

Notice of a meeting of Audit, Compliance and Governance Committee

Wednesday, 12 January 2022 6.30 pm Council Chamber - Municipal Offices

Please note this meeting will be preceded by training at 5.30pm

Membership	
Councillors:	Guy Maughfling (Chair), David Willingham (Vice-Chair), Matt Babbage, Flo Clucas, John Payne, Richard Pineger and Jo Stafford

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

Agenda

1.	APOLOGIES	
2.	DECLARATIONS OF INTEREST	
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3.	MINUTES OF THE LAST MEETING	(Pages
	22 September 2021	3 - 6)
4.	PUBLIC AND MEMBER QUESTIONS	
4.	These must be received no later than 12 noon on the fifth	
	working day before the date of the meeting	
	working day before the date of the meeting	
5.	AUDIT COMMITTEE UP-DATE	
	Verbal up-date from Grant Thornton.	
6.	AUDITOR'S ANNUAL REPORT	(Pages
	Grant Thornton	7 - 44)
_	AUDIT FINDINGS DEPORT 6000 64	(5)
7.	AUDIT FINDINGS REPORT 2020-21	(Pages
	Grant Thornton report up-dated since last committee	45 - 90)
	meeting for information. The sections that have changed	
	since the previous committee are highlighted in blue.	
8.	FINAL STATEMENT OF ACCOUNTS 2020/21	(Pages
	Report of Deputy Section 151 Officer	91 -
		228)

9.	INTERNAL AUDIT PROGRESS REPORT	(Pages
J.	Lucy Cater, Assistant Director, SWAP Internal Audit Services	229 - 258)
10.	FUTURE PROVISION OF EXTERNAL AUDIT FROM 2023/24 Gemma Bell, Head of Property, Finance and Assets	(Pages 259 - 286)
11.	WORK PROGRAMME	(Pages 287 - 288)
12.	ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
13.	DATE OF NEXT MEETING 20 April 2022	
14.	IT SECURITY UP-DATE Report of Tony Oladejo, ICT Audit and Compliance Manager and John Chorlton, Chief Technology Officer to be noted.	(Pages 289 - 298)
	Report to be debated by Members in exempt session.	
15.	INFORMATION The committee is recommended to approve the following resolution:- "That in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the	
	nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraphs 3 & 7, Part (1) Schedule (12A) Local Government Act 1972, namely:	
	Paragraph 3; Information relating to the financial or business affairs of any particular person (including the authority holding that information)	
	Paragraph 7; Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.	

Contact Officer: Democratic Services, 01242 264130 Email: <u>democratic.services@cheltenham.gov.uk</u>

Audit, Compliance and Governance Committee

Wednesday, 22nd September, 2021 6.00 - 7.25 pm

Attendees		
Councillors: Guy Maughfling (Chair), David Willingham (Vice-Chair),		
	Matt Babbage, John Payne and Richard Pineger	
Also in attendance: Barrie Morris, Gemma Bell, Emma Cathcart, Jaina Mistry and Jayne Gilpin		

Minutes

1. APOLOGIES

Apologies had been received from Cllr Clucas and Cllr Stafford.

2. DECLARATIONS OF INTEREST

Cllr Pineger declared an interest as a Non-Executive Director of Cheltenham Borough Homes.

3. MINUTES OF THE LAST MEETING

RESOLVED THAT the minutes of the meeting held on 14 July 2021 be approved and signed as a correct record.

4. PUBLIC AND MEMBER QUESTIONS

There were none.

5. BUSINESS GRANT SCHEMES

Jayne Gilpin, Head of Revenues and Benefits, introduced the Business Grant Schemes Report and gave an overview of the Covid-19 business grant schemes, highlighting that the business grants team had administered 13 different grant schemes during the period of March 2020 and July 2021. This amounted to over 10,500 grants being paid out totalling over £48 million to eligible businesses. The report acknowledged the vast amount of work that had been done by the Revenues and Benefits team and others in support.

Members expressed their appreciation of the speed in which the grants were delivered in challenging circumstances and the vast amount of hard work that this had entailed to enable businesses to keep going.

A member questioned the amount of the individual grants and the Officer advised that the government grant schemes were fixed sums and were usually based on the rateable value of the property and not its turnover.

The small level of fraud claims encountered vis a vis the number of grants paid was commended and the Officer stated that Counter Fraud helped with the fraud cases. The level of support the team gave to members to help find

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businesses in their wards and to encourage them to apply for the grants was also praised.

On behalf of all councillors, members expressed their thanks to the staff for their great effort to keep businesses running and showed this with a round of applause.

RESOLVED that the report be noted.

6. GRANT THORNTON AUDIT FINDINGS FOR CHELTENHAM BOROUGH COUNCIL

Barrie Morris from Grant Thornton presented the report on its Audit Findings for the Council and went through it in detail to members. Additional papers were handed out at the meeting to reflect the latest up-to-date position as the audit still had to be completed and any changes were highlighted in blue for members. Mr Morris confirmed he hoped to have the Audit completed by the end of September.

In reply to a question on the use of capital receipts, the Head of Finance replied the impact on the MTFS will be minimised and the policy to use capital receipts in this way was time limited. The MRP policy is required to be reviewed annually and will report back to Cabinet as part of the draft budget proposal.

There were various questions about Minimum Revenue Provision (MRP) and it was requested that a separate note be sent By Grant Thornton to members explaining this further.

The Chair declared he was a qualified Accountant and wished it recorded that Grant Thornton agreed with him that to a layman this looked alright as a one-off but that it was a bad habit to get into. The Chair also requested it be noted that Grant Thornton would be reviewing the 2021/22 figure with interest given 2020-21 was a particularly unique circumstance.

In reply to a question, Grant Thornton explained there were a range of criteria that they applied in order to flag up any journals where information was missing. A member questioned whether the IT system Agresso could be programmed so that journals could not be uploaded if certain information was missing to avoid Grant Thornton having to do this work. The Head of Finance agreed this was something that would be looked into.

Grant Thornton said they continued to work with Officers as they amended and up-dated the financial statements and asked that the Chair sign the letter of representation that had been tabled earlier. A copy of the final report would be circulated once finalised. Grant Thornton hoped the work would be completed by the end of the year.

AGREED that the report be noted and Grant Thornton thanked.

7. DRAFT STATEMENT OF ACCOUNTS 2020/21

Gemma Bell, Head of Property, Finance and Assets, introduced the Draft Statement of Accounts, stating that the accounts published on 21 July 2021 had

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been subject to Audit and included all changes up to 14 September as well as those submitted by Grant Thornton at the meeting today.

It was explained that that Value for Money report was separate and would be provided later and would not affect the Statement of Accounts.

RESOLVED that:

- a) The draft statement of accounts be approved in principle.
- b) Delegated authority be granted to the Chair to sign the final version of the accounts.

8. INTERNAL AUDIT PROGRESS REPORT

Jaina Mistry of SWAP Internal Audit Services introduced the Internal Audit Progress report, which was the quarterly up-date. Since the last meeting four pieces of work had been concluded and the report highlighted the current situation.

Assurance was given that the Council would be working with Publica to get all the agreed actions from the systems administration audit followed up and progressed as a high priority and that the ICT recovery would be dealt with expediently. It was noted that some of the actions were still open or overdue and a member encouraged the Council to ensure these were followed up. The Officer confirmed that some had been closed since the report had been written.

A member expressed concern at the lack of urgency in the ICT issues which could impact the business continuity of the Council and felt an expression of concern was needed that these were not being done in a timely manner and for ICT to be aware of the impact of a failure on business continuity. The Officer agreed to follow up on this and suggested an ICT Manager could come and speak to Members. The Head of Finance also added that ELT was looking at business continuity across the entire Council and reports on progress on this would come to committees in the forthcoming year.

A member made comment about the number of categories in the assurance opinion graphics of the summary reports and whether it was excessive.

The Chair concluded that the committee supported the work of Internal Audit and that it was a crucial control of the Council and wished it noted that the committee would want to see that the work and comments of Internal Audit were responded to in a timely fashion.

RESOLVED that the progress report be considered and comments noted.

9. COUNTER FRAUD UPDATE

Emma Cathcart, Counter Fraud Unit Manager, introduced the report up-dating members on their counter fraud activities and work plan.

She highlighted their involvement with the business grants schemes that had been discussed earlier and stated that a lot or work had been done around prevention and ensuring robust application processes. In addition national matching on all business grant data was now coming through providing further assurance.

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Work with the Revenues and Benefits Team was now reverting back to more business as usual, looking at council tax reduction scheme referrals and joint working with the Department for Work and Pensions. The report included an up-date on the work with Cheltenham Borough Homes.

A member noted that over half a million pounds of public money had been saved or recovered by the Counter Fraud team, which was very impressive and the Chair and committee gave thanks to the team.

RESOLVED that the report and work plan be noted.

10. USE OF THE INTERNET AND SOCIAL MEDIA IN INVESTIGATIONS AND ENFORCEMENT

Emma Cathcart, Counter Fraud Unit Manager, introduced the report stating this was the third policy relating to the Regulation of Investigatory Powers Act 2000 / Investigatory Powers Act 2016. This policy regulates and manages how staff utilise the internet and social media accounts when investigating offences. The policy and related training will ensure staff were aware of regulations regarding surveillance when gathering intelligence. She hoped the policy was relatively straight forward and also stated there was a lengthy procedural document which would not be published as that was for staff.

In reply to a question about how deeply investigations into Facebook accounts could delve and how this related to data protection, the Officer explained that when investigating criminal allegations there was a data protection exemption and strict legislative procedures governing what and how evidence was obtained.

RESOLVED that the use of internet and social media in investigations and enforcement was considered with no further comment for Cabinet.

11. WORK PROGRAMME

This was noted and there were no amendments.

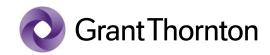
12. ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION

None.

13. DATE OF NEXT MEETING

12 January 2022.

Guy Maughfling Chairman





21 December 2021 - FINAL

2020-21



Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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C - An explanatory note on recommendations

D - Use of formal auditors' powers

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. In March 2020 the Council was one of the first to introduce emergency decision making powers, issued a recovery strategy in May 2020, a revised budget in November 2020 and issued £47.3m in business and community grants in 2020/21.

We have not identified any significant weaknesses, but have identified 14 opportunities for improvement which are set out in detail within our report.

Criteria	Risk assessment	Finding
Improving economy, efficiency and effectiveness	Risk identified because of limited performance reporting to elected members.	No significant weaknesses in arrangements identified, but five improvement recommendations made.
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but three improvement recommendations made.
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but five improvement recommendations made.

No significant weaknesses in arrangements identified.
No significant weaknesses in arrangements identified, but improvement recommendations made.
Significant weakness in arrangements identified and key recommendation made.

Financial sustainability



The Council has a good track record of sound financial management and delivered an underspend of £395,000 in year, after taking into account central government funding and the Council revising its 2020/21 budget. Overall we are satisfied that the Council had appropriate arrangements in place to manage the risks it faced in respect of its financial resilience. We have not identified any risks of significant weakness but have identified opportunities for improvement that reflect the importance of the commercial strategy to balancing the Council's financial position. The recommendations seek to ensure that sufficient detail on the financial impact of the strategy and the financial performance of investment property is reported to Members as part of the budget setting and outturn process.

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Governance

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks. The Council operated under emergency decision making arrangements until virtual meetings could be introduced. We have identified opportunities for improvement, in particular that the Council improvits risk management arrangements by ensuring that the corporate risk register is reviewed by a formal committee meeting.



Improving economy, efficiency and effectiveness

We have not identified any risks of significant weakness, but we have identified areas for improvement. The Council, prior to 2020/21, had recognised that it needed to improve its performance management system and began the process of identifying its key performance indicators that enable it to monitor progress against the corporate plan. The Council also began to develop its online performance management system 'Clearview'. However, due to the pandemic and the need to refocus priorities, the new performance management system could not be fully implemented. Whilst we recognise that the Council is in the process of developing its performance management arrangements and framework, we have issued an improvement recommendation to ensure arrangements continue to progress in 2021/22.



Opinion on the financial statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July to October 2021. Full details of our findings from the audit are detailed in our Audit Findings Report dated 28 October 2021.

Our audit identified two adjustments to the financial statements that had no overall financial impact on the Council's Comprehensive Income and Expenditure Statement. We also identified a number of other adjustments which impacted the disclosure notes together with unadjusted errors which were not amended on the basis of materiality.

We raised recommendations for management as a result of our audit work.

We provided an unqualified audit opinion on 29 October 2021. There were a number of areas where we believe that the overall management of the financial statements audit could be improved and we have held discussions with officers on how we can make these improvements in future years.



Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their Annual Governance Statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's (NAO) Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.





Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages six to 30. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

- responded to the financial challenges posed by the Covid-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn 2020/21

The 2020/21 General Fund outturn position, after taking into account the costs of the pandemic, was a £0.395m underspend against the revised budget. The outturn position includes £2.915m in lost car parking income. The Housing Revenue Account (HRA) achieved an operating surplus of £1.437m, a reduction of £0.013m from the revised budget.

General Fund capital expenditure was £3.857m which represents a £3.532m underspend against the revised budget for 2020/21. HRA capital expenditure totalled £17.136m, an underspend of £1.758m against the revised budget.

Covid-19 arrangements

Covid-19 posed a significant financial challenge to the Council's financial sustainability, resulting in additional costs of £1.16m, reductions in income of £4.33m and unachieved savings of £0.25m. These pressures were partly offset by government funding of £1.54m in general Covid-19 grant and £2.74m sales, fees and charges (SFC) compensation grant, to give a net cost of £1.47m. The Council responded to the financial challenges of the pandemic by setting a revised budget in November 2020. This recognised that in-year savings targets relating to environmental services and the modernisation programme would not be achieved and that there would be significant reductions to income, particularly in respect of demand led services such as car parking. These pressures were balanced through the financial support from the government, plus the Council's temporary revision to the Minimum Revenue Provision (MRP) policy, which we subsequently identified as part of the financial statements audit as not, in our view, being fully compliant with the regulations regarding the use of capital receipts.

Budget 2021/22

The 2021/22 budget was set based on the funding announced in the local government finance settlement. This froze the Council's funding assessment at current levels but introduced additional measures to support councils through their recovery from the pandemic, such as an additional tranche of general Covid-19 funding and SFC compensation grant. The Council's strategy with regard to these additional funding streams was prudent in allocating the general grant to reserves and by not including the SFC grant in the base budget, so that it was available to offset potential reductions in income.

The 2021/22 budget was focussed on recovery and growth in key priority areas and did not rely heavily on achieving service savings to balance the overall financial position, other than £0.15m forecast savings from the modernisation programme and £0.2m from pension payments. In these circumstances there was not a detailed consideration of alternative proposals. The revision to the MRP policy accounted for a saving of £1.647m, although we have recommended that this be reviewed in the current and future years as, in our view, the use of capital receipts to offset MRP is not in line with the regulations. The budget also included a £5 or 2.34% increase in council tax in accordance with referendum limits, which achieved £0.178m additional income after taking into account a 0.4% reduction in the tax base due to Covid-19.

The 2021/22 budget rolled forward the sales, fees and charges budgets at 2020/21 levels. However, carparking income has not recovered due to new working and shopping habits that developed during the pandemic and further lockdown periods in the new financial year. The August 2021 budget monitoring position forecasts a net overspend of £0.740m for car parking income. This risk was recognised in the S151 Officer's Section 25 statement that accompanied the budget, and mitigation measures were included, for example the car parking equalisation reserve and within the risk based calculation for general fund balances. There was also a strategy to leave budgets at the 2020/21 levels in the knowledge that the quarter one SFC compensation grant could be used to offset any adverse variances.

Therefore, while the assumption in the budget for car parking fees now appears overoptimistic, it is not considered an indicator of significant weakness in arrangements due to these mitigating actions.

Our work has confirmed that expected investment and borrowing activity is reflected in the annual budget, that the budget is informed by the MTFS, and that there is adequate internal and external engagement in the budget setting process. We have made an improvement recommendation that the Council should consider whether there would be benefit in producing and publishing budget books as a single accessible source of detailed budget information for Members, officers and the public. It would enable interested parties to drill down to more detailed service cost information and would contribute to a better understanding of the budget and potential for improved challenge during the year. The budget book could include relevant non financial information such as employee data and service performance information.

Overall we found no evidence of significant weaknesses in the Council's budget setting arrangements. Work is currently progressing on refreshing the budget and progress will be reported to Cabinet in December 2021.

Medium term financial strategy (MTFS)

The Council has balanced its MTFS forecasts for the period 2022/23 to 2024/25 through a combination of savings and income generation targets in addition to temporary measures such as contributions from the Budget Strategy Support Reserve (BSSR) and reduced MRP payments. The Council's commercial strategy aims to improve services, enable economic

growth and make the Council financially sustainable. In total the MTFS requires significant savings and additional income that total of £3.082m, a temporary MRP saving of £1.647m and, a net £0.474m contribution from the BSSR reserve during the period 2022/23 to 2024/25 in order to achieve financial balance.

Balancing the MTFS				
	2022/23	2023/24	2024/25	Total
	£k	£k	£k	£k
Savings Strategy				
Place and Growth	50	350	750	1,150
People and Change	250	150	150	550
Finance and Assets	607	255	520	1,382
Total Savings Strategy	907	755	1,420	3,082
Budget Strategy (Support) Reserve	-335	814	-5	474
Minimum Revenue Provision (MRP)	1,647	0	0	1,64
				<u> </u>
Total Savings Strategy and MRP	2,219	1,569	1,415	5,20

As a consequence of the commercial strategy, the Council's revenue budget does rely on significant levels of commercial income. Net income from investment properties was £3.428m for 2020/21 with the budget for 2021/22 set at £3.767m. The MTFS savings strategy over the period 2022/23 to 2024/25 includes increases to investment and commercial income, plus increases in tax base, as set out below.

Savings Strategy: Investment and Commercial Income Targets				
	2022/23	2023/24	2024/25	Total
	£k	£k	£k	£k
West Cheltenham - taxbase and regeneration		200	600	800
North West Cheltenham - taxbase		100	100	200
Existing investment portfolio income generation	150	50	50	250
Commercial income generation opportunities	50	50	50	150
Minster Innovation Exchange	57	55	20	132
North Place - taxbase			150	150
Total Investment and Commercial Income Target	257	455	970	1,682

Due to the importance of the commercial strategy to the Council's MTFS, the timing and deliverability of schemes such as Cyber Central and the Minster Innovation Exchange will need to be closely monitored to ensure that the targets in the MTFS remain achievable. Reporting to Cabinet and Council should be sufficiently detailed to understand the associated financial risks within the revenue budget.

At present the budget summaries presented to Members during the annual budget setting process net off interest payable, interest income, and income and expenditure from investment properties. MRP costs are reported net with the reversal of depreciation charges. We are making an improvement recommendation that these key income and expenditure streams should be reported separately to aid transparency and understanding of their contribution to the budget, making cross referencing to the Treasury Management, Capital Investment and Investment Strategies easier.

The outturn reported to Cabinet for investment property income and expenditure is on a summarised net basis as a single line for outturn compared to budget. There is no detailed reporting to Members on the performance of the commercial investment portfolio. An improvement recommendation has been made that a more detailed analysis of outcomes against financial and performance objectives should be reported to Cabinet for this key element of the budget and commercial strategy.

The council models a 0.8% increase in the tax base from 2022/23. This is based on government assumptions when modelling reductions to revenue support grant. An improvement recommendation has been made that the Council should ensure that estimates of council tax growth reflect local factors and are achievable in the context of the significant additional tax base growth already factored into the MTFS for West and NW Cheltenham and North Place. The Council should also consider potential corresponding additional service costs, for example refuse collection, where significant increases in income from additional housing is forecast.

Our work has found that financial planning does adequately address the implications of the annual funding settlement and is based on realistic assumptions. Financial plans appropriately reflect the impact of significant partners and group entities such as Ubico Ltd and Gloucestershire City Airport. Plans are kept under review and a flexible approach is

taken where adverse variances are identified, as demonstrated in the 2020/21 recovery budget. We note that the MTFS is set for a period of current year plus four, while best practice is for a current year plus five model.

We have found no evidence of significant weakness in the Council's financial planning arrangements, but we have made recommendations to improve the transparency of reporting on key income and expenditure streams relating to commercial activity and to ensure tax base increases reflect local context.

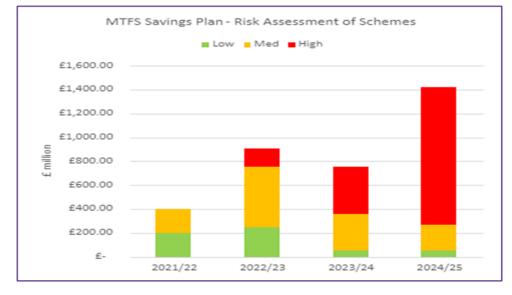
Delivery of savings plans

The 2021/22 budget includes relatively few service savings. The MTFS does include significan income and savings targets that total £3.082m during the period 2022/23 to 2024/25. Futura uear savings represent targets rather than worked up specific plans, with a significant proportion relating to corporate priorities such as Cyber Central and commercial activity. During the term of the MTFS, increases in tax base and regeneration are forecast to contribute £1.0m from West and NW Cheltenham. Increases in the investment portfolio and commercial income are forecast to raise an additional £0.4m.

The savings schedule presented with the annual budget setting report details the savings that are included in the MTFS along with an associated RAG rating. We note that while the risk based general fund reserve calculation provides for mitigation if savings forecast for 2021/22 are not achieved, there are significant savings targets RAG rated as red in 2023/24 and 2024/25, which total £1.55m. The table overleaf demonstrates the reliance on red RAG rated savings targets in the MTFS.

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Due to the importance of the red RAG rated commercial strategy schemes to balancing the MTFS they will need to be closely monitored going forward to ensure that the income targets remain achievable.

Our work has not identified evidence of significant weakness in the delivery of the Council's saving plans.

Managing financial risk

The Council has appropriate arrangements for incorporating risks into its financial plans, with all budget reports including a financial risk assessment appendix. As part of the budget setting process for 2021/22, the Section 25 Statement provided a detailed commentary on the risks

within the budget and how these should be addressed as part of the risk based calculation of minimum general fund balances. The MTFS recognises the financial risks associated with the fair funding review and business rate reset by modelling reductions to business rate income in 2022/23.

Cash flow forecasting has been undertaken during 2020/21 and no projected gaps were identified. The cash position was eased by the various sources of government funding and support to businesses that were paid through the Council.

We have found no evidence of significant weakness in the Council's arrangements for managing financial risk.

Capital strategy and treasury management

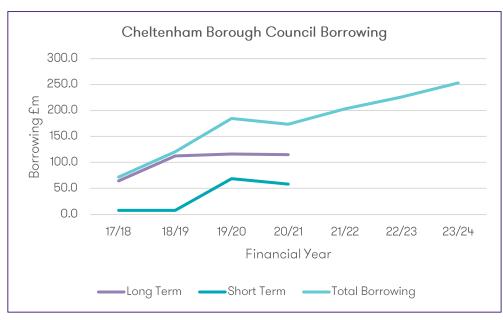
The Council approves the Capital Strategy, Investment Strategy and Treasury Managemen Strategy annually. These reports set out the risks associated with the different types of investment held by the Council, how the capital programme will be funded over the period content MTFS, including the amount of borrowing required. These reports provide evidence that the Council is considering the balance between managing risk and optimising return in its borrowing and investment activities.

