software to our specifications	Complete	
Audit Cotswolds 2020 Proposal	Drafting the proposal for providing the Internal Audit service to 2020 and the four partner Councils	Complete	

Executive Summary for Performance Management (Staff Performance)	
Assurance	Satisfactory
<p><b>Background</b></p> <p>This review on Performance Management was conducted as part of the core audit programme planned for 2014/15 as approved by the relevant Audit Committees at Cheltenham BC, Cotswold DC and West Oxfordshire DC. The finalisation of this audit has been significantly delayed due to resource issues in the service area and the long term absence of the Head of Audit Cotswolds.</p> <p><b>Overview and Key Findings</b></p> <p>Previous Performance Management reviews have focussed on arrangements at service and corporate levels reviewing how the council monitors and measures performance against set indicators and outcomes. As the overall performance of the council starts at staff level, we have reviewed systems and processes designed to aid and improve staff performance in order to support and ensure delivery of corporate aims and objectives.</p> <p>The Learning &amp; Organisational Development (L&amp;OD) service, one of the services provided by the GO Shared Services, provides support for learning and development across the partner authorities. Corporate learning &amp; development training is provided through an online self-service tool, the Learning Gateway (LG), as well as sessions delivered by the L&amp;OD service. Service managers are responsible for delivering on the job training activities, completion of professional qualifications and ensuring compliance with Continuing Professional Development (CPD) requirements.</p> <p>Staff development and training needs are identified and documented in the annual appraisal process which then feeds into the LG so that appropriate corporate training can be provided. Our testing identified that the appraisal process is being undertaken, however, the LG is not used effectively due to a lack of engagement with the system. Service managers commented that there were too many courses which were not relevant for service needs. In addition, requested courses that involved external providers were not being provided as budget restrictions prevent some external delivery. We were further advised that due to resource constraints, regular monitoring of the LG had not been undertaken and therefore some training requests had not been actioned; a new member of staff has since been appointed to manage the LG.</p> <p>Where training courses are provided through external providers, recharging arrangements are in place. However, our testing identified that processes are not as robust as expected. If recharges are not appropriately managed, there is a risk that one authority could be subsidising the training costs of another authority. Under the new 2020 shared working arrangements, a robust mechanism for recharging will be considered.</p> <p>At the time of audit, L&amp;D management information was provided to the Client Officer Group (COG), Joint Liaison Forum (JLF) and Corporate Teams but there was no evidence to support that the measurement of individual performance improvement was being effectively monitored or reported. It is recommended that going forward into 2020 a clearer reporting process is required and to be developed as part of the reporting process to the new Joint Committee.</p> <p>Continuing Professional Development (CPD) refers to the process of tracking and documenting the skills, knowledge and experience required to demonstrate competency in a given profession and is a line manager's responsibility and does not fall under the remit of L&amp;OD. Our review identified that there is no corporate record to identify those service areas that require CPD compliance. It is recommended that consideration is given to the compilation of a central database for roles within the organisation where CPD is integral to service delivery and that managers are reminded of their responsibility in respect of their staffs' CPD.</p> <p>To improve the control environment we have made recommendations relating to the use and promotion of the LG, review of recharging arrangements, the monitoring and reporting of performance</p>	

improvement and the monitoring of CPD compliance.

### **Conclusion**

At the point of the original testing we concluded that a limited assurance was appropriate for the controls and processes that were in place.

Due to the delay in the completion of this audit, we have revisited the audit area and can confirm that due to the work that has been undertaken since the audit and the work to be undertaken going forward into 2020; we can increase the assurance opinion to satisfactory.

### **Management Response**

The Learning and Organisational Development provision will form part of the development of the 2020 strategy and will also consider how learning and organisational development is provided to the new organisation. Consideration will also be made as to how managers will support their teams' development to ensure they have the appropriate knowledge and skills to undertake their duties.

**Executive Summary for Security 2015/2016 : Personal Security****Assurance****Limited****Introduction**

A review of Council security was undertaken as part of the 2015/2016 risk based internal audit plan, approved by Audit Committee in March 2015. During the review we identified a number of matters relating to policies and personal security which is the responsibility of the Councils Health & Safety Division (part of GO Shared Services). This additional report remains under the original scope of the Security audit.

**Overview and Key Findings****Corporate Policies**

In May 2015 GO Shared Services Health & Safety (GOSS H&S) issued generic policies across all GOSS clients covering: Fire Safety, Violence at Work, Lone Working, and Control of Contractors. Our review found that not all current policies had been published. Consideration should be given to ensuring up to date policy information is available to all staff.

**Fire and First Aid provisions**

The emergency evacuation plan was last updated in January 2015; we noted that since then a number of personnel changes have occurred which should be updated. We also noted that the evacuation drill was overdue.

The First Aid Policy available to officers on the intranet was last updated in 2010. We understand that First Aid provision is currently being reviewed across the GO partner Councils and updates will be available in due course.

**Service Area personal security procedures**

In accordance with corporate policies, services in which officers undertake lone working or are at risk of exposure to aggression or abuse require: documented procedures, produce suitable information, instruction, training and supervision to ensure the personal safety of their officers. Testing highlighted this was not occurring in a number of service areas. GOSS H&S should gain assurance that all service areas are following the guidelines described within the associated policies and report accordingly.

**Management Response**

This Audit report is well received and acts as a catalyst to areas of work already identified by GOSS Health and Safety Manager as needing review.

In particular Corporate Health and Safety Policies, their update and communication to Service Managers is a high priority area.

In terms of compliance with the Regulatory Reform Fire Safety Order (2005) the HS team had recognised need for greater ownership at corporate level – placing less dependence on the Property Services Department.

Likewise, managing Aggression and Lone Working are currently being reviewed to improve Procedures.

Implementation of this audit and its recommendations is well underway.

This report is well received and will help Cheltenham Borough Council to reduce risks to employees, contractors and members of public.

GOSS Health and Safety Audits will also confirm implementation of these recommendations in a wider context of compliance.

Mark Lane, GOSS HS Manager

## Executive Summary for Performance Management (Programmes and Projects)

**Assurance**

**High**

### Overview and Key Findings

This audit review was to verify whether the performance of projects is being adequately monitored and controlled, by means of project/programme management processes, and to test processes by examining a sample of current projects.

One definition of a project is “a unique set of co-ordinated activities, with definite starting and finishing points, undertaken by an individual or team to meet specific objectives within defined time, cost, quality, and performance parameters” (Office of Government Commerce). The process of project management is to ensure that specified objectives are attained within the parameters set

We found that the Business Development Manager has produced a set of project management document templates to be used in CBC projects, as well as a set of guidelines for staff using this methodology. These are to be followed in all but exceptional circumstances.

In order to verify whether project management processes were operating adequately in CBC we examined two discrete projects: the Cheltenham Crematorium Development project, and the Accommodation Strategy Programme.

We obtained sufficient documentary evidence and explanations for both of the above to provide assurance that project management is operating satisfactorily with regard to these.

We sought to verify that the recommendations arising from our report on the Art Gallery and Museum overspend had been implemented in the two projects we examined. We were able to confirm that the recommendations had been implemented both in the Accommodation Strategy Programme and in the Crematorium Development project.

On the basis:

- Of the work we have carried out, and
- that all CBC projects use the standard project management methodology (except in exceptional circumstances when a derivative or alternative process of at least equivalent formality and standard should be used)

We made no recommendations as a result of this audit.



## **Memo**

To: Paul Aldridge, Benefits Manager

From: Jamie Woodward, Internal Auditor

CC: Lucy Cater, Head of Internal Audit (Operational)

Date: 20<sup>th</sup> July 2016

Subject: 2015/16 CBC Housing Benefit Audit

### **1. Introduction**

This review on Housing Benefit is in accordance with the 2015/16 Audit Plan agreed with CBC Audit Committee.

This memo is an interim report on our testing of the key controls and walk through of the overpayment recovery processes. We undertake the whole system review on a modular basis covered over a 3 year period. The assurance offered therefore takes into account the findings from our 2 previous years, as well as work undertaken in this review.

### **2. Audit Findings**

#### *Recovery of Overpayments*

We reviewed the Housing Benefit overpayment process to ensure that processes were in accordance with procedures.

Recovery actions for HB overpayments are undertaken within the Civica system.

When an overpayment is identified, the Overpayment Officer will complete various system and record checks to confirm the debt is correct. When they have confirmed the debt they raise an invoice and, where required, enter into appropriate recovery discussions with those claimants in receipt of benefits.

Walkthrough testing demonstrated that appropriate processes were operating; where recovery actions had been unsuccessful the write off procedure applied was in accordance with policy.

#### *Reconciliation Processes*

We can confirm that reconciliation of Housing Benefit to the general ledger (Agresso) is being completed each time a payment file is created by the Finance/Overpayment officer. Reconciliations of Subsidy, BACS, Council tax support and Sundry debt within the debtors system were confirmed.

#### *Implementation of 2014/15 recommendations*

We have also reviewed the implementation of the recommendations made in our 2014/15 review and can confirm that these have been progressed. We are aware that business continuity arrangements for the service are being addressed; this was as a result of another audit.



### **3. Recommendations**

We can confirm that for the high level audit of key controls we have performed, the controls in place were effective.

### **4. Conclusion**

Based on the work undertaken and consideration of our previous 2 year's audit assessments, we can confirm that a '**Satisfactory**' assurance opinion can be offered over the control environment operating at CBC for the Housing Benefit system.

### **5. Management Response**

With regard to the outstanding issue of business continuity testing, I can confirm that the new shared 2020 ICT service business continuity plan has been saved in the Corporate BCP shared drive and covers the continuity arrangements across the four partner councils, Cheltenham Borough Homes, Cheltenham Trust and Ubico.

A full DR exercise has recently taken place on the Go "Agresso" systems and all applications were successfully restored within 5 hours. Similar testing across other applications including Revenues & benefits is due to take place over the next eighteen months and I will update you on progress when you start the 2016/17 audit.

Universal credit has been live in Cheltenham since June 2015 for single unemployed people of working age, with all other groups due to go live in the summer of 2017. The migration of existing working age cases is due to take place in 2019 with pension age cases not being looked at until 2022. Over the next three years the benefit service will experience significant change as our working age caseload transfers to universal credit.

Paul Aldridge  
Benefit Manager



## **Memo**

To: Jayne Gilpin, Revenues Manager

From: Jamie Woodward, Internal Auditor

CC: Lucy Cater, Head of Internal Audit (Operational)

Date: July 2016

Subject: 2015/16 CBC Council Tax Audit  
2015/16 CBC NNDR Audit

### **1. Introduction**

This review on Council Tax and NNDR is in accordance with the 2015/16 Audit Plan agreed with CBC Audit Committee.

This memo is an interim report on our testing of the key controls for Council Tax and NNDR systems and processes. We undertake the whole system review on a modular basis covered over a 3 year period. The assurance offered therefore takes into account the findings from our 2 previous years, as well as work undertaken in this review.

### **2. Audit Findings**

#### *Recovery Processes*

We reviewed recovery processes to verify that they were in accordance with procedures. Testing identified that appropriate processes were operating; where recovery actions had been unsuccessful the write off procedure applied was in accordance with the policy.

#### *Reconciliation Processes*

Daily cash files for Council Tax and NNDR from the Civica cash receipting system are entered onto the cashbooks daily. A financial control report is produced from the Civica Council Tax system to confirm they are in balance. We found that suspense items were being investigated and actioned by the Revenues lead officer.

Reconciliation of the Civica cash books to the Council's main accounting system, Agresso (ABW) is undertaken every 2 weeks. Any miss-postings or errors are identified and corrections made in a timely basis. Testing confirmed that this process was operating effectively.

2015/16 year end reconciliations for Council Tax and NNDR had been performed by the Revenues Manager in-line with the Financial Rules.

Evidence was also provided demonstrating the application of NNDR Multipliers for 2015/16 and small business non-domestic rate relief. The Council Tax Base and Band calculations were included within the Council Tax financial control report.

*Implementation of 2014/15 recommendations*

We have also reviewed the implementation of the recommendations made in our 2014/15 review and can confirm that these have been progressed. We are aware that business continuity arrangements for the service are being addressed. This was as a result of our review of another audit on business continuity management.

**3. Recommendations**

We can confirm that for the high level audit of key controls we have performed, the controls in place were effective.

**4. Conclusion**

Based on the work undertaken and consideration of our previous 2 year's audit assessments, we can confirm that a '**Satisfactory**' assurance opinion can be offered over the control environment operating at CBC for the Council Tax and NNDR systems.

**5. Management Response**

I'm happy with this and don't have anything to add.

Jayne Gilpin  
Revenues Manager

**Executive Summary for Payroll 2015/2016****Assurance****Satisfactory****Overview and Key Findings**

The Payroll review was conducted as part of the core audit programme for 2015/16 as approved by the relevant Audit Committees and Boards in March 2015.

This review is carried out over a 3 year cycle, with 2015/16 being the second year of this cycle.

The focus of the review was on:

- Maintenance of records and calculation of entitlements
- Maintenance of employee records (starters / leavers / variations)
- Maintenance of employee records (HMRC / NI / P45 )
- Maintenance of employee records (car users)
- Mileage and Expense claim sample testing to include casual, overtime, shift and standby payments

The audit review covered:

- The management of processes undertaken by GOSS on behalf of client organisations
- That processes comply with Financial Rules and other Client based policies and standards
- Follow-up and test the recommendations agreed in the previous audit
- An assessment of the GOSS performance levels and KPIs

We have undertaken sample testing and review of payroll processes undertaken by GOSS HR/Payroll in the areas identified above. We can confirm that on the whole sound processes and procedures are operating which ensure that an effective service is provided to the clients.

Processes comply with Financial Rules and other client based policies, however, our testing has identified instances where payments have been made that do not comply with the respective authority's policies. We have recommended that GOSS should report instances of non-compliance so they can be appropriately actioned.

Our follow up work to assess the implementation of our previous recommendations has found that progress has not occurred as planned. We are aware that changes are planned to the GOSS intranet as part of the 2020 Vision Programme and that work has started on closer working across the two Payroll Business Centres to improve consistency in working practices. However due to the Milestone 4 Upgrade and the 2020 Agresso project further progress has not been made at this current time.

We can confirm that performance data is reported to the GO Client Officer Group.

We have made recommendations that if addressed should strengthen the overall control environment. Based on the work completed and taking into account our previous years' assessment, we can conclude that a 'satisfactory' assurance opinion can be given.

**Management Response**

The GOSS HR and Payroll Business Centre teams have again demonstrated a high standard of application of various processes in a very complicated multi-client environment.

The areas highlighted and the recommendation mainly fall outside the remit and authorisation of the GOSS Business Centres, however we are happy to support and guide where necessary. It should however be noted that it is the responsibility of the line manager signing off the various forms that they comply with the relevant applicable policy.

The management team will email clients to raise awareness of the importance of ensuring line managers are familiar with the policies that apply to the individuals claim. This is particularly important within the 2020 new shared services team and Ubico where multiple terms and conditions can apply within one team.

Well done teams.

## Executive Summary for Contract Management

### Assurance

### Limited

#### Overview and Key Findings

This review of contract arrangements and management for supplies and services procured by the Council was undertaken in accordance with the 2015/16 Audit Plan as approved by Audit Committee in March 2015. The focus of the audit was on:

- Reviewing actual spend over that last 2 years to establish the contracts that fall within the contract letting categories and to compare these with the formal Contracts Register.
- Sample testing suppliers to ensure compliance with Procurement, Contract and Financial Rules.

This review has not covered contract management activities where service level agreements are in place but, has instead sought to provide assurance over day to day contract expenditure.

The Procurement & Contract Management Strategy was approved by Cabinet in July 2015. This strategy along with the revised Contract Rules (which incorporate the February 2015 changes to legislation) and the Financial Rules provide a framework to ensure compliance with procurement processes. The GOSS Procurement Team has also developed a Procurement Toolkit providing detailed guidance which is easily accessible to all staff. At the time of the audit, further training was also being developed.

We can confirm that officers are aware of the basic requirements of the Contract Rules including waiver processes. However, there were instances where cumulative expenditure had exceeded the limits as prescribed within the Contract Rules and on occasion a lack of understanding of the application of the Rules. Also there was little awareness of the requirement to publish contracts on the Council's formal Contracts Register. Our analysis found that only 36 out of 202 suppliers/contracts paid, during the period April 2014 to July 2015, had been published as per the UK Public Contracts Regulations.

We also found the on-going monitoring of contracts could benefit from improvement.

In summary, we can confirm that contract management arrangements are not as robust as expected. Although, there is an awareness of the Contract Rules, full compliance is not being observed. We have made recommendations to improve the control environment. At this stage we are able to offer a 'limited' assurance opinion.