The Council approved a total capital programme of £48.432m for 2021/22, comprising £24.026 general fund and £24.406m HRA expenditure. The Council has reviewed its capital programme and strategy in light of the new Public Works Loan Board rules that seek to prevent councils borrowing when they have investments purely for yield in their capital plans. The revised Capital Strategy 2021/22 provides a clear link between the major projects within the capital programme and how they help achieve corporate priorities.

The 2020/21 outturn position was £3.532m of slippage to the general fund capital programme against a revised budget of £7.389m. While Members were asked to approve the carry forward amounts into 2021/22, there were no explanations for the variances. We found that actual general fund spend to date was only reported in detail as part of the year end outturn. We have made an improvement recommendation that providing standardised capital monitoring that includes original and revised budget, spend to date and anticipated

slippage supported by reasons for variances, would increase transparency and allow challenge over the delivery of the programme.

The council had £173.7m of outstanding debt as at 31 March 2021 which represents a reduction of £11.2m from the previous year. The Council has increased its levels of borrowing significantly over the last four years to fund investments relating to the commercial strategy, Cyber Central and the HRA. The projections in the 2021/22 Capital Strategy are that debt will continue to rise. The table below shows the Council had £72.1m of borrowing outstanding as at 31 March 2018 and this is projected to rise to £253.0m by 31 march 2024, an increase of some 250%.



Going forward, the Council will need to adequately reflect the repayment costs of this borrowing in the revenue budget. The MRP Statement approved by Council in March 2021 forecasts MRP payments of £0.430m for 2021/22. This compares to the 2020/21 MRP Statement that forecast MRP of £2.062m. The reduction reflects the Council's revised policy that utilises capital receipts in year to reduce MRP charged to revenue.

From our value for money and financial statements audit work we have found no risk of significant weakness in the Council's arrangements for managing capital and treasury activity. However, the Audit Findings Report recommends that the Council reviews the MRP policy to ensure that it charges a prudent level of MRP in future years.

Reserves

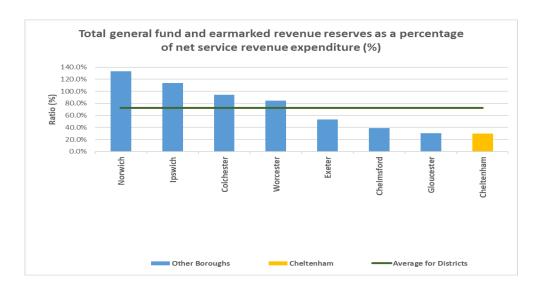
As part of the 2021/22 budget a risk based approach was taken to the calculation of a £1.70 minimum prudent level of GF reserves. This exceeds the CIPFA benchmark for minimum GF balances which range from 5-10% (£0.708m - £1.416m), and recognises the specific risks with the budget such as reductions in income. The forecast level of GF reserves reported at outtuences a balance of £1.756m as at 31 March 2022, but this is dependent on the £0.544m Covid-19 grant being allocated to the balance in 2021/22.

The Council does have other earmarked reserves that are available to manage unforeseen budget variances such as the new initiatives transformation reserve, pension and restructuring reserve and the car parking equalisation reserve.

A £0.814m contribution from the Budget Strategy Support Reserve (BSSR) is required to deliver financial balance in 2023/24. The projections within the MTFS indicate that there will be sufficient resources in the reserve to make this contribution, provided there are no calls on these funds to balance 2021/22, and a further contribution to the reserve of £0.335m is made in 2022/23. The funding of the BSSR is recognised as a corporate risk and going forward the Council should ensure that there are sufficient funds available in the reserve to support the budget.

The table overleaf shows that when comparing total general fund and earmarked reserves as a percentage of net service spend, the Council ranks lowest in comparison to its seven preferred comparator authorities, with a ratio of 29.7% compared to an average of 72.3% for these councils.

The data used is for 2019/20 as reserve levels in 2020/21 are skewed by the S31 business rate grant to fund the collection fund deficit. In mitigation, the Council's general fund balance is forecast to exceed the CIPFA benchmark of 5-10% of the net budget as at 31 March 2022 with a forecast balance of £1.756m, or 12.4%, reported to Council in July 2021. The S151 Officer's Section 25 Statement that accompanies the budget contains a detailed and comprehensive analysis of risk and assumptions and sets out the risk based calculation for the minimum prudent level of general fund reserves. However, when refreshing the MTFS the Council should ensure that levels of reserves provide sufficient financial resilience, particularly in the context of the pressure on the Budget Strategy (Support) Reserve and dependence on the Covid-19 grant to achieve the minimum prudent balance for un-earmarked reserves.



Sustainable delivery of services

Financial planning demonstrates an understanding of the costs of delivering core statutory services as distinct from discretionary areas of spend. This is clearly evidenced in the Covid-19 recovery budget where alternative proposals to balancing the budget are put forward, including ending or severely curtailing non-statutory services.

Discretionary spend is prioritised to support the corporate strategy, for example the agreed budget growth for 2021/22 relates to climate change, environmental services, economic development and apprenticeships.

The commercial strategy is a key element of the MTFS in generating additional income and clearly links to corporate priorities around place making, economic growth and digital transformation.

Therefore we see a coherent link between corporate priorities and the design of the budget, particularly in regard to investment in services and the approach to financial sustainability. We found no evidence that the council has been unable to deliver its financial plans, other than the impact of Covid-19.

Consistency between financial and other corporate plans

Budget reports clearly set out any HR implications and the approved revenue growth items included in the 2021/22 budget include additional staff resource for climate change, economic development and apprenticeships. The Modernisation Case for Change approved in March 2019 sets out the benefits of modernisation, including the benefits to employees through investing in and developing staff, with the supporting organisational development workstream ensuring employees have the appropriate knowledge, skills and behaviour to support the target operating model. The modernisation programme includes a People Strategy and Action Plan. The MTFS includes savings targets of £0.45m relating to the modernisation programme.



1	Recommendation	The Council should consider whether there would be benefit in producing and publishing budget books as a single accessible source of detailed budget information for Members, officers and the public.
	Why/impact	Budget books would enable interested parties to drill down to more detailed service cost information and would contribute to a better understanding of the budget and potential for improved challenge during the year. The budget book could include relevant non financial information such as employee data ad service performance information.
	Summary findings	The Council does not produce budget books and information provided in public reports is on a high level summary basis.
	Management comment	The ERP system we use provides real time information on our budgets and Members regularly interrogate this information, particularly the Lead Cabinet Members who review the financial information for their portfolio. We will review whether we issue the final budget in February each year by cost centre to provide a comparison to the same format presented as part of each annual outturn report.



The range of recommendations that external auditors can make is explained in Appendix D.



2	Recommendation	MRP, interest payable, interest income, and income and expenditure from investment properties
		should be reported separately to Members on revenue budget summaries.

Why/impact Only providing the net position makes comparisons and cross referencing to the detailed Treasury Management, Capital Investment and Investment Strategies difficult. The impact that these key elements of the commercial strategy have on the budget will be more transparent and better understood if reported separately.

Summary findingsThe budget summaries presented to Members during the annual budget setting process net off interest payable, interest income, and income and expenditure from investment properties. MRP is reported net with the reversal of depreciation charges

Management comment

MRP is subject to a separate policy and is reported annually to Full Council through the budget setting process. With the launch of the revised Asset Management Strategy we will also be reporting the performance of the investment property portfolio to each Asset Management Working Group. This will include dividing income and expenditure and return on investment (ROI).

The Treasury Management Panel also exists to review the interest income and expenditure. This is reviewed and recommendations are made bi-annually to Full Council.

We will also review the Treasury Management, Capital and Investment Strategies to ensure that figures disclosed here can be more easily cross referenced.



The range of recommendations that external auditors can make is explained in Appendix D.



3	Recommendation	A more detailed analysis of outcomes against financial and performance objectives for
		investment properties should be provided during the year and as part of outturn reporting to
		Cabinet.

Investment property income and expenditure is a key element of the budget and commercial strategy. A more detailed analysis of outcomes against budget and other socio-economic objectives would give more accountability and opportunity for challenge by stakeholders. The Council can improve the transparency of disclosure and information on the performance of investment properties during the year. The right balance between disclosure of information and commercial confidentiality should be maintained.

Summary findingsOutturn reports to Cabinet contain a high level summary of income and expenditure for investment property, comprising a single line for actual net income compared to the budget. There is no detailed reporting to Members on the performance of the commercial investment portfolio.

With the launch of the revised Asset Management Strategy we will also be reporting the performance of the investment property portfolio to each Asset Management Working Group. This will include dividing income and expenditure and ROI. The development of Clearview will allow this information to be pulled together more easily by reflecting these measures in our performance indicators.

The budget monitoring report will also be adapted to include this information rather than creating additional work with a separate report to Cabinet and Full Council.



The range of recommendations that external auditors can make is explained in Appendix D.



Recommendation The Council should ensure that estimates of council tax growth reflect local factors and are achievable in the context of the significant additional tax base growth already factored into the MTFS for West and NW Cheltenham and North Place. The Council should also consider potential corresponding additional service costs where significant increases in income from housing is forecast.

Why/impact

Forecast increases to the tax base will be more accurate if based on local factors and applying a blanket rate increases the risk that forecasts will not be achieved where there are significant additional increases built into the savings strategy for specific areas. Significant increases to the tax base are likely to generate additional service costs that should be reflected in the MTFS.

Summary findings The Council models a 0.8% increase in the tax base from 2022/23, based on government assumptions when modelling reductions to revenue support grant. The Council also models significant increases in tax base specifically for West and NW Cheltenham and North Place. Although significant additional income is forecast, there is no consideration of potential additional service costs, for example refuse collection.

Management comment

Extensive modelling is currently being undertaken for West and North West Cheltenham and will be factored into the next MTFS.

The new rounds of waste and recycling collections launched in 2017 included capacity for approx. 5000 new homes during the next seven years. The models run since then in 2020 have included property growth of up to 5300 up until 2029 assuming no boundary changes which would result in CBC taking in more properties. The Ubico fleet currently has capacity to deal with the housing growth planning between now and our service change in 2024/25.



The range of recommendations that external auditors can make is explained in Appendix D.

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5	Recommendation	The Council should introduce standard budget monitoring templates for both general fund and HRA capital programmes which include original and revised budget, spend to date and slippage, supported by reasons for variances.
	Why/impact	There was significant slippage in year for the general fund capital programme. Providing more information during the year and at outturn regarding spend to date and reasons for slippage would increase accountability for the delivery of the capital programme and give the opportunity for timely Member challenge.
	Summary findings	General fund capital programme monitoring does not disclose spend to date until the year end, and explanations for slippage are not included when Members are asked to approve carry forwards. HRA capital programme reporting does include explanations for variances to the approved plan.
	Management comment	The resource available to support the Council's capital programme monitoring is currently being reviewed with the purpose of increasing the scrutiny and reporting of spend against our plans. This will result in better information being included in our budget monitoring reports.



The range of recommendations that external auditors can make is explained in Appendix D.

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Governance



We considered how the Council:

- considered the impact of Covid-19 on the governance arrangements
- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

COVID-19 arrangements

The Council began the year operating under emergency powers which it introduced in March 2020. These arrangements continued until virtual meetings were introduced from May 2020. The decisions which were made during this period were made by the Chief Executive and reported to Council in June 2020. These decisions are publicly available on the Council's website.

In May 2020 the Council agreed a draft recovery strategy recognising the impact of COVID-19 and the need to have recovery plan that would enable the area to both recover from the impact of COVID-19 but also build on the joint working and collaboration that had developed during the pandemic. Following public consultation and comment from key partners and stakeholders the final recovery strategy was agreed in July 2020.

From March until June 2020 the Council operated under full emergency planning arrangements with each director attending relevant County wide planning meetings. The Council needed to be dynamic and agile and held daily Executive Leadership Team (ELT) meetings to update ELT members. The frequency of these meetings reduced from June 2020.

The Council had to issue a significant number of business and community grants and in 2020/21 issued £47.3m in business and £1.1m in 2019/20. These grants were managed by the Revenues and Benefits section and new arrangements, procedures controls were introduced to ensure only those entitled to this funding received it.

A review was conducted by Internal Audit on post payment assurance checks. This review identified no issues and provided substantial assurance opinion.

The Council acted upon its emergency response plan and its business continuity plans at the start of the pandemic. The Council has recognised the need to update and rewrite its emergency response plan and is in the process of reviewing its business continuity plans. We are aware that some services confirmed that they had not referred to their business continuity plans at all during the pandemic. Although this is not an indication that services did not continue to operate effectively, it is unexpected that officers have not considered referring to their business continuity plans, which should have been designed to provide guidance in exactly the circumstances presented by the pandemic to ensure officers were acting in line with agreed policy and plans. Understanding why they were not used would enable the Council to establish if and how they require updating or if training is required to provide guidance on when business continuity plans should be used. The Council should take the opportunity of refreshing the Plans to ensure that they incorporate the lessons learnt from the real-life experience of operating throughout the pandemic.

Internal Audit also undertook a review of the Council's response to COVID-19. A range of areas were considered, such as key service delivery, community response and emergency decision making. The review provided substantial assurance opinion and confirmed that the Council was robust and responsive to the needs of staff and customers in line with the government guidelines.

We also commend the Council for enabling the Local Government Association to reflect on what the Council has learnt from the pandemic and consider the opportunities and steps it would like to take towards recovery. Overall this peer review was complimentary and recognised the positive response the Council had made.

Managing risk

The Council is in the process of introducing a new Information Technology (IT) system 'Clearview'. This system provides a technological solution for monitoring risks at corporate, directorate and service level. The risk registers are held within this system and can be reviewed live within the system. The Council has been using the Clearview system throughout 2020/21. Clearview is also a performance management tool and this aspect is discussed on page 23.

The Council has a Risk Management Policy which is reviewed annually and was agreed by the Audit, Compliance and Governance Committee in November 2020. Corporate risks are considered by the Executive Leadership Team (ELT) on a monthly basis and informal Cabinet on a quarterly basis. Informal Cabinet meetings are not public meetings or minuted so we are unable to assess the level of debate and discussion undertaken. Elected members have a key role in the Council's risk management approach, such as identifying corporate risks as well as monitoring and agreeing the level of risk the Council is willing to accept. We consider this will be more difficult to achieve through informal Cabinet meetings where officers do not attend. We also note that during 2020/21 neither Cabinet or the Audit, Compliance and Governance Committee received an annual report in line with the Council's Risk Management Policy.

The Council aims to publish it corporate risk register on its website, but this has not been updated since February 2021 and prior to this had not been published since September 2018.

There is a good internal audit function operating at the Council provided by SWAP and although the service experienced challenges as a result of COVID-19 during the year and priorities changed, a balance between providing direct assistance to the Council and maintaining audit work was achieved.

A "Substantial Assurance" opinion was given on the adequacy and effectiveness of the Council's internal control framework. A counter fraud service has also been delivered during the year with regular updates on both services being reported to the Audit, Compliance and Governance Committee during the year.

The Council has established a Corporate Governance Group (CGG) which is an officer group, chaired by the Executive Director for People and Change. The aim of the CGG is to maintain and monitor the Council's governance framework, review and update relevant policies and report any risk, issues or weaknesses in the governance framework. During 2020/21 the CGG met less frequently as any issues were addressed directly by ELT who were meeting more frequently.

Overall we found no evidence of significant weaknesses in the Council's arrangements to manage risk and operate effective internal controls. We have raised an improvement recommendation that the corporate risk register should be reviewed by a formal committee, such as Cabinet or the Audit, Compliance and Governance Committee.

Monitoring Standards

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer. During our review we are not aware of any instances where officers or elected members have not complied with the necessary standards. The Council have made us aware that there have been data security breaches during the year, but none of a significant nature.

A range of policies and standards are in place to ensure compliance, such as codes of conduct, gifts and hospitality and whistle-blowing policies. Officer and members are required to annually declare any interests that they might have and any gifts and hospitality received during the year. The Council also has a video to remind officers of their obligations and to assist them in competing their annual declarations.

However, we note that the whistle-blowing policy was last reviewed and updated in November 2017. Whilst it is not always necessary for policies to be reviewed and updated annually, we would expect a more frequent review and update, where required.

Budgetary control 2020/21

We have reviewed the Council's processes and procedures for monitoring the 2020/21 budget

The Council monitored and reported on trends during the 2020/21 financial year, particularly with regard to the impact of Covid-19 on the Council's budgets. The net costs of the pandemic the Council were revised and reported to Cabinet as trends in income loss, additional expenditure and government support became better understood. The net position improved as the year went on, with the quarter one impact estimated as £4.20m, an impact of £1.83m as part of the November recovery budget, and a final outturn cost of £1.47m.

The Council introduced new arrangements to identify and monitor the additional costs arising from the pandemic. These included:

- a specific cost centre was established to record costs and income losses relating to the pandemic
- detailed workings from the monthly Covid-19 returns to MHCLG were reviewed to ensure spend was appropriate.

Quarterly budget monitoring reports were presented to Cabinet, which included detailed analysis of actual and forecast costs and income pressures. These were accompanied by a detailed commentary. Alternative budget proposals were considered to balance the budget in year as a result of the cost and income pressures relating to the pandemic. The recovery budget set out other approaches to that recommended by the S151 Officer, for example the use of reserves, the cessation of discretionary services or applying for exceptional government support.

Arrangements are in place for the finance team to engage with budget holders to review financial performance. While there is no formal internal revenue budget monitoring process other than the quarterly reports presented to Cabinet, there are bespoke arrangements between finance business partners and budget holders that are tailored to the complexity of individual budgets. Budget holders have self-service access to their budgets in real time through the finance system, with the capability to drill down to individual transaction level. Major capital projects such as the Minster Exchange have project and programme boards which include finance representatives and these boards monitor project delivery including cost and funding.

Financial monitoring reports presented to Cabinet demonstrate that in year forecast variances are being picked up promptly and budget holders are held to account for delivering their budget or developing mitigating action. The Section 25 Statement is clear that service managers are expected to manage changes within their budgets by reprioritising or reducing expenditure where there is a significant reduction in income.

Therefore we have not identified any significant weaknesses with regard to the Council's arrangements for budget monitoring. Our work has identified improvement recommendations with regard to the level of information provided as part of the monitoring and approval of the capital programme and also relating to the level of detail presented in the general fund budget summary.

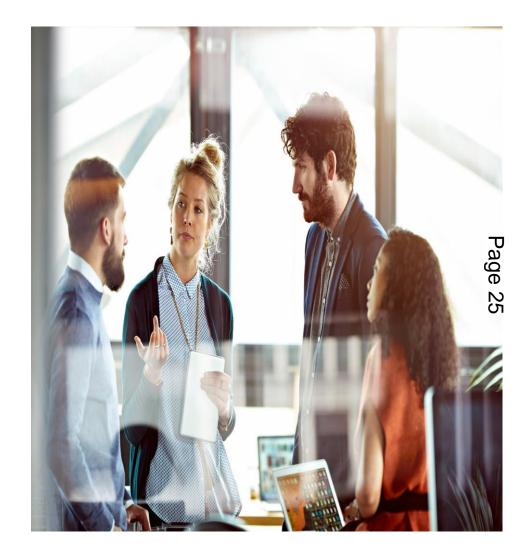
Informed decision making

The work of the Council's committees is governed by the constitution. The constitution was last updated in September 2020. The constitution is available on the Council's website and includes the staff and elected members codes of conduct.

The Annual Governance Statement sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

During the year the Council has continued to make key decisions and as identified earlier introduce emergency decision making arrangements until virtual meetings could be held. The Council has sought third party advice to support effective decision making.

We found no evidence of significant weaknesses and have not identified any improvement recommendations.





6	Recommendation	The Council should review its business continuity plans to understand why they were not referred to or applied during the pandemic. Following this review the business continuity plans should be refreshed for the lessons learnt during the pandemic and training provided as necessary.
	Why/impact	Business continuity plans should provide guidance and procedures to be followed in a range of situations. If the plans were not referred to them procedures may not have been followed.
	Summary findings	A review undertaken by Internal Audit identified that some services did not refer to their business continuity plans during the pandemic.
	Management comment	Business continuity arrangements were established with the creation of a tactical group, which had an agenda and objectives. Business continuity actions were communicated in writing to all service areas. Due to the unique challenge of the pandemic there needed to be a degree of 'dynamic' business continuity response. Services were maintained and supported by a health & safety working group. The Council won Silver in a national award for its Covid-19 response. Management will consider this feedback as part of its review of Business Continuity.



The range of recommendations that external auditors can make is explained in Appendix D.



7 Recommendation

The corporate risk register should be reviewed by members in a formal meeting, such as Cabinet or Audit, Compliance and Governance Committee on a regular basis throughout the year.

Why/impact

Reviewing the corporate risk register in a formal meeting will ensure that members are supported by senior officers to:

- consider corporate risks
- help identify risks
- understand how the risks are managed and monitor mitigating actions
- agree the level of risk the Council is willing to accept.

The corporate risk register would be made available as appropriate as part of the accompanying committee papers.

Summary findings

Informal Cabinet meetings are provided with a copy of the corporate risk register on a quarterly basis. These meetings are not minuted and we were unable to assess the level of debate. It is standard practice within local government for the corporate risk register to be regularly review by either Audit Committee and/or Cabinet in public meetings.

The Council aims to publish its corporate risk register on its website, however it has only been published once in 2020/21 (February 2021) since September 2018.

Management comment

The risk register will be taken to a formal committee or Cabinet meeting moving forward.



The range of recommendations that external auditors can make is explained in Appendix D.



8	Recommendation	The Council's whistle-blowing policy should be reviewed and updated.
	Why/impact	The policy may not reflect any current legislative changes or changes in other complimentary policies such as bullying and harassment or grievance procedures.
	Summary findings	The Council's whistle-blowing policy has not been updated since November 2017.
	Management comment	The Council's whistle-blowing policy is scheduled to be updated and approved by the Audit, Compliance and Governance Committee by 31st March 2022.



The range of recommendations that external auditors can make is explained in Appendix D.

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Improving economy, efficiency and effectiveness



We considered how the Council:

- responded to the changes required as a result of Covid-19
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

COVID-19 arrangements

We noted in the Governance section that the Council introduced a recovery strategy and plan. The strategy identified that review of the recovery plan should be delegated to the Executive Director People and Change and that periodic reports would be brought to the Overview and Scrutiny Committee. A report was presented to the Overview and Scrutiny Committee in November 2020 on the Council's COVID-19 recovery programme, although this had some similarities to the recovery strategy it did not address all aspects of the recovery strategy. Therefore, we have concluded that the recovery strategy has not been presented to Overview and Scrutiny Committee and is not included within the Committee's workplan.

We consider that member oversight of the recovery plan would be beneficial to ensure there is appropriate challenge by members and progress against the priorities are openly challenged and publicly available.

Performance management

The Council has a Corporate Plan that sets out its priorities and corporate objectives for the period 2019-2023. It is based upon the Council's place vision, which is a collective commitment for Cheltenham.

During 2019/20 the Council's progress against the Corporate Plan was reviewed by Overview and Scrutiny Committee and Cabinet, based upon range of performance indicators. However, these progress reviews were not undertaken in 2020/21 as a result of the need to prioritise the Council focus on responding to the pandemic.

In 2019/20 the Council recognised that its performance management arrangements could be improved and began the process of identifying key performance objectives against which the corporate objectives could be monitored at strategic and operational level. These performance indicators were to be monitored using Clearview and the intention was to have a strategic dashboard which could be used and viewed by members online. Although the process of identifying and populating Clearview with key performance indicators has continued during 2020/21 it has yet to be completed. This delay is directly attributable to a lack of capacity as staff have had to focus on other priorities during the pandemic.

In addition the Council does not have a performance management framework which would provide the structure and guidance to tie together all aspects of the performance management structure.

Whilst the Council has not had framework in operation which uses key performance indicators to monitor performance the Council has continued to monitor performance of individual projects within the Corporate Plan, such as the Minister Innovation Exchanged and Golden Valley Development, which have all been reported to formal member committees.

In addition the Council has adapted and developed innovative ways for delivering its services to maintain service performance. This was recognised by the Royal Town Planning Institute when the Council receiving an award for Planning Heroes in a pandemic.

Although corporate performance reporting was not operating as it had in previous years, whilst Clearview was being developed, we consider that operational mechanisms and enhanced governance arrangements introduced as a result of the pandemic has enabled performance to be identified and acted upon as necessary. Whilst we recognise that the Council is in the process of developing a performance management framework and indicators against which performance can be effectively managed, we have issued an improvement recommendation to ensure arrangements are improved in 2021/22.

Benchmarking and learning from others

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can identify areas for improvement and also provide targets to work towards.

Benchmarking was undertaken as part of our VfM work. We used our management tool 'CFO Insights' and compared the units costs for a range of services. This identified two areas where the unit costs were very high in comparison to other district councils:

- Culture and related services attributable to high unit costs for heritage, open spaces, theatres and public entertainment, and tourism all being very high
- Planning and development a result of high unit costs for development control, and other planning policy having very high unit costs

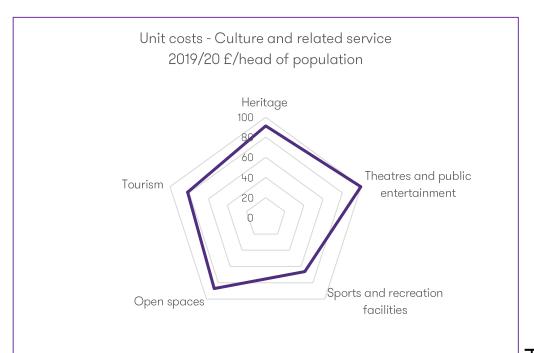
We discussed these high cost areas with officers who confirmed that the Council does not routinely undertaken financial comparisons/benchmarking, but does occasionally undertake comparisons to support individual service reviews. For example its procurement service review.

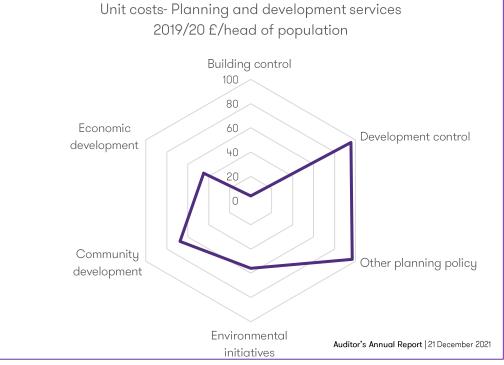
Within culture and related services the very high costs were not unexpected as the Council supports two theatres and maintains its parks to a very high standard. With regards to tourism services, the Council provides services through Marketing Cheltenham and this service is thought to contribute to the high unit costs within the tourism service. The Council is in the process of evaluating and considering options for the Marketing Cheltenham service, based upon cost of the service versus benefits delivered and the likely impact on the service should the level of support be reduced.

Within the planning and development service officers considered that the very high cost of development control was attributable to high staffing costs. The reason for the very high unit cost for other planning policy was not known and required further exploration.

Although the charts opposite are only able to provide an indication of where costs are high, they do provide an indication of where further exploration of these costs could identify potential efficiencies and savings for the Council. We have raised an improvement recommendation that the Council should consider benchmarking and explore the high unit costs within these services.

On the spider charts opposite, 50 represents the group median. The group in this case is all district councils. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as 'very low cost' in comparison to the group. For example, the charts indicate that 'Theatres and public entertainment' unit costs are comparatively very high whilst 'Building control' costs are very low.





Data Quality

The Council assures itself over the accuracy of the information reported to elected members by ensuring documents are reviewed by senior officers and that agreed procedures are followed. This will include review by a legal representative and finance.

The Council does not have a data quality policy. Such a policy should set out an agreed approach to ensuring the reliability and consistency of data quality across the Council. It should also set out who is responsible for ensuring quality and accuracy of data used throughout the Council.

Significant partnerships

During this review officers have made us aware that they consider their subsidiaries and shared services; Ubico Ltd, Publica Group (Support) Ltd (Publica), The Cheltenham Trust, Cheltenham Borough Homes, South West Audit Partnership and One Legal to be their significant partners. The services delivered by these partners are actively monitored through management agreements, ELT and reports to members. Where performance was not as expected, or the service was not meeting the Council's needs, then action has been taken, such as the strategic finance function coming back in-house from Publica in 2020.

Annual reports have been presented to the Overview and Scrutiny Committee for Publica and Ubico, however no reports have been presented for any statutory partnerships for which the Council is a member, such as the local safeguarding boards, community safety and Health and Wellbeing Board. These partnerships are attended by senior officers and we have been assured that any issues of concern would be brought to ELT by those officers. However, the role of members in ensuring the role of these partnership is overseen by Cabinet or Overview and Scrutiny Committee is not clear. Although there is no evidence of any significant failings in any of the partnerships, we consider arrangements could be improved if the performance management framework and key performance indicators also included those for which the Council is dependent upon its partners. We have incorporated this improvement recommendation with recommendation 10, which considers performance management across the Council.

We recognise that the Council has developed greater links and partnerships within the community during the pandemic, both with the voluntary sector and Local Enterprise Partnership. The LGA review highlighted that these community partners would welcome further opportunities to identify and continue with these enhanced ways of working.

Procurement

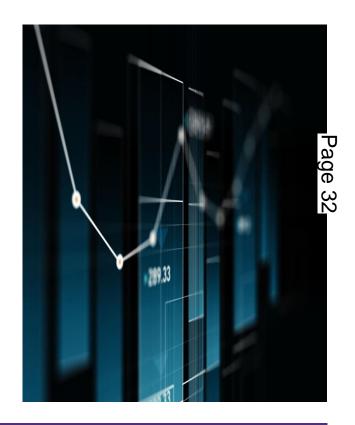
The procurement service is an outsourced service provided by Publica. The Council recognise that the service has had a capacity issue and as a result has provided strategic procurement advice internally to address the capacity and skills gap. In recognition of this issue the Annual Governance Statement has identified procurement as an area of weakness within its governance arrangements. Although these issues have existed the Council is not aware of failures to operate a legal and fair procurement exercise, although relationships have become challenging as capacity has become stretched.

We also note that the Council does not have an up to date procurement strategy. The existing strategy is out of date and refers to a shared service which no longer exists. We are aware that the Council is exploring solutions to the current situation and as a result we have raised an improvement recommendation recognising that the current service and supporting policy needs to be updated.



Improving economy, efficiency and effectiveness

9	Recommendation	The Overview and Scrutiny Committee should regularly review progress against the COVID-19 recovery strategy.
	Why/impact	The recovery strategy includes key priorities against which members should be aware of progress and have the opportunity to publicly challenge performance.
	Summary findings	When Cabinet agreed its final COVID-19 recovery strategy in July 2020 the recommendations included that Overview and Scrutiny would be provided with a report on the recovery strategy. To date Overview and Scrutiny have not received an update on the recovery strategy and it is not included within their forward plan.
	Management comment	The recommendation will go to the Overview and Scrutiny Chair's Group to consider this agenda item for its work plan.



The range of recommendations that external auditors can make is explained in Appendix D.

Improving eco

Improving economy, efficiency and effectiveness

10	Recommendation	The Council should continue to develop its performance management arrangements and introduce a performance management framework that sets out how the Council's strategic objectives will be monitored. This should include key performance indicators against which progress will be assessed on a regular basis by senior officers and members. This framework should include the significant partnerships which contribute to the corporate objectives.
	Why/impact	Existing arrangements did not enable elected members to evaluate progress against it strategic objectives.
	Summary findings	In 2020/21 the Council did not report progress across all its strategic objectives within the Corporate Plan to members. It did not have agreed key performance indicators to enable performance to be effectively assessed, it was reliant on operational management arrangements.
	Management comment	This work is in progress. Performance framework; balanced scorecard due for completion February 2022 and corporate plan progress report and review due in quarter 4.

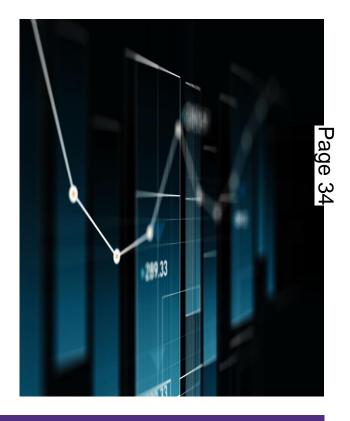


The range of recommendations that external auditors can make is explained in Appendix D.

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Improving economy, efficiency and effectiveness

11	Recommendation	 The Council should consider if the introduction of benchmarking would be beneficial and explore the very high unit costs identified for: Culture and other service - review this area of discretionary spend as to whether the high spend aligns with the Council's corporate priorities Planning and other services - review the cost and service provided and consider whether savings and efficiencies could be achieved.
	Why/impact	Benchmarking enables services to be compared and potential savings and efficiencies to be identified
	Summary findings	The Council does not routinely undertake financial benchmarking. Our review has identified two very high unit cost areas; culture and other service and planning and other services. Further analysis identified service areas which are contributing to these high cost indicators.
	Management comment	The Council will consider what benchmarking tools are available and consider any actions as appropriate.



The range of recommendations that external auditors can make is explained in Appendix D.



Improving economy, efficiency and effectiveness

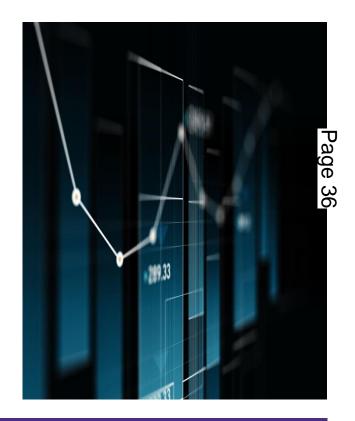
12	Recommendation	The Council should adopt a data quality policy.
	Why/impact	A data quality policy would set out the Council's approach to continually improving the quality of data required to support good decision making. A data quality policy should include: definition of data quality and why it is important roles and responsibilities, including members, senior officers and individual employees data quality objectives monitoring arrangements arrangements for data sharing.
	Summary findings	The Council does not have a data quality policy.
	Management comment	We will look to develop a Data Quality Policy in 2022/2023.



The range of recommendations that external auditors can make is explained in Appendix D.



13	Recommendation	The Council should address the weaknesses within its procurement service, including ensuring its has a current and relevant procurement policy.
	Why/impact	The existing arrangements should be improved to ensure that there are no significant failings in the procurement process.
	Summary findings	The Council does not have a current procurement policy, its existing policy is dated 2015 and relates to a shared service which no longer exists. The existing service does not currently meet its needs and additional strategic resources has had to be provided in-house.
	Management comment	We will look to develop a new Policy in 2022/2023.



The range of recommendations that external auditors can make is explained in Appendix D.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the financial statements on 29 October 2021.

Other opinion/key findings

There were no other opinion or other key findings.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit. Compliance and Governance Committee on 22 September 2021 with the final updated AFR being reported to the Committee on 12 January 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the NAO.

Our work has not yet been completed as we are awaiting the final instructions to be issued by the NAO.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline. Whilst progress has been made on the prior year, we experienced some challenges in both the quality and timeliness of supporting information provided by officers. This contributed to the delay in the completion of the audit.

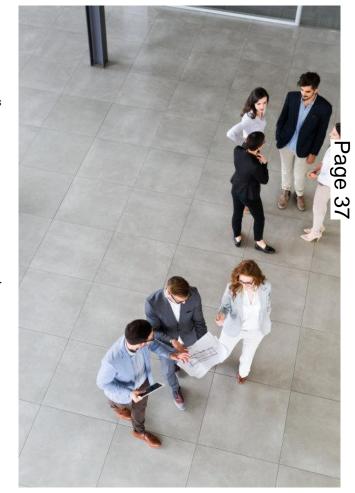
Issues arising from the accounts:

The key issues were:

- the classification of £2.5m of grant income was incorrect;
- there were errors in the valuation of property, plant and equipment balances, including investment properties of £1.6m (gross); and
- the investment return on Pension Fund assets was overstated by £0.6m as a result of estimation uncertainty.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- prepared in accordance with relevant accounting standards
- prepared in accordance with relevant UK legislation.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer:

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was not identified as a potential significant weakness, see pages 6 to 11 for more details	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements wer in place, five improvement recommendations raised.
Governance was not identified as a potential significant weakness, see pages 17 to 19 for more details.	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements were in place, three improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 23 to 25 for more details.	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements were in place, five improvement recommendations raised.

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 12 - 16 20 - 22 26 - 30

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Appendix D - Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have not issued any statutory recommendations.

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issued a public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We have not made an application to the Courts.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We have not issued any advisory notices.

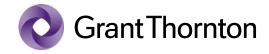
Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have not applied for a judicial review.

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The Audit Findings for Cheltenham Borough Council

Year ended 31 March 2021

Cheltenham Borough Council 28 October 2021



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole in part without our prior written consent. W do not accept any responsibility for any los 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents has been discussed with management.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cheltenham Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on remotely during July to October 2021. Our findings are summarised on pages 5 to 22. We have identified two adjustments to the financial statements that had no overall financial impact on the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whethe the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

Under the National Audit Office (NAO) Code of Audit
Practice ('the Code'), we are required to consider whether
the Council has put in place proper arrangements to
secure economy, efficiency and effectiveness in its use of

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit
letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's
Annual Report by 30 December 2021. This is in line with the National Audit Office's revised deadline, which requires the
Auditor's Annual Report by 30 December 2021. This is in line with the National Audit Office's revised deadline, which requires the
Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- · to certify the closure of the audit.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Audi tor's report in December 2021.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit. See page 3 for the matters which we have been unable to conclude our findings on as at the date of this report.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents has been discussed with management. As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for Cheltenham Borough Homes Limited and Gloucestershire Airport were required, which were completed by Bishop Fleming LLP and Hazlewoods LLP respectively; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and, subject to the receipt of the final documentation and assurances, we anticipate issuing an unqualified audit opinion on the statements approved at the Audit, Compliance and Governance Committee meeting on 22 September 2021, with the final version being approved under the agreed delegated arrangements. The proposed audit opinion is set out in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 6 of our Audit Plan presented to the Audit, Compliance and Governance Committee on 21 April 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, in particular conducting the audit remotely, including accessing your financial systems, video calling, using alternative procedures to verify assets, verifying the completeness and accuracy of information produced by the entity. This resulted in us having to carry out additional audit procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 6 April 2021

We detail in the table our determination of materiality for Cheltenham Borough Council

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	1,635,000	1,566,000
Performance materiality	1,226,000	1,175,000
Trivial matters	82,000	78,000
Materiality for senior officer remuneration	N/A	10,000



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

Our testing identified 17 journals that had a blank description, these were selected for testing as this is a weakness i a key control. The results of the testing can be broken down into four reasons as to why the journals had blank descriptions:

- 12 cases were as a result of due to a system upload error, specifically in relation to Child Voucher Scheme. Where the template uploaded has not carried over to the ledger correctly;
- 1 journal which was a processing error where balance of £0.00 has been journaled to the R9974 account code therefore blank description expected in error
- 1 instance where a journal was corrupted due to issues with the 'Batch Input File' spreadsheet the Council use to upload journals to the system. This was fully reversed out.
- 3 cases which relate to a rounding error that been corrected by Agresso. The system will automatically allocate any differences to account code E9991 which is the error suspense, values were for £0.01 in all 3 cases.

It was identified that one journal poster did not have appropriate user access

We have gained sufficient assurance over these items in our detailed testing.

Our audit work has not identified any issues in respect of management override of controls.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Land and Buildings, Council Dwellings, Investment Properties and Surplus Assets

The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£413 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. The Authority also has investment properties and surplus assets which must be valued annually at 31 March.

We therefore identified valuation of land and buildings, including council dwellings, investment properties and surplus assets, as a significant risk.

Commentary

We have performed the following work in relation to this risk:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuations were carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register; and
- as a result of the Covid-19 pandemic, management's expert reported the valuations on the basis of material valuation uncertainty. We reviewed the valuations in line with market trends, and challenged any valuations that were not in line with trends.

Management have ensured that all investment properties and surplus assets were revalued as at 31 March 2021 following the recommendation issued in the prior year audit. We are also satisfied that the other land and building assets not revalued do not create the risk of material misstatement.

See 'key judgments and estimates' from page 13 for further details on the findings of this significant risk.

Gross errors of £1,564k (£48k net) have been identified from our testing, which we have reported in Appendix C on a net basis:

- £464k understatement within investment properties being errors identified with valuation calculations.
- £758k overstatement property, plant and equipment in respect of errors within valuation calculations.
- £342k understatement within property, plant and equipment arising from an accounting error following the land swap between the St Georges Road and Chester Walk car parks between the Council and Gloucestershire County Council

The net position of these errors does not result in any individual financial statement line item being materially misstated and as such the Council has not adjusted.

We were unable to evidence why a car park was valued at £227k. See our commentary in the Action Plan at Appendix A.

Our audit work has identified errors with source data, such as rental amounts and floor areas, the adjustments are reported in Appendix C of this report.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Income from Fees, Charges and Other Service Income

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

For Cheltenham Borough Council, we have concluded that the greatest risk of material misstatement relates to Fees, Charges and Other Service Income. We have therefore identified the occurrence and accuracy of 'Fees, Charges and Other Service Income' as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

We have rebutted this presumed risk for the other revenue streams of the group and Authority because:

- other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or
- opportunities to manipulate revenue recognition are very limited.

Commentary

There are no changes to our assessment reported in the audit plan in relation to streams for which the risk of revenue recognition has been rebutted.

In relation to Fees, Charges and Other Service Income, we have:

- evaluated the group's accounting policy for recognition of income from Fees, Charges and Other Service Income for appropriateness:
- gained an understanding of the Authority's system for accounting for income from Fees. Charges and Other Service Income and evaluate the design of the associated controls; and
- agreed, on a sample basis, amounts recognised as income from Fees, Charges and Other Service Income in the financial statements to supporting documents.

We have identified that £2,474k of grant income has been recognised as fees, charges and other service income in error. The revenue has been included in the ledger as one transaction being the 'MHCLG Loss of Income Compensation Grant'. This covers the reduction in income Council's experienced due to the government-imposed lockdowns due to outbreaks of Covid-19. As this is in relation to one transaction posted to the incorrect account code and does not suggest a weakness in revenue recognition controls. This is presentation within the income and expenditure by nature note and management have agreed to adjust for this so as the balances are correctly stated in this note.

Otherwise, our audit work has not identified any issues in respect the recognition of Fees, Charges and Other Service Income.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£54 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We have performed the following work in relation to this risk:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls:
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report

In 2019-20, the Council commissioned a revised IAS19 report to evaluate the impact of the McCloud judgment. The impact in 2019-20 was £105k which was not material, hence remained unadjusted. The Council has accounted for this in 2020-21 by restating the comparatives, it is our view that this £105k should be accounted for as a past service cost in the current vear.

Management have decided not to amend this on the basis of materiality.

The auditor of Gloucestershire Pension Fund has provided assurances over to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund; and the fund assets valuation in the pension fund financial statements.

They did identify that that the actuary used a projected investment return instead of actual investment returns. See 'key judgments and estimates' from page 13 for further details on the findings of this significant risk <mark>and the impact of the use of</mark> projected returns.

We have not identified any issues that would suggest that the of the valuation of the pension fund net liability is materially misstated.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact	
Cheltenham Borough Homes Limited	Bishop Fleming LLP	An unqualified audit opinion of Cheltenham Borough Homes Limited was issued by Bishop Fleming LLP on 25 August 2021. No significant issues were identified. No instructions had been issued to the Component in respect of a group reporting package nor for the conversion adjustments for the financial reporting framework and selected accounting policies applicable to the Group Financial Statements. The Component Financial Information therefore comprises solely of the statutory financial statements of the Component for the year ended 31 March 2021, with conversion adjustments undertaken by Group.	 Audit procedures undertaken: made contact with the component auditors and provided them with group audit instructions confirming the specific audit procedures to be undertaken for Group assurance purposes; communicated regularly with the component auditors, with the component auditors' audit plans and findings reports for the group entities being shared with the Group audit team; and reviewed management's consolidation workings to ensure the correct amounts had been consolidated and that the eliminations were appropriate. Our review of the component auditor's working papers is outstanding as at the date of this report	Page 55
Gloucestershire Airport Limited	Hazlewoods LLP	An unqualified audit opinion of Gloucestershire Airport Limited was issued by Hazlewoods LLP on 3 September 2021. No significant issues were identified. No instructions had been issued to the Component in respect of a group reporting package nor for the conversion adjustments for the financial reporting framework and selected accounting policies applicable to the Group Financial Statements. The Component Financial Information therefore comprises solely of the statutory financial statements of the Component for the year ended 31 March 2021, with conversion adjustments undertaken by Group.	 Audit procedures undertaken: made contact with the component auditors and provided them with group audit instructions confirming the specific audit procedures to be undertaken for Group assurance purposes; communicated regularly with the component auditors, with the component auditors' audit plans and findings reports for the group entities being shared with the Group audit team; and reviewed management's consolidation workings to ensure the correct amounts had been consolidated and that the eliminations were appropriate. Our review of the component auditor's working papers is outstanding as at the date of this report 	-

2. Financial Statements – new issues and risks

Commentary Auditor view Issue

Minimum Revenue Provision (MRP)

- · The Council uses borrowing, both long and short term, to fund its acquisition of non-current assets, including operational land, property, plant and equipment and investment properties. As at 31 March 2021 the total levels of borrowings for the Council stood at £174.1m, which was a reduction on the prior year borrowings of £11.3m from £185.8m.
- To reflect that the benefit of these assets will be realised over a number of years, the cost associated with the funding of these asset purchases is also spread over a number of years and this is known as the Minimum Revenue Provision (MRP). To ensure that the level of MRP attributed to each financial year is appropriate, the Ministry of Housing, Communities and Local Government (MHCLG) has produced guidance, which was most recently updated and issued in 2018.
- For the financial year 2020/21, the Council approved on 23 March 2020 the budget to set aside MRP of £2.062m, which included £171k of voluntary overpayment.
- Given the unprecedented challenges presented by the Covid-19 pandemic, the Executive Director Finance and Assets (s151 Officer) published a Covid-19 recovery revised budget 2020-21 which was presented and approved at Council on 16 November 2020. This proposed a temporary change to the way that the MRP was to be funded in the year, with the plan to repeat this in 2021-22 and potentially 2022-23, by utilising capital receipts to offset the amount charged to revenue within the financial year. The Council took comfort that this approach was appropriate as it had been adopted by other Councils in both the current and previous years. with no additional clarity or statutory guidance being provided by MHCLG to determine whether this treatment is allowable

- The permitted use of capital receipts is set out in Regulation 23 of the Local Authorities Capital Finance and Accounting Regulations. This prescribes a limited number of ways that capital receipts can be utilised, one of which is 'to repay the principal of any amount borrowed'. If capital receipts are used to repay borrowing this will reduce the total amount outstanding and therefore the level of MRP that will need to be charged.
- However, in our view, capital receipts cannot be used to directly offset the amount of MRP charged to revenue. Therefore, we have determined that the policy approved by Council, in the current environment with a challenging financial outlook, has the impact of not being sufficiently prudent.
- There is increasing scrutiny on the level of MRP that Councils are charging as a result of some high profile cases where insufficient amounts have been charged by a number of Councils.
- In light of our comments above in respect of the revised MRP policy, we have considered whether the amount of MRP charged to revenue in the 2020-21 of £236k by the Council is 'prudent' after the capital receipts element is excluded.
- The broad aim of 'prudent' provision is to require local authorities to put aside revenue over time to cover their CFR. In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits. Guidance presents four options for calculating prudent provision. Local authorities can use a mix of these options for debt taken out at different times.
- We also note that the Council continued to make the voluntary overpayments of £171k, meaning that the total value of overpayments to date is £1.061m.