#### Management Response

The Procurement and Contract Management Strategy was developed for all GOSS/2020 partners to provide a framework to ensure compliance with not only the procurement processes; but in recognition that contract management across the partnership was weak.

Revised Contract Rules were developed by GOSS Procurement in conjunction with One Legal to incorporate the requirements of The Public Contracts Regulations 2015; CDM Regulations 2015; and the Local Government Transparency Agenda 2015.

CBC approved the Contract Rules in December 2015, and a Procurement Training Programme was developed to cover all of the above, advertised to service managers and on the Intranet with four dates two in December and two in January 2016. These sessions were attended by only a handful of officers. Training was also delivered to service teams, Built Environment and Project and Programme Management. In total across the partnership 29 x 1.5 hour sessions were delivered.

This training programme was delivered to all GOSS/2020 partners in October and November with the exception of Ubico Limited whose revised Contract Rules are due to be presented to their Board in June 2016 for approval.

The training at all other partners was very well attended compared to the sessions at CBC. GOSS Procurement has recommended previously that Contract Rules training should be mandatory for all officers who are responsible for procurement expenditure.

Further development of the common toolkit guidance and templates, and a common e-Procurement portal which will be utilised by officers as the corporate compliance tool for all requests for quotations, tenders and proportionate contract management will provide improved compliance.

Further Contract Rules training is to be scheduled for all 2020 partners in the autumn, and for CBC this has been provisionally scheduled for September 2016. Due to resource issues this will be delivered in conjunction with the various legal teams. This training will cover the toolkit and introduction to e-Procurement portal for those not having used to date.

GOSS Procurement are now providing the procurement service with three officers to all GOSS/2020 partners, but are to provide advertised quarterly workshops to all partners to assist with compliance and provide guidance of best practice and updates on legislation.

We have also been in discussion with Learning and Development to develop an e-learning offering which will reinforce the quarterly training.

However, as stated above we believe that training attendance covering the compliance and the full procurement cycle should be decreed as mandatory by Senior Leadership Teams, as there is still apathy towards the observation of the Contract Rules in accordance with legislation.

To help with this the adoption of the No PO, No Pay (No Purchase Order, No Payment) across all partners would tighten the control on procurement expenditure and at Accounts Payable. CBC has adopted this but it needs to progress further with supplier invoices (apart from those on exceptions list) not quoting a purchase order to be returned to the supplier.

Since February 2016, Agresso Requisitions £10k and above in value for all GOSS/2020 partners have been routed to GOSS Procurement for 'technical approval' prior to routing to cost centre/budget holder for approval.

The purpose of this 'technical approval' is two-fold to educate officers of the need to comply with Contract Rules and reject requisitions that have blatantly have not complied with any aspect including advertising and no legal contract signed. To date across the partnership there have been 41 rejections mainly for no legal contract. In addition there have been a further 32 'compliant' requisitions across the partnership where the requisitions have been raised prior to the contract being signed and legal teams are in receipt. This monitoring process will be used to identify follow up training to managers and staff in accordance with recommendation 3 and 5 below.

For compliance with Local Government Transparency Agenda, GOSS Procurement has written Agresso Reports to cover all expenditure of £5k value and above to identify any 'missings' from the expenditure reported to us for publication on the Contracts Register. This also identifies areas of non-compliance and need for training. The combined actions that GOSS Procurement have, and are taking as recorded in the Action Plan below will provide the infrastructure and processes to ensure compliance. However, this has to be with the SLT's and Group Managers impressing on their staff the importance attendance at training, compliance, and cooperation of Service Managers and their staff

Assurance Levels

Assurance levels for all audits follow a standard methodology to ensure reliability and validity of Internal Audit opinion. The table below set out the rationale for the opinion and suggested management action timescales.

Assurance Level	IA Opinion - Controls		IA Opinion - Compliance
High	The system of control is sound and designed to achieve system objectives	&	Controls are complete, consistently applied and compliance is good
Satisfactory	The system of expected control although sound, there are opportunities for improvement to further reduce system objective risks	&/or	Compliance is generally good but there is evidence of non-compliance with some controls
Limited	The system of controls falls below expectation as weaknesses are increasing system objective risks	&/or	There is sufficient evidence of non-compliance which puts the system objectives at risk
Poor / No	The system of control is weak thus significantly increasing system objective risk	&/or	There is significant non-compliance with controls leaving the system vulnerable to abuse or fraud which significantly increases the system objective risks

**Assurance levels 2016/2017**

Assurance levels for all audits follow a standard methodology to ensure reliability and validity of Internal Audit opinion. The table below sets out the rationale for the opinion and suggested management action timescales.

Assurance Level	IA Opinion - Controls
<b>High</b>	Compliance with policies and procedures is good and adhered to, in the areas reviewed. Internal controls, in place, operate effectively. Risks against the achievement of the client's objectives are well managed.
<b>Good</b>	There is a sound system of compliance and internal control, designed to achieve the client's objectives, in the areas reviewed. The control processes tested are being consistently applied. Although risks are well managed and there is no fundamental threat, internal controls still need to be monitored.
<b>Satisfactory</b>	Some evidence of non-compliance identified and / or weaknesses in the system of internal control, in the areas reviewed. The level of non-compliance could present a risk to the achievement of the client's objectives. Introduction or improvement of internal controls is required.
<b>Limited</b>	Sufficient evidence of non-compliance and / or weaknesses in the system of internal control, in the areas reviewed. Essential action needed by management to reduce the level of risk to the achievement of the client's objectives.
<b>No</b>	No assurance can be given over compliance and / or internal controls. Immediate action needed by management to address the risk issues, in the areas reviewed.
<b>Not Applicable</b>	Assurance level is not applicable due to the nature of the work undertaken.



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**Priority Ratings 2016/2017**

Priority Ratings are attached to each recommendation made in an audit review. The table below sets out the rationale for the priority ratings and the suggested timescale for the implementation or action for the agreed recommendation

<b>Priority Rating</b>	<b>Description</b>
<b>Critical</b>	<p>A significant and serious control weakness in the system of internal control.</p> <p>This will also include, for example: No evidence of policies and procedures, non-compliance with legislation or authority policies or non-compliance with authority financial and procurement rules.</p> <p>Immediate action is essential.</p>
<b>High</b>	<p>A weakness which could undermine the system of internal control and compromise its operation.</p> <p>Action is required as soon as possible.</p>
<b>Medium</b>	<p>An improvement to the system of internal control in order to comply with best practice, or which offers efficiency savings.</p> <p>Action date to be agreed.</p>
<b>Low</b>	<p>Recommendations requiring action by management to improve control, although the achievement of objectives is not fundamentally threatened.</p>
<b>Observation</b>	<p>Observations presented for management consideration only, as they represent a suggested improvement in management of the risks.</p>



## Cheltenham Borough Council Audit Committee – 21 September 2016 Whistle-Blowing Policy

<b>Accountable Member</b>	Cabinet Member Corporate Services, Councillor Roger Whyborn
<b>Accountable Officer</b>	Paul Jones Chief Finance Officer <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>
<b>Report Author</b>	Emma Cathcart Counter Fraud Team Leader 01285 623356 <a href="mailto:Emma.Cathcart@cotswold.gov.uk">Emma.Cathcart@cotswold.gov.uk</a>
<b>Ward(s) affected</b>	N/A
<b>Key/Significant Decision</b>	No
<b>Executive summary</b>	<p>The Counter Fraud Unit was asked to review this policy on behalf of the Cheltenham Borough Council.</p> <p>The draft Policy has been developed in consultation with partner authorities; Cheltenham Borough Council, Cotswold District Council, West Oxfordshire District Council and Forest of Dean District Council. In addition the Counter Fraud Unit has consulted Tewkesbury Borough Council as part of the counter fraud service provision.</p> <p>The policy has been updated to reflect legislative requirements and employer responsibilities to ensure that the Council protects staff who report or whistle-blow about any areas of concern within the Authority and to safeguard those against whom allegations are made.</p>
<b>Recommendations</b>	<b>That the Whistle-Blowing Policy be reviewed and approved.</b>
<b>Financial implications</b>	<p>There are no direct financial implications as a result of this report. However, the adoption of this Whistle-Blowing Policy will help support the prevention and detection of fraud and reduce potential financial loss to the council.</p> <p><b>Contact officer: Paul Jones, S151 Officer</b> <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a></p>

<b>Legal implications</b>	<p>Whistleblowing is subject to The Public Interest Disclosure Act 1998 which came into force on 2nd July 1999 and has been amended by the Enterprise and Regulatory Reform Act 2013. The Whistleblowing Policy is set out to ensure it complies and follows the Legislation. It enables those protected e.g. if you are a worker, employee, office worker, a trainee, an agency worker, to make a protected disclosure.</p> <p>Any breach of the Policy or revealing the identify of someone that has made a anonymous disclosure could result in litigation action against the Council and a significant fine.</p> <p><b>Contact officer: Peter Lewis, One Legal</b>  <a href="mailto:peter.lewis@tewkesbury.gov.uk">peter.lewis@tewkesbury.gov.uk</a></p>
<b>HR implications (including learning and organisational development)</b>	<p>There are no direct HR implications arising from the content of the report. The revised policy, when adopted, will need to be cascaded via line manager briefings to all existing employees. A copy of the policy will be included in the new employee starter paperwork and a copy placed on the Council's intranet pages.</p> <p><b>Contact officer: Julie McCarthy, HR Manager (West)</b>  <a href="mailto:Julie.mcCarthy@cheltenham.gov.uk">Julie.mcCarthy@cheltenham.gov.uk</a></p>
<b>Key risks</b>	<p>If the Council does not have effective Whistle-Blowing Policy it puts staff members and its reputation at risk. The Authority must fulfil its legal obligations in relation to whistle-blowing arrangements.</p>
<b>Corporate and community plan Implications</b>	<p>In administering its responsibilities this Council has a duty to protect staff members who choose to alert the Authority to wrong doing and to protect employees against whom vexatious allegations are made.</p> <p>The Council has a responsibility to prevent wrong doing within the Authority by promoting high ethical standards and encouraging the exposure of any abuse, thus supporting corporate and community plans.</p>
<b>Environmental and climate change implications</b>	N/A
<b>Property/Asset Implications</b>	<p>There are no property implications associated with this report.</p> <p><b>Contact officer: David Roberts, Head of Property Services</b>  <a href="mailto:david.roberts@cheltenham.gov.uk">david.roberts@cheltenham.gov.uk</a></p>

## 1. Background

- 1.1 The Counter Fraud Unit are undertaking a review of a number of Policies and Procedures to enable data matching and criminal investigations to be legally undertaken and in support of each service area.
- 1.2 All referrals received by the Counter Fraud Unit must be dealt with in the correct manner adhering to regulations, legislation and guidance. This includes internal alerts of wrongdoing which must adhere to whistle-blowing legislation.
- 1.3 As such the Counter Fraud Unit was asked to review the four separate Policies within the GOSS partnership and redraft a best practice policy for all, to facilitate continuity.

## 2. Reasons for recommendations

- 2.1 The Whistle-Blowing Policy is a governance policy and has been redrafted by the Counter Fraud Unit because referrals relating to wrong-doing form a significant role within the counter fraud service.
- 2.2 As the governance committee for counter fraud activity, the Audit Committee is asked to review and approve the policy. This is a complete redraft and Audit Committee may recommend the policy go to Cabinet for approval due to the significant revisions.
- 2.3 It should also be recognised that the service is a partnership, so co-ordinating policy across multiple organisations is critical to the success of the partnership.
- 2.4 This policy highlights the key legislation and the roles and responsibilities of Members, Officers and other parties.

### 3. Consultation

- 3.1 This policy has been reviewed by the Head of Paid Services and Human Resources. Due to the nature of the policy it will also be submitted to the Joint Liaison Forum for consultation with the two recognised trade unions. This Committee is asked to consider and approve the policy. This is a complete redraft and Audit Committee may recommend the policy go to Cabinet for approval due to the significant revisions.
- 3.2 The policy has been initially compiled from a review of all policies across the region and current legislation.
- 3.3 The Counter Fraud Team Leader was asked by Audit Committee on 15 June 2016 to ensure that the Whistle-Blowing Policy draft reflected appropriate ethical considerations and human rights.
- 3.4 Following the initial drafting of the policy, the document was then circulated to the Head of Paid Service, the Head of Human Resources for GOSS and the Head of Legal Services for GOSS.

<b>Appendices</b>	<ul style="list-style-type: none"><li>1. Rick assessment</li><li>2. Whistle-Blowing Policy</li></ul>
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**Risk Assessment  
Appendix 1**

**To be confirmed**

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	Without appropriate policy in place the Council are unable to take effective and efficient measures to ensure staff are protected when making allegations of wrongdoing and that staff are protected from vexatious allegations							Introduce a suitable policy that enables effective and efficient adherence to legislation and provides clear reporting routes to staff.			
<b>Explanatory notes</b> <b>Impact</b> – 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) <b>Likelihood</b> – 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) <b>Control</b> - Either: Reduce / Accept / Transfer to 3rd party / Close											



## Whistle –Blowing Policy

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## 1. INTRODUCTION AND PURPOSE OF THE POLICY

- 1.1. Employees are often the first to realise that there may be something of concern occurring within the Council. Usually any issues can be resolved swiftly and satisfactorily. However, when these concerns relate to more serious matters, staff may be discouraged from expressing their concerns or 'whistle-blowing'.
- 1.2. Whistle-blowing is the term used when an employee passes on information concerning wrongdoing. This can also be called 'making a disclosure' or 'blowing the whistle'. Typically (although, not always) the wrongdoing will be something that the employee has witnessed at work.
- 1.3. Employees may feel disloyal and may fear victimisation or harassment. In such circumstances, it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice. However, any person raising a concern is protected in law.
- 1.4. Whistle-blowing law is embedded in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). This legislates that an employee has the right to take a case to an employment tribunal if they have been victimised at work or lost their job as a consequence of 'blowing the whistle'.
- 1.5. To be covered by this law, an employee who makes a disclosure must reasonably believe two things:
  - That they are acting in the public interest - therefore personal grievances and complaints are not ordinarily covered by whistle-blowing law.
  - That the disclosure of information indicates past, present or future wrongdoing within the following categories:
    - (a) criminal offences which may include financial impropriety such as fraud.
    - (b) failure to comply with legal obligations.
    - (c) miscarriages of justice.
    - (d) endangering another person's health and safety.
    - (e) damage to the environment.
    - (f) covering up any wrongdoing in any of the above.
- 1.6. Employees are not prevented from making disclosures in the public interest by 'gagging clauses' in settlement or compromise agreements.
- 1.7. The Council is now part of various shared service arrangements and it is important that there is clear guidance for anyone wishing to raise an issue. This policy applies to all employees of the Council, and to individuals working within the organisation who are not employees (e.g. contractors, agency staff, volunteers, Members, staff of associated employers etc.)



- 1.8. The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we wish to encourage employees and others with serious concerns about any aspect of the Council's work to come forward and voice them without fear of reprisal.
- 1.9. This policy is intended to encourage and enable employees to make disclosures at an early stage, rather than waiting. Individuals are also encouraged to raise any issues internally with the Council first rather than raising it outside of the organisation. If issues are raised externally in the first instance you may weaken the protection given to you under the Public Interest Disclosure Act 1998.
- 1.10. This policy also seeks to ensure concerns are raised in the right way and seeks to protect those staff members, against whom complaints are made, from malicious allegations. The Council has a duty to investigate all reports of irregularity. This does not mean that the organisation supports the allegation.
- 1.11. This policy should be read if you are considering raising a concern to provide clarification in relation to the following:
  - The type of issues which can be raised.
  - How the person raising a concern will be protected from victimisation and harassment.
  - How to raise a concern.
  - What the Council will do as a consequence of the report.
- 1.12. This policy has been agreed with any relevant trade unions or non-union representatives.

## **2. AIMS AND SCOPE OF THE POLICY**

- 2.1. This policy aims to:
  - Encourage staff to raise serious concerns at the earliest opportunity and to question and act upon concerns about practice.
  - Encourage employees to be watchful for illegal or unethical conduct and report anything of that nature that they become aware of. Everyone should be aware of the importance of preventing and eliminating wrongdoing at work.
  - Ensure all reported allegations are treated in absolute confidence, with every effort made by the Council not to reveal a whistle-blower's identity if they so wish. However, it may be necessary for the whistle-blower to become an identified witness at an appropriate time, particularly if it has not been possible to substantiate the allegation by other means. The implications of this and the appropriate support/protection arrangements will be discussed with the whistle-blower. This is detailed at Part 3; Employee Safeguards and Assurances.
  - Ensure all reported allegations are treated fairly, ethically and consistently.
  - Provide a robust procedure and ensure any matter raised under this procedure will be investigated thoroughly, promptly and confidentially, and the

outcome of the investigation reported back to the employee who raised the issue, as appropriate.