- · In addition to considering the amount of MRP charged, we have also taken into account a number of other factors, including the Council's track record for making prudent MRP charges in previous years, the fact that the Council has made voluntary overpayments in MRP in previous years, the overall health of the Council's finances, including the level of the General Fund, earmarked and other usable reserves and its overall debt position and performance in respect of debt management.
- · Taking these wider factors into account, we have gained sufficient assurance that the Council has sound financial management processes in place and that it is not taking actions that would otherwise indicate that its doesn't operate in a prudent way.

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Page 5,

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue Commentary Auditor view

IFRS 16 implementation

Although the implementation of IFRS
 16 has been delayed to 1 April 2022,
 audited bodies still need to include
 disclosure in their 2020/2021
 statements to comply with the
 requirement of IAS 8 para 31. As a
 minimum, we expected audited bodies
 to disclose the title of the standard, the
 date of initial application and the
 nature of the changes in accounting
 policy for leases

The Council's financial statements identify that IFRS 16 is not anticipated to have a material effect on the financial statements or balances of the council since the changes mainly affect the recognition of leases by lessees and the Council does not have any material finance or operating lease liabilities as lessee.

We have reviewed the Council's assessment and undertaken audit procedures to gain assurance over the accuracy of this disclosure. We are satisfied that this disclosure is appropriate.

Recognition and Presentation of Grant Income

The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income

We have reconciled the figures between note 16 and note 18, detailing the amount of grant income the Council has received in year.

On a sample basis, we have agreed grant income to supporting externally generated evidence. During this testing, we have reviewed the way in which management have recognised grant income to agree the treatment applied by the Council as appropriate.

The creditor balance on the statement on financial position reflects the year end value of grants received by the Council on an agency basis and as such is not to be recognised as income for the Council.

A variance of £2,747k was identified between notes 16 and 18. This has arisen as a portion of grant income was included within fees, charges and other service income whereas should be in govt grants & contributions. This has been reported as an adjusted error.

The council were unable to provide sufficient evidence for one of the sample items as they were unable to reconcile the brought forward balances dating back a number of years. This was an isolated error as it related to a previous Grant Received in Advance (GRIA) that had been released into grant income within the year therefore the total value of the error was £158k. This has been reported as an unadjusted error.

A similar issues was identified in the grants received in advance balance. The Council were unable to provide sufficient evidence for one of the sample items as they were unable to reconcile the brought forward balances dating back a number of years. Extrapolating the error gave a projected misstatement of £85k.

The creditor balance has been agreed to be materially accurate based on the testing of the receipts and payments verified using externally generated evidence.

We are satisfied with the treatment taken by the Council in relation to the recognition and presentation of grant income following the adjustment noted above.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue Commentary Auditor view

Land Swap

- St George's Road car park was owned in full by the Council at the start of the reporting period. During the year, the Council exchanged 61% of this operation asset for a piece of land owned by Gloucester County Council

 Chester Walk car park.
- Title deeds were exchanged on 9th March 21
- Chester Walk car park is to be utilised by the Council as part of the Minister Exchange project within Assets under Construction for which construction will begin in November 2021.

This has been recognised in the Council's draft Statement of Accounts as a reclassification from other land and buildings into assets under construction for an amount of £1,190k

Management have determined that the swap has resulted in neither a gain or loss for the Council as the portion of the asset exchanged at St George's Road is equal to the value of Chester Walk car park.

This is based on valuation reports produced by Bruton Knowles on 17 October 2018 which reported the following values:

St George's Road £1,950k (61% = £1,190k)

Chester Walk £1,190k

The two parties agreed to swap 61% of St George's Road for Chester Walk based on these valuation reports they had commissioned.

We are of the opinion that this swap represents two separate transactions: a disposal and an addition.

Management have agreed to amend the presentation within note 19 (property, plant and equipment) to show that there has been a disposal and an addition as opposed to a reclassification shown in the draft accounts.

We challenged management as to what evidence is available to support the valuation assessment of each plot of land. Valuers' reports produced by Bruton Knowles as 17 October 2018 were provided and we have corroborated the figures quoted with the reports provided.

However, 100% of St George's Road car park was revalued as at 31 March 2021 at £1,380k by Bruton Knowles. The remaining portion of St George's Road in the FAR is equal to £190k being £1,380k less £1,090k.

This was raised with management who have advised that this valuation, which was performed by Burton Knowles, was undertaken in error as they were not aware of the partial disposal. A new valuation was commissioned to reflect that the Council owned 39% at the year end, which showed the value to be £538k.

An adjustment of £342k is required to reflect the increase in the value of this land and building asset.

This has been reported in Appendix C

and estimates This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

2. Financial Statements – key judgements

Significant estimate

Summary of management's approach

Audit Comments

Assessment

Property, plant and equipment:

Land and **Building** valuations -£138m

Surplus assets -£47m

The Council has engaged an internal valuer as well as an external valuer to complete the valuation of assets as at 31 March 2021 on a five yearly cyclical basis. 96% of these two classes of assets were revalued during 2020/21.

Other land and buildings comprises £75m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£63m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.

Surplus assets are all valued at Fair Value in line with IFRS 13.

Management have addressed estimation uncertainty as significant changes were reviewed by the technical accountant in consultation with the internal valuer.

Management have considered the year end value of non-valued assets and the potential valuation change in the assets revalued at 31 March 2021. Management's assessment of assets not revalued has identified no material change to the properties value.

The total year end valuation of land and buildings was £138m, a net decrease of £142m from 2019/20 (£4m).

The total year end valuation of surplus assets was £44m, a net increase/decrease of £42m from 2019/20 (£2m).

We considered the competence, qualifications and independence of management's valuation expert as well as their relevant terms of reference and valuation report. We did not identify any issues.

For all assets we identified which were inside and outside of our expectation using Gerald Eve indices to determine a point estimate. This enabled us to assess the reasonableness of increase/decrease in estimate

On a sample basis, we analysed the method, data and assumptions used by management to derive the accounting estimate.

We then considered in more detail, management bias in determining the estimate and evaluated evidence that contradicts management's assessment. Considered all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of accounting estimates.

We are satisfied with the adequacy of disclosure of estimate in the financial statements.

Our testing identified that three of the assets we tested had been indexed incorrectly. In addition, three other assets were valued on the basis of incorrect revenue amounts; two of these being rental revenue and the third being car park revenue. The impact of these errors is shown in Appendix C, being an overstatement of £758k, which is below our performance materiality threshold.

We are satisfied the estimate included by management is materially accurate and free from bias. Although we recommend management review the controls around maintaining records for source data and ensuring the correct amounts have been included in the valuers' calculations.

Light purple

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Assessment

- [Purple]
- [Grev]
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Light purple

2. Financial Statements - key judgements and estimates

estimate

Summary of management's approach

Audit Comments Assessment

Investment property valuation -£66m

The Council is required to revalue its investment properties at fair value on an annual basis at 31 March 2021.

The Council has engaged an internal valuer as well as an external valuer to complete the valuation of properties as at 31 March 2021.

Significant valuation movements are subject to management challenge of the valuers.

The total year end valuation of land and buildings was £66m, a net decrease of £64m from 2019/20 (£4m).

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

We assessed of management's experts used and found them to be capable, competent and

We challenged the appropriateness of the underlying information used to determine the estimate. Alongside this, we ensured there is consistency of assumptions against peers/industry data.

Where movements are significant, we reviewed increase/decrease in estimates for reasonableness.

We are satisfied that the management have adequately disclosed this estimate in the financial statements

Our testing identified that three of the properties we tested had incorrect rental amounts included as source data in the valuation calculation. One further asset tested was valued with an incorrect floor area, which is a key piece of source data.

The impact of these errors is shown in Appendix C, being an understatement of £464k, which is below our performance materiality threshold.

We are satisfied the estimate included by management is materially accurate and free from bias. Although we recommend management review the controls around maintaining records for source data and ensuring the correct amounts have been included in the valuers' calculations.

Light purple

Property, plant and equipment:

Council **Dwellings** -£232m

The Council owns 4,500 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged a RICS registered valuer to complete the valuation of these properties. In the year under review, the valuation has been on a desktop basis, a full revaluation was undertaken in the prior year. The vear end valuation of Council Housing was £232m. a net increase/decrease of £18m from 2019/20 (£214m).

We considered the competence, qualifications and independence of management's valuation expert as well as their relevant terms of reference and valuation report. We did not identify any issues.

We confirmed that the information used by the valuer was complete and accurate and the desktop revaluation process were appropriate.

We also confirmed that the valuation approach was consistent with the prior year and was in accordance with the guidance on stock valuation for resource accounting.

We challenged the indices used in the valuation process and also corroborated the valuation of a sample of properties to market data and were satisfied with the results.

We are satisfied the estimate included by management is materially accurate and free from bias.

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Page

2. Financial Statements - key judgements and estimates

Significant estimate

Summary of management's approach

Audit Comments

Assessment

Light purple

Net pension liability – £54m The Council's net pension liability at 31 March 2021 is £54m (PY £51m) comprising the Local Government defined benefit pension scheme obligations.

The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £9m net actuarial gain/loss during 2020/21.

We have reviewed the estimate, undertaking tests on the asset and liability elements of the net liability. Using analytical procedures, we have compared actual results with expectations and estimates applied by the actuary and have concluded that the results are reasonable.

We have reviewed the work of management's actuary, Hymans Robertson, through the use of an auditor's expert, PricewaterhouseCoopers LLP (PwC). We have undertaken an assessment of actuary's roll forward approach, including work to confirm reasonableness of the approach. We also considered the assumptions applied by the actuary in their 2019/20 IAS 19 pension liability calculation against those independently assessed by our auditor expert, and the results are set out below.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95% - 2.00%	y
Pension increase rate	2.85%	2.80% - 2.85%	•
Salary growth	3.15%	2.80% - 3.85%	•
Life expectancy – Males currently aged 45 / 65	22.9 / 21.9	21.9 – 24.4 20.5 – 23.1	•
Life expectancy – Females currently aged 45 / 65	26.0 / 24.3	24.8 – 26.4 23.3 – 25.0	•

We have undertaken checks on the completeness and accuracy of the underlying information used to determine the estimate in order to determine the reasonableness of increase in the estimate. We have also ensured adequacy of the disclosure of the estimate in the financial statements.

The auditor of Gloucestershire County Council Pension Fund has provided assurances over the processes and controls in place at the Pension Fund, including those around member data and the information provided to the actuary. They have given assurance that they have undertaken testing of the Pension Fund's Level 3 investments, with no issues noted.

They did identify that that the actuary used a projected investment return of 26.6% in their IAS19 estimate of pension assets. The actual investment return for the pension fund's assets for 2020/21 was 27.38%. The impact of this an £637,098 overstatement of return on plan assets. This is not an error but an instance of estimation uncertainty, the impact is not material on the pension liability reported in the balance sheet.

A number of values within the disclosure of note 34 were agreed with management as requiring adjustment to agree to the actuary report, these did not impact the calculation of the net pension fund liability.

We are satisfied the estimate included by management is materially accurate and free from bias.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Grants Income Recognition and Presentation- £50m

Grants Received in

£4m

Advanced Presentation-

For several grants, the Council is acting as an agent and does not recognise grant income. The balance of grants unpaid is shown as a creditor in the statement of financial position.

There also has grants where the Council is acting as the principal and credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver.

We have:

- Assessed whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant as revenue in the year under review
- Reviewed the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income
- Assessed the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) - which impacts on where the grant is presented in the CIES.
- Reviewed the adequacy of disclosure of judgement in the financial statements

Details of findings have been detailed within 'new issues and risks' within this report. Adjustment identified, but this Is presentational and does not reflect management's approach being materially incorrect.

We are satisfied with the treatment taken by the Council in relation to the recognition and presentation of grant income following the adjustment noted above.

Light purple

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Dark purple

Minimum Revenue Provision - £236k

The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.

The year end MRP charge was £236k, a net decrease of £1,437k from 2019/20.

The Council continued to make the voluntary overpayments of £171k (£163 in the prior year), meaning that the total value of overpayments to date is £1.061m.

The Council has restated Note 21 within the financial statements to show within the 'Sources of Finance' the gross MRP charge of £2,097k which includes the charge to revenue of £236k and capital receipts applied in lieu of MRP of £1.861k. This is then separated within the 'Explanation of movement in year' which discloses the MRP (£236k) and VRP (£171k) totaling £407k, together with the capital receipts applied in lieu of MRP of £1,861K.

Due to the uncertainties in local government funding brought about the Covid-19 pandemic, the Council has taken a temporary course of action to reduce the level of MRP charged to revenue in the year by applying capital receipts.

This, in our view, is contrary to regulations that cover how capital receipts can be used.

However, in considering the wider factors and overall financial management of the Council, we are satisfied that, in totality, the Council has a prudent approach to MRP, notwithstanding our view that the charge in respect of the 2020-21 financial year was not.

We therefore recommend that the Council re-considers the MRP policy for future years to ensure that it complies with the underlying regulations and guidance and charges a prudent level of MRP to the revenue account.

The disclosure of Note 21 reflects the way that the Council has calculated and accounted for MRP in the year. This disclosure will need to be reviewed next year, once the approach has been reviewed.

Assessment

- [Purple]
- [Blue]
- [Grev]
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - 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.

We have previously discussed the risk of fraud with the Audit, Compliance and Governance 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.	
As part of our review of senior officer declarations, it was noted that one officer is also a director of Cheltenham BID Limited of which the Council has transactions with. These transactions, although not material to the Council are material to Cheltenham BID Limited and as such require disclosure in the Council's financial statements. This has been rectified by management in the final accounts.	Pa
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.	ge 64
A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is outstanding at the date of this report	_
	As part of our review of senior officer declarations, it was noted that one officer is also a director of Cheltenham BID Limited of which the Council has transactions with. These transactions, although not material to the Council are material to Cheltenham BID Limited and as such require disclosure in the Council's financial statements. This has been rectified by management in the final accounts. 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. A letter of representation has been requested from the Council, including specific representations in respect of the

2. Financial Statements - other communication requirements



Issue	Commentar

Confirmation requests from third parties

We requested from management permission to send confirmation requests to several counterparties which the Council hold bank accounts, investments and borrowings with. This permission was granted and the requests were sent, all these requests were returned with positive confirmation.

We requested management to send letters to those solicitors who worked with the Group during the year. No issues noted with responses received.

Accounting practices

We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.

We did note one disclosure in relation to estimation uncertainty did not meet the description of such per IAS 1, management have amended this disclosure so as the presentation is in line with the requirements of IAS 1 in the final accounts.

Audit evidence and explanations/ significant difficulties Evidence received in the year under review has largely been of a better standard than in the prior year. However, in some instances, there have continued to be some delays in providing sufficient evidence. We recognise that this is an inevitable result of a change in the finance team at the Council and the respective teams getting to know expectations.

One area of for focus in future years is the debtors and creditors populations for sampling. These were initially provided with opening balances included, being transaction listings rather than a breakdown of balances the Council owed / was owing at 31 March 2021. After discussion with officers, the appropriate information was provided that enabled us to identify a population for sampling. We also experienced some challenges due to the limited availability of the specialist involved in the valuations of the Council Property, Plant and Equipment (PPE) balances, including Investment Properties. This is an area where we encourage the Council to ensure that there is sufficient capacity is future years, as this is an area of significant risk and therefore requires a substantial level of audit work.

We would also emphasise that some of the delays can be attributed to the environment where audit of accounts is more difficult, as the entire audit was conducted remotely. In addition, as we respond to findings from the Regulator reviews of our files, some of the expectations for supporting evidence for transactions has also increased.

Notwithstanding the comments above, the overall direction of travel is positive and we commend officers and the Council for this.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue

Commentary

Going concern

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and
 resources because the applicable financial reporting frameworks envisage that the going concern basis for
 accounting will apply where the entity's services will continue to be delivered by the public sector. In such
 cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and
 standardised approach for the consideration of going concern will often be appropriate for public sector entities
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is
 more likely to be of significant public interest than the application of the going concern basis of accounting. Our
 consideration of the Council's financial sustainability is addressed by our value for money work, which is
 covered elsewhere in this report.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:

- the nature of the Council and the environment in which it operates
- the Council's financial reporting framework
- the Council's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:

- a material uncertainty related to going concern has not been identified
- management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue

Commentary

Other information

We are required to give an opinion on whether the other information published together with the audited financial statements (Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has not identified any material inconsistencies with the financial statements.

However, our review of the AGS has identified that, within Principle B (page 12), "Performance against the corporate plan is monitored via Overview and Scrutiny and reported on an annual basis to Cabinet". We have been unable to find evidence that this monitoring has been taking place during the year, due to the impact of the Covid-19 pandemic and the delay in the implementation of the Clearview Performance Management System. We are satisfied that in all other material respects, that the AGS is consistent with the knowledge obtained during our audit.

Matters on which we report by exception

We are required to report on a number of matters by exception in a number of areas:

- if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,
- · if we have applied any of our statutory powers or duties.
- where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.

We have no matters to report.

Specified procedures for Whole of Government Accounts

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.

Work is not required as the Council does not exceed the threshold.

Certification of the closure of the audit

We intend to delay the certification of the closure of the 2020/21 audit of **Cheltenham Borough Council** in the audit report, as detailed in Appendix F, due to incomplete VFM work.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Our work has yet to be completed on Value for Money and we anticipate this being reported to the Council by 31 December 2021.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risk of significant weakness within our Audit Plan, but did identify the following two areas of key focus.

Our work on these areas is underway and an update is set out below.

Key areas of focus

Work performed to date

Financial Sustainability

Medium term financial planning and impact of Covid-19 on financial planning

We have reviewed the Council's final 2020/21 outturn report against its original and revised plan, which was reported at an underspend of £395k. We have reviewed various financial performance reports, including in year budget reporting to assess arrangements for complete, accurate and timely financial monitoring.

Our work in this area is still ongoing and will focus on the robustness of the financial planning going forward, recognising the current challenges. We will consider the impact of Covid-19 on the Council's current financial position including the impact on budgeting into the short and medium term.

Once complete our findings in this area will be reported in our Auditor's Annual Report. There are no issues emerging which impact on our account's opinion.

Financial Sustainability

The Council's Commercial Investment Strategy, in light of emerging national guidance and the Covid-19 pandemic

The Council has continued to hold strategic commercial investments within the Cheltenham area to support its regeneration agenda and deliver future income streams to ensure that it has a reliable source of other income support its delivery of services. The extent and nature of local government investments in properties continues to be an area of heightened interest by the Government and regulators due to the inherent risk in such activities and the impact that could have on the probity of public funds.

Cheltenham Borough Council has sought to ensure that it manages this risk through robust due diligence of the investment acquisitions that it makes and ensures that such investments remain within the geographical boundary of the Council. Our work in this area is still ongoing and will focus on the performance of current investments as well as the information provided to support the decisions made on investments in the year and those that are planned in the near future.

Once complete our findings in this area will be reported in our Auditor's Annual Report. There are no issues emerging which impact on our account's opinion.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

In this context, we disclose the following to you that in May 2020, a member of our wider public sector assurance team, has taken up a post of employment within Publica Group (Support) Ltd. This individual's role is a Deputy Chief Financial Officer to Cotswold District Council, with further responsibilities as Chief Accountant in Publica Group (Support) Ltd. This individual does not work on this audit engagement, so we consider that this fact has had no bearing on our audit judgment or independence. We have safeguarded the perceived threat to independence by ensuring the member of staff is not involved with the audit, with assurance from the Chief Financial Officer (Section 151 Officer) that once working at Publica, the individual will not:

- · have access to view or amend the Cheltenham Borough Council ledger
- instruct staff on any transactions with affect the Cheltenham Borough Council accounts
- prepare or have any input into the Financial Statements for Cheltenham Borough Council
- have line management responsibility for any members of staff who are based in Cheltenham

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Capital receipts grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,500 in comparison to the total fee for the audit of £59,543 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	19,906	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £19,906 in comparison to the total fee for the audit of £59,543 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Compliance and Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified three recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. 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
Medium	It was identified that the total value of heritage assets was not covered by the insurance certificate. Insurance cover held is	We would as such recommend that management review the coverage on an annual basis to ensure that sufficient insurance cover is held.
	£650k less than the value of these assets.	Management response
	Should the whole portfolio be damaged or destroyed, the Council would have insufficient insurance cover to replace these assets.	The insurance arrangements and value of the Council's heritage assets will be reviewed in 2021/22 to ensure their value is fully covered.
Medium	There were some issues evidencing older balances, this was identified in grant testing; particularly where grants are being carried as receipts in advance or released from receipts in	We would recommend that a review of balances carried forward as at 31 March 2021 is undertaken to ensure that management are fully aware of what these balances relate to and investigate where there any uncertainty around transactions.
	advance during the year.	Going forward, it would be beneficial to ensure that sufficient records are kept where balances are carr
	We were advised that this has largely been the case where there have been changes in staffing and information has been lost with	forward into new reporting periods. This will enable information is not lost with staff changes.
	members of staff leaving the Council.	Management response
	There is a risk that balances relating to prior periods are incorrectly carried forward or released into the incorrect reporting period if there is not sufficient record keeping.	There have been a number of changes in the finance team supporting the preparation and audit of the 2020/21 Statement of Accounts, including three new members of the team who have joined the team since February 2021. As part of these changes, the accounting entries and working papers for balances, including grants carried forward and grants received in advance balances, have been reviewed to ensure that those prepared for 2020/21 have clear, documented notes for the team to follow in future accounting periods.
Medium	Our testing identified 17 journals that had a blank description, these were selected for testing as this is a weakness in a key control.	We would recommend that all journals are posted with a description, and this is considered as part of the review process. Further training may be necessary for journal posted to ensure the finance team is aware of the important of this key control.
	There is a risk that inappropriate journals could be posted to the	Management response
	ledger to conceal fraudulent activity.	It is not good practice to post journals without a description but accept that 17 journals from a total population of 30,140 is a small proportion. The users who have posted the journals without a description have been identified and the requirement to include a description will be re-iterated. The journal listing will be reviewed quarterly to identify and resolve any exceptions.

Action required

- High priority urgent action should be taken to address the weaknesses identified
- Medium action should be taken to address the weaknesses identified in a timely manner
- Low action should be taken to move to best practice

A. Action plan – Audit of Financial Statements

Assessment High

Issue and risk

133ue anu 113

Our testing on the valuation of property, plant and equipment and investment properties identified several errors in relation to source data as detailed within 'key judgments and estimates' from page 13.

The Council had difficulty providing evidence to support the floor areas of some assets and properties we selected for testing. We would expect the Council to maintain up to date records of property data, such as floor areas.