- Provide reassurance for those acting in good faith that they will be protected from possible reprisals or victimisation. This means that the continued employment and opportunities for future promotion or training of the employee will not be prejudiced because he or she has raised a legitimate concern. Victimisation of an employee for raising a qualified disclosure is a disciplinary offence.
- If misconduct is discovered as a result of any investigation under this procedure, the Council's disciplinary procedure will be used, in addition to any other appropriate measures. This could include internal criminal investigation and appropriate further action.
- Allow whistle-blowing individuals to raise concerns and proceed further if they are dissatisfied with the Council's response. It should be recognised that certain cases will have to proceed on a confidential basis and that feedback will be limited due to legal constraints.

- 2.2. This policy is not a substitute for the Council's other policies and procedures on such matters as personal grievances, bullying and harassment, health and safety, safeguarding issues (children and/or adults) or complaints. It should also not be used to raise matters relating to an employee's own terms and conditions of service.
- 2.3. There are existing procedures in place to enable employees to lodge a personal grievance relating to their own employment. This process does not form part of this policy. For further guidance on whistle-blowing and grievances, employees can contact the Advisory, Conciliation and Arbitration Service (ACAS) at [www.acas.org.uk/grievances](http://www.acas.org.uk/grievances).
- 2.4. If a member of the public has a concern about any service they have been provided by the Council then this should be raised as a complaint. There are existing procedures in place which relate to this. However, if that concern relates to malpractice by a member of staff, then they should be directed to the Head of Human Resources at the earliest opportunity.
- 2.5. If a member of the public has concerns relating to malpractice by a Councillor, then they should be directed to the Monitoring Officer at the earliest opportunity.
- 2.6. Making malicious, vexatious or false allegations will not be tolerated and is a disciplinary offence. If a person makes an allegation in good faith and reasonably believes it to be true, but it is not confirmed by the investigation, the Council will recognise your concern. However, if a person makes an allegation frivolously, maliciously or for personal gain, appropriate action, which could include disciplinary proceedings, may be taken.
- 2.7. An instruction to cover up wrongdoing is itself a disciplinary offence. If told not to raise or pursue any concern, even by a person in authority such as a manager, employees should not agree to remain silent. They should report the matter to a chief officer.

2.8. This policy and procedure is primarily for issues where the interests of others or of the organisation itself are risk. That issue may be one of the following (although this list is not exhaustive). The following are examples of concerns that might be raised:

- Financial irregularities including fraud, corruption or unauthorised use of public funds or other assets.
- Conduct which is against the law, a miscarriage of justice or a failure to meet a legal obligation.
- Failure to observe health and safety regulations, or actions which involve risks to the public or other employees.
- Damage to the environment.
- A criminal offence being committed.
- Claiming benefits and/or expenses to which there is no entitlement.
- The conduct of contractors and/or suppliers to the council.
- Sexual, racial, disability or other discrimination.
- Neglect or abuse; physical or verbal.
- Any other unethical conduct, malpractice, negligent or unprofessional behaviour.
- Discriminatory acts not specifically covered by other procedures.
- Concealment of any of the above.

### **3. EMPLOYEE SAFEGUARDS AND ASSURANCES**

#### **3.1. Harassment or Victimisation**

3.2. The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for the malpractice.

3.3. The Council will not tolerate harassment or victimisation in any form of anyone raising a legitimate concern. Any employee who attempts at any stage to apply any retribution or detriment to a whistle-blower will face serious disciplinary charges.

3.4. The Council will support and protect whistle-blowers who raise an issue in line with this policy, in accordance with the safeguards contained in the Public Interest Disclosure Act 1998. This legislation protects everyone from victimisation and dismissal when speaking out against corruption or malpractice at work.

3.5. Protection does not mean that if an employee is already the subject of disciplinary action or redundancy procedures that those procedures would cease or be suspended as a result of their whistle-blowing.

3.6. It may be that the employee making the report is (or was) directly involved in the action now being raised. In such circumstances it is in the employee's own interest to come forward as soon as possible. The Council cannot promise not to act against such an employee but the fact that they came forward may be taken into account.

## 3.7. Confidentiality and Anonymity

- 3.8. All reports will be treated in the strictest of confidence and every effort will be made to protect, and not disclose, the identity of an informant if that is their wish. However, if disciplinary or other proceedings are an option as a result of the investigation it may not be possible to take any action without further assistance, in which case the informant may be asked to become an identified witness and provide a witness statement. It is possible that the identity of the informant will become obvious during the investigation. In addition there is a risk that some colleagues may speculate about the source of the original complaint.
- 3.9. The law does not compel an organisation to protect the confidentiality of a whistle-blower. However, it is considered best practice to do so unless required by law to disclose it.
- 3.10. The subject of the allegations cannot exercise their normal Subject Access Rights under the Data Protection Act 1998 in seeking disclosure of the source of the allegations thus protecting the informant's identity.
- 3.11. Under the Freedom of Information Act 2000 there are clear examples of mitigation against disclosure; in particular information given in confidence cannot be released under such requests.
- 3.12. At all times the informant will receive full support from the Council. There will be a limited number of people aware of the investigation at any one time but there will always be a representative from Human Resources involved in the process.
- 3.13. This policy encourages a whistle-blower to put their name to an allegation. If you do not reveal your identity then you will not receive a response or feedback. It may also make the task of investigating the allegation and protecting the whistle-blower more difficult.
- 3.14. Concerns can of course be raised anonymously but are much less powerful. They can be considered at the discretion of the Council. In exercising this discretion the factors taken into account would include:
- The seriousness of the allegation.
  - The credibility of the concern.
  - The likelihood of confirming the allegation from other sources.

## 4. PROCEDURE

- 4.1. **Raising a concern as an employee**
- 4.2. The initial point of contact will depend on the seriousness and sensitivity of the issues involved and who is suspected of wrongdoing. Issues should normally be raised with the Head of Human Resources. A decision can then be made in relation to how the matter will be dealt with and who should be informed.
- 4.3. Alternatively an employee can speak to their own manager, or someone they feel comfortable talking to. A third party may also attend any meetings for moral support. A whistle-blower may also wish to take advice from, or invite, a trade

union or professional association to raise a matter on their behalf. Meetings may be held away from the workplace if necessary.

#### 4.4. **Raising a concern as an elected Member**

- 4.5. If an elected Member has any concerns about the Council's work, they should raise the matter directly with the Head of Democratic Services, the Head of Paid Service or the Monitoring Officer. In the case of financial irregularity, disclosure may be made to the Chief Finance Officer.

#### 4.6. **Raising a concern as a third party contractor, agency staff etc.**

- 4.7. Concerns should be raised with the Head of Human Resources, the Head of Paid Service or the Monitoring Officer. In the case of financial irregularity, disclosure may be made to the Chief Finance Officer.

- 4.8. There are a number of prescribed bodies and organisations who may be contacted if there is a reason not to raise the matter internally. Please see the attachment appended to this policy – Department for Business Innovation and Skills 'Blowing the Whistle to a prescribed person' June 2015. This provides a comprehensive list with contact details therein. The Council would not ordinarily expect a whistle-blower to make disclosures to the media prior to raising the matter internally. If a person does approach the media with their concerns, the informant should expect in most cases to lose their whistle-blowing law rights.

#### 4.9. **Process**

- 4.10. Concerns may be raised by telephone, in person or in writing. The earlier the matter is raised, the easier it is to take action. A whistle-blower is asked to provide the nature of the concern and why they believe it to be true, background details giving names, dates and places where possible. An informant may be asked if they have any personal interest in the matter.

- 4.11. When raising an issue or making an allegation it is important that it is made clear that an informant is doing so as a whistle-blower to ensure they are dealt with correctly.

- 4.12. Although it is not expected that a person prove beyond doubt that the allegation is correct, it will need to be demonstrated that the allegation has been made in good faith and there are reasonable grounds for concern.

- 4.13. An informant should:

- Remain calm and not be flustered where possible.
- Make a note of the facts as soon as it is feasible to do so.
- Be specific with dates, times, locations, names etc.
- Deal with the matter promptly.
- Contact someone with the appropriate authority to deal with the matter.

- 4.14. An informant should not:

- Be reticent because they fear they are wrong.
  - Approach, alert or confront individuals directly themselves.
  - Investigate personally – there are important rules of evidence which must be adhered to.
  - Consult or discuss the matter with anyone other than those with the correct authority.
  - Do nothing or leave it to someone else to report.
- 4.15. If approached by someone wishing to whistle-blow, a person should take full details and contact The Head of Human Resources to discuss the matter. It is imperative that employees do not undertake any kind of investigation or intelligence gathering exercise which could compromise the evidence.
- 4.16. It may be necessary for The Head of Human Resources (or other appropriate Officer) to take a preliminary statement to gather more information to entirely understand the situation and nature of the allegation.

## **5. HOW THE COUNCIL WILL RESPOND**

- 5.1. The action taken by the Council will depend on the nature of the issue. The Council will respond to your concerns as quickly as possible; please note that testing the concerns is not the same as accepting or rejecting them.
- 5.2. The overriding principle for the Council will be the public interest. In order to be fair to all employees, including those who may be wrongly or mistakenly accused, initial independent enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. This decision will be made by The Head of Human Resources, The Head of Paid Service, The Monitoring Officer or the Chief Finance Officer. The matters raised may be:
- Investigated internally, either in accordance with internal policy and procedure or in line with criminal investigative regulations where appropriate. Whilst not all allegations will result in criminal action, this is an option open to the Council and it is thus critical that the investigation is conducted in the appropriate manner. Evidence gathered as part of that investigation could form part of the disciplinary process whether or not criminal proceedings commence.
  - Referred to the Police or other external enforcement agency such as the Health and Safety Executive, Environment Agency etc.
  - Referred to the External Auditor.
  - Form the subject of an independent enquiry.
- 5.3. Concerns or allegations which fall within the scope of existing procedures will normally be referred for consideration under those procedures. In some situations the matter may be resolved without the need for an investigation. Urgent and immediate action may be necessary where the security of relevant information is at risk or to protect the safety of individuals
- 5.4. If an investigation is appropriate, it may be necessary for this to be carried out under terms of strict confidentiality, i.e. by not informing the subject of the complaint until (or if) it becomes necessary to do so. However, in certain cases, such as allegations of ill treatment of others, suspension from work may have to be considered immediately. Protection of others is paramount in all cases.

- 5.5. Within ten working days of a concern being raised, the whistle-blower will receive the following in writing:
- Acknowledgement that the concern has been received.
  - Confirmation of how the Council proposes to deal with the matter.
  - If an investigation is to take place, who will be conducting the investigation.
  - If further investigation is not appropriate, the reasons why.
  - Process information and staff support mechanisms.
- 5.6. Contact between the whistle-blower and the Officers considering the issues and/or conducting an investigation will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If the matter is on-going then feedback may be limited; if the matter is dealt with promptly then the whistle-blower will be advised on the outcome.
- 5.7. You need to be assured that your disclosure has been properly addressed. Unless there are any legal reasons why this cannot be done, you will be kept informed of the progress and outcome of any investigation.
- 5.8. Coordination of any investigation will be undertaken by an appropriate Officer with the authority to do so. The investigator will have the authority to access all necessary data and other resources pertinent to a full, fair and properly conducted investigation.
- 5.9. The investigation process is independent and will seek to determine whether an irregularity has been committed, and if so, by whom.
- 5.10. Once an investigation has been completed there are a number of potential outcomes including the following:
- No case to answer; case closed.
  - Informal action.
  - Formal action; disciplinary action and/or prosecution by the Council. Suspension may also be appropriate.
  - External referral to the Police and/or other body.
- 5.11. The Council will do what it can to minimise any difficulties that you may experience as a result of raising a concern. For instance, if you are asked to give evidence in criminal or disciplinary proceedings, the Council will arrange for you to receive appropriate advice and support.
- 5.12. If a member of staff is dissatisfied with the conduct of an investigation, whether as the person under investigation, as the informant, or in any other involved capacity, a complaint may be raised with the Head of Paid Service. A review may then take place.
- 5.13. This Policy does not prevent any person from taking external legal advice.

## 6. RESPONSIBILITIES

- 6.1. Managers should ensure all staff, including agency staff, consultants and contractors etc. are aware of and follow Council Policies and Procedures. Managers should register any whistle-blowing cases brought to their attention

immediately with the Head of Human Resources and provide support to any employee making such a complaint.

- 6.2. Employees should be vigilant and raise any serious concerns about aspects of work or practices which affect the integrity of the Council or safety of employees and/or the public.
- 6.3. Chief Officers – Head of Human Resources, Head of Paid Service, Monitoring Officer, Head of Democratic Services and Chief Finance Officer will respond to whistle-blowing submissions positively and within the timescales set out. The Head of Paid Service has overall responsibility for ensuring that the Council adheres to this Policy.
- 6.4. Human Resources will record and deal with any whistle-blowing issues including the provision of any support and advice as required to include attendance at meetings as necessary.

## **7. FURTHER INFORMATION**

- 7.1. Further information on Council policy can be found in the following documents (or equivalent documentation / codes) :
  - The Constitution.
  - Code of Conduct for Employees and the Members Code of Conduct which include information in relation to gifts and hospitality and declaring and registering interests.
  - Counter Fraud and Anti-Corruption Policy.
  - Prosecution Policy.
  - Anti-Money Laundering and Proceeds of Crime Policy.
  - Recruitment and Selection Policy.
  - RIPA Procedure and Guidance.
  - Counter Fraud and Anti-Corruption Investigation Procedures and Guidelines.
  - Financial Rules.
  - Contract Rules or equivalent.
  - Fair Processing Statement.
  - Disciplinary and Grievance Procedures.

## **8. STRATEGY AND POLICY REVIEW**

- 8.1. The appropriate department will review and amend this strategy as necessary to ensure that it continues to remain compliant and meets legislative requirements and the vision of the Council.
- 8.2. Responsible Department: Counter Fraud Unit  
Date: July 2016  
Review frequency as required by legislative changes / every three years.



## Cheltenham Borough Council

### Audit Committee – 21 September 2016

#### Counter Fraud Unit Update and Counter Fraud Unit Business Case

<b>Accountable Member</b>	Cabinet Member Corporate Services, Councillor Roger Whyborn
<b>Accountable Officer</b>	Paul Jones Chief Finance Officer <a href="mailto:Paul.Jones@cheltenham.gov.uk">Paul.Jones@cheltenham.gov.uk</a>
<b>Report Author</b>	Emma Cathcart Counter Fraud Team Leader 01285 623356 <a href="mailto:Emma.Cathcart@cotswold.gov.uk">Emma.Cathcart@cotswold.gov.uk</a>
<b>Ward(s) affected</b>	All indirectly
<b>Key/Significant Decision</b>	No
<b>Executive summary</b>	<p>The purpose of the report is to present the Audit Committee with a summary of the activity undertaken by the Counter Fraud Unit in order to provide assurance over the counter fraud activities of the Council and the on-going counter fraud project.</p> <p>Following the successful DCLG bid to fund the set-up of a Gloucestershire wide Counter Fraud Unit, the team has been undertaking feasibility work (both strategic and operational) on behalf of a number of Gloucestershire Authorities, West Oxfordshire District Council and Cheltenham Borough Homes.</p> <p>This work has been undertaken as a pilot and the attached business case has been drafted to reflect the financial sustainability of creating a permanent Counter Fraud Unit which will serve the partner Councils across the region including Cheltenham Borough Council.</p> <p>The Committee is asked to review the business case to provide comments for consideration during the consultation period; the current date to 30 September 2016 before it is formally presented.</p>
<b>Recommendations</b>	<p><b>That Audit Committee:</b></p> <ol style="list-style-type: none"> <li><b>1. Notes the project summary and makes comment as necessary.</b></li> <li><b>2. Considers the business case and provides comments thereon to Cabinet to aid decision making.</b></li> </ol>

<b>Financial implications</b>	<p>The base budget held by the Council for counter fraud related work is £62,300. The proposals within the business case will generate a base budget saving of at least £14,000. It is recognised that the potential income and loss avoidance savings will be difficult to map back to actual counter fraud activity as the proceeds are realised through the collection fund surplus. It is however acknowledged that surpluses within the collection fund over the last 2 financial years have been significantly higher than anticipated.</p> <p><b>Contact Officer: Paul Jones, S151 Officer</b>  <b>Paul.Jones@cheltenham.gov.uk</b></p>
<b>Legal implications</b>	<p>The proposed arrangement will require appropriate delegation of functions, officer secondments and data sharing protocols as referenced in the report and business case. Further legal implications will, as necessary, be included in the report to Cabinet.</p> <p><b>Contact officer: Peter Lewis, One Legal</b>  <b>peter.lewis@tewkesbury.gov.uk</b></p>
<b>HR implications (including learning and organisational development)</b>	<p>If the business case is approved by Cabinet there will be a requirement for formal TUPE consultation to commence with two officers who are currently seconded to the project from Cheltenham BC. GO SS HR are working with the lead counter fraud officer and will ensure that all relevant HR legislation is followed.</p> <p><b>Contact officer: Julie McCarthy, HR Manager (West)</b>  <b>Julie.mcCarthy@cheltenham.gov.uk</b></p>
<b>Key risks</b>	<p>If the Council does not have effective counter fraud and corruption controls it risks both assets and reputation.</p>
<b>Corporate and community plan Implications</b>	<p>In administering its responsibilities; this Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor. The Council is committed to an effective counter fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities, thus supporting corporate and community plans.</p>
<b>Environmental and climate change implications</b>	N/A
<b>Property/Asset Implications</b>	<p>There are no property implications associated with this report.</p> <p><b>Contact officer: David Roberts, Head of Property Services</b>  <b>david.roberts@cheltenham.gov.uk</b></p>

## 1. Background

- 1.1. In February 2015 Audit Cotswolds was successful in the Bid for £403k funding from Department of Communities and Local Government (DCLG) on behalf of the Local Authorities in Gloucestershire and West Oxfordshire District Council. The funding is a one off payment to enable the introduction of a Gloucestershire wide Counter Fraud Unit that is able to use data matching to gather intelligence and skilled investigators to help counter all forms of fraud against the Councils and Social Housing Providers in the region.
- 1.2. Cotswold District Council and Cheltenham Borough Council retained investigator resources under the direction of the Head of Audit Cotswolds. This Counter Fraud Unit

has been building the operational, legal and data matching requirements to deliver the project along with actual operational investigation of fraud. This has also included building the partnership network in the region and understanding what resources each authority had to contribute to the hub.

- 1.3. The shared legal team at Cotswold District Council and West Oxfordshire District and One Legal, on behalf of Cheltenham Borough Council, have been engaged to cover the data sharing and usage requirement, along with the access, accountability and authority provisions required at each organisation involved.
- 1.4. The Counter Fraud Unit is in the process of creating a range of new policies and procedures to enable data matching and criminal investigations to be legally undertaken and in support of each service area. It is anticipated that the service will be a value adding unit that supports all enforcement sections including Revenues, Planning and Licencing, etc. In addition, the team may tackle fraud as it is discovered with new intelligence/data matching software and reacting to normal referrals of fraud and whistleblowing. It is also in the process of developing an agreement with the Police and other enforcement agencies to aid in the early prevention/detection of fraud.
- 1.5. A project update is attached to ensure the Committee is updated on progress accordingly.
- 1.6. The attached business case has been drafted to reflect the financial sustainability of creating a permanent Counter Fraud Unit which will serve the partner Councils across the region.

## 2. Consultation

- 2.1. The Gloucestershire Chief Finance Officer Group is the Governance Group for the project and receives quarterly updates on progress. West Oxfordshire District Council is also updated. The Officers received a copy of the draft business case on 9 June 2016 and have agreed to consult with individual Corporate Management Teams, Audit Committees and Cabinet Members. A decision is to be received by Cotswold District Council as the lead authority by 30 September 2016.
- 2.2. The Audit Committee is asked to consider the draft business case and to provide comments thereon to the Cabinet, to aid its deliberations in the future.

<b>Appendices</b>	<ol style="list-style-type: none"> <li>1. Risk Assessment</li> <li>2. Counter Fraud Unit Update</li> <li>3. Counter Fraud Unit Draft Business Case with additional Financial Cost Update</li> </ol>
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## Risk Assessment

## Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	Without dedicated specialist staff in place, the Council may be unable to take effective and efficient measures to counter fraud, potentially resulting in authority suffering material losses due to fraud and error	PJ	September 2016	3	4	12		Retain a specialist Counter Fraud Unit to tackle the misuse of public funds on behalf of the Council.	Ongoing	Chief Financial Officer	
<b>Explanatory notes</b> <b>Impact</b> – 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) <b>Likelihood</b> – 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) <b>Control</b> - Either: Reduce / Accept / Transfer to 3rd party / Close											

## **Project Update for August/September Audit Committees**

### **1. Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council**

The Counter Fraud CIPFA surveys have been completed and submitted on behalf of all Authorities. All members of the Counter Fraud Unit are now affiliate members of the Institute.

The team are currently in the process of completing a survey for TEICCAF (The European Institute for Combatting Corruption and Fraud) on behalf of the three Authorities.

Fraud awareness training is being offered to Members. A session is arranged for West Oxfordshire District Council on 7 September 2016; dates are to be confirmed with Cotswold and Cheltenham Democratic Services Teams.

The external case of attempted fraud against Cotswold District Council has been closed. Officers were unable to trace the alleged offender and to continue to do so would not be in the public interest due to the associated cost versus loss.

Two internal referrals were received in relation to West Oxfordshire District Council employees. One has been closed with a report to Senior Management, the CFU were unable to pursue the matter as the case had been compromised. One investigation relating to an ex-employee's breach of Data Protection is on-going.

One internal referral has been received for Cheltenham Borough Council which has been completed and a report issued to Human Resources. A related referral has subsequently been made to Tewkesbury Borough Council for further investigation. The CFU are undertaking an investigation for Cheltenham Borough Council with regard to alleged money laundering/debit card fraud.

Pilot work is to be commenced at Cotswold District Council with regard to the application of the Proceeds of Crime Act in relation to prosecutions taken by the Authority.

### **2. Cheltenham Borough Council – Operational Work**

The Counter Fraud Officers currently undertake the single point of contact role and act as the Department of Work and Pensions liaison following the transfer of Benefit Fraud investigation to the Single Fraud Investigation Service, Department for Work and Pensions. The team also investigate any allegations related to Council Tax Reduction Scheme offences on behalf of the Revenues and Benefits Department.

#### **From 1 June 2016 – 31 July 2016**

- 16 fraud referrals received
- 7 referred on to the single fraud investigation service for investigation
- 9 cases opened within the team

Investigation cases involving Council Tax Reduction Scheme dealt with by the team:-

- 8 cases open and under investigation
- Overpayments identified in period = £2232
- 1 prosecution pending – trial re-listed for 3<sup>rd</sup> April 2017

- 1 Administrative penalty administered and 1 pending
- 1 case open and working co-operatively with National Health Service Student Bursary Fraud Team
- 1 case looking at CTRS and DHP payments made by Cheltenham and Cotswold Councils.

Service of Court documents on behalf of Housing Benefit debt recovery:-

- Customer debt of over £850 paid following service of documents

### 3. Cheltenham Borough Homes – Operational Work

Tenancy Fraud work continues and Cheltenham Borough Homes.3

From 1 June 2016 to 31 July 2016:-

- 1 Right to buy investigation ongoing
- 6 investigations open and ongoing relating to subletting/abandonment
- 1 investigation ongoing in relation to application fraud
- 8 Right to buy applications verified
- 1 successful eviction
- 1 illegal succession prevented

Quarterly meeting planned for September to discuss proactive fraud drive during quarter three.

### 4. Tewkesbury Borough Council – Operational Work

The review of the Housing Applications list for Tewkesbury has been completed; full results are pending from the Housing Options team. To date the figures are as follows:-

- Emergency Banding: - 3 applications cancelled.
- Gold Banding: - 3 applications cancelled and 3 applications downgraded.
- Silver Banding: - 29 applications cancelled and 3 applications downgraded

Each cancelled application represents a property which can be reallocated to another eligible family. For each reallocation, a figure of £18,000 per annum can be identified as a loss avoidance figure because there is no need for temporary accommodation to be utilised. (£18,000 is the Audit Commission figure for the average annual cost to a Local Authority when housing a family in temporary accommodation). In the Tewkesbury Borough this rate would be considerably lower, below £10,000 per year. However, this still equates to loss avoidance figures in excess of £350,000. In addition the result of the band reprioritisation is that those families who are correctly banded have a greater chance of being housed and more speedily.

Tewkesbury issued review forms to households receiving a Single Occupier Discount, and the Unit assisted with the verification of some of the responses.

As at 14 July 2016 - 53 Council Tax accounts had been adjusted to remove the discount. This has resulted in underpayments (for the period up to 31 March 2016) of £4,776 and has increased billing by £17,387 for 2017/2018.

The Unit are now assisting in a review of a National Fraud Initiative data match of Single Occupier Discounts against Electoral Registration.

In addition, the Unit has been asked to conduct a drive in relation to Business Rates, to maximise revenue in this area, and to assist the Environmental and Housing Services team with the investigation and prosecution of fly-tipping offenders. Planning in respect of these work streams is underway.

### 5. Gloucestershire County Council – Operational Work

The Secondment Agreements (S113 Local Government Act 1972) have now been agreed and signed by the County Council. Planning with regard to a proactive fraud drive in relation to adult social care provision is underway.

#### Stroud District Council and Gloucester City Council

The shared service arrangements in relation to Internal Audit services have now commenced with Gloucestershire County Council.

An engagement meeting with Gloucester City Council has been conducted and two suggested feasibility work streams are under consideration.

An engagement meeting is to be held with Stroud District Council during August 2016.

### 6. Forest of Dean District Council

Engagement meetings have been conducted with the Head of Paid Services and Internal Audit. Feasibility work streams, which could be undertaken by the CFU, to be sent for consideration.

### 7. Ubico – Operational Work

Engagement meeting conducted with the Commercial Director. Agreement received for the provision of counter fraud services; contract to be drafted for consideration.

Meeting to then be held to plan work streams in relation to corporate strategy, policy review and proactive work.

### 8. Housing Associations / Registered Social Landlord's

Draft Goods and Services Contract developed for engagement with Registered Social Landlords for the provision of Tenancy Fraud work. This work stream is on hold pending business case consideration. Agreement received from Cheltenham Borough Homes to support and endorse this based on results and work undertaken by the team.

### 9. Training

Criminal Procedure and Investigations Act; refresher and updates being planned and rolled out across the County for all Enforcement, Legal and Audit members of staff.

Regulation of Investigatory Powers Act; refresher and updates being planned and rolled out across the County for all Enforcement, Legal and Audit members of staff.

### 10. Data Warehouse / Case Management System

The tender documentation has been drafted by the CFU. A meeting has been booked with an ICT representative on 1 September 2016 to review content prior to the procurement process.

### 11. Policies

Counter Fraud and Anti-Corruption Policy has been issued to Tewkesbury Borough Council for consideration.

A Regulation of Investigatory Powers Act (Communications) Policy has received the appropriate legal approval. Audit Committee approval received at Cheltenham BC, Cabinet approval pending. Policy is to be presented to Corporate Management Team (Cotswold DC and West Oxfordshire DC). Audit Committee and Cabinet approval will follow. The Policy has also been sent to Tewkesbury BC for consideration.

Whistle-Blowing Policy has been drafted, received HR approval and is pending appropriate legal approvals. The Policy is to be the responsibility of HR and will therefore be presented to Joint Consultative Committee in due course. CFU to present the Policy to Audit Committees within the partnership first.

### 12. Procedures

The investigation referral procedure needs to be worked on and adopted accordingly across the county and the partners.

Lone Working devices ordered for use by the Counter Fraud Investigation Officers.

### 13. Other work streams

Work has also been planned in relation to a generic document pack for Gloucestershire for criminal investigation to include all the relevant investigation, interview under caution and prosecution processes.

A new referral inbox for county use; this will be advertised as we update the relevant intranet / internet pages to be used by staff, members or the general public. Counter Fraud Unit website now under design.

Paperwork received in relation to signing the memorandum of understanding with HM Revenue and Customs – liaison with all enforcement teams pending.

A work stream to engage the Police and enter into an appropriate joint working mechanism is to be commenced.



## Counter Fraud Unit Business Case

<b>Project Name:</b>	<b>Counter Fraud Unit</b>		
Date:	9 June 16	Release:	Draft
Authors:	Kate Seeley, Emma Cathcart, Ruth Jones and Alex Lawson		
Owner:	Jenny Poole		
Client:	Cotswold District Council		
Document Number:	1.2		

### Revision History

Date of next revision:

Revision Date	Previous Revision Date	Summary of Changes	Changes Marked
9 June 16	26 May 16	Drafting	

### Approvals

This document requires the following approvals. A signed copy should be placed in the project files.

Name	Signature	Title	Date of Issue	Version
Jenny Poole		Head of GOSS and S151 Officer, CDC	5 May 16	Draft 1

### Distribution

This document has been distributed to the following Officers:

Name	Title	Date of Issue	Version
Paul Jones	S151 Officer, Chelt BC	8 June 16	
Jo Walker	S151 Officer, Glos County Council	8 June 16	
Sandra Cowley	S151 Officer, Stroud DC	8 June 16	
Simon Dix	S151 Officer, Tewkesbury BC	8 June 16	
Jon Topping	S151 Officer, Glos City Council	8 June 16	
Frank Wilson	S151 Officer, West Ox DC	8 June 16	

Redistributed to Gate Review Meeting Attendees – Susan Gargett, Helen Pearce, Alex Lawson, Duncan Edwards, Carl Jones, Kate Righton, Theresa Mortimer and Ian Church.

## Executive Summary

### Introduction

In 2011/2012 Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council started to informally work together to collate and apply a more consistent approach to counter fraud work through the Internal Audit Partnership; Audit Cotswolds.

In 2013/2014, the government announced that Local Authority responsibility for the investigation of benefit fraud was to be transferred, with the counter fraud investigation staff, to the Department for Work and Pensions. A successful counter fraud pilot project was initiated through the Cheltenham partner targeting tenancy fraud with Cheltenham Borough Homes; an arm's-length management organisation (ALMO). This enabled the partner Council's to assess the effectiveness of specialist counter fraud staff within other enforcement areas and consider retaining the resource within the organisation.

In February 2015, building on this pilot work, Audit Cotswolds successfully bid for £403,000 funding from the Department of Communities and Local Government (DCLG) on behalf of the Local Authorities in Gloucestershire and West Oxfordshire District Council to accelerate the development of a dedicated Counter Fraud Unit (the unit) within the partner organisations.

The funding is a one off payment to enable the introduction of a Gloucestershire and West Oxfordshire Counter Fraud Unit that is able to use data matching to gather intelligence and skilled investigators to help counter all forms of fraud against the Councils and Social Housing Providers in the region.

The bid set out a phased approach. The unit's first objective was to counter fraud through better intelligence and enhanced proactive partnership working in Gloucestershire and West Oxfordshire District Council with the aspiration to create a 'Gloucestershire Hub'. It built on the existing three authority partnership and introduced other partners namely: Gloucestershire County, Forest of Dean, Stroud, Tewkesbury and Gloucester City Council, plus Cheltenham Borough Homes Ltd and in time other registered social landlords.

The second phase of the project links the Gloucestershire Hub to other Hubs (Oxfordshire) through data sharing activity.

This business case translates the DCLG funded project into a permanent service model that is fully self-sufficient whilst continuing to manage and utilise the DCLG fund to set up the unit.

The business case sets out the roles and responsibilities of the new service and the financial strategy to ensure it is sustainable. It reflects upon the most effective and efficient use of resources and necessary governance structure to ensure it continues to deliver on service objectives.

Feasibility studies have been undertaken in financial years 2015/16 and 2016/17 to show that the unit can expect to generate revenue and provide risk assurance. In addition, the unit has identified additional areas of savings and loss avoidance, thereby adding value for all partners. The work included such legal documentation as data sharing and access agreements that enabled the feasibility studies to be undertaken and investigations to be conducted legally.

The S151 Officers form a significant role in terms of the unit's objectives, rationale and financial strategy but they also have a responsibility in the enabling of counter fraud activity within their own organisations.

The Audit Committees, as the body charged with governance, at each of the partner Local Authorities will be required to ensure Member level engagement is achieved and be a means for reporting of counter fraud activity. This will enable the Committee to confidently sign the annual declaration for the External Auditor in support of the accounts. It also provides a route for the unit to publicise activity, benefits and outcomes such as savings achieved and prosecution results.

The Counter Fraud Unit requires data matching and sharing, along with partner collaboration, to occur in an effective and efficient manner. Therefore the business case covers operational and strategic elements.

The business case is designed to describe the delivery of a fully self-sufficient service that counters fraud in Gloucestershire and West Oxfordshire from April 2017. It also ensures that the unit can engage with similar counter fraud departments such as Oxford City and Birmingham City.

This business case argues that the benefits of a counter fraud unit outweigh the costs of setting up and operating the unit. This is evidenced within the results shown in the feasibility study section. In addition, the benefits are summarised within this document and this business case recommends a Counter Fraud Unit that is resourced and embedded into the host organisations. The unit will be capable of delivering a full range of counter fraud and error detection services.