Where these were not available, we have used Valuation Office Agency data and Energy Performance Certificate's to corroborate the floor areas.

We would deem the lack of up-to-date property information to be a weakness in evidence. In one case, the Council was unable to evidence why a car park was valued at £227k. This car park is non-revenue generating and is recognised in the fixed asset register as part of another building asset. We have noted that this is an isolated issue and no other assets hold a car park that have been valued in this way. We do not deem this to be an error, but an amount for which we cannot obtain sufficient and appropriate evidence and are reporting this as such.

We were also unable to corroborate the fact that management have challenged the valuer on the valuations they produced. As the estimates in the Statement of Accounts are the responsibility of management, not the valuer, we would expect there to be some documentation of the challenges raised.

The Council has incorrectly included capital receipts within it's annual charge for MRP which has reduced the amount charged to revenue in the year. This is contrary to the regulations which prescribe the use of capital receipts. Consequently, the annual charge of MRP to the revenue account is understated for the year.

Recommendations

The Council should ensure that up to date records are maintained in respect of property data to ensure the valuations are completed using appropriate inputs.

We would also recommend that the valuations produced are reviewed for reasonableness, management should challenge the assumptions made and the source data included.

Management response

Although we agree that floor plans and property records should be held centrally and be accessible to all new and existing members of the team, due to a number of personnel changes over the period of the accounts preparation and audit, the location and storage of some information has not been fully handed over.

A number of the unadjusted errors are for properties valued by an external valuer where is has been identified that assumptions used in the valuation were not correctly evidenced and, in so cases, the external valuer had not requested the source data before valuations were completed. This will be fed back to the external valuer and we will review the use of the firm again in future years.

Work was undertaken by staff who have since left the Council to challenge the valuations and supporting documentation provided by the external valuer, although due to capacity issues this may not have covered all valuations. Discussions were also held between the internal valuations team and the finance team where evidence and assumptions made in relation to valuations were not judged to have been sufficiently documented. This challenge was not always documented and in future the team will ensure that correspondence is saved and shared to ensure continuity in the accounts preparation and audit process.

The Council needs to revisit its approach for charging MRP so that it does not include capital receipts in lieu of charges to the revenue account.

Management response

Our approach to MRP will be reviewed for future years.

Action required

- High priority urgent action should be taken to address the weaknesses identified
- Medium action should be taken to address the weaknesses identified in a timely manner
- Low action should be taken to move to best practice

B. Follow up of prior year recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
We identified the following issues in the audit of Cheltenham Borough Council's 2019/20 financial statements, which	S	The Budget Strategy (Support) Reserve is part of the Council's medium term strategy and was set up in 2015 specifically for the purpose of supporting the budget. The use of this reserve has been appropriately considered by the Section 151 Officer and approved by Cabinet and Council. We have considered the use of reserves in 2019/20 to deliver financial balance. The Council plan to use £258k of the Budget Strategy (Support) Reserve in 2020/21. The level of reserves is sufficient to support the budget for 2020/21 but beyond this it will have to be replenished.	As detailed in Appendix G, Value for Money work has not been completed in line with the financial statement audit. On this basis, we cannot yet comment on the Council's medium-term strategy.
resulted in five recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the	TBC	The Council's net budget includes income from investment properties. Income from investment properties to the end of March 2021 is secure, however there are some tenancies expiring during the 2021- 22 financial year which may not be renewed if home working becomes more common. The Council will have to continue to closely monitor their investment opportunities to identify additional savings in this case.	Our testing has identified that tenancies noted as expiring in the 2021- 22 financial year have been either renewed or are rolling over. We have reviewed tenancies that have rolled over or due to expire in the 2022- 20 financial year and responses from management are outstanding as to the continuof these leases. As such, we are unable to comment at the date of this report.
implementation of our recommendations and note four are still to be		We identified that investment properties worth £1.9m and surplus assets worth £3.75m were not formally valued in 2019-20. The Council has undertaken an exercise which demonstrates their consideration that the carrying value and fair value of these assets at 31 March 2020 are not materially different.	We are satisfied that all investment properties were revalued as at 31 March 2021 and that management have made changes to the revaluation programme to ensure that the approach taken is in line with the CIPFA Code. Surplus assets totalling £670k were not revalued in the year under review, this has been raised with management. We were advised that the valuer was asked to revalue them all in the instructions however the revaluations were not received. As the total value was not material, management took no further action on this.
completed.	✓	Our testing identified sample evidence and working papers which were not to the required standard. Examples include the sample evidence in relation to income and expenditure and working papers in relation to property, plant and equipment reconciliations.	Evidence and working papers received in the year under review has largely been of a better standard than in the prior year. Management have responded positively to this recommendation and further progress is expected to be made in future years.
© 2021 Grant Thornton UK LLP.	√	The Council's componentisation policy has not been updated since 2011. This policy was based on 1% of Other Land and Buildings at that date being £872k, however	The policy in the draft financial statements is unchanged from the prior year, being £872k. This was raised with management, the policy was reviewed and updated in year. The proposed policy was taken to Audit Committee on 14 July 2021.

This has been rectified as an adjustment in the final accounts, showing

componentisation policy being £1 421m

based on the 31 March 2020 balances, 1% would be

£1.421m

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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 ending 31 March 2021.

Comprehensive Income

Detail	and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Grant income recognised as fees, charges and other service income in error	There is no impact on the net expenditure recorded	£ nil	£ nii
Note: impact is not within CIES, but instead income and expenditure by nature:	in the Council's Comprehensive Income		age
Dr - Fees, charges and other service income - £2,474k	and Expenditure Statement		ò
Cr - Government grants and contributions -			
£2,474 k			
Being a land swap that represents a disposal and addition which was recognised as a reclassification in the draft accounts		Dr – PPE: additions – £1,090k Cr – PPE: disposals – £1,090k Dr – PPE: OLB reclassifications disposals – £1,090k Cr PPE: AUC reclassifications – £1,090k	£ nil
Overall impact	£nil	£ nil	£ nil

Misclassification 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.

Disclosure omission	Auditor recommendations	Adjusted?	
A number of amendments were noted within note 34, the pension liability: total post-employment benefit charged to CIES reported as 12,537 instead of 9,002 infrastructure not included as asset category within 'Quoted prices not in active markets' proportion of assets incorrectly calculated (impacting equity investments and bonds)	The disclosures in respect of the pension liability should reflect the underlying evidence and supporting information. Management response The disclosures were fully updated as detailed here in the final accounts	√	_
Within the housing revenue accounts, two figures were not updated o reflect the position of the current year. These were for rent arrears and bad debt provision.	Financial information should be updated to reflect the position at the year end, 31 March 2021. Management response The disclosures were fully updated as detailed here in the final accounts	✓	age //
Recalculating senior officer remuneration identified that the banding disclosed by management was incorrect in one instance. One officer should have been included within the £55,000 - £59,999 band not the £50,000 - £54,999 band.	Ensure that the bandings for senior officer's remuneration are calculated correctly. Management response The disclosures were fully updated as detailed here in the final accounts	√	
A number of presentational, grammatical and numerical adjustments and additions were made to the financial statements to improve the readability and understandability of disclosures and to ensure that they are in line with the current International Financial Reporting Standards.	Undertake a detailed review of the financial statements to ensure that the quality of the information is to a high standard. Management response The disclosures were fully updated in line with commentary provided in the final accounts	✓	

Misclassification 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.

Disclosure omission	Auditor recommendations	Adjusted?	
The Movement in Reserves Statement consistency checker tool published by CIPFA identified the following amendments:	Officers should utilise the MIRS consistency checker tool to ensure that the statement is accurately reported.	✓	_
Note 34 - Employer's pension contributions and direct payments to pensioners to be changed from £4,983k to £4,853k	Management response The disclosures were fully updated as detailed here in the final accounts		
Note 25 – Reclassifications from/(to) PPE to be changed from £50k to £12k. Revaluation gains to be changed from £38k to nil.	, ,		
Note 19 – some revaluations gains to be put through the CIES rather than credited to the revaluation reserve, due to them being identified as reversals of revaluation losses put through the CIES in previous years, lines impacted:			
Revaluation increases/(decreases) recognised in the RR (OLB and Surplus)			
 Revaluation increases/(decreases) recognised in surplus/deficit on the provision of services (OLB and Surplus) 			Page
Assets reclassified (to)/from held for sale (OLB)			ge
Depreciation written out to the RR (OLB)			78
 Depreciation written out to the surplus/deficit on the provision of services (OLB) 			∞
Duplicates were identified within the operating leases schedule to support note 23. Valued should state as follows, original disclosure shown in brackets:	We recommend that this is adjusted Management response	✓	
 Not later than 1 year £4,501k (£4,526k) 	The disclosures were fully updated as detailed here in the final accounts		
• 2 - 5 years £12,153k (12,242k)	The disclosures were runy appeared as detailed here in the final accounts		
More than 5 years £111,827 (113,148k)			
The unadjusted impact of the McCloud judgment 2019-20 was accounted for	We recommend that this is adjusted	✓	
this in 2020-21 by restating the comparatives, it is our opinion that £105k should be accounts for as a past service cost in the current year.	Management response		
be decounts for as a past service cost in the current year.	The disclosures were fully updated as detailed here in the final accounts		
A disclosure within the detailed cash flow note was missing, this is to show that	We recommend that this is adjusted	✓	_
the surplus or deficit on the provision of services has been adjusted for the following items 'Proceeds from the sale of PPE, investment property and	Management response		
intangible assets' that are investing and financing activities	The disclosures were fully updated as detailed here in the final accounts		

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit, Compliance and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Revaluation gain on a investment property incorrectly allocated on the CIES	Cr - Financing & Investment income -£86k Dr - Surplus or Deficit on revaluation of non-current assets - £86k		£nil	On this basis of materiality
Projected misstatement: being brought forward balances within GRIA the Council were unable to evidence		Dr – Grants received in advance - £85k	£nil	On the basis that this is a projected misstatement based on a balance that cannot be evidenced
Being a brought forward balance within GRIA released to the CIES in year the Council were unable to evidence	Dr – Grant income – £158k		Dr - £158k	On the basis that this is not confirmed error, but a balance that cannot be evidence
Being the land swap recognised as a reclassification in error and the subsequent revaluation upon identifying this	Cr – (Surplus) or Deficit on revaluation of non-current assets– £342k	Dr – PPE: revaluation increases recognised in the revaluation reserve – £342k	Cr – £342k	On this basis of materiality
Being the net impact of the errors identified in investment properties valuation testing	Cr – Financing and Investment income– £464k	Dr – Investment properties: Net losses for the period included in the surplus or deficit on the provision of services resulting from changes in fair value – £464	Cr – £464k	On this basis of materiality
Being the net impact of the errors identified in other land and buildings valuation testing	Dr – (Surplus) or Deficit on revaluation of non-current assets– £758k	Cr – PPE: revaluation increases recognised in the revaluation reserve – £758k	Dr – £758k	On this basis of materiality
The impact of the McCloud Pension adjustment from 2019-20 has been re-stated in the comparators rather than disclosed as a part service cost in 2020-21.	£ nil	£ nil	£ nil	On the basis of materiality
Overall impact	£110k	£1331k	£110k	

D. Fees

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

The fees reconcile to the financial statements

Audit fees	Proposed fee	Final fee
Council Audit	59,543	TBC
Total audit fees (excluding VAT)	£59,543	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit related - Certification of Housing Capital receipts grant	5,000	5,000
Audit related - Certification of Housing Benefits grant	19,906	19,906
Total non-audit fees (excluding VAT)	£24,906	£24,906

Independent auditor's report to the members of Cheltenham Borough Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Cheltenham Borough Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, Movement in Reserves Statement, the Cash Flow Statement, the Collection Fund – Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Statement of Movement in Reserves and the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the HRA Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, <u>as required by the Code of Audit Practice (2020)</u> ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director - Finance & Assets use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Executive Director - Finance & Assets conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director - Finance & Assets use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Executive Director - Finance & Assets with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director - Finance & Assets and Those Charged with Governance for the financial statements' section of this report.

Other information

The Executive Director - Finance & Assets is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director - Finance & Assets and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 12, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director - Finance & Assets. The Executive Director - Finance & Assets 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director - Finance & Assets determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director - Finance & Assets is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit, Compliance and Governance Committee is Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003; the Local Government Act 1972; the Local Government and Housing Act 1989 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit, Compliance and Governance Committee, concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit, Compliance and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, we determined that the principal risks were in relation to:
 - those of a large value in isolation or when compared to the average value
 - journals posted without a description, by the senior officers or by users who seldom post journals
 - journal entries that increased revenues or that reclassified costs from the income statement to the balance sheet
 - closing entry journals.

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E. Audit opinion

- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Executive Director Finance & Assets has in place to prevent and detect fraud;
 - journal entry testing, with a focus on the above-mentioned principal risks as well as other risk factors determined by the engagement team;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect valuation of land and buildings, council dwellings, investment
 properties and surplus assets, defined benefit pensions liability valuations, depreciation and fair value estimates
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of land and buildings, council dwellings, investment properties and surplus assets, defined benefit pensions liability valuations, depreciation and fair value estimates.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Cheltenham Borough Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

Signature to be added

Barrie Morris, Key Audit Partner

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

Bristol

Date:

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F. Audit letter in respect of delayed VFM work

Chair of Audit, Compliance and Governance Committee Cheltenham Borough Council Municipal Offices Promenade Cheltenham GL50 9SA

22 September

Dear Sir

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

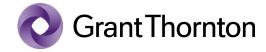
As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Barrie Morris

Barrie Morris Director



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Agenda Item 8

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Cheltenham Borough Council Audit, Compliance and Governance Committee 12 January 2022

Final Statement of Accounts 2020/21 Report of the Deputy Section 151 Officer

Accountable member	Councillor Peter Jeffries, Cabinet Member for Finance and Assets
Accountable officer	Gemma Bell, Head of Property, Finance and Assets
Accountable scrutiny committee	Audit, Compliance and Governance Committee
Ward(s) affected	All
Significant Decision	Yes
Executive summary	In line with the Government timeline for publication of Local Authority Statement of Accounts the final audited accounts for 2020/21 are required to be published by 30 September 2021.
	 The final audited Statement of Accounts was published on 29 October 2021 together with the opinion of the external auditors, Grant Thornton UK LLP. The delay arose due to a combination of factors, comprising the following: the impact of Covid-19 on both the complexity of the audit and pace at which it could be completed;
	 the inherent complexity of the Council's 2020/21 statement of accounts;
	 the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations; and
	 the planned timing of the audit due to a later sign off of the prior year audit.
	A Notice of Delay in the publication of accounts was published on the Council's website which outlined this.
	The purpose of this report is to present the final accounts to the Audit, Compliance and Governance Committee for approval.
Recommendations	It is recommended that:
	a) Audit Committee formally note the approval of the final Statement of Accounts for the year ended 31st March 2021

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Financial implications	As included in the Statement of Accounts 2020/21.
	Contact officer: gemma.bell@cheltenham.gov.uk
Legal implications	This report adopts relevant guidance issued in the Accounts and Audit Regulations 2003 and 2011.
	Contact officer: Sarah Farooqi, Legalservices@onelegal.org.uk
HR implications (including learning and organisational development)	None arising directly from this report. Contact officer: Julie McCarthy, HR Manager, Publica Group Limited julie.mccarthy @publicagroup.uk, 01242 264355
Key risks	There are no risks arising from this report which need to be brought to the attention of members.
Corporate and community plan Implications	None
Environmental and climate change implications	None.

1. Background

- 1.1 The Accounts and Audit Regulations require the council to prepare an annual statement of accounts by 31 May of each year. The Section 151 Officer must sign and date the draft statement of accounts, and certify that they accurately present the financial position of the council. There should then be a period of public inspection of the accounts. Due to Covid-19, these regulations were again changed for 2020/21 and the date amended to the 31 July 2021 for the 2020/21 financial year.
- 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 31 July, 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. Due to Covid-19, these regulations were changed and the date amended to the 30 September 2021 for the 2020/21 financial year.
- 1.3 The draft Statement of Accounts for 2020/21 was signed by the Section 151 Officer on 31 July 2021, with the work completed in accordance with the statutory deadline. The public inspection period operated from 2 August 2021 to 12 September 2021 and a public notice to that effect was publicised on the Council's website.
- 1.4 At the last meeting of the Audit Committee on 22 September the Committee reviewed and in principal approved the draft Statement of Accounts dated 14 September 2021. It also approved the delegation of authority to the Chair of the Committee to sign the final version of the accounts and management representation letter, subject to no significant issues being raised by audit.

2. Auditor's Report

2.1 The council's external auditors, Grant Thornton UK LLP, conducted a full audit of the financial statements and issued a 'Report to those charged with governance (ISA 260) for 2020/21', which gave the Statement of Accounts an unqualified audit opinion in relation to the Council's Statement of Accounts 2020/21.

3. Reasons for recommendations

- 3.1 The final audited Statement of Accounts were published on 29 October 2021 together with the opinion of the external auditors, Grant Thornton UK LLP. The delay arose due to a combination of factors, comprising the following:
 - the impact of Covid-19 on both the complexity of the audit and pace at which it could be completed;
 - o the inherent complexity of the Council's 2020/21 statement of accounts;
 - the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations and;
 - o the planned timing of the audit due to a later sign off of the prior year audit.
- 3.2 In line with the Committee's decision on 22 September, the Chair of the Committee signed the final version of the accounts and management representation letter on behalf of the Council on 29 October 2021. The auditors, Grant Thornton UK LLP, issued an unqualified audit opinion in relation to the Council's Statement of Accounts 2020/21 on the same day.
- **3.3.** A copy of the draft Statement of Accounts 2020/21 is attached at Appendix 1 to this report.

4. Letter of representation

- 4.1. 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 factor that could affect the auditor's view of the accounts since formal closure at 31 March 2021.
- 4.2 Note 31 outlines contingent liabilities; these are issues that currently exist but had no materialised by 31st March 2021. 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.
- 4.3 The signing of the Letter of Representation was delegated to the Chair of the Audit Committee as part of the approval of the draft Statement of Accounts on 22 September 2021. This letter was signed by management and the Chair of the Committee on 29 October 2021.

Report author	Contact officer: Gemma Bell
	Head of Property, Finance and Assets (Deputy s151 Officer) gemma.bell@cheltenham.gov.uk
Appendices	Appendix 1 – Statement of Accounts 2020/21
Background information	Code of Practice on Local Authority Accounting in the UK 2020/21 Accounts Draft Accounting Policies presented to Audit Committee 14 July 2021 Draft Statement of Accounts and Management Letter of Representation report to Audit Committee 22 September 2021

CHELTENHAM BOROUGH COUNCIL

Statement of Accounts 2020/21

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Our Narrative Report

Cheltenham aspires to be a place where everyone thrives – to be one of the UK's most 'liveable' towns, with residents and visitors alike inspired by our culture, food, public spaces, education and the diversity and quality of accessible experiences.

It is not just Cheltenham Borough Council that feels so passionate about our local area. The town, which is located between the Cotswold Hills and the Severn Vale has a population of 117,100 (2017 Office for National Statistics), was voted the place to live in the South West 2020 by The Sunday Times with its education, culture and connectivity highlighted amongst its best attributes.

Cheltenham is no stranger to such accolades, having been voted by The Telegraph as the best place in the UK to raise a family in 2014. However, this latest recognition highlights why Cheltenham is fast becoming a destination for those wishing to enjoy the relaxation of countryside living without missing out on the culture of a big city.

In spite of these endorsements, the Council has not rested on their laurels and has a firm focus on the future, with the town's famous resident - the UK government's cyber hub GCHQ – at the heart of ambitious plans to establish Cheltenham as one of the world's cyber tech capitals. Plans for a new campus and cyber-tech community, Cyber Central – a 45 hectare site at the heart of the 200 hectare Golden Valley development to the west of the town and adjacent to the GCHQ site - are now accelerating under the leadership of Cheltenham Borough Council. In 2019, the land on which the site will be developed was bought by the Council for £37.5m seizing, as they see it, the once-in-a-lifetime opportunity to create a world-leading cyber-tech hub in Cheltenham, with the associated economic and social benefits this will bring.

The commitment the Council has to the town has been clearly apparent in the response to the COVID-19 pandemic which has resulted in a financial year unlike any other. On 23 March 2020, the Prime Minister gave a statement to the nation announcing a set of national restrictions not seen before in peacetime. Over the last 15 months we have experienced three national lockdowns, many have lost loved ones and for others life will never be the same again.

Our Council has been on the front line of the response to the pandemic in Cheltenham paying grants to businesses, providing support to vulnerable people who are shielding, setting up community testing facilities and taking on the most challenging contact tracing, all the while keeping existing services running.

The longer term financial impact of the pandemic on our resources will continue to be closely monitored and reported throughout 2021/22 and beyond to ensure the Council has robust arrangements in place to respond to any future impacts on our funding or resources.

Who are Cheltenham Borough Council?

The Council are the decision making body at Cheltenham Borough Council. Local Councillors are elected by the community to decide how the council should carry out its various activities. They represent public interest as well as individuals living within the ward in which he or she has been elected to serve a term of office. They have regular contact with the general public through council meetings, telephone calls and some Councillors may hold surgeries. Surgeries provide an opportunity for any ward resident to go and talk to their Councillor face to face.

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The council has 40 elected members representing twenty wards within the Cheltenham Borough. There are also five parish councils within the borough. Elections are held every two years, when 50% of the seats are offered for re-election. The most recent election was held in May 2021 after being postponed in 2020 due to the national restrictions in place as a result of the COVID-19 pandemic.

The political make-up of Cheltenham Borough Council at 31 March 2021 was:

Liberal Democrat Party	29 councillors
Conservative Party	6 councillors
People Against Bureaucracy Party	2 councillors
Councillors Not Aligned to a Political Group	3 councillors

The Liberal Democrat group therefore had an overall majority of 18 on the Borough Council for this period.

Supporting the work of councillors is the organisational structure of the council, headed by the Executive Leadership team, led by the Chief Executive. This position is held by Mr Gareth Edmundson. During 2020/21 the Executive comprised of the Chief Executive and three Executive Directors, one of whom is also 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.

Who has overall responsibility at Cheltenham Borough Council?

Cheltenham 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.

In 2020/21, the Cabinet consisted of the Leader, a Deputy Leader and a Cabinet of seven Members as follows:

Leader of the Council	Councillor Rowena Hay (appointed 7 December 2020) Councillor Steve Jordan (until 7 December 2020)		
Deputy Leader of the Council and Cabinet Member Housing	Councillor Peter Jefferies		
Cabinet Member Finance and Assets	Councillor Steve Jordan (from 7 December 2020)		
	Councillor Rowena Hay (until 7 December 2020)		
Cabinet Member Healthy Lifestyles	Councillor Flo Clucas		
Cabinet Member Cyber and Safety	Councillor Andrew McKinlay		
Cabinet Member Climate and Communities	Councillor Max Wilkinson		
Cabinet Member Economy and	Councillor Victoria Atherstone		
Development Class and Cross	Councillor Chris Colores		
Cabinet Member Clean and Green Environment	Councillor Chris Coleman		
Cabinet Member Corporate Services	Councillor Alex Hegenbarth		

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When major decisions are to be discussed or made, these are published in the Cabinet's Forward Plan in so far ahead 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.

Supporting the work of councillors is the organisational structure of the council, Members of the council also nominate a Councillor each year to take on the roles of mayor and deputy mayor.

The Mayor and Deputy Mayor for 2019/20 continued their appointments in 2020/21 as the annual nominations were cancelled in May 2020 due to the COVID-19 pandemic restrictions.

Mayor	Councillor Roger Whyborn
Deputy Mayor	Councillor Sandra Holliday

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.

Our vision for Cheltenham and ambitions for recovery

Our place vision

Cheltenham is a place that has thrived through centuries of change. It is a place we are proud of and passionate about, and we are committed to helping it grow and prosper in years to come.

Covid-19 has tested Cheltenham's communities and economy over the last twelve months. As a Council, we have recognised in our Covid-19 Recovery Strategy and Medium Term Financial Plan that rebuilding the strength of our town will require both innovation, ambition and a bold vision. To respond to this the Council will need to be agile in the way it responds and how it works with stakeholders and potential investors.

Our vision for Cheltenham is simply: "We want Cheltenham to be a place where everybody thrives." To achieve this vision, the place strategy action plan aims to deliver on the following outcomes:

- to protect and enhance the built heritage and green spaces that have shaped the unique character of the town;
- to create the conditions in which businesses can thrive, innovate and provide good quality jobs;
- to make the town a world-class cultural and learning centre which is outward-looking and welcoming to visitors;
- to build strong, safe and healthy communities for residents and their families; and
- to facilitate the provision of a wide-range of sustainable travel options and to accept our responsibility to present and future generations to live within environmentally sustainable limits.

In order that we can lead the economic recovery of our town, we will continue to invest in Cheltenham for the benefit of Cheltenham both in terms of sustainable Council finances, but also in terms of the way we invest both commercially and for regeneration.

Our corporate priorities

The 2019-2023 Corporate Plan outlines our strategic priorities for Cheltenham, what we have chosen to focus on and why we think these are important for our town. The table below outlines our priorities and how we have invested in their achievement over the past twelve months:

Priority One – making Cheltenham the Cyber Capital of the UK; a national first, which will deliver investment in homes, jobs, infrastructure and enable the Council to deliver inclusive growth for our communities.	 At the end of August 2019, we completed the purchase of 112 acres of strategically important land for £37.5m which forms part of the Cyber Central Golden Valley development. In March 2020, Cabinet approved a proposal for an investment of up to £1.7m to support the creation of the MX exchange, a tier 2 growth hub and incubation unit for cyber tech companies which has been delivered through 2020/21 to open in spring 2022. In February 2021, approval was granted by Tewksbury Borough Council's planning committee for the closure of a runway at Gloucestershire Airport to build a business park and a new access road. The creation of the business park nearby to the Golden Valley development will create jobs, infrastructure and vital economic links in the area. In order to fulfil this vision, the Council has committed £7.25m in 2021/22 to provide a loan to the Airport to fund the delivery of this project.
Priority Two — Continue the revitalisation of the town ensuring its longer-term viability as a retail and cultural destination	 We have set aside £1m to invest in our cultural buildings and enhance the arts and leisure offer that the Cheltenham Trust provides in the town. This will provide opportunities for local artists and support the recovery of the town by providing destination venues, driving footfall of visitors to the town and increasing community engagement with the arts. We have purchased retail premises to support the ongoing economic development of the town. In 2019/20 investment of £40.673m was made for the purposes of revitalising the town and this property was valued at £66.438m by 31 March 2021. We have also invested in the revitalisation of the high street, complemented by the flagship concept store opening for John Lewis, and the redevelopment of the Brewery Quarter.
Priority Three – Achieving a cleaner and greener sustainable environment for residents, businesses and visitors	 In 2020/21 approval was granted to recruit two climate change officers to develop and support our response following the declaration of a climate emergency in 2019. These officers are permanent members of staff tasked with driving forward our strategy in response to the increasing risks to the environment. In January 2020, Cheltenham Borough Council and Vision 21's Climate Conferences for businesses and community organisations was held for the first time. A total of 109 participants, two facilitators and eight group leads plus a key Note address from professor Rebecca Willis spoke about creating a a partnership for Cheltenham that will help Cheltenham Borough Council and the rest of us to achieve Net Zero by 2030. We successfully secured £382k of capital funding from the Government's Public Sector Decarbonisation Scheme which will be combined with our existing £300k budget to begin the delivery of the Net Zero target.
Priority Four – Increasing the supply of housing and investing to build resilient	Our Housing Investment Plan has committed £100m to fund mixed tenure housing in the private rented sector and £80m to fund affordable housing. The purpose of these investments is to shape sustainable and resilient communities and allow residents secure homes in which they and their families can thrive.

communities				
	The Council will continue to work with the private sector to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. In 2020-21, an investment of £1.605m was provided to CBH in order to support this commitment.			
Priority Five – Delivering	Throughout 2020/21 we have invested our own resources as well as utilising Government grant money to support			
Services that meet the needs	businesses, communities and residents in Cheltenham through the pandemic. Services delivered include, but are not limited			
of our communities	to:			
	 £44.5m of grants distributed to local businesses impacted by the national restrictions; 			
	 Meals on wheels service for older residents; 			
	 Purchasing and re-distributing laptops for children who are remote learning; 			
	 Increased flexibility in the planning and licencing restrictions to allow businesses to operate as we exited restrictions; and 			
	 The distribution of £100k of Community Resilience grants for initiatives to support those in the town most acutely impacted by the pandemic. 			

Working with partners

The council puts a strong focus on working together with partners across the Cheltenham family to deliver on these and other joint outcomes for our residents, communities, staff and service users. Among these are:

- Cheltenham Borough Homes Limited our Arm's Length Management Organisation responsible for managing our social housing stock and leading the delivery of housing provision in our town;
- Ubico Limited a company jointly owned by Cheltenham and six other Local Authorities responsible for delivering environmental services across Gloucestershire;
- The Cheltenham Trust an independent charitable trust, contracted to supply leisure and cultural related services to Cheltenham Borough Council via a management agreement;
- The Cheltenham Business Improvement District delivers a range of projects that benefit businesses in the town centre, including the High Street, The Promenade, Montpellier and The Brewery Quarter;
- One Legal the shared legal service between Cheltenham, Tewkesbury, Gloucester City and Stroud District Councils;
- Publica Group Limited a company owned jointly by Cheltenham and three other District councils to provide shared services from a common platform; and
- South West Audit Partnership a company operating across the South West region commissioned to provide our internal audit services.

Introduction to the financial statements

The purpose of this narrative report is to provide an explanation of the council's financial performance and position for 2020/21 and assist 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 2020/21 and the council's assets and liabilities at the year end.

The accounts for the year ending 31 March 2021 have been prepared and published in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (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 main statements and notes are included:

Statement of Responsibilities for the Statement of Accounts	Sets out the respective responsibilities of the council and the Section 151 Officer for the accounts.
Statement of Accounting Policies (note 1 to the notes to the accounts)	This explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. It includes the basis of charges to revenue and the calculation of items in the Balance Sheet.
Comprehensive Income and Expenditure Statement supported by the Expenditure and Funding Analysis note	The Comprehensive Income and Expenditure Statement shows the cost in the year of providing services, in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis reconciles this to the amount chargeable to General Fund and Housing Revenue Account reserves in the year.
Balance Sheet	This summarises the overall financial position of the council at the year end, showing its assets, liabilities and reserves.
Movement in Reserves Statement	This details the movement in the council's reserves during the year.
Cash Flow Statement	This summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
Group Accounts	These bring together the accounts of Cheltenham Borough Council, Cheltenham Borough Homes Limited and the council's share of the net assets of Gloucestershire Airport Limited.
Housing Revenue Account (HRA)	A separate account, required by law, which shows income and expenditure associated with the provision of council housing.
Collection Fund	Reflects the statutory requirement to maintain a separate 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.
Annual Governance Statement	This sets out how the council is meeting its obligations and the improvements it intends to make to its systems of internal control and corporate governance arrangements.

These accounts are supported by notes to the accounts 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

On 17th February 2020, Council approved the budget for 2020/21. However, the unprecedented response required from the Council to support and protect our staff, residents and the general public from Covid-19 had a material impact on the Council's financial position.

Following the introduction by Central Government of two grant funding streams; the first to cover COVID-19 related expenditure and the second to cover irrecoverable losses in income, a recovery budget was approved by Council in November 2020.

At the point of the recovery budget, additional expenditure was estimated to exceed the £1.535m grant funding that had been received by that point. Additionally, £1.498m of irrecoverable losses were projected for the full year to 31 March 2021, creating an estimated total net cost of £1.84m to the Council.

The recovery budget included revising the Minimum Revenue Provision policy, reallocating capital budget to repay borrowing and identifying surplus assets for disposal to generate funding to support the financial pressures on the general fund. These recommendations were made to ensure that sufficient revenue resources could be released to ensure a robust and balanced budget can be delivered in future years.

The outturn position at 31 March 2021 reports an under spend of £394,663 against this recovery budget. Whilst this is an extremely pleasing outturn position when the challenges of the previous twelve months are considered it should be noted that considerable financial resources have been required in its response to the pandemic.

The outturn position shows that this is slightly lower than forecast with a net cost of £1.47m. Although irrecoverable income losses were higher than forecast, the COVID-19 related expenditure in the second half of the year was lower. The summary outturn is reported in the table below.

REVENUE OUTTURN 2020/21	Current Budget 2020/21 £	Actual 2020/21 £	(Under)/Overspend 2020/21 £	
DIRECTORATES:				
Chief Executive	(i)	1,510,494	1,613,844	103,350
Finance & Assets Directorate	(ii)	10,143,565	10,337,103	193,538
People & Change Directorate	(iii)	4,233,318	4,059,111	(174,207)
Place & Growth Directorate	(iv)	6,233,133	5,447,159	(785,974)
Net Expenditure on Services		22,120,510	21,457,217	(663,293)
Capital Charges		(4,729,907)	(4,684,196)	45,711
Interest payable and receivable		(1,996,910)	(1,860,606)	136,304
Use of balances and reserves		13,756,023	13,684,581	(71,442)
Total net expenditure		29,149,716	28,596,996	(552,720)
FINANCED BY:				
New Homes Bonus		(1,252,262)	(1,252,262)	-
National Non-Domestic Rate <mark>s</mark>		(2,365,904)	(2,104,279)	261,625
Section 31 NNDR Compensation Grant		(14,658,481)	(15,370,862)	(712,381)
Council Tax		(9,604,969)	(9,604,064)	905
Other Government Grants		(1,171,923)	(564,016)	607,907
Total Funding		(29,053,539)	(28,895,483)	158,056
Outturn		96,177	(298,487)	(394,664)

(i) Includes Strategic Management, Democratic Services, Elections

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- (ii) Includes Property & Assets, Treasury Management, Pensions backfunding
- (iii) Includes Housing Benefits, Revenues (council tax and business rates collection), Community Engagement, Commissioning & Modernisation
- (ii) Includes Building and Development control, Planning & housing enabling, Car parking, Bereavement services, Parks & Gardens, Public Protection

Housing Revenue Account (HRA)

The HRA generated a surplus in the year of £5.608m, however after statutory adjustments (including the revenue financing of capital expenditure of £7.006 million), there was a reduction of £6.046million in the HRA balance. The reduction, as in previous years, is due to the use of increased borrowing instead of revenue financing to fund capital expenditure. Full details of the Housing Revenue Account activity for the year are provided on pages 104 to 108.

Capital Expenditure

In 2020/21 the council spent £21.0 million on capital projects, grants and loans, across the general fund and the Housing Revenue Account capital programmes. Key expenditure on capital schemes include:-

	£ '000
Major repairs & improvements to existing housing stock	7,688
Enabling the delivery of Private Rented Sector (PRS) Housing	1,605
Investments to support the long term sustainability of the Cheltenham Trust	222
Replacement vehicles and recycling equipment	380
Adaptations for the Disabled	400

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.

Cash Management

Throughout 2020/21, the Council has continued to manage its cash flows, investments and borrowings to ensure sufficient resources were available to meet our commitments. The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

As such, short term investments and borrowing are used to ensure strong returns whilst also balancing the availability of cash, particularly during the pandemic when there was greater uncertainty about potential commitments. The year on year comparison in Note 28 of the accounts reflect this, having invested the majority of our £6.940m available cash in an overnight money market fund to maximise the return on our assets.

Reserves and Balances

In assessing the adequacy of reserves and balances for 2020/21 the Section 151 Officer used a risk based approach to assess the appropriate level of general balances which calculated the optimum level to be £1.219m. At the year end, the General Fund Balance stands at £1.213m and therefore is marginally below the optimum level recommended by the Section 151 Officer at year end – an impressive outcome given the scale of losses incurred due to COVID-19.

Accepting that the long-term impact from COVID-19 could leave the Council exposed without clear decision-making in delivering a balanced budget, the level of reserves is lower than optimal at year end and action has been taken in the 2021/22 budget to increase the robustness of the reserves through a transfer of

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£543k to general balances. This brings the expected general balance reserve to £1.720m against an optimum level of assessment of £1.708m agreed as part of the 2021/22 budget proposals.

There may be an expectation to further strengthen these reserves in order that the Council is robustly covered against further financial pressures which may emerge through recovery or future changes to local government financial support. With diminishing central government support in the form of direct grant and New Homes Bonus, volatility within business rates, and the impact on individual's ability to pay council tax, it may be the case that that some difficult choices need to be made to .

Council has approved the use of the underspend against the 2020/21 recovery budget to invest in the economic recovery of the town post pandemic. There are many investment options available and the long term sustainability of the costs and funding associated with delivery of these will be considered and reviewed before commitments are made to ensure the scarce resources available are able to generate the maximum value.

Changes in accounting policies and estimates

The council has reviewed its accounting policies during the year and revised them as necessary in accordance with the 2020/21 Code of Practice in Local Authority Accounting. The policies are detailed in note 1 to the accounts (pages 19 to 37) and any changes in accounting policies are detailed in note 2 on page 38.

FURTHER INFORMATION

Further information about the accounts is available from the Executive Director (Finance & Assets), 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 are available for inspection by appointment between 2 August 2021 and 12 September 2021 at the Municipal Offices, and local government electors for the area could exercise their rights to question the auditor about, or make objections to the accounts for the year ended 31 March 2021, in writing, during this period.

PAUL JONES FCPFA
EXECUTIVE DIRECTOR – FINANCE & ASSETS

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
 Executive Director Finance & Assets, 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
- 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 15 to 108 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 31 March 2021.

PAUL JONES FCPFA
29 October 2021
EXECUTIVE DIRECTOR – FINANCE & ASSETS (SECTION 151 OFFICER)

CLLR GUY MAUGHFLING 29 October 2021 CHAIR OF THE AUDIT, COMPLIANCE AND GOVERNANCE COMMITTEE

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 both in the Expenditure & Funding Analysis and in the Movement in Reserves Statement.

Gross expenditure £'000	2019/20 Gross income £'000	Net expenditure £'000		Gross expenditure £'000	2020/21 Gross income £'000	Net expenditure £'000
2,047	(432)	1,615	Chief Executive	1,703	(29)	1,674
8,775	(1,107)	7,668	Finance and Assets Directorate	7,441	(979)	6,462
27,849	(23,211)	4,638	People and Change Directorate	28,131	(23,499)	4,632
22,051	(13,947)	8,104	Place and Growth Directorate	19,811	(10,650)	9,161
17,602	(20,218)	(2,616)	Housing Revenue Account (HRA)	17,079	(20,971)	(3,892)
78,324	(58,915)	19,409	Cost of Services	74,165	(56,128)	18,037
719	(750)	(31)	Other operating expenditure (note 8)	701	(996)	(295)
15,510	(5,379)	10,131	Financing and Investment (income) and expenditure (note 9)	7,378	(4,641)	2,737
19,611	(35,315)	(15,704)	Taxation and non-specific grant (income) and expenditure (note 10)	34,441	(57,141)	(22,700)
114,164	(100,359)	13,805	(Surplus) or Deficit on the provision of services	116,685	(118,906)	(2,221)
			Items that will not be reclassified to the (Surplus) or Deficit on the provision of services			
		(2,930)	(Surplus) or Deficit on revaluation of non-current assets (note 33)			(20,276)
		(10,251)	Remeasurement of the net defined benefit liability / (asset) (note 34)			9,002
		-	(Surplus) or deficit on revaluation of equity instruments carried at Fair Value though Other Comprehensive Income			1,606
		(13,181)	Other Comprehensive (Income) and Expenditure			(9,668)
		624	Total Comprehensive (Income) and Expenditure			(11,889)

The notes are shown on pages 17-85.

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 2020		Note	31 March 2021
£'000			£'000
407,982	Property, Plant & Equipment	435,747	
40,748	Heritage Assets	20	41,840
68,068	Investment Property	22	66,438
502	Intangible Assets	24	385
8,086	Long Term Investments	26	7,333
10,739	Long Term Debtors	26	11,829
536,125	Long Term Assets		563,572
7,110	Short term Investments	26	64
60	Assets held for sale	25	48
174	Inventories		153
15,763	Short term Debtors	27	32,116
21,169	Cash and cash equivalents	28	6,947
44,276	Current assets		39,328
_	Bank overdraft	28	(746)
(70,095)	Short term borrowing	26	(60,292)
(15,771)	Short term creditors	29	(35,559)
(2,287)	Grants receipts in advance - capital	16	(2,726)
(2,660)	Grants receipts in advance - revenue	16	(1,332)
(486)	Provisions	30	(821)
(91,299)	Current Liabilities		(101,476)
(1,000)	Provisions	30	(625)
(115,293)	Long term borrowing	26	(113,835)
(225)	Grants receipts in advance - capital	16	(87)
(275)	Grants receipts in advance - revenue	16	(295)
(51,307)	Other long term liabilities	34	(53,691)
(168,100)	Long term liabilities		(168,533)
321,002	Net Assets		332,891
(23,529)	Usable Reserves	32	(31,115)
(297,473)	Unusable Reserves	33	(301,776)
(321,002)	Total Reserves		(332,891)

The notes are shown on pages 17 -85

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year of 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 unusable reserves.

The statement shows how the movements in year of the council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to council tax (or rents) for the year. The net increase or decrease line shows the statutory general fund balance and Housing Revenue Account balance movements in the year following those adjustments.

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Total General Fund £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2019	1,321	6,291	7,612	8,825	9,892	-	2,383	28,712	292,914	321,626
Movement in Reserves during 2019/20										
Total Comprehensive Income and (Expenditure)	(16,188)	-	(16,188)	2,383	-	-	-	(13,805)	13,181	(624)
Adjustments between accounting basis and funding basis under regulations (Note 5)	14,345	-	14,345	(4,139)	(1,266)	-	(318)	8,622	(8,622)	-
Transfers to/from earmarked reserves (Note 32)	1,795	(1,795)	-	-	-	-	-	-	-	-
Increase / (decrease) in 2019/20	(48)	(1,795)	(1,843)	(1,756)	(1,266)	-	(318)	(5,183)	4,559	(624)
Balance at 31 March 2020	1,273	4,496	5,769	7,069	8,626	-	2,065	23,529	297,473	321,002
Movement in Reserves during 2020/21										
Total Comprehensive Income and (Expenditure)	(3,387)	-	(3,387)	5,608	-	-	-	2,221	9,668	11,889
Adjustments between accounting basis and funding basis under regulations (Note 5)	18,177	-	18,177	(11,178)	(1,653)	-	19	5,365	(5,365)	-
Transfers to/from earmarked reserves (Note 32)	(14,850)	14,850	-	-	-	-	-	-	-	-
Increase / (decrease) in 2020/21	(60)	14,850	14,790	(5,570)	(1,653)	-	19	7,586	4,303	11,889
Balance at 31 March 2021	1,213	19,346	20,559	1,499	6,973	-	2,084	31,115	301,776	332,891

The notes are shown on pages 17-85

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.

2019/20 £'000		2020/21 £'000
13,805	Net (surplus) or deficit on the provision of services	(2,221)
(26,122)	Adjust net surplus or deficit on the provision of services for non-cash movements (note 35)	(29,542)
3,462	Adjust for items in the net surplus or deficit on the provision of services that are investing or financing activities (note 35)	2,446
(8,855)	Cash (inflows) / outflows generated from operating activities	(29,317)
53,685	Investing activities (note 36)	9,002
(63,844)	Financing activities (note 37)	35,283
(19,014)	Net (increase) / decrease in cash and cash equivalents	14,968
2,155	Cash and cash equivalents at beginning of the year	21,169
21,169	Cash and cash equivalents at end of the year (note 28)	6,201
19,014	Net increase / (decrease) in cash and cash equivalents	(14,968)

The notes are shown on pages 17-85

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 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Government Accounting in the United Kingdom 2020/21 (The Code) 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 historic 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, in accordance with the performance
 obligations in the contract and IFRS15 Revenue Contracts with Customers. These are fees
 and charges such as car parking fees, bereavement services fees, planning applications
 and building control fees.
- 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

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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 and 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 accounting year in which they were accrued. 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 can no longer withdraw the offer of any benefits.

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.

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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.
 - Interest income 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

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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 credited to the Comprehensive Income and Expenditure Statement unless any conditions attached to the grant or contribution have not been 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 ringfenced) 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 authority operates and manages its overheads (including telephones and printing costs) and corporate and support services separately and expenditure relating to these activities is reported to key decision makers as separate activities. These overheads are not therefore apportioned to services within the general fund. Overhead charges between the General fund and Housing Revenue services, however, continue to apply.

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

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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 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.

1.9 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.

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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.

1.10 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 directly 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.

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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 (EUV-SH)
- 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 (see paragraph 1.19 Fair Value Measurement).
- 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.

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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 and Heritage 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 straight-line allocation over each significant component's estimated useful life
- 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 for non-dwelling assets defines a material item as an individual building exceeding a gross book value of £1,421k 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.

With effect from 1st April 2017 separate building components (including the 'host' or residual building) have been identified for dwellings where their current replacement cost and useful lives can be estimated reliably.

1.11 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 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.

1.12 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 (see paragraph 1.19 Fair Value Measurement). Properties are not depreciated but are revalued annually unless their carrying value can be demonstrated to be not materially different to fair value at the balance sheet date. 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.

1.13 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 are 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.

1.14 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.

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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.

1.15 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.

1.16 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 to the General Fund 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.

1.17 LEASES

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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.

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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 (less any premium paid) may also be 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.

1.18 FINANCIAL INSTRUMENTS

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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 writedown 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

Under IFRS 9 the authority's financial assets are classified into three types:

- Financial assets at amortised cost where payments consist solely of principal and interest and the reason for holding is to collect cash flows
- Fair value through Other Comprehensive Income (OCI) where payments do not consist solely of principal and interest but where the authority has designated the instrument as Fair value through OCI
- Fair value through Profit and Loss (P&L) where payments do not consist solely of principal and interest.

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Financial assets at amortised cost

These 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.

Deposits, bonds and loans are assessed on recognition for impairment due to the likelihood that payments due under the contract will not be made and, if material, a provision for twelve month expected credit losses set aside from the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the risk of default increases significantly after initial recognition and for trade and lease receivables a provision is set aside based on expected lifetime credit losses, if deemed significant or material.

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.

Fair value through OCI

These are initially measured at cost (equivalent to fair value) and carried at fair value. 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.

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. Dividends from equity instruments designated by the authority as Fair value through OCI are credited to the same line when they become receivable by the council.

Changes in fair value are balanced by an entry to the Financial Instruments Revaluation Reserve (FIRR) (formerly the Available-for-Sale Reserve), with the gain or loss being recognised in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Any gains or losses held in the FIRR on de-recognition of the asset are credited or charged to the General Fund Balance via the Movement in Reserves Statement.