The business case explores three possible options for a counter fraud function within the organisations detailing the services which could be provided, benefits and dis-benefits and financial implications. These options are;

Option 1 – The provision of the minimum statutory requirements with no dedicated Counter Fraud Unit.

Option 2 – Counter Fraud Unit for the provision of an enhanced service to four partner Councils.

Option 3 – Counter Fraud Unit for the provision of an enhanced service to Gloucestershire District Councils, West Oxfordshire District Council and Gloucestershire County Council with the ability to work for third party organisations such as Registered Social Landlords.

## Project Rationale

The project was developed to reflect the changes to the counter fraud arrangements nationally in 2014 brought about by the creation of the Single Fraud Investigation Service (operated by the Department for Work and Pensions) which subsumed the Council's responsibilities for investigating Housing Benefit Fraud.

Cotswold District Council and Cheltenham Borough Council retained investigator resources under the direction of Internal Audit. The Counter Fraud Unit has been building the operational, legal and data matching requirements to deliver the project along with actual operational investigation of fraud.

The team have engaged with partners across the region building an understanding in relation to available resources, high risk areas and collaborative working. In July 2015 a Project Manager was recruited (2 days per week) to assist with project delivery across the multiple partners.

It was anticipated that the service would become a value adding unit that supports all enforcement sections including Revenues, Planning and Licensing. In addition, the team would tackle fraud with new intelligence/data matching software and react to referrals of fraud, whistleblowing and money laundering.

The project would use an evolutionary (literally) and holistic approach starting with a limited number of partners and grow as capabilities and line of business systems became available; leading to the development of intelligence led counter fraud capability that services contracts for third parties such as Registered Social Landlords and Housing Providers.

Finally, the project would lead to the development of agreements or memoranda of understandings with the Police, HM Revenue and Customs, the National Health Service and other enforcement agencies to aid in the early prevention and detection of fraud and savings to the public purse, for the benefit of the wider community.

## National Picture

In 2011, the Cabinet Office Counter Fraud Taskforce issued a report on 'Illuminating Public Sector Fraud' which outlined four strategic priorities;

- Collaboration,
- Assessment of Risk,
- Prevention and
- Zero Tolerance.

"The scale of fraud against Local Government is extensive and hard to quantify with precision. Fraud costs UK public services an estimated £21 billion per year, of which £2.1 billion is the estimated cost to Local Government. A further £14 billion is lost to tax fraud and vehicle excise fraud and £1.9 billion to benefit and tax credit fraud. Reducing this is now a major priority across all areas of government." *Cabinet Office 2016*

The National Fraud Authority and the Audit Commission have closed. However fraudsters are becoming increasingly sophisticated. All public services organisations are more vulnerable than ever to criminal activity.

Although resources remain stretched, the reduction of fraud within the public sector is a priority and is reflected by the CIPFA Counter Fraud Centre which was launched in 2014 to lead and coordinate the fight against fraud and corruption across local and central government amongst other sectors. CIPFA are currently undertaking a national survey to gather and benchmark fraudulent activity within local government.

Digitisation of public services is increasing the opportunities for criminals, and counter fraud experts believe prevention is the best policy when tackling this.

## Regional Picture and Local Impact of the Project

The National Policing Fraud Strategy 2015 recognised that the key role in the policing of fraud is played at the local level. Public Sector bodies do see Counter Fraud Units as a cost, but it is an investment in a much greater return.

The Local Government Counter Fraud and Corruption Strategy 2016–2019, supported by CIPFA, builds on the previous publications and provided the incentive for Local Authorities to shift their focus from benefit fraud to other areas that present high risk losses, to include those which arise unintentionally from national directives such as the Right to Buy legislation.

The project was focused on the four strategic objectives outlined above in the national picture; collaboration, risk assessment, prevention and zero tolerance. Further, the project sought to deliver this innovatively. Locally the 2020 Partnership, which is providing shared services across Cotswold District Council, Cheltenham Borough Council, Forest of Dean District Council and West Oxfordshire District Council and the Regulatory and Environmental Services Transformation project (Cheltenham Borough Council only) aim to improve efficiency. However it inevitably means the loss internally of resources to tackle other forms of misappropriation for which the Councils remain responsible. The unit can therefore seek to provide support and address this across all partners through collaboration and data sharing. Areas of fraud high risk across the region can be identified and a single solution applied to promote best practice and uniformity whilst remaining flexible in relation to individual requirements.

## Proposed Outcomes

- Produce real and demonstrable savings for partners from intelligence based counter fraud activity.
- Pursue criminals with an effective, self-sufficient and robust fraud investigation team, which can operate locally with partners or with third parties and other public bodies.
- Continue to operate and adapt to any reorganisation, restructure or political change.
- Fight local fraud by matching datasets across all demographics.
- Fight regional fraud by legally exchanging data

## Overarching Goals

- Detect abuse of public services.
- Be a self-financing unit.
- Prevent the public purse being abused.

## Strategic Alignment to Organisational Objectives

A Counter Fraud Unit would support a number of drivers which are reflective of the challenges facing all of the project partners and addresses each one of these as follows:

- **Financial:** the need to respond to long-term financial pressures by assuring money is not lost through illegal fraudulent activity.
- **Efficiency:** the need to continue to find ways of delivering value for money by assessing risk, promoting best practice and adding value through loss avoidance.
- **Resilience:** each authority needs a wider pool of expertise and greater capacity to respond to events by retaining counter fraud specialists who can be both reactive and proactive in relation to criminal activity.
- **Impact:** more depth in strategic capacity is needed to support the drive towards service improvement and wider social and economic benefits by publicising a zero tolerance approach to abuse and misappropriation of public funds.
- **Democracy:** each authority needs to have sufficient resources to be able to exercise choice and community leadership so that it can champion local needs and priorities by identifying local high risk areas which can be proactively tackled.

## Feasibility Studies

To evidence the financial aspect of the business case, the unit has undertaken corporate and strategic work for the partner Councils; Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council. Proactive feasibility work has also been carried out for the partner authorities and third parties; Cheltenham Borough Homes and Tewkesbury Borough Council. The unit is also fully engaged with Gloucestershire County Council in relation to collaborative working. A summary of the areas of pilot work and the results are set out below.

### Audit Partnership Work – Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council

The unit has tried to illustrate the effectiveness of a centralised counter fraud unit with responsibility for counter fraud corporate strategy, policy drafting, centralised and uniform data collation, fraud awareness, specialist training and legislative updates and reactive planning to emerging threats.

- Legal framework for operation

Secondment Agreements (S113 Local Government Act 1972), for two Investigation Officers, drafted by the team and approval gained from legal representatives at Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council.

One Internal Audit Officer mitigating the need for any additional legal documentation in relation to employment.

- Work April 2015 to date
  1. 2 internal referrals received in relation to alleged theft and corruption against the Council (not internal staff, external attempts). These are currently on-going.
  2. Referrals received via Internal Audit in relation to staff investigations where criminal offences are identified. Reports and recommendations are being referred to the appropriate Director at suitable intervals.
  3. Transparency data capture and general fraud data recording and reporting across all partners to ensure consistency and bench marking where appropriate.
  4. Training and Advice;
    - i. Internal employee investigation training provided to Internal Audit and Human Resources staff.
    - ii. Criminal Procedure and Investigations Act refresher and updates being provided across the County and West Oxfordshire for all Enforcement, Legal and Internal Audit members of staff.
    - iii. Regulation of Investigatory Powers Act; refresher and updates being planned and rolled out across the County for all Enforcement, Legal and Audit members of staff.
    - iv. Proceeds of Crime Seminar planned with Barristers from Albion Chambers for all Enforcement, Legal and Audit members of staff across the County.

- v. Member of the Gloucestershire Tenancy Fraud Forum promoting best practice and tenancy fraud work undertaken by the team. The work has been credited nationally at various conferences.
- 5. Policies;
  - i. The drafting of a Counter Fraud and Anti-Corruption Policy and full approval process completed. The policy has been approved by all partner Audit Committees and adopted by Cabinet at all three authorities. Staff and Member awareness training to commence to include a fraud referral process.
  - ii. A new Regulation of Investigatory Powers Act policy has been drafted to cover new legislation in relation to staff obtaining Communications data; approval across the partnership has commenced. Following approval, training with Enforcement staff and Authorising Officers to commence.
  - iii. The team has been given responsibility for the Whistle Blowing Policy which needs to be redrafted for use by all partners.
  - iv. The unit is also reviewing Anti-Money Laundering and Proceeds of Crime Policies, Prosecution Policies and Regulation of Investigatory Powers Act (Surveillance) Policies across the partners.
- 6. The drafting and implementation of Fair Processing Notices and Statements to reflect legislative requirements and any future data matching.
- 7. The drafting and implementation of Lone Working protocols for Investigation Officers.

### Overview of Cheltenham Borough Council results and significance

The unit undertook additional specific proactive work for Cheltenham Borough Council. It should be noted that Cotswold District Council and West Oxfordshire retained additional enforcement resource within the Revenues and Housing Support Department and as such the unit was not engaged within this area.

During the course of the year the unit was engaged in a publicised fraud case, working collaboratively with the Police and the Department for Work and Pensions. The defendants were handling fake currency and hoarding contraband tobacco. During the course of the investigation, the Council were asked to investigate allegations of benefit fraud. The defendants were recently sentenced and received custodial terms. In addition, the Court awarded a Proceeds of Crime Confiscation Order and the Council should receive compensation of approximately £21,000.

- Legal framework for operation

Two Investigation Officers conducted the work; both are directly employed by Cheltenham Borough Council therefore mitigating the need for any additional legal documentation in relation to employment and system access.

Provision of the required data sharing agreements to allow work on the Home-Seekers Housing Application List Review; this included the drafting of the agreements, legal approval and required signatures / consent from the affected system administrators.



- Work April 2015 to date
  1. Single point of contact role for Department of Work and Pensions liaison following the transfer of Benefit Fraud Investigation to the Single Fraud Investigation Service.
  2. Council Tax Reduction Scheme; criminal investigation, interview under caution and appropriate sanction/prosecution action on behalf of the Revenues and Benefits Section.
  3. Home-Seekers Housing Application List Review on behalf of Housing Options Team (Cheltenham Borough Homes). The team undertook an exercise to verify the application details and confirm that the criteria had been met for the relevant band in to which the application had been placed.
  4. A sample Single Person Discount Review was undertaken on behalf of the Revenues Department. 50 cases were subjected to more robust verification.
  5. Service of court documentation on behalf of Housing Benefit debt recovery.
  6. Sample of absconded debtors passed to the team to be traced prior to debt write off.
- Results
  1. 141 Housing Benefit and Council Tax Reduction Scheme referrals received, 83 referred on to the Department for Work and Pensions, 4 referred on to Housing Provider/Registered Social Landlord and 34 cases opened for investigation by the team. 20 referrals were rejected.
  2. Of the 34 cases investigated by the team;
    - i) Overpayments identified totalling £16,738 to be recovered.
    - ii) 4 individuals prosecuted and sentenced; 1 prosecution listed for trial.
    - iii) 2 Administrative Penalties applied totalling £796 to be recovered.
    - iv) 2 Formal Cautions given.
  3. The housing list review resulted in 51 cancelled applications (7 Gold Band and 44 Silver Band) representing £918,000 in loss avoidance. Each cancelled application represents a property which can be reallocated to another eligible family. For each reallocation, a figure of £18,000 per annum can be identified as a loss avoidance figure because there is no need for temporary accommodation to be utilised. £18,000 is the Audit Commission figure for the average annual cost to a Local Authority when housing a family in temporary accommodation. In addition 56 applications have been downgraded to Bronze band. The result of this reprioritisation is that those families who are correctly banded have a greater chance of being housed and more speedily.
  4. Discounts were removed retrospectively and for the financial year 2016/2017. The investigation of only 50 cases generated £37,000 in additional Council Tax liability. It should be noted that the major beneficiary of this will be the County Council who receive the majority of the revenue collected. Council Tax Penalties were not administered. However, had they been applied at the legislative value of £70 then approximately £3,000 would have been generated for collection and for retention and use by the Local Authority alone.
  5. Debt Recovery:
    - i. £634 paid in full.
    - ii. £870 paid, arrangement agreed for outstanding £300.

- iii. £906, arrangement agreed and £211 paid to date.
  - iv. £1858, arrangement of £40 per month agreed.
  - 6. 24 cases passed for investigative trace. Utilising only free consent data checks, further contact/residency information identified in 18 cases.
- Review
    - 1. On-going liaison with the Benefit Section Manager and the Single Fraud Investigation Service, Department for Work and Pensions.
    - 2. On-going liaison with the Benefit Section Manager. Proactive work can be undertaken if needed.
    - 3. The team have prepared a detailed report evaluating the housing list review to include recommendations regarding future processes and system reviews. We are awaiting updates and further instruction from Cheltenham Borough Homes.
    - 4. The team have prepared a report reviewing the Council Tax discount work to include recommendations regarding future processes and system reviews. We are awaiting updates and instruction in relation to further discount and/or exemption fraud drives.
    - 5. On-going instructions received from the Benefit Team.
    - 6. Recommendations made to the Accounts Receivable Team within GO Shared Services that the team consider results and future collaboration.

### Overview of Cheltenham Borough Homes results and significance

- Legal framework for operation

Two Investigation Officers conducted the work; both are directly employed by Cheltenham Borough Council therefore mitigating the need for any additional legal documentation in relation to employment and system access. Any investigations undertaken were in relation to properties owned by Cheltenham Borough Council only.

- Work September 2014 to date

In addition to the details below, the housing list review on behalf of Cheltenham Borough Council was conducted and the review report is with Cheltenham Borough Homes.

- 1. Tenancy Fraud investigation work has been on-going for approximately 18 months and the team received 23 referrals from varying sources during the period (Cheltenham Borough Homes staff, anonymous informants, One Legal, Housing Benefit Team, Police and other internal systems).
- 2. National Anti-Fraud Network Membership – introduction to the not for profit organisation which provides data and intelligence to system users.
- 3. Fraud Referral Process – drafting of a generic referral form and mechanism for referral with agreed key decision points for investigation and interview under caution and to proceed to prosecute.
- 4. Reporting plan; content and frequency to include Audit and Risk Committee reports and presentation.

- Results

1. 5 cases referred for prosecution (details below) and a further 8 properties withdrawn or recovered back in to the housing stock. There are 9 open cases currently under investigation.
  - i) 1 prosecution for Right to Buy Fraud – the sale of the 4 bedroom property was prevented, the property recovered and returned to the housing stock. The individual concerned received a 16 week suspended sentence, 200 hours community service order and was ordered to pay £200 costs.
  - ii) 1 prosecution for application fraud – the property was recovered and returned to the housing stock. The individual concerned received a 100 hours community service order and was ordered to pay costs of £700.
  - iii) 1 prosecution for application fraud – the individual was removed from the housing list and received a £200 fine and was ordered to pay £170 costs.
  - iv) 1 prosecution for Right to Buy Fraud listed for trial in July 2016.
  - v) 1 prosecution for application fraud referred for trial and subsequently withdrawn due to inadequate data capture processes.

As detailed previously, each recovered property represents a loss avoidance figure of £18,000. Additionally where the sale of a property through the Right to Buy scheme is prevented the Audit Commission stated that a loss avoidance figure of £150,000 should be reported, representing the average rebuild cost. The work undertaken in this area therefore represents a loss avoidance figure of £444,000.

2. System use for trace and debt recovery work.
3. Referral mechanism in use.
4. Awaiting decision in relation to Senior Management reports and frequency. Agreement in relation to Audit and Risk Committee plan received.

- Review

Reports have been written and submitted for consideration in relation to the following:

- i) Risks – highlighting the impact of Universal Credit, Housing Benefit regulation changes, Right to Buy criteria changes, the introduction of the 1% rent reduction for social landlords and the compulsory pay to stay scheme.
- ii) Strategy – highlighting areas in which the counter fraud team can add value to include use of the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, targeted fraud drives and proactive work within high risk areas, Right to Buy verification checks and home-seeker verification checks.
- iii) Assistance with Policy review, drafting and implementation to include training in relation to Counter Fraud, Bribery and Corruption, Whistleblowing, Use of Social Media for intelligence gathering and Lone Working.
- iv) Consideration in relation to internal investigations where fraud is alleged.

## Overview of Tewkesbury Borough Council results and significance

- Legal framework for operation

Secondment Agreements (S113 Local Government Act 1972), for two Investigation Officers, drafted by the team and approval gained from legal representatives at Tewkesbury Borough Council and Cheltenham Borough Council.

Provision of the required data sharing agreements to allow work on the Home-Seekers Housing Application List Review; this included the drafting of the agreements, legal approval and required signatures / consent from the affected system administrators.

- Work October 2015 to date

1. Home-Seekers Housing Application List Review on behalf of Housing Options Team. The team undertook an exercise to verify the application details and confirm that the criteria had been met for the relevant band in to which the application had been placed.
2. A Single Person Discount review has been undertaken by Tewkesbury Borough Council. The team are carrying out more robust checks on the replies received on behalf of the Revenues Department.
3. Engagement with Internal Audit in relation to the adoption of Policies and fraud referral mechanism to ensure consistency across the partnership.
4. Reporting plan; content and frequency to include Audit Committee reports and presentation.

- Results (Figures pending, both exercises commenced March 2016)

1. The housing list review has identified 150 applications that appear to have been banded incorrectly or are ineligible. The cases have been referred to the Housing Options Team for review. Currently there have been 3 cancelled applications (all Gold Band) representing £54,000 in loss avoidance. In addition 2 applications have been downgraded to a lesser band.
2. Approximately 60 responses have been received to date. The team have requested further information in each case.
3. Legal agreement received in relation to the adoption of the Counter Fraud and Anti-Corruption policy.
4. To be advised, updates to be presented to Chief Finance Officer and Internal Audit. Attendance at Audit Committee agreed if necessary.

## Overview of Gloucestershire County Council results and significance

- Legal framework for operation

The team have undertaken the drafting of Secondment Agreements (S113 Local Government Act 1972), for two Investigation Officers. Legal representatives at Gloucestershire County Council and Cheltenham Borough Council have given final approval in relation to costs. However, final approval is pending in relation to the inclusion of an insurance indemnity clause. Following joint approval, the secondment agreements can be signed and operational work can be commenced.

- Work September 2015 to date

Pending the secondment approval, meetings have been held with Head of Audit, Risk Assurance and Insurance Services and key team members. Collaboration and work plan agreed to include the following:

1. The provision of assistance with internal investigations being investigated and prosecuted by the County Council not the Police and the Crown Prosecution Service.
2. A generic document pack for criminal investigation, interview under caution and internal prosecution.
3. Joint referral and joint reporting mechanisms in relation to fraud allegations and results.
4. District reporting to the County Council in relation to loss avoidance and revenue generation.

## Business Options

The executive summary sets out the background and the rationale which supports the need for a Counter Fraud Unit functioning within Local Authorities.

The feasibility studies confirm that a Counter Fraud Unit can generate income, assist in relation to risk assurance, control and management, prevent loss and provide specialist investigation skills.

Each Local Authority has a duty to protect the public purse and there are options in relation to how this is undertaken. The Section 151 Officer has a statutory responsibility to ensure proper arrangements for the Council's financial affairs. This is detailed in full within the Counter Fraud and Anti-Corruption Policy recently adopted by the Councils.

The options are set out below.

### Option 1 – Minimum statutory requirement

The provision of the minimum requirement means that full responsibility for counter fraud rests with each individual Council. There will be no resource for collaborative working and any costs and efficiencies will not be shared.

Any existing counter fraud staff will become obsolete and/or redundant however the Local Authority will need to resource a post within the Benefit Section for the liaison between the Council and the Department for Work and Pensions.

Taking this option is likely to result in the following

- Fraud activity within Local Authority may not be detected or managed as thoroughly.
- Mechanisms for reporting and recording fraud data may be inconsistent and dispersed throughout the Council becoming labour intensive.
- The remainder of the DCLG grant may be returned to source.

### Benefits

- Full local control of counter fraud resources and activities within district, borough or city boundaries.
- Minimum overheads and expense.
- The possible reallocation of the remaining DCLG grant monies across the appropriate partners (if allowable under the provisions of the grant).

### Dis-benefits

- The potential to not meet statutory requirements exposing the Council to risk and financial loss.
- No ability for expansion or innovation to generate income.
- Additional pressure on Internal Audit and Human Resources staff to react to and manage fraud activity and risk.
- No scales of economy.
- No capacity for collaborative working.
- The loss of specialist investigative skills in relation to criminal offences.
- The potential return of the remaining DCLG grant monies, £300,000, if it is not utilised for the purpose for which it was granted.
- A loss of confidence from the public due to a lack of overt counter fraud activity.

- The responsibility for the Department for Work and Pensions single point of contact remains within the Benefit Section to include the cost of recruitment, training and any related overheads.
- A loss of investment and return on the project to date.
- Loss of expertise for relevant policy and procedure drafting and implementation.

#### Staff Requirements

- One part time member of staff (approximately 16 hours per week) in an administrative role within the Benefit Section to undertake the statutory single point of contact role for the Department for Work and Pensions.

#### Governance and Legal Requirements

- Local arrangements for staff management.
- Local arrangements for the capture and return of statutory data; transparency, annual audit returns, Regulation of Investigatory Powers Act reporting etcetera.

#### Financial Implications

- Potential loss of DCLG grant monies (approximately £300,000).
- Cost of staff redundancy for two members of staff at Cheltenham Borough Council (approximately £16,000).
- Cost of Benefit Section member of staff for single of point of contact role. The cost is outside of the bid but within existing budgets (approximately £15,000 per Local Authority subsidised by the Department for Work and Pensions Administration Grant which is in the region of £2,000 per annum).
- No resource provision within the unit.
- Loss of potential revenue and savings (unquantifiable).

### Option 2 – Counter Fraud Unit for four partners only – Enhanced Service

A small Counter Fraud Unit which can service four partner authorities. The partners could delegate statutory counter fraud duties to the unit thus facilitating the capture and reporting of legislative fraud data.

There is a limited capacity for collaborative working across the agreed partners who would share costs and resources to include the procurement of data warehouse software and a case management system.

### Services Provided

- Proactive fraud drives in relation to Council Tax discounts and exemptions to generate revenue through liability and penalties.
- Data matching of internal data sets for fraud and error.
- Provision of the single point of contact for the Department for Work and Pensions Housing Benefit work.
- Council Tax Reduction Scheme investigation, interview and sanction or prosecution (currently not undertaken at Forest of Dean).
- Housing List review in relation to allocation and where appropriate, investigation, interview, sanction or prosecution.
- Right to buy application investigation and verification; where appropriate interview, sanction or prosecution (Local Authority owned property therefore Cheltenham Borough Council only).
- Tenancy fraud investigation, interview, sanction or prosecution (Local Authority owned property therefore Cheltenham Borough Council only).
- Internal employee investigation in relation to criminal offences.
- Drafting and implementation of related policy and procedure.
- Collection and reporting of fraud related statistics and data.
- Staff and Member awareness training.
- Partner wide counter fraud related work where resource allows e.g. Contract and Procurement Fraud or Grant abuse etcetera.

### Benefits

- Full local control of counter fraud resources and activities within the partner district and borough boundaries.
- Shared staff overheads and expenses.
- Statutory requirements met limiting the Council's exposure to risk and financial loss.
- Reduced pressure on Internal Audit and Human Resources staff to react to and manage fraud activity and risk.
- Some economies of scale achieved.
- Introduction of enforcement in relation to Council Tax Reduction Scheme at Forest of Dean.
- Some collaborative working.
- Specialist investigative skills in relation to criminal offences are retained.
- Utilisation of the remaining DCLG grant.
- Increased awareness and confidence from the public due to some counter fraud activity.
- The responsibility for the Department for Work and Pensions single point of contact could be provided entirely by the unit rather than each partner therefore reducing the cost of recruitment, training and any related overheads.
- A continued return on the investment in the project to date.



- The retention of expertise for relevant policy and procedure drafting and implementation.

#### Dis-benefits

- Cost of staff overheads and expense.
- Collaboration within only partner Councils.
- Limited to no ability for expansion of the service to include other Local Authorities within the region or Gloucestershire County Council through delegation of duty secondment agreements to provide an additional income stream.
- No ability for innovative working to secure service and goods contracts with third parties to include Registered Social Landlords and Housing Associations to provide an additional income stream.
- Limited to no capacity to pursue any discussion or implementation in respect of joint working with other public bodies such as the Gloucestershire Constabulary, HM Revenue and Customs or the National Health Service.
- Limited resource for extraordinary investigations within the partner authorities.
- Due to limited staff resource there will be no additional capacity to react to emerging fraud trends.
- Due to the constraint of only working for the partner authorities, there is a risk that the unit is not robust and enable to adapt to changes in the political and business climate.

#### Staff Requirements

- Three full time Counter Fraud Investigators (to include Team Leader).
- One part time member of staff (approximately 16 hours per week) in an administrative role.
- One part time member of staff (approximately 16 hours per week) as a data analyst / ICT resource for the operation of the data warehouse software.

#### Governance and Legal Requirements

The governance and reporting arrangement for this team would be via partner Corporate Management / Senior Leadership Teams, and either the 2020 joint committee or via individual partner Committees as appropriate.

It is recommended that Cotswold District Council would be the employing authority for reasons of project continuity, knowledge and budget situation. Officers may undertake work via S113 Secondment Agreements delegating the necessary functions. Officers must be Local Authority employees to ensure that their statutory powers remain intact.

**Group Manager** – Head of GOSS and S151 Officer for Cotswold District Council  
/ Head of Internal Audit

- Sets the medium term strategy for the unit and directly manages team leader.
- Represents unit at Senior Management Meetings.
- Strategic point of contact for the S151 Officers of partner Council's.

**Responsible Manager** – Counter Fraud Unit Team Leader

- Represents unit for reporting and negotiations at all levels.
- Responsible for the day to day management of the team.
- Responsible for legislative compliance of operations.
- Responsible for plan based work scheme across the four partners.
- Responsible for policy and procedural drafting, implementation and training.

**Senior Counter Fraud Investigation Officers / Investigation Officers**

- Investigation of alleged criminal offences across the partnership.
- Interviews under caution and case preparation for appropriate sanction and prosecution.
- Witness Statement preparation and Court attendance.
- Proactive fraud drives across the partnership.

#### **Administrative Support Role**

- Responsible for the collation of team results and statistics.
- Case preparation and set up.
- General administration.
- Single point of contact work for the Department for Work and Pensions.

#### **Data Analyst / ICT Support Role (within ICT, financial contribution made)**

- Collection of data sets from across the partnership.
- Collation of data sets within the data warehouse.
- Operation and maintenance of data warehouse and case management systems.

#### **Financial Implications**

- Potential loss or redistribution of some DCLG grant monies as not utilised fully across the County and West Oxfordshire in accordance with the original bid (unknown).
- Loss of third party revenue and savings (unquantifiable).
- Cost of current overheads including management, part time administrative support and part time data analyst (approximately £106,000).
- Cost of operational staff 2 Investigation Officers (approximately £60,000).
- One off cost of data warehouse and case management software to be met by DCLG fund (£100,000 maximum).
- Annual costs of data warehouse maintenance and support (£10,000 maximum).
- Saving in relation to Single Point of Contact roles across the partnership (approximately £15,000 per Local Authority totalling £60,000). This is an existing resource and may reflect a saving or be used to fund the unit.
- Income Cheltenham Borough Homes (£16,500).
- Partnership Contribution per authority for 70 days per annum (£24,875 maximum plus SPOC role).
- Use of DCLG grant monies to support the set-up of the team and to subsidise partner contribution for the first four years (£40,000 reducing by £10,000 per annum).
- Cost of an exit strategy should the unit be disbanded to be shared across the partner authorities.

#### **Potential Income**

- Feasibility Study Income CTRS Overpayments (£16,737 x 4) £67,000.
- Feasibility Study Income Administrative Penalties (£796 x 4) £3,200.
- Feasibility Study CTAX Revenue Generation (£40,000 x 4) £160,000.

#### **Potential Loss Avoidance**

- Feasibility Study Loss Avoidance Housing List Review (£918,000 x 4) £3,672,000.
- Feasibility Study Loss Avoidance Tenancy Fraud Work Recovered Property £144,000.
- Feasibility Study Loss Avoidance Right to Buy £300,000.

Option 2 – Counter Fraud Unit for four partners only – Enhanced Service

	Base	Year 1	Year 2	Year 3	Year 4
	(£)	(£)	(£)	(£)	(£)
Overheads	106,000				
Operational Costs	60,000				
Data Warehouse	10,000				
<b>Total Costs</b>	<b>176,000</b>				
CBH income	(16,500)				
Fixed Partner Contribution (4 x £15,000)	(60,000)				
<b>Total Income</b>	<b>(76,500)</b>				
<b>Net Cost of CFU Option 2</b>	<b>99,500</b>	<b>99,500</b>	<b>99,500</b>	<b>99,500</b>	<b>99,500</b>
Partner Contribution (70 days)	£24,875				
Option to draw-down from DCLG Fund		(40,000)	(30,000)	(20,000)	(10,000)
<b>Net Cost of CFU Option 2</b>		<b>59,500</b>	<b>69,500</b>	<b>79,500</b>	<b>89,500</b>
Partner Contribution (70 days)		£14,875	£17,375	£19,875	£22,375

Experience of income generation and loss avoidance (per Partner):

	(£)
Income Generation	57,550
Loss Avoidance	1,029,000

N.B. Potential loss of some DCLG Grant monies and no third party income

### Option 3 – Counter Fraud Unit for Gloucestershire and West Oxfordshire District Council – Enhanced and Flexible Service with ability for third party work (Recommended)

A Counter Fraud Unit with the ability to expand, recruit and develop which can service the four partner authorities and the wider Gloucestershire region to include the County Council, other district authorities and third party organisations such as Registered Social Landlords.

This allows the delegation of statutory counter fraud duties to the unit, facilitating the capture and reporting of legislative fraud data for a wider demographic.

There is an unlimited capacity for collaborative working and shared costs and resources to include the procurement of data warehouse software and a case management system for multiple users and organisations.

#### Services Provided

- Proactive fraud drives in relation to Council Tax discounts and exemptions to generate revenue through liability and penalties to include the three additional Local Authorities.
- Proactive work in relation to National Non Domestic Rates to increase revenue in preparation for full retention in 2020.
- Assistance in relation to the National Fraud Initiative (centralised point of contact undertaking reviews and sifting of the matches where necessary) across the partner Councils.
- Data matching of internal and external data sets for fraud and error across the region and beyond; Oxfordshire, Worcestershire et cetera.
- Provision of the single point of contact for the Department for Work and Pensions Housing Benefit work to include the three additional Local Authorities if required.
- Council Tax Reduction Scheme investigation, interview and sanction or prosecution (currently not undertaken at Forest of Dean) to include the three additional Local Authorities.
- Housing List review in relation to allocation and where appropriate, investigation, interview, sanction or prosecution to include the three additional Local Authorities.
- Right to buy application investigation and verification; where appropriate interview, sanction or prosecution. This function can be undertaken for Local Authority owned property therefore Cheltenham Borough Council and Stroud District Council and in addition by way of goods and services contracts for Registered Social Landlords.
- Tenancy fraud investigation, interview, sanction or prosecution Local Authority owned property therefore Cheltenham Borough Council and Stroud District Council and in addition by way of goods and services contracts for Registered Social Landlords.
- Internal employee investigation in relation to criminal offences across the region to include Gloucestershire County Council.
- Drafting and implementation of related policy and procedure across the region to promote efficiency, continuity and collaborative working.
- Collection and reporting of fraud related statistics and data across the region for benchmarking and publication.
- Staff and Member awareness training across the region to promote efficiency, continuity and collaborative working.

- Region wide counter fraud related work e.g. Contract and Procurement Fraud or Grant abuse etcetera to include the necessary recruitment of staff.
- Expansion of collaboration with the County Council in relation to public services provided to include blue badge abuse, school admission abuse, misuse of social care funding etcetera.
- Third party contractual work for academies, housing providers and other public bodies.
- Implementation of ISO 27001 to provide assurance that data held is secure accessed only for counter fraud purposes.

### Benefits

- Ability to comply fully with summary of drivers.
- Full local control of counter fraud resources and activities within the partner district boundaries and the attached region.
- Shared staff overheads and expenses.
- Statutory requirements met limiting the Council's exposure to risk and financial loss.
- Reduced pressure on Internal Audit and Human Resources staff to react to and manage fraud activity and risk on an increased scale.
- Increased economies of scale achieved.
- Introduction of enforcement in relation to Council Tax Reduction Scheme at Forest of Dean District Council, Stroud District Council and Gloucester City Council.
- Extensive collaborative working.
- Specialist investigative skills in relation to criminal offences are retained.
- Utilisation of the remaining DCLG grant.
- Increased awareness and confidence from the public due to a zero tolerance approach to the misuse and fraudulent abuse of public funds across the region.
- The responsibility for the Department for Work and Pensions single point of contact could be provided entirely by the unit rather than each partner therefore reducing the cost of recruitment, training and any related overheads, extended across the region.
- A continued return on the investment in the project to date.
- The retention of expertise for relevant policy and procedure drafting and implementation.
- Easier to expand the service to include other Local Authorities within the region or Gloucestershire County Council through delegation of duty secondment agreements to provide an additional income stream.
- Easier to innovatively work to secure service and goods contracts / ability to trade with third parties to include Registered Social Landlords and Housing Associations to provide an additional income stream.
- Increased capacity to pursue any discussion or implementation in respect of joint working with other public bodies such as the Gloucestershire Constabulary, HM Revenue and Customs or the National Health Service.
- Resource for extraordinary investigations within the partner authorities.
- Additional capacity to react to emerging fraud trends.
- A robust unit which is flexible and adaptable and which can respond effectively to business changes, devolution, unitary or other political changes.