Fair value through P&L

These are initially measured at cost and carried at fair value. 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.

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Dividends are credited to the Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) when they become receivable by the council. Changes in fair value and any gains or losses on de-recognition are charged or credited to the same line in the CIES and, in the case of pooled investment funds reversed to the Pooled Investment Funds Adjustment Account via the Movement in Reserves Statement (MIRS). Sale proceeds on de-recognition are credited to usable capital receipts via the MIRS.

1.19 FAIR VALUE MEASUREMENT

The authority measures certain non-financial assets (Surplus Assets, Investment Property and Assets Held for Sale) and its Fair value through OCI and Fair value through P&L financial assets at fair value at the balance sheet date, unless there is no material difference between carrying value and fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- · in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. In the case of a non-financial asset, the authority takes into account the market participants' ability to use the asset in its 'highest and best use' or by selling it to another market participant that would use the asset in its 'highest and best use'.

Inputs to the valuation techniques used in measuring fair value are categorised within the fair value hierarchy as follows:

- Level 1 unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 directly or indirectly observable inputs other than quoted prices
- Level 3 unobservable inputs for the asset or liability.

1.20 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.

1.21 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.

1.22 PROVISIONS

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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.

1.23 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.

1.24 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.

1.25 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.

1.26 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.

1.27 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.

1.28 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.

1.29 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.

1.30 INTERESTS IN COMPANIES AND OTHER ENTITIES – GROUP ACCOUNTS

The council has material interests in companies 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 (if any), less any provision for losses.

Basis of Consolidation

The group accounts bring together the council's own accounts with those of Gloucestershire Airport Limited (GAL), in which the council has a 50% shareholding, and Cheltenham Borough Homes Limited (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 Limited (CBHSL), a wholly owned subsidiary of Cheltenham Borough Homes Limited.

GAL has been treated as a Joint Venture since it is jointly owned and controlled with Gloucester City Council. GAL has therefore 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 interorganisation transactions and balances.

At 31 March 2021 the council also had a 14.29% shareholding in Ubico Limited, a local authority owned company which has seven members, providing environmental services to the shareholder councils. Since the council does not have control or significant influence over the company, its accounts are not consolidated into the group accounts, however full disclosure notes are provided.

The council also has an interest in Publica Group (Support) Limited, a Joint Venture company limited by guarantee, in which the council is one of four members. The council's share of the company's profit for the year and net assets at the balance sheet date have not been consolidated into the Group Accounts on the basis of immateriality.

The council also has an interest in the South West Audit Partnership Limited (SWAP), a company limited by guarantee. As the council does not have any controlling or significant influence in the company it is classed as an investment, and is not included in the Group Accounts.

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 Limited (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 1.10 (Measurement).

In the company accounts capital grants are written off to the Income and Expenditure account over

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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 Limited

The financial statements of the Airport have been prepared under the historic cost convention (except for certain items that are shown at fair value) in accordance with Financial Reporting Standard 102 (FRS102).

Since Investment Property and Property, Plant and Equipment (PPE) assets held by the airport have been valued at fair value no adjustments are required to the value of non-current assets on consolidation with the council's accounts. Unlike in the airport accounts, however, where any gains in value over historic cost are credited to the Profit & Loss Account, such gains are credited in the group accounts to the Revaluation Reserve (for PPE assets) and the Capital Adjustment Account via the Group Income and Expenditure Statement (for Investment Property), in line with the council's accounting policies.

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

The Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified. There is also the requirement for an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The following standards and amendments are not expected to be introduced in the 2022/23 Code:

• IFRS 16 Leases

IFRS 16 is not anticipated to have a material effect on the financial statements or balances of the council since the changes mainly affect the recognition of leases by lessees and the authority does not have any material finance or operating lease liabilities as lessee.

3. CRITICAL JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out on pages 19-37, the council has had to make certain judgements 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 lessor leases (with the exception of the leases of vehicles and plant to Ubico Limited) as being operating leases.

The leases of vehicles and plant to Ubico have been classified as finance leases. Ubico pay a market-rate for the use of the vehicles and are responsible for insuring and maintaining the vehicles/plant and determining their deployment (including use across other Ubico contracts where necessary). The company pays for new vehicles/plant over periods of 3 - 8 years, according to the estimated useful economic life of the assets. The leases have been treated as finance leases since i) the sum of the lease payments is equal the cost of purchasing the assets; ii) the length of the term represents 'substantially all' of the useful life of the assets; and iii) the rights and responsibilities of ownership of the assets (maintenance, insurance, deployment) sit with the company.

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 1 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 at the year end, together with an estimated reduction in the rating list, based on historical experience.

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 or significant 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 on page 91.

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 2021 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
Valuation of non- current assets and investment property	The Covid-19 pandemic and lockdown arrangements in place since March 2020 have had a significant impact on daily life and the global and UK economies. This could still affect the carrying values of assets carried at existing use and fair value due to the uncertainty in the assumptions used in their valuation.	There is more information available than in the previous year to understand the impact of the continuing uncertainties on the carrying value of these assets. There is still uncertainty around the extent and duration of the effect of lockdown measures on the wider economy in the long term, and there is currently insufficient evidence available to assess this. However, although any reduction in carrying values would reduce the council's 'net worth', in themselves they would have no impact on the authority's revenue account and ability to deliver services, since they are chargeable to unusable reserves and not the surplus or deficit on the provision of services.

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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, Infrastructure and surplus assets would increase by £0.270 million for every year that useful lives had to be reduced.
Fair Value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs) their fair value is measures using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.	The unobservable inputs used in the fair value measurement of our assets and liabilities include management assumptions made in relation to rents, growth, vacancy levels and discount rates. Of £66.4m of investment property, £14.375m of the carrying value is based on assumptions relating to income and yields. A 2% change in yield would result in the investment property balance changing by £290k. Likewise, fair value measurement has been applied to value the surplus assets portfolio with a carrying value of £44.125m. A 2% change in the key assumptions would result in the balance changing by £890k. The Council has used a discounted cash flow model to measure the fair value its investment in an unlisted company. The carrying value of this investment is £94k and a significant change in the basis of the
		assumptions for cash inflows, outflows and discount rate would be required for this to have a material impact on the disclosure in the statement of accounts. Separate sensitivity analysis is disclosed below for the fair value measurement of the pension liability.
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 of consulting actuaries is engaged to provide the	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 liability of approximately 9% (£14.869m).A

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Item	Uncertainties	Effect if actual results differ from assumptions
	council with expert advice about the assumptions to be applied.	sensitivity analysis is included in note 34 on Pensions.
		The impact of the continuing uncertainties on the carrying value of these assets cannot be assessed at this stage as it depends on the extent and duration of the measures introduced and their effect on the wider economy in the long term, and there is currently insufficient evidence available to assess this.
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 and other rateable value reductions. The provision is based on an expected success rate of appeals submitted at 31 March and on an estimated reduction in rateable value. Although based on past experience, both the actual success rate and actual reduction may differ from the estimate.	For appeals relating to charges up to 31 st March 2017 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 £116,939, of which the council's share would be £46,776 (based on 2020/21 shares). This would reduce any collection fund surplus able to be distributed to the council in future years.
		In addition, for appeals and other rateable value reductions relating to charges from 1st April 2017, a 1% increase in the estimated rateable value reduction would result in an increase in the estimated provision required of £1,340,262, of which the council's share would be £536,105 (based on 2020/21 shares). The provision required is therefore
		sensitive to small changes in the reductions awarded and any under-provision could have significant impact on the council's income.

5. ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASIS UNDER THE 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

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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.

STATEMENT OF ACCOUNTS 2020/21

	2019/20	0 Usable R	Reserves				2020/21	Usable Re	serves	
General	Housing	Capital	Major	Capital		General	Housing	Capital	Major	Capital
Fund	Revenue	Receipts	Repairs	Grants		Fund	Revenue	Receipts	Repairs	Grants
Balance	Account	Reserve	Reserve	Unapplied		Balance	Account	Reserve	Reserve	Unapplied
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
					Adjustments to Revenue Resources					
					Amounts by which income and expenditure included in the Comprehensive Income and Expenditure					
					Statement are different from revenue for the year calculated in accordance with statutory requirements					
					Reversal of entries included in the surplus or deficit on the provision of services in relation					
					to capital expenditure (charged or credited to the Capital Adjustment Account)					
(5,127)	(4,966)	-	_	_	Charges for depreciation, amortisation and impairment of non-current assets	(5,308)	(5,135)	_	_	_
(1,490)	(4,500)		_	_	Revaluation losses on, and derecognitions of, Property, Plant and Equipment	1,870		_	_	_
(8,517)		-	_	_	Movements in the fair value of Investment properties	(2,386)	390	_	_	_
297	675	_	_	(297)	Capital grants and contributions	956		_	_	(956)
(415)	0/3		_	(231)	Revenue Expenditure Funded from Capital Under Statute	(737)	2,430	_	_	(330)
(1,605)	(1,107)	-	_	_	Amounts of non-current assets written off on sale as part of the gain/loss on disposal	(380)	(1,068)	_	_	_
89		(89)	_	_	Capital grants and loans repaid	34	(1,000)	(34)	_	_
362	_	(00)	_	_	Pension costs transferred from the Pensions Reserve	1,318	_	(04)	_	_
146	_	-	_	_	Financial instruments transferred from the Financial Instruments Adjustment Account	146	_	_	_	_
(873)	_	-	_	_	Fair value gains and losses of Pooled Investment Funds	406	_	_	_	- - -
(228)	_	_	_	_	Council tax and NNDR net deficit transferred to the Collection Fund Adjustment Account	(14,397)	_	_	_	_
-	_	_	_	_	Holiday Pay transferred to the Accumulated Absences Account	(201)	_	_	_	(956)
(17,361)	(6,008)	(89)	-	(297)	Total adjustments to Revenue Resources	(18,679)	(2,969)	(34)	-	(956)
					Adjustments between Revenue and Capital resources					
1,621	1,858	` ' '	-	-	Transfer of non-current asset sale proceeds from revenue to capital receipts	431	2,036	(2,087)	-	-
-	(17)	17	-	-	Administrative costs of non-current asset disposals funded by capital receipts	-	(21)	21	-	-
(441)		441	-	-	Payments to the government housing receipts pool funded by a transfer from capital receipts	(407)		407	-	-
-	4,936	-	(4,936)	-	Transfer of HRA resources from revenue to the Major Repairs Reserve	-	5,126	-	(5,126)	-
1,836		397	-	-	Statutory and voluntary provision for the repayment of debt transferred to the Capital Adjustment Account	407		1,860	-	-
	3,370	- (4.000)	- (4.000)	-	Capital expenditure financed from revenue balances transferred to the Capital Adjustment Account	71	7,006	-	- (5.400)	-
3,016	10,147	(1,020)	(4,936)	-	Total adjustments between Revenue and Capital Resources	502	14,147	201	(5,126)	-
					Adjustments to Capital resources					
-	_	3,405	_	-	Use of capital receipts to finance capital expenditure	-	-	2,578	_	
-	_	-	4,936	-	Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	5,126	_
-	_	_	-		Application of capital grants and contributions to fund capital expenditure	-	-	-	-	937
_	_	(631)	_	-	Transfer from Deferred Capital Receipts upon receipt of cash	-	-	(827)	_	-
_	_	(399)	_	_	Capital loans repaid	_	_	(265)	_	
-	-	2,375	4,936	615	Total adjustments to Capital Resources	-	-	1,486	5,126	937
(14,345)	4,139	1,266	_		Total adjustments between Accounting and Funding basis under the regulations	(18,177)	11,178		-	(19)

6. EVENTS AFTER THE REPORTING PERIOD

This Statement of Accounts was authorised for issue by the Section 151 Officer on 29 October 2021. 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 March 2021, the figures in the financial statements and notes have been adjusted to reflect the impact of this information, where material.

7. TRADING OPERATIONS AND AGENCY SERVICES

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:

	2020/21			2019/20			
	Income	Income Expenditure (Surplus) / deficit		Income	Expenditure	(Surplus) / deficit	
	£'000	£'000	£'000	£'000	£'000	£'000	
Included within Net cost							
of Services							
Cemetery and Crematorium	(2,048)	1,156	(892)	(2,063)	1,125	(938)	
Car Parks	(1,571)	2,900	1,329	(4,990)	3,329	(1,661)	
Green Waste	(855)	585	(270)	(717)	432	(285)	
Total	(4,474)	4,641	167	(7,770)	4,886	(2,884)	

The Cemetery and Crematorium, Car Parking and Green Waste trading operations are included within the cost of services in the Comprehensive Income and Expenditure Statement. The reduction from a net surplus of £2.884m to a deficit of £167k in 2020/21 is due to the reduction in income generated across the three services through the pandemic. The Government's income compensation grant has been used to offset £2,040k of this, the total grant compensation received in 2020/21 is disclosed in Note 16 of these accounts.

Agency Services

During 2020/21 the council acted as agent to the government in the distribution of Small Business and Retail, Hospitality and Leisure grants to local businesses. The expenditure incurred was £44.5 million, which was fully reimbursed by government grant received in 2020/21.

8. OTHER OPERATING EXPENDITURE

	2020/21 £000	2019/20 £000
Parish Precepts	295	278
Payments to the Government Housing Capital Receipts Pool	407	441
(Gains) / losses on disposal of non-current assets	(998)	(750)
Total Other Operating Expenditure	(296)	(31)

9. FINANCING AND INVESTMENT (INCOME) AND EXPENDITURE

	2020/21 £000	2019/20 £000
Interest payable and similar charges	3,891	3,945
Net interest on the net defined benefit liability/(asset)	1,092	1,446
Interest and investment income	(667)	(779)
Fair value changes in financial assets (Pooled Funds)	(406)	870
Income and expenditure on investment properties and changes in		
their fair value	(1,173)	4,649
Net Financing and Investment (Income) and Expenditure	2,737	10,131

10. TAXATION AND NON SPECIFIC GRANT (INCOME) AND EXPENDITURE

	2020/21 £000	2019/20 £000
Council Tax	(9,501)	(9,254)
Non -Domestic Rates (income) and expenditure		
- Billing authority share	(22,547)	(21,994)
- Collection Fund deficit	14,870	282
- Tariff payable to central government	19,245	18,936
- Levy payable to central government less Pool surplus	326	394
	11,894	(2,382)
General government grants	(21,470)	(3,318)
Capital grants and contributions	(3,624)	(750)
Net Taxation and Non Specific Grant Income	(22,701)	(15,704)

11. MEMBERS' ALLOWANCES

In 2020/21 the council paid £360,570 (2019/20 £346,019) in allowances to its 40 members. The expenditure reflects members' allowances approved by council for 2020/21. Full details of the Members' Allowances scheme for the year can be found on the council's website.

12. OFFICERS' REMUNERATION

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

2020/21

Post Title	Salary £	Expenses/ Allowances £	Total remuneration excluding pension contributions	Pension contributions £	Total Remuneration including pension contributions
Chief Executive Officer	118,659	148	118,807	23,732	142,539
Executive Director, People & Change	84,591	476	85,067	16,918	101,985
Managing Director, Place & Growth	99,196	512	99,708	19,839	119,547
Executive Director, Finance and Assets	85,591	46	85,637	17,118	102,755
TOTAL	388,037	1,182	389,219	77,608	466,826

2019/20

2013/20						
Post Title	Salary £	Expenses/ Allowances	Other payments	Total remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
Previous Chief Executive Officer (until November 2019)	58,262	688	3,197	62,147	11,247	73,394
Current Chief Executive Officer (from February 2020)	18,900	ı	-	18,900	3,459	22,359
Executive Director, People & Change (note ii)	84,666	1,637	-	86,303	15,086	101,389
Managing Director, Place & Growth	93,430	755	-	94,185	16,680	110,865
Executive Director, Finance and Assets	87,990*	1,454	3,145*	92,589	15,816	108,405
TOTAL	343,248	4,534	6,342	354,124	62,288	416,412

^{*}Restated

Notes:

For the purposes of this disclosure 'Senior Officer' means Chief Executive, their direct reports and statutory chief officers whose salary is between £50,000 and £150,000.

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 £43,336 in 2020/21 (£42,394 in 2019/20).

The number of other employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was:

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Remuneration Band	No of Employees 2020/21	Re-stated* No of Employees 2019/20
£50,000 - £54,999	5	6
£55.000 - £59,999	3	3
£60,000 - £64,999	2	-
£65,000 - £69,999	2	2
Total	12	11

^{*}this disclosure is re-stated as the 2019/20 Statement of Accounts reported two of the eleven employees in remuneration band £60,000-£64,999 rather than £65,000-£69,999.

13. TERMINATION BENEFITS

The council terminated the contract of four employees in 2020/21 (three in 2019/20). Total costs incurred were £31,592 (£10,584 in 2019/20), of which £19,182 relate to voluntary redundancies; there were no compulsory redundancies in the year. In the year £12,146 (£5,054 in 2019/20) related to other departure costs. 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:

202	20/21		2019/20 Re-stated*	
No. of staff	£	Bands	No. of staff	£
4 -	31,592 -	£0 - £20,000 £20,001 - £40,000	3 -	10,584
4	31,592		3	10,584

^{*}this disclosure is re-stated as the 2019/20 Statement of Accounts included only redundancy payments and did not include a total of £5,054 for payments made in lieu of notice.

14. RELATED PARTY TRANSACTIONS

Transactions do not in themselves create a related party relationship: there has to be some element of control or influence by one party over another, or by a third party over the two parties. The most common form of influence is having representation on the board or governing body, but it can also be gained from an ownership interest, from statutory provisions or by agreement. This note summarises the transactions undertaken with parties which meet this definition for the Council, its Senior Officers and its Members in 2020/21.

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 16 on page 53.

Council Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2020/21 is shown in note 11 on page 46. Members complete an annual declaration to report any business interests on an annual basis. Only one Member has declared an interest where control and influence may be exercised within an outside commercial organisation in which the Council has transacted in 2020/21.

A grant payment of £195,050 (2019/20 £195,050) was made to the Everyman Theatre in 2020/21. This is an annual payment where there is a grant agreement in place. The Council Member in place does not vote or, nor is involved in the discussions around the grant payment.

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 on page 87.

Six members of the borough council are also members of Gloucestershire County Council.

Companies

Gloucestershire Airport Limited

The council has a 50% shareholding in Gloucestershire Airport Limited. The airport's accounts have been consolidated into the Group Accounts. The Executive Director for Finance and Assets is also a Board Member for Gloucestershire Airport Limited.

The airport paid a profit share of rental income to the Council in the year of £37,509 (2019/20 £23,684). During 2011/12 the council loaned £1.190 million to the airport towards the cost of the runway safety project, of which £0.263 million was outstanding at 31st March 2021. In addition, the council provided the company with a further temporary overdraft facility during 2020/21 of £0.450 million, taking the overdraft as at 31 March 2021 to £1.050 million. Two further small capital loans totalling £165,000 were loaned to them in October 2020 which remain fully outstanding. The loans were provided on an arm's length basis and are disclosed in Note 26 of the accounts.

Cheltenham Borough Homes Limited (CBH)

The council wholly owns an Arm's Length Management Organisation (Cheltenham Borough Homes

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Limited), which is limited by guarantee. The accounts for this company have been consolidated into the Group Accounts. Two councillors serve on the company's Board of Directors.

The council procured supplies and services totalling £12,144,480 from CBH during 2020/21 (£12,914,230 in 2019/20). CBH procured supplies and services from the council totalling £1,012,088 during 2020/21 (£468,702 in 2019/20), £420,284 (£188,000 in 2018/19) of which is included in short term debtors in the council's balance sheet at the year end. A Management Agreement is in place between the two parties for the provision of services to the Council. Services were provided to CBH in line with our financial regulations.

Balances outstanding at the year-end were as follows:

	2021 £'000	2020 £'000
The Council owed CBH	(741)	(954)
CBH owed the Council	8,031 	6,582 ——— 5,628

Ubico Limited

Ubico Limited delivers environmental services for seven County Councils. Cheltenham County Council holds an equal 1/7th shareholding in the company. The Executive Director for Finance and Assets is also a Board Member for Ubico Limited.

The company provides services to the shareholder councils on a not-for-profit basis and therefore qualifies for the Teckal exemption (named after the EU case that established the principle). As a Teckal company, Ubico Limited must ensure that the percentage of work undertaken outside of the shareholder contracts is less than 20% of its total activity.

The council procured supplies and services totalling £9,189,672 from Ubico Limited in the year (£9,397,026 in 2019/20), £Nil (£46,667 in 2019/20) 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 £529,835 in the year (£386,394 in 2019/20), £763,452 (£641,772 in 2019/20) of which is included in the council's balance sheet within the short term debtor at the year end. A Management Agreement is in place between the two parties for the provision of services to the Council. Services were provided to Ubico Limited in line with our financial regulations.

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 31st March 2021 the amount owing to the council under these leases totalled £3.48 million (£3.92 million at 31st March 2020). The leases are disclosed in Note 23 on page 60.

Publica Group (Support) Limited

Publica Group (Support) Limited is a not-for-profit company limited by guarantee, with no share capital. The company has Mutual Trading Status to deliver services on behalf of the council and services to other member councils under contract.

The company is a Teckal company, fulfilling the conditions set out in Regulation 12(4) of the Public Contracts Regulations 2015. The company is subject to management supervision by the Members. As such, the company is a body governed by public law as defined in the Public Contracts Regulations 2015.

In the year the council purchased services from Publica Group (Support) Limited to the value of £1,330,972 (£1,683,000 in 2019/20).

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South West Audit Partnership Limited (SWAP)

The council is a member of SWAP which is a company limited by guarantee, wholly owned and controlled as an in-house company by its members. It 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 whilst a member or within one year after ceasing to be a member. The Executive Director for People and Change is also a Board Member for SWAP.

In the year the council purchased services from SWAP totalling £108,374 (£105,217, in 2019/20). The services are provided under a Service Level Agreement.

Cheltenham Business Improvement District

Cheltenham Business Improvement District (BID) is an elected organisation set up to deliver a range of projects that benefit businesses in the district of Cheltenham covering the town centre, including the Promenade, Montpellier and The Brewery Quarter. Cheltenham Borough Council's Managing Director of Place and Growth is also a Director of the BID which the Council do undertake transactions with.

Officers

Monitoring Officer (MO)

Cheltenham Borough Council shares its Monitoring Officer with Tewkesbury Borough Council. The MO is an employee of, and paid by, Tewkesbury Borough Council. Whilst the officer is shared and has influence in both councils, she is required to act separately for each council.

15. EXTERNAL AUDIT COSTS

	2020/21 £	Re-stated* 2019/20 £
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor	59,543	56,929
Fees paid to the External Auditor for the certification of grant claims and returns	19,906	22,572
Additional fee for audit expert on Investments	-	4,000
Other work provided by the appointed auditor:-		
Audit of Pooled Capital Housing receipts	5,000	5,000
	84,449	88,501

^{*}the 2019/20 disclosure has been re-stated to ensure additional fees for prior year audit work are included.