### Dis-benefits

- Cost of staff overheads and expense.
- Risk exposure for staff who are lone working across a large region and management of safety and whereabouts

- Short term impact on partner support services (ICT, Legal and Human Resources) for unit set up.
- Complexity of the management of staffing over a large region.
- Management of work delivery over a significant remit.

### Staff Requirements

- Scalable number of Counter Fraud Investigators (to include Team Leaders); the model is based on 8 FTE staff.
- One full time member of staff in an administrative role.
- One full time member of staff as a data analyst / ICT resource for the operation of the data warehouse software.

### Governance and Legal Requirements

The governance and reporting arrangement for this team would be via partner Corporate Management / Senior Leadership Teams, and either the 2020 joint committee or via individual partner Committees as appropriate. It is also recommended that a Client Officer Group (all S151 Officers) receive updates and assurance at agreed intervals and provide appropriate governance.

It is recommended that Cotswold District Council would be the employing authority for reasons of project continuity, knowledge and budget situation. Officers may undertake work via S113 Secondment Agreements delegating the necessary functions. Officers must be Local Authority employees to ensure that their statutory powers remain intact.

Goods and services contracts with appropriate professional indemnity insurance may be used to undertake work for third parties. In time services may be provided through the medium of a Local Authority trading company.

**Group Manager** – Head of GOSS and S151 Officer for Cotswold District Council  
/ Head of Internal Audit

- Sets the medium term strategy for the unit and directly manages team leader.
- Represents unit at Senior Management Meetings.
- Strategic point of contact for the S151 Officers and other clients.

**Responsible Manager** – Counter Fraud Unit Team Leader

- Represents unit for reporting and negotiations at all levels.
- Responsible for the day to day management of the team.
- Responsible for legislative compliance of operations.
- Responsible for plan based work scheme across the partners.
- Responsible for policy and procedural drafting, implementation and training.

**Senior Counter Fraud Investigation Officers / Investigation Officers**

- Investigation of alleged criminal offences across the partnership.
- Interviews under caution and case preparation for appropriate sanction and prosecution.
- Witness Statement preparation and Court attendance.
- Proactive fraud drives across the partnership.

**Administrative Support Role**

- Responsible for the collation of team results and statistics.
- Case preparation and set up.
- General administration.
- Single point of contact work for the Department for Work and Pensions.

**Data Analyst / ICT Support Role (within ICT, financial contribution made)**

- Collection of data sets from across the partnership.
- Collation of data sets within the data warehouse.
- Operation and maintenance of data warehouse and case management systems.

**Financial Implications**

- Full retention of DCLG grant monies (£300,000).
- Third party revenue RSL Contribution (£99,000).
- Cost of current overheads including management, full time administrative support and full time data analyst (approximately £160,000).
- Cost of operational staff 8 Investigation Officers (approximately £240,000).
- One off cost of data warehouse and case management software (£100,000 maximum).
- Annual costs of data warehouse maintenance and support (£10,000 maximum).
- Saving in relation to Single Point of Contact roles across the partnership and extended region (approximately £15,000 per Local Authority totalling £105,000) This is an existing resource and may reflect a saving or be used to fund the unit.
- Income from third party; Cheltenham Borough Homes (£16,500).
- Possible contribution from Stroud District Council in relation to tenancy fraud work (£16,500).
- Partnership contribution per authority for 210 days per annum (£34,000 maximum plus SPOC role) to reduce with inclusion of third party income
- Use of DCLG grant monies to support the set-up of the team and to subsidise partner contribution for the first four years (40,000 reducing by £10,000 per annum).
- Cost of an exit strategy should the unit be disbanded to be shared across the partner authorities.

**Potential Income**

- Feasibility Study Income CTRS Overpayments (£16,737 x 7) £117,159.
- Feasibility Study Income Administrative Penalties (£796 x 7) £5,572.
- Feasibility Study CTAX Revenue Generation (£40,000 x 7) £280,000.

**Potential Loss Avoidance**

- Feasibility Study Loss Avoidance Housing List Review (£918,000 x 7) £6,426,000.
- Feasibility Study Loss Avoidance Right to Buy (Stroud and Cheltenham) £600,000.
- Feasibility Study Loss Avoidance Tenancy Fraud Work Recovered Property (Stroud and Cheltenham) £288,000.

Option 3 – Counter Fraud Unit for Gloucestershire and 2020 Partnership –  
Recommended

	Base	Base +	Year 1	Year 2	Year 3	Year 4
	(£)	Bid	(£)	(£)	(£)	(£)
	(£)	(£)	(£)	(£)	(£)	(£)
Overheads	160,000					
Operational Costs	240,000					
Data Warehouse	10,000					
<b>Total Costs</b>	<b>410,000</b>					
Cheltenham Borough Homes	(16,500)					
Stroud District Council	(16,500)					
Fixed Partner Contribution (7 x £15,000)	(105,000)					
<b>Total Income</b>	<b>(138,000)</b>					
<b>Net Cost of CFU Option 3</b>	<b>272,000</b>	<b>272,000</b>	<b>272,000</b>	<b>272,000</b>	<b>272,000</b>	<b>272,000</b>
<b>Partner Contribution (210 days)</b>	<b>£34,000</b>					
Potential RSL Contributions (6 as per Bid)		(99,000)	(99,000)	(99,000)	(99,000)	(99,000)
Option to draw-down from DCLG Fund			(40,000)	(30,000)	(20,000)	(10,000)
<b>Net Cost of CFU Option 3</b>		<b>173,000</b>	<b>133,000</b>	<b>143,000</b>	<b>153,000</b>	<b>163,000</b>
<b>Partner Contribution (210 days)</b>		<b>£21,625</b>	<b>£16,625</b>	<b>£17,875</b>	<b>£19,125</b>	<b>£20,375</b>

Experience of income generation and loss avoidance (per Partner):

	(£)
Income Generation	57,550
Loss Avoidance	1,045,000

N.B. There is the potential to increase third party income.



## Justification of Option 3

### Key Benefits

Benefit and Value	Description	How Measured	Business change required	Value
Ability to comply with summary of drivers and ability to trade.	Financial savings, efficiency, resilience, impact and democracy. Revenue and income through collaboration and innovation.	Success of feasibility work with 2020 partners, Cheltenham Borough Homes, Tewkesbury Borough Council and Gloucestershire County Council.	Continued partner engagement and implementation of legal agreements (already drafted and approved).	Income and revenue generation through trade.
Ability to expand and be robust.	Recruitment where resource is required. Continued delivery regardless of business or political change.	As required and managed according to need.	As above and recruitment.	Adaptable and resilient partner resource.
Exceeds statutory requirement thereby mitigating risk exposure to Local Authorities in their duty to prevent fraud.	Requirement mandated by government that authorities accountable for public funds should protect those funds from abuse. Provision of fraud function above the statutory duty.	Assessment of statutory criteria against services delivered. Benchmarking and collective reporting.	Agreement for the provision of service for remuneration where appropriate.	Reduced overheads and shared expenses in relation to management and services.
Unit is cost neutral	Unit operates to cover costs and overheads derived from planned work.	Unit budget reporting.	Approval of unit and continued pursuit of partners and work streams.	No cost to benefitting partners.

Counter fraud and anti-corruption culture across the region	Common policies and procedures. Staff and Member awareness training. Publicity and public awareness.	Quantity of Councils adopting the same.	Councils to adopt policy and cultural changes where required.	Public perception and region continuity resulting in large scale fraud deterrence.
Increased fraud reporting and detection.	A year on year increase of fraud results and monitoring to measure against the national picture.	Consistency across the region in relation to data capture for comparison.	Fraud reporting methods put in place and maintained: - 1) Email group mail box 2) Fraud hotline advertised 3) Posters in staff areas 4) Intranet pages 5) Training 6) Data capture and publication	Identification of high risk areas leading to swift preventative action and control. National recognition and standards.
Retention of specialist skills.	Specialist Counter Fraud staff trained to undertake criminal investigations.	Vast experience.	Retention and recruitment.	Resource to undertake criminal investigations rather than contracting third party providers. Sharing of knowledge through specific training.

## Project Milestones

Milestone	Due Date	RAG	Owner
Secure legal basis for operations	31/03/2016	Green	EC
Complete personal protective equipment	31/05/2016	Amber	EC
Interim resourcing complete	30/06/2016	Green	JP
Data sharing with initial authorities	01/04/2016	Green	IC
Anti-fraud and corruption policy	01/05/2016	Green	EC
Gate review of Business case	26/05/2016	Green	AL, JP
Data sharing agreement within 2020	01/05/2016	Green	IC
CFO's consider business case	09/06/2016	Green	JP
Senior Management consider business case		Green	CFOs
Period of Business Case consultation (Audit Committees / Joint Committee, Cabinet and Full Council where appropriate)	28/02/2017	Green	EC, JP/CFO's
Partner council approval	28/02/2017	Green	CFO's
Compliance with political process and formal decision making in relation to unit approval	28/02/2017	Green	EC, JP/CFO's
Case management system ready	TBC		AL
Data warehouse system ready	TBC		AL

## Major Risks

The following risks were evaluated and scored at the last project board which sat on the 26<sup>th</sup> April 2016.

This risk register is based on the 5 x 5 scoring model.

Risk description	Risk Owner	Date raised	I	L	Sc	Control	ml	mL	mS
If the CFU does not generate enough income to sustain operations then the unit will be downsized or deleted.	Jenny Poole	Jul-16	5	4	20	1) Actively seek new partners 2) Gather evidence for operational activity	5	3	15
If continued pressure of work is maintained due to 2020 program then GO, IT and other service providers will not be able to service CFU project needs at critical times leading to delay.	Jenny Poole	Feb-16	4	4	16	1) Good communications with service providers to understand work load 2) Feed into business planning process.	4	3	12
If the project will not gain the support from the CFO's stakeholders then the project will be closed.	Jenny Poole	Feb-16	5	3	15	1) Demonstrate success feasibility operations 2) Develop business case	5	2	10
If the unit becomes oversubscribed with work then there could be a failure in capacity to deliver	Jenny Poole	Jan-15	4	3	12	Mitigate through proactive recruitment	4	2	8
The contract for Data warehouse and Case management system will be longer than the current life of the project, there is a risk that the project will be cancelled and leave this contract in force with nobody to use it	Jenny Poole	Dec-15	2	5	10	Tolerate	2	5	10

COUNTER FRAUD UNIT

Option 2						Option 3					
4 Partners						8 Partners					
	Base	Year 1	Year 2	Year 3	Year 4		Base	Year 1	Year 2	Year 3	Year 4
	£						£				
2 Investigators	70,000					8 Investigators	280,000				
Strategic Lead	10,000					Strategic Lead	10,000				
CFU Team Leader	47,000					CFU Team Leader	47,000				
Part Time Data Analyst	24,000					Full Time Data Analyst	50,000				
Part Time Admin Support	15,000					Full Time Admin Support	30,000				
Supplies and Services	10,000					Supplies and Services	20,000				
Support Services - GOSS & Legal	10,000					Support Services - GOSS & Legal	10,000				
Data Warehouse Annual Maintenance	10,000					Data Warehouse Annual Maintenance	10,000				
SPOC Resource for all partners	30,000					SPOC Resource for all partners	30,000				
Overheads	156,000					Overheads	207,000				
Total Cost	226,000	226,000	226,000	226,000	226,000	Total Costs	487,000	487,000	487,000	487,000	487,000
Fixed Contributions:						Fixed Contributions:					
Partnership Contribution to SPOC		(30,000)	(30,000)	(30,000)	(30,000)	Partnership Contribution to SPOC		(30,000)	(30,000)	(30,000)	(30,000)
Partnership Contribution to fixed overheads		(126,000)	(126,000)	(126,000)	(126,000)	Partnership Contribution to fixed overheads		(177,000)	(177,000)	(177,000)	(177,000)
		(156,000)	(156,000)	(156,000)	(156,000)			(207,000)	(207,000)	(207,000)	(207,000)
Draw down DCLG funding		(40,000)	(30,000)	(20,000)	(10,000)	Draw down DCLG funding		(40,000)	(30,000)	(20,000)	(10,000)
Partners Contribution to Fixed Overheads		(116,000)	(126,000)	(136,000)	(146,000)	Partners Contribution to Fixed Overheads		(167,000)	(177,000)	(187,000)	(197,000)
Partner Contribution for Investigation Work						Partner Contribution for Investigation Work					
CBH		(16,500)	(16,500)	(16,500)	(16,500)	CBH		(16,500)	(16,500)	(16,500)	(16,500)
Partnership Authorities		(53,500)	(53,500)	(53,500)	(53,500)	Partnership Authorities		(263,500)	(263,500)	(263,500)	(263,500)
		(70,000)	(70,000)	(70,000)	(70,000)			(280,000)	(280,000)	(280,000)	(280,000)
Net Surplus/Defit on Unit		0	0	0	0			0	0	0	0
Net Contribution per Authority for fixed overheads and 70 days of Investigation work		42,375	44,875	47,375	49,875	Net Contribution per Authority for fixed overheads and 210 days of Investigation work		53,813	55,063	56,313	57,563
Fixed Overheads per Authority		21,500	24,000	26,500	29,000	Fixed Overheads per Authority		17,125	18,375	19,625	20,875
SPOC per Authority		7,500	7,500	7,500	7,500	SPOC per Authority		3,750	3,750	3,750	3,750
Investigation Officer Costs - 70 days		13,375	13,375	13,375	13,375	Investigation Officer Costs - 210 days		32,938	32,938	32,938	32,938
		42,375	44,875	47,375	49,875			53,813	55,063	56,313	57,563

Also need to acknowledge that each partner council will underwrite any one-off costs associated with a future reduction in the number investigator days required i.e. if CDC is required to make redundancies the partner councils will pick up their s

*share of these costs.*

## Cheltenham Borough Council Audit Committee – 21 September 2016 Future Provision of Internal Audit Services

<b>Accountable member</b>	<b>Councillor Roger Whyborn, Cabinet Member for Corporate Services</b>
<b>Accountable officer</b>	<b>Paul Jones, Section 151 Officer</b>
<b>Ward(s) affected</b>	<b>None directly</b>
<b>Significant Decision</b>	<b>No</b>
<b>Executive summary</b>	A professional, independent and objective internal audit service is one of the key elements of good governance in local government. Internal audit forms a part of the governance that provides assurance on all areas of its internal control system. This report proposes that the South West Audit Partnership (SWAP) provide the council's internal audit service from 1 <sup>st</sup> April 2017. It should be noted that the counter fraud related activity is outside of scope and will remain with the Joint Committee.
<b>Recommendations</b>	<p><b>To note this report and to endorse the selection of South West Audit Partnership (SWAP) to provide the council's internal audit service from 1<sup>st</sup> April 2017</b></p> <p><b>To consider the proposals for appointment of the chairman of the Audit Committee to the Members' Board and the Section 151 Officer to the Board of Directors</b></p> <p><b>To recommend to the 2020 Vision Joint Committee that the current arrangement with the Joint Committee be terminated on 31<sup>st</sup> march 2017 so that responsibilities for the internal audit service provision may return to the council prior to the Council entering into the new arrangement with SWAP. To recommend that Cabinet:</b></p> <ol style="list-style-type: none"> <li><b>1. Agrees that the South West Audit Partnership (SWAP) provide the council's internal audit service from 1<sup>st</sup> April 2017,</b></li> <li><b>2. Agrees to be a member council of South West Audit Partnership Limited from 1st April, 2017</b></li> </ol>
<b>Financial implications</b>	<p>As detailed throughout this report.</p> <p><b>Contact officer: Paul Jones, <a href="mailto:paul.jones@cheltenham.gov.uk">paul.jones@cheltenham.gov.uk</a> 01242 775154</b></p>

<b>Legal implications</b>	SWAP is a local authority company limited by guarantee and if the council becomes a member of the company, audit services can be obtained directly from it without the need for public procurement. Further legal implications on the proposed contractual and governance arrangements, as appropriate, will be provided in the report to Cabinet. <b>Contact officer: Peter Lewis, <a href="mailto:Peter.Lewis@tewkesbury.gov.uk">Peter.Lewis@tewkesbury.gov.uk</a>, 01684 272012</b>
<b>HR implications (including learning and organisational development)</b>	There are no direct HR implications for this Council although it should be noted that employees of Audit Cotswolds, who are employees of Cotswold District Council, will be subject to TUPE regulations. <b>Contact officer: Julie McCarthy, <a href="mailto:julie.mccarthy@cheltenham.gov.uk">julie.mccarthy@cheltenham.gov.uk</a>, 01242 264355</b>
<b>Key risks</b>	As outlined in Appendix 1.
<b>Corporate and community plan Implications</b>	None
<b>Environmental and climate change implications</b>	None.

## 1. Background

### 1.1 Internal Audit is defined by the CIPFA Guideline as:

“an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources”.

### 1.2 Auditors in the public sector have a pivotal role to play in ensuring that public funds are administered properly, economically, efficiently and effectively, in the interests of the public and there is an expectation by the community that audit is protecting the public purse.

### 1.3 In Local Government, an internal audit service is a mandatory requirement; and all principal authorities in England and Wales are required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972), to have an adequate and effective internal audit function.

### 1.4 Internal Audit services are currently provided by Audit Cotswolds to Cheltenham Borough Council, Cotswold District Council and West Oxfordshire District Council. Forest of Dean District Council receives its Internal Audit Services from South West Audit Partnership (SWAP). Forest of Dean District Council is a Member of SWAP which is a company limited by guarantee and is wholly owned and controlled, as an in-house company, by its members and is a local authority controlled company for the purposes of Part V of the Local Government and Housing Act 1989. The liability of each member is limited to £1, being the amount that each member undertakes to contribute to the assets of the Company in the event of it being wound up while it is a member or within one year after it ceases to be a member.

### 1.5 As part of the internal audit planning process for 2016/17, several 2020 partnership services areas were identified for review in both the Audit Cotswolds and SWAP audit plans. Since 2012, the GO Shared Service areas have been jointly audited by Audit Cotswolds and SWAP with a joint protocol in place which aims to avoid service areas being audited twice. However, in practice, many of the GOSS service areas are audited twice, by internal and external audit, and



there is often a third audit so that either SWAP or Audit Cotswolds can gain assurance that “local” processes are operating in accordance with the main system (e.g. payroll) internal controls.

- 1.6 This is not a very efficient arrangement and it would be preferable for one internal audit provider to be commissioned to provide internal audit services for the shared services, and/or all of the Councils’ services.
- 1.7 As SWAP is an existing local authority (‘Teckal’) company, the council (together with Cotswold DC and West Oxfordshire DC) could request to join SWAP as a member and the service change can be implemented without the requirement for a formal procurement exercise.
- 1.8 The Partnership Commissioning Group (PCG) and the Joint Committee (informally) approved an evaluation process to identify a preferred provider of Internal Audit services to the four partner councils, Cheltenham Borough Homes Ltd and Ubico Ltd. Bids were presented by the two current service providers South West Audit Partnership (SWAP) and Audit Cotswolds. Written submissions were received on 1st July 2016 and presentations on Thursday 7th July 2016.

## **2. Reasons for Recommendations**

- 2.1 Given the various perceived conflicts of interest within the Finance Officer Group (e.g. Group Manager of GO Shared Services having line management responsibility for Audit Cotswolds and GOSS Head of Finance West being a member of the Board of Directors of SWAP), Grant Thornton were commissioned to support the evaluation process. Grant Thornton supported the process both by helping with the criteria for the evaluation and by providing an independent view upon the quality of responses by the two suppliers.
- 2.2 The proposals were evaluated using a price/quality score of 40%/60%. All of the assessors recognised and valued the work which had been put into both submissions.
- 2.3 There was unanimous agreement in that SWAP scored highest in the evaluation. Some of the key reasons for this were:
  - SWAP has access to specialist skills and experience within its own resources, Audit Cotswolds proposed to buy in specialist skills which might prove difficult to resource and will be expensive;
  - SWAP was able to demonstrate itself as a leader in terms of regional/national developments in internal audit and has access to networks of contacts enabling the sharing of intelligence;
  - There will be greater resilience from SWAP as it has a larger pool of resources and is able to move resources around the partnership to provide cover when necessary.
- 2.4 The recommended provider has a proven track record of delivering quality internal audit services to 14 local councils, including Wiltshire, Herefordshire and the Forest of Dean on a not for profit basis. SWAP represented the best value for money and greatest resilience for the council as well as the option to be flexible going forward if the needs of the council changes. The council has a track record in looking at ways of working in partnership with other organisations to provide back office services more effectively. This proposal is a clear example of working with colleagues from other councils to achieve this.
- 2.5 The proposal from SWAP to the Council is to deliver the audit plan with 365 audit days for a fixed price of £94,020. This represents a base budget saving of £32,680. The SWAP proposal also presented the following advantages:
  - Capacity and resilience (i.e. cover for sickness, vacancies and an increased ability to respond to urgent requests for support).
  - A range of skills and access from a pool of over 60 staff.

- Increased training and development opportunities for staff.
- Better career opportunities for staff.
- Certainty of audit provision and cost to the council.
- Independence of the audit function.
- The ability to share resources across the authorities in the operational delivery of audit activity.
- Efficiencies through the development of collaborative work programmes.
- Access to a recognised audit management system and associated benefits from streamlining of workflow and enhanced opportunities for remote working.

### **3. SWAP and its Governance Model**

- 3.1** The South West Audit Partnership (SWAP) was established in 2005 as a Joint Committee with two initial partners. It now has a membership including ten district, two county and two unitary council's and is present in five counties.
- 3.2** Since 1st April 2013 it has been a local authority owned "Teckal"/Public Contracts Regulations 2015 compliant company limited by guarantee, wholly controlled by its owners (partner council's). It has been assessed and found to comply with the Institute of Internal Auditors Professional Practices Framework and Public Sector Internal Audit Standards (PSIAS). The governance model for SWAP is a company limited by guarantee with two governing bodies.
- 3.3** Members' Board - Each partner council nominates a Councillor to represent them on this Board. The Councillor is the Member representative (equivalent to a Shareholder Representative in a company limited by shares like Ubico Limited) and would make all decisions relating to strategy, policy, appointment and dismissal of senior management and the admission of new partners in conjunction with the other members on the Member Board in accordance with the company's governance arrangements. It is proposed that the representative for this Council will be the Chair of the Audit Committee as the Member responsible for those charged with governance.
- 3.4** Board of Directors - The Board oversees the implementation of the strategy and policy, as well as ensuring the operational activities of the partnership are achieving the objectives set by the Members' Board. In order for Board Directors to be effective, they will need a good working understanding of internal audit and risk management. It is proposed that the representative for this Council will be the Chief Financial Officer (Section 151 Officer) or his nominated deputy as it is a function of the Chief Finance Officer to direct Internal Audit and ensure that it is adequate for the Council's purposes.
- 3.5** Provision has been made in the articles for other directors to be appointed, including some SWAP management as well as two Councillors who would normally be the Chairman and Vice-Chairman of the Members' Board.
- 3.6** Appendix 2 details the respective roles of the two Boards and SWAP Management.

### **4. Conclusion**

- 4.1** Despite not having natural geographical boundaries with our existing GO Shared Services partner councils, the 'willingness' to work together and share best practice has already delivered success. The key objectives from the original GO Programme were cashable savings, staff retention and opportunities, service efficiencies, service resilience and enhanced reputation.
- 4.2** It is evident from the SWAP proposal that these objectives will be fulfilled and is further evidence that this Council is open-minded to the delivery of services which provides value for money for its residents

<b>Report author</b>	<b>Contact officer: Paul Jones</b> paul.jones@cheltenham.gov.uk, 01242 264125
<b>Appendices</b>	Appendix 1 – Risk Assessment  Appendix 2 – Duties and responsibilities
<b>Background information</b>	

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If Audit committee do not recommend to Cabinet for approval by Full Council that the South West Audit Partnership (SWAP) provide the council's internal audit service from 1st April 2017 then there may be an increased risk to the Councils reputation due to the need to increase skills and resource capacity to provide effective governance and assurance.	CBC Section 151 officer	21 September	4	3	12	Reduce	Enter into an agreement with SWAP to provide the Councils Internal Audit Service  Challenge existing internal governance frameworks so that audit committee can be assured that there are effective internal controls and reporting processes in place which take account of an increased range of products and services that SWAP can offer.	1/4/2017	Lead officer for Internal Audit provision	

## Duties and Responsibilities

The governance of the company is split between three separate groups: the Members (owners), the Board of Directors and the executive or Management. Each has a distinct set of responsibilities although, inevitably, there is some overlap. Broadly, the Members set strategy and make key decisions regarding the governance structure, budgets and assets. The Board of Directors oversees the implementation of the strategy and monitors the overall performance of the company. Management run the company, on a day-to-day basis, in accordance with the strategy and the direction provided by the Board of Directors.

Members' Board	Board of Directors	SWAP Management
<ul style="list-style-type: none"> <li>• Admission of new partners</li> <li>• Approval of the Annual Business Plan</li> <li>• Any changes to the approved Annual Business Plan</li> <li>• Any changes to the Articles of Association</li> <li>• Any changes to the Partners' legal agreements</li> <li>• Setting of the annual budget</li> <li>• Approval of annual accounts</li> <li>• Appoints external auditors</li> </ul>	<ul style="list-style-type: none"> <li>• Agrees the preliminary budget, for submission to the Member's Board for approval</li> <li>• Approves any significant changes to the budget distribution, except in relation to any proposals which would lead to an increase in Member contributions</li> <li>• Reviews and approves the annual accounts and balance sheet, prior to submission to the Members' Board</li> <li>• On-going, high-level, budget monitoring</li> <li>• Agrees combined audit plan and monitors equity of resource distribution amongst the Members</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring and maintenance of approved budgets</li> <li>• Maintenance of proper accounts and submission of tax returns</li> <li>• Supervision and management of all staff employed by the company</li> <li>• Appoints and dismisses staff in accordance with approved HR and recruitment policies.</li> <li>• Delivery of the approved combined audit plan.</li> <li>• Procurement of all goods and services, in accordance with financial regulations.</li> <li>• Monitoring of individual and collective staff performance.</li> </ul>

<ul style="list-style-type: none"> <li>• Extending or reducing the scope of operations</li> <li>• Appointment or removal of non-executive Directors, in accordance with the Articles and the legal agreement</li> <li>• Setting and approving the form and content of the financial regulations</li> <li>• Appoint or remove the Chief Executive or any executive director</li> <li>• Change the name of the Company or its registered office</li> <li>• Change the bankers of the Company or open or close any bank accounts</li> <li>• License, assign or otherwise dispose of intellectual property rights owned by the Company</li> <li>• Approves and reviews the annual risk register</li> <li>• Approves the acquiring of any asset with a value in excess of £50K, unless included in the approved budget</li> </ul>	<ul style="list-style-type: none"> <li>• Agrees any significant changes to the combined audit plans that negatively impacts on the partnership</li> <li>• Approves and reviews annual themed audits to ensure best practice is shared with relevant service heads at each Member</li> <li>• Monitors overall performance of the company, via a balanced scorecard approach.</li> <li>• Reviews and monitors the risk register to ensure risks are managed in accordance with the requirements of the Members' Board</li> <li>• Approves major changes and monitors terms and conditions of staff</li> <li>• Recommends to the Members appointment or removal of executive directors</li> <li>• Appoints three non-executive directors to hear staff disciplinary appeals</li> <li>• Reviews and recommends for approval the annual and strategic business plan</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment and maintenance of staff development and training policies and budgets.</li> <li>• Maintaining the partnership IT infrastructure sufficient to ensure continuity of service, utilising support from other provider(s) for back office provision.</li> <li>• Ensuring equity in the delivery of internal audit services to all Partners.</li> <li>• Maintain sufficient internal audit resources to ensure approved audit plans are delivered.</li> <li>• Obtaining additional, non-partner related, work up to the maximum permitted under the 'Teckal' exemption</li> <li>• Developing, implementing and maintaining a marketing plan for the company</li> <li>• Maintaining continuous monitoring of risks, utilising a corporate risk register, that are, or may, impact the company</li> <li>• Developing and maintaining a business plan that is approved by both boards</li> </ul>
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<ul style="list-style-type: none"> <li>• Approves the acquiring of any land or property by the company</li> <li>• Approves the annual and strategic business plan</li> </ul>	<ul style="list-style-type: none"> <li>• Reviews and approves business case for admission of new Members, for submission to the Members' board</li> </ul>	
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Audit Committee 2016-17 work plan

Item	Author	Decision / Discussion
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21 September 2016		
Briefing (to agree agenda): 8 August 2016	Officers and GT liaison: tbc	Reports to DSU by: Fri 9 Sept 2016
Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience		Grant Thornton
Review of annual statement of accounts		Finance Team
Internal audit monitoring report		Internal Audit
Whistle Blowing Policy – review the revised policy		Emma Cathcart
Counter Fraud Unit Update and Counter Fraud Unit Business Case		Emma Cathcart
Future of Internal Audit provision		Paul Jones
11 January 2017		
Briefing (to agree agenda): 31 November 2016	Officers and GT liaison: tbc	Reports to DSU by: Wed 21 Dec 2016 (early / bank hols)
Audit committee update		Grant Thornton
Annual audit letter (for the previous year)		Grant Thornton
Certification of grants and returns (for the previous year)		Grant Thornton
Internal audit monitoring report MUST BE AT END OF AGENDA DUE TO CBH CLASH		Internal Audit
Counter Fraud update		Emma Cathcart
Annual governance statement – significant issues action plan		Bryan Parsons
Purchase Order monitoring (6 month follow-up)		Sarah Didcote
22 March 2017		
Briefing (to agree agenda): 7 February 2017	Officers and GT liaison: tbc	Reports to DSU by: Fri 10 March 2017
Audit committee update		Grant Thornton
Audit plan (for the current year)		Grant Thornton
Auditing Standards – communicating with the Audit Committee		Grant Thornton
Annual plan (for the upcoming year)		Internal Audit
Internal audit monitoring report		Internal Audit
Counter Fraud update		Emma Cathcart

Audit Committee 2016-17 work plan

Item		Author	Decision / Discussion
Annual review of risk management policy		Bryan Parsons	
Annual review and approval of RIPA guidance policies		Emma Cathcart	
Approval of the Code of Corporate Governance		Bryan Parsons	
<b>14 June 2017</b>			
<b>Briefing (to agree agenda):</b> 24 April 2017	<b>Officers and GT liaison:</b> tbc	<b>Reports to DSU by:</b> Fri 2 June 2017	
Audit committee update		Grant Thornton	
Internal audit opinion (for the previous year)		Internal Audit	
Internal audit monitoring report		Internal Audit	
Counter Fraud update		Emma Cathcart	
Annual governance statement		Bryan Parsons	
Annual Audit Fee letter for the coming year		Grant Thornton	
Annual counter fraud report		Rob Milford	

Items to be added at a future date (future dates will not be agreed until March 2016)		
ANNUAL ITEMS (standing items to be added to the work plan each year)		
January	Audit committee update	Grant Thornton
	Annual audit letter (for the previous year)	Grant Thornton
	Certification of grants and returns (for the previous year)	Grant Thornton
	Internal audit monitoring report	Internal Audit
	Counter Fraud update	Emma Cathcart
	Annual governance statement – significant issues action plan	Bryan Parsons
March	Audit committee update	Grant Thornton
	Audit plan (for the current year)	Grant Thornton
	Auditing Standards – communicating with the Audit Committee	Grant Thornton

Audit Committee 2016-17 work plan

Item		Author	Decision / Discussion
	Annual plan (for the upcoming year)	Internal Audit	
	Internal audit monitoring report	Internal Audit	
	Counter Fraud update	Emma Cathcart	
	Annual review of risk management policy	Bryan Parsons	
	Annual review and approval of RIPA guidance policies	Emma Cathcart	
	Approval of the Code of Corporate Governance	Bryan Parsons	
June	Audit committee update	Grant Thornton	
	Internal audit opinion (for the previous year)	Internal Audit	
	Internal audit monitoring report	Internal Audit	
	Counter Fraud update	Emma Cathcart	
	Annual governance statement	Bryan Parsons	
	Annual Audit Fee letter for the coming year	Grant Thornton	
	Annual counter fraud report	Rob Milford	
September	Audit committee update	Grant Thornton	
	Audit highlights memorandum - ISA 260 (for the previous year) inc. Financial Resilience	Grant Thornton	
	Internal audit monitoring report	Internal Audit	
	Counter Fraud update	Counter Fraud	
	Review of annual statement of accounts	Finance Team	