16. GRANT INCOME

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

	2020/21	2019/20
	£'000	£'000
Credited to Other Income and Expenditure		
New Homes Bonus	(1,252)	(1,469)
Section 31 Business Rates compensation grants	(15,371)	(1,792)
Capital Grants and Contributions	(3,368)	(750)
Other grants and contributions	(564)	(141)
	(20,555)	(4,152)
Credited to Services		
Housing Benefits subsidy & administration grants	(21,192)	(22,060)
Council Tax Benefit administration grant	(105)	(108)
Capital grants and contributions	(313)	(410)
Other Grants	(2,601)	(498)
Covid-19 Loss of Income grants	(2,756)	-
Covid-19 Expenditure grants	(1,536)	-
Partnership funding and contributions	(482)	(1,591)
	(28,985)	(24,667)

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:

	2020/21 Current £'000	2020/21 Long Term £'000	2019/20 Current £000	2019/20 Long Term £000
Receipts in Advance – Revenue				
Commuted Grounds Maintenance contributions	(87)	(95)	_	(95)
NNDR compensation (rate reliefs) 2020/21	-	-	(1,813)	-
Flood Relief	(361)	-	(368)	-
Homelessness	(70)	-	(277)	-
Community Welfare Grants	(239)	-	-	-
Covid-19 Enforcement Grants	(262)	-	-	-
Garden Communities Grant	(104)	-	-	-
Other grants and contributions	(209)	(200)	(202)	(180)
	(1,332)	(295)	(2,660)	(275)
Receipts in Advance – Capital				
Affordable housing contributions	(233)	(87)	(253)	(225)
Homes England Grant	-	-	(1,888)	-
Partnership funding	(1,951)	-	-	-
Other grants and contributions	(542)	-	(146)	-
	(2,726)	(87)	(2,287)	(225)

17. SEGMENTAL REPORTING

EXPENDITURE & FUNDING ANALYSIS

The objective of the Expenditure and funding Analysis is to demonstrate to council tax and rent payers how the funding available to the authority (government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the council's services. Income and Expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Net expenditure chargeable to the General Fund and HRA balances £'000 Adjustments between the unding and accounting basis (note below) £'000 Net funding and accounting basis (note below) £'000 Adjustments between the unding and accounting basis (note below) £'000 Net funding and £'xpenditure Net funding and accounting basis (note below) £'000 Net funding and accounting basis (note below) £'000 Net funding and accounting basis (note below) £'000 Net funding and accounting accounting £'000 Net funding and accounting £'000 Net funding and accounting £'000 Net funding and accounting £'000 Net funding accounting £'000 Net funding accounting £'000 Net funding accounting £'000 Net funding £'000 Net funding £'000 </th <th></th> <th>2019/20</th> <th></th> <th></th> <th colspan="2">2020/21</th> <th></th>		2019/20			2020/21		
chargeable to the General Fund and HRA balances £'000 Comprehensive Income and Expenditure statement £'000 Expenditure statement £'000 Expenditure stat	Net	Adjustments	Net expenditure		Net	Adjustments	Net expenditure
the General Fund and HRA balances 2'000 accounting basis (note below) 2'000 Income and Expenditure statement 2'000 the General Fund and HRA balances 2'000 accounting basis (note below) 2'000 Income and Expenditure statement 2'000 1,469 146 1,615 Chief Executive 1,664 10 1,674 9,422 (1,754) 7,668 Finance and Assets Directorate 10,412 (3,949) 6,463 4,263 375 4,638 People and Change Directorate 4,120 511 4,631 7,085 1,019 8,104 Place and Growth Directorate 8,932 229 9,161 (3,226) 610 (2,616) Local Authority housing (HRA) (3,156) (736) (3,892) 19,013 396 19,409 Net Cost of Services 21,972 (3,935) 18,037 (15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) (16,437) Opening General Fund and	expenditure	between the	in the		expenditure	between the	in the
Fund and HRA balances £'000 E'000 Expenditure statement £'000 E'000 E'000	chargeable to	funding and	Comprehensive		chargeable to	funding and	Comprehensive
balances £'000 (note below) £'000 statement £'000 balances £'000 (note below) £'000 statement £'000 1,469 146 1,615 Chief Executive 1,664 10 1,674 9,422 (1,754) 7,668 Finance and Assets Directorate 10,412 (3,949) 6,463 4,263 375 4,638 People and Change Directorate 4,120 511 4,631 7,085 1,019 8,104 Place and Growth Directorate 8,932 229 9,161 (3,226) 610 (2,616) Local Authority housing (HRA) (3,156) (736) (3,892) 19,013 396 19,409 Net Cost of Services 21,972 (3,935) 18,037 (15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) (16,437) Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) (12,838) (12,838)<	the General	accounting	Income and		the General	accounting	Income and
£'000 £'000 £'000 £'000 £'000 £'000 1,469 146 1,615 Chief Executive 1,664 10 1,674 9,422 (1,754) 7,668 Finance and Assets Directorate 10,412 (3,949) 6,463 4,263 375 4,638 People and Change Directorate 4,120 511 4,631 7,085 1,019 8,104 Place and Growth Directorate 8,932 229 9,161 (3,226) 610 (2,616) Local Authority housing (HRA) (3,156) (736) (3,892) 19,013 396 19,409 Net Cost of Services 21,972 (3,935) 18,037 (15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) (16,437) Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) (9,221) Closing General Fund and HRA balance including	Fund and HRA	basis	Expenditure		Fund and HRA	basis	Expenditure
1,469 146 1,615 Chief Executive 1,664 10 1,674 9,422 (1,754) 7,668 Finance and Assets Directorate 10,412 (3,949) 6,463 4,263 375 4,638 People and Change Directorate 4,120 511 4,631 7,085 1,019 8,104 Place and Growth Directorate 8,932 229 9,161 (3,226) 610 (2,616) Local Authority housing (HRA) (3,156) (736) (3,892) 19,013 396 19,409 Net Cost of Services 21,972 (3,935) 18,037 (15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) (16,437) Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) (12,838) 3,599 Add (Surplus) / deficit in year (9,221) (12,838)	balances	(note below)	statement		balances	(note below)	statement
9,422 (1,754) 7,668 Finance and Assets Directorate 10,412 (3,949) 6,463 4,263 375 4,638 People and Change Directorate 4,120 511 4,631 7,085 1,019 8,104 Place and Growth Directorate 8,932 229 9,161 (3,226) 610 (2,616) Local Authority housing (HRA) (3,156) (736) (3,892) 19,013 396 19,409 Net Cost of Services 21,972 (3,935) 18,037 (15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) Add (Surplus) / deficit in year (9,221) Closing General Fund and HRA balance including	£'000	£'000	£'000		£'000	£'000	£'000
4,263 375 4,638 People and Change Directorate 4,120 511 4,631 7,085 1,019 8,104 Place and Growth Directorate 8,932 229 9,161 (3,226) 610 (2,616) Local Authority housing (HRA) (3,156) (736) (3,892) 19,013 396 19,409 Net Cost of Services 21,972 (3,935) 18,037 (15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) (16,437) Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) (12,838) 3,599 Add (Surplus) / deficit in year (9,221) (9,221) Closing General Fund and HRA balance including (9,221)	1,469	146	1,615	Chief Executive	1,664	10	1,674
7,085 1,019 8,104 Place and Growth Directorate 8,932 229 9,161 (3,226) 610 (2,616) Local Authority housing (HRA) (3,156) (736) (3,892) 19,013 396 19,409 Net Cost of Services 21,972 (3,935) 18,037 (15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) (16,437) Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) (9,221) Closing General Fund and HRA balance including (9,221) (9,221)	9,422	(1,754)	7,668	Finance and Assets Directorate	10,412	(3,949)	6,463
(3,226) 610 (2,616) Local Authority housing (HRA) (3,156) (736) (3,892) 19,013 396 19,409 Net Cost of Services 21,972 (3,935) 18,037 (15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) Add (Surplus) / deficit in year (9,221) Closing General Fund and HRA balance including	4,263	375	4,638	People and Change Directorate	4,120	511	4,631
19,013 396 19,409 Net Cost of Services 21,972 (3,935) 18,037 (15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) Add (Surplus) / deficit in year (9,221) Closing General Fund and HRA balance including	7,085	1,019	8,104	Place and Growth Directorate	8,932	229	9,161
(15,414) 9,810 (5,604) Other income and expenditure (31,193) 10,935 (20,258) 3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221) Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) Add (Surplus) / deficit in year (9,221) Closing General Fund and HRA balance including	(3,226)	610	(2,616)	Local Authority housing (HRA)	(3,156)	(736)	(3,892)
3,599 10,206 13,805 (Surplus) or Deficit (9,221) 7,000 (2,221)	19,013	396	19,409	Net Cost of Services	21,972	(3,935)	18,037
Opening General Fund and HRA balance including earmarked reserves at 1 April (12,838) Add (Surplus) / deficit in year (9,221) Closing General Fund and HRA balance including	(15,414)	9,810	(5,604)	Other income and expenditure	(31,193)	10,935	(20,258)
(16,437) 3,599 Add (Surplus) / deficit in year (9,221) Closing General Fund and HRA balance including	3,599	10,206	13,805	(Surplus) or Deficit	(9,221)	7,000	(2,221)
Add (Surplus) / deficit in year (9,221) Closing General Fund and HRA balance including				Opening General Fund and HRA balance including			
Closing General Fund and HRA balance including	(16,437)			earmarked reserves at 1 April	(12,838)		
	3,599			Add (Surplus) / deficit in year	(9,221)		
(12,838) earmarked reserves at 31 March** (22,059)	//2	†			(22.5-5)		
	(12,838)]		earmarked reserves at 31 March**	(22,059)		

^{**} for a split of the balance between the General Fund, HRA and earmarked reserves see the Movement in Reserves Statement

NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2019/20					2020/21			
Adjustments for capital purposes (note 1 below)	Net changes for the Pension	Other Differences (note 3 below)	Total Adjustments	Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for capital purposes (note 1 below)	Net changes for the Pension	Other Differences (note 3 below)	Total Adjustments
, ,	Adjustments (note 2 below)	, ,	Cloop			Adjustments (note 2 below)	, ,	Cloop
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
-	146		146	Chief Executive	-	86	(76)	10
1,490	(3,244)	-	(1,754)	Finance and Assets Directorate	(767)	(3,222)	40	,
-	375	-	375	People and Change Directorate	223	225	63	511
104	915	-	1,019	Place and Growth Directorate	(446)	501	174	229
610	-	-	610	Housing Revenue Account (HRA)	(736)	-		(736)
2,204	(1,808)	-	396	Net Cost of Services	(1,726)	(2,410)	201	(3,935)
7,409	1,446	955	9,810	Other Income and Expenditure from the Funding Analysis	(4,408)	1,092	14,251	10,935
				Difference between General Fund surplus or deficit and				
				Comprehensive Income and Expenditure Statement				
9,613	(362)	955	10,206	surplus or deficit	(6,134)	(1,318)	14,452	7,000

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Notes

- (1) **Adjustments for capital purposes** this column adds in revaluation gains/losses on Property, Plant and Equipment, capital grants repaid and Revenue Expenditure Funded from Capital under Statute (REFCUS) in the service lines and for:
 - Other Operating Expenditure adds gains/losses on disposals of Property, Plant and Equipment and capital receipts paid to the housing pool
 - Financing and Investment Income and Expenditure the statutory charges for capital financing (Minimum and Voluntary Revenue Provision) and revenue financing of capital expenditure are deducted as these are not chargeable under generally accepted practices, and changes in the fair value of Investment properties are added
 - Taxation and Non-specific Grant Income and Expenditure this line is credited with capital
 grants and donations receivable in the year which have no conditions or for which conditions
 were satisfied in the year.

Depreciation and amortisation charges are included in the service lines in the Net Expenditure chargeable to the General Fund and HRA balances column of the Expenditure and Funding Analysis (as they are included in reports to management), but then (in the case of the General Fund) reversed out in Other Income and Expenditure so they have no impact on council tax. The reversal is removed in the Other Income and Expenditure line in the adjustments for capital purposes column above to ensure such charges are included in the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement.

(2) Net change for the Pensions Adjustments

- for services the removal of employer pension contributions and their replacement with current and past service costs
- for Financing and Investment Income and Expenditure the addition of net interest on the pensions defined benefit liability.

(3) Other Differences

- for Financing and Investment Income and Expenditure adjustments to the general fund for timing differences in premiums and discounts on financial instruments and for changes in the fair value of pooled investment funds
- for Taxation and Non-specific Grant income and Expenditure timing differences between the income for council tax and non-domestic rates (NDR) credited under statutory regulations and that recognised under generally accepted accounting practice.
- for services accruals for holiday pay.

SEGMENTAL INCOME AND EXPENDITURE

The net expenditure chargeable to the general fund and HRA balances in the Expenditure and Funding Analysis includes the following items on a segmental basis:-

	2020	/21	2019	/20
	Depreciation,	Revenues	Depreciation,	Revenues
	amortisation	from external	amortisation	from external
	and impairment	customers*	and impairment	customers*
	£'000	£'000	£'000	£'000
Chief Executive	26	(16)	-	(18)
Finance and Assets Directorate	2,241	(813)	2,160	(790)
People and Change Directorate	674	(751)	642	(775)
Place and Growth Directorate	2,367	(8,874)	2,325	(12,454)
Housing Revenue Account (HRA)	5,135	(20,525)	4,966	(20,211)
Total analysed on a segmental basis	10,443	(30,979)	10,093	(34,248)

^{*}Revenues from external customers are included in "Fees, charges & other service income" in note 18 below.

18. EXPENDITURE AND INCOME ANALYSED BY NATURE

	2020/21	2019/20
	£'000	£'000
Expenditure		
Employee benefit expenses	10,784	11,512
Other service expenses	55,317	54,838
Depreciation, amortisation, impairment	10,443	10,093
Losses on revaluation of Property, Plant & Equipment,		
Investment property and financial assets	16	12,000
Interest payments	4,983	5,391
Precepts and levies	34,736	19,889
Payments to Housing Capital Receipts Pool	407	441
Total Expenditure	116,686	114,164
Income		
Fees, charges and other service income	(35,061)	(38,251)
Interest and investment income	(1,261)	(1,292)
Income from council tax and non-domestic rates	(32,047)	(31,247)
Government grants and contributions	(49,540)	(28,819)
Net gains on disposal of non-current assets	(998)	(750)
Total Income	(118,907)	(100,359)
(Surplus) or Deficit on the Provision of Services	(2,221)	13,805

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19. PROPERTY, PLANT & EQUIPMENT

2019/20								2020	/21							
Council	Other	Vehicles,	Infra-	Community	Surplus	Assets	Total		Council	Other	Vehicles,	Infra-	Community	Surplus	Assets	Total
dw ellings	Land and	Plant and	structure	assets	assets	under			dw ellings	Land and	Plant and	structure	assets	assets	under	
	buildings	equipment	assets			construction				buildings	equipment	assets			construction	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
								Cost or valuation								
209,877	137,152	5,223	14,004	148	5,312	1,251	372,967	At 1 April	213,293	142,149	5,760	14,222	148	42,407	3,580	421,559
12,668	97	2,137	218	-	39,600	1,800	56,520	Additions	10,436	161	434	114	-	8	8,156	19,309
								Revaluation increases / (decreases)								
(8,104)	4,960	-	-	-	146	-	(2,998)	recognised in the Revaluation Reserve	7,412	(4,257)	-	-	-	576	-	3,731
								Revaluation increases / (decreases)								
								recognised in the surplus / deficit on								
-	-	-	-	-	(2,100)	-	(2,100)	the provision of services	-	825	-	-	-	1,096	-	1,921
(1,107)	-	(1,605)	-	-	-	-	(2,712)	Derecognition - disposals	(1,070)	(1,190)	(380)	-	-	-	-	(2,640)
-	-	-	-	-	-	-	-	Derecognition - other								-
-	(60)	-	-	-	-	-	(60)	Assets reclassified (to)/from held for resale	-	(48)	-	-	-	60	-	12
(41)	-	5	-	-	(551)	529	\ /	Other Reclassifications	1,767	-	-	-	-	-	(1,767)	-
213,293	142,149	5,760	14,222	148	42,407	3,580	421,559	At 31 March	231,838	137,640	5,814	14,336	148	44,147	9,969	443,892
								Accumulated Depreciation and								
								Impairment								
(6)	(3,993)	(2,071)	(3,256)	_	(143)	(33)	(9 502)	At 1 April	(13)	(6,998)	(2,546)	(3,783)	_	(204)	(33)	(13,577)
(4,613)	(4,278)	(475)	(5,237)	_	(61)	(00)	` ' '	Depreciation charge	(4,796)	(4,436)	(493)	(525)	l	(66)	(00)	(10,316)
(1,010)	(1,270)	(110)	(02.7)		(0.)		,	Depreciation written out to the	(1,700)	(1,100)	(100)	(020)		(00)		(10,010)
4,606	1,273	_	_	_	_	_	5,879	Revaluation Reserve	4,809	10,422	_	_	_	223		15,454
1,000	1,270						′ '	Depreciation written out to the surplus /	1,000	10,122						10, 10 1
_	_	_	_	_	_	_	_	deficit on the provision of services	_	278	_	_	_	25		303
_	_	_	_	_	_	_	_	Impairments	_		_	_	_	20	(9)	(9)
(13)	(6,998)	(2,546)	(3,783)	-	(204)	(33)		At 31 March	-	(734)	(3,039)	(4,308)	-	(22)	(42)	(8,145)
213,280	135,151	3,214	10,439	148	` '	3,547		Net Book Value at 31 March	231.838	136,906					9,927	435,747

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Depreciation

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

- Council dwellings between 10 75 years depending on the component, for example 20 years for kitchens, 30 years for bathrooms and windows, 60 years for roofs
- Other Buildings between 15 60 years, depending on the individual building
- Vehicles, Plant, Furniture and Equipment between 5 15 years, depending on the type of asset
- Infrastructure 40 years for General Fund assets, 25 years for HRA assets.

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 31st March if necessary. Valuations have been carried out both internally by the council's property section and externally. 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	Other land	Vehicles,	Infrastructure	Community	Surplus	Assets	Total
	Dwellings	and	plant,	assets	assets	assets	under	
		buildings	furniture &				construction	
	£'000	£'000	equipment £'000	£'000	£'000	£'000	£'000	£'000
	£ 000	£ 000	£ 000	£ 000	2.000	2.000	£ 000	£ 000
Carried at								
(depreciated)								
historical cost	_	_	2,775	10,028	148	_	9,927	22,878
Tilotorical cost			2,110	10,020	140		0,021	22,070
Valued at								
current value as								
at 31st March:								
2016	-	43	-	-	-	60	-	103
2017	-	1,949	-	-	-	601	-	2,550
2018	-	444	-	-	-	-	-	444
2019	-	799	-	-	-	-	-	799
2020	-	3,051	-	-	-	-	-	3,051
2021	231,838	130,620	-	-	-	43,464	-	405,922
Total cost or								
valuation	231,838	136,906	2,775	10,028	148	44,125	9,927	435,747

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. Components separately identified relate only to council dwellings, where the main ones are roofs, walls, kitchens, bathrooms, electrics, heating, windows/doors, solar panels, and communal lifts and services.

Fair value measurement of Surplus assets

The fair values of surplus assets valued at 31st March 2021 have been based on a market approach using current market conditions, recent sale prices and other relevant information for similar assets in the local

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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

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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:

	£'000	Art Collection £'000	Furniture £'000	Civic Regalia & Silver	Textiles, Ephemera and other collectables £'000	Statues and Monuments	Total
Valuation 1 April 2019 Revaluations*	2,403	26,799 -	4,447 -	217	5,234 -	1,600 48	40,700 48
31 March 2020	2,403	26,799	4,447	217	5,234	1,648	40,748
Revaluations*	48	537	158	4	345	-	1,092
31 March 2021	2,451	27,336	4,605	221	5,579	1,648	41,840

^{*} includes updates for inflation.

Except for two items professionally revalued during 2016/17 in preparation for their forthcoming loan, all the major works of art were last revalued at 1st April 2010. However the insurance valuations are reviewed annually for inflationary increases.

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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.

	2020/21 £'000	2019/20 £000
Opening Capital Financing Requirement	177,592	135,225
Capital Investment		
Property, Plant and Equipment	18,120	56,520
Investment Property	367	534
Intangible assets	-	131
Revenue Expenditure Funded from Capital under Statute	737	415
Long Term Capital Loans	1,770	-
	20,994	57,600
Sources of Finance		
Capital Receipts	(2,578)	(3,801)
Government Grants	(2,402)	(579)
Capital Contributions	(648)	(515)
Partnership Funding	(376)	(196)
Minimum Revenue Provision (MRP)	(2,097)	(1,673)
Voluntary Revenue Provision (VRP)	(171)	(163)
Major Repairs Reserve	(5,126)	(4,936)
Revenue	(7,078)	(3,370)
	(20,476)	(15,233)
	1=2 12=	4== 500
Closing Capital Financing Requirement	178,107	177,592
Explanation of movement in year		
Increase in underlying need to borrowing		
(unsupported by Government financial assistance)	2,786	44,599
Minimum and Voluntary Revenue Provision (MRP/VRP)	(407)	(1,836)
Capital receipts applied in lieu of MRP	(1,861)	(396)
Increase (Decrease) in Capital Financing Requirement	518	42,367

Commitments under capital contracts

At 31st March 2021 the council was committed to completing the schemes within its capital programme for 2020/21. A total of £859,516 had not been spent but was contractually committed at 31st March 2021 (£Nil at 31st March 2020).

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:

	2020/21 £'000	2019/20 £'000
Rental income from Investment Property Direct operating expenses	(3,974) 211	(4,087) 219

In addition in 2020/21 £0.274 million (£0.250 million in 2019/20) of rental income is included in the Housing Revenue Account (HRA) line.

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.

The following table summarises the movement in the fair value of investment properties in the year:

	2020/21 £'000	2019/20 £'000
Balance at 1st April	68,068	75,993
Additions – construction	367	534
Reclassifications (to) / from Property, Plant and Equipment	-	58
Net gains / (losses) for the period included in the surplus or deficit on the provision of services resulting from changes in fair value	(1,997)	(8,517)
Balance at 31st March	66,438	68,068

The fair value of the investment property is reviewed and re-measured annually as necessary at the balance sheet date. All properties were revalued in 2020/21 by both internal and an external valuers, in accordance with the methodologies and bases of estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The valuations have been based where possible on a market approach using current market conditions, recent sale prices and other relevant information for similar assets in the local area. In these cases, 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 £52.063 million of the value of the properties at 31st March 2021 being categorised at Level 2 in the fair value hierarchy.

The remaining valuation of £14.375 million has been based on an income approach using a discount rate, which are significant unobservable inputs, so have been categorised at level 3 in the fair value hierarchy.

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Such valuations are therefore sensitive to significant changes in rental income and in the discount rate used.

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 Lessor

Finance Leases

The council's policy is to purchase the vehicles and plant required by Ubico Limited 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 £5.902 million (including £0.380 million in 2020/21) 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 2021 £'000	31st March 2020 £'000
Not later than 1 year	842	802
2 – 5 years	2,399	2,759
More than 5 years	235	360
	3,476	3,921

A loss provision for uncollectable amounts has not been provided on the basis the lessee is a wholly owned local authority company.

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

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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 £5,234,711 in rental income in 2020/21 from its granted leases (£4,136,981 in 2019/20).

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

	31st March 2021 £'000	31st March 2020 £'000
Not later than 1 year	4,501	4,477
2 – 5 years	12,153	17,029
More than 5 years	111,827	100,919
	128,481	122,425

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

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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:

	2020/21 Software £'000	2019/20 Software £'000
Balance at 1st April - Gross carrying amounts - Accumulated amortisation Net carrying amount at start of year	1,413 (911) 502	1,282 (772) 510
Additions - purchases Amortisation in Year	(117)	131 (139)
Balance at 31st March	385	502
Comprising: - Gross carrying amounts - Accumulated amortisation	1,364 (979)	1,413 (911)
- Accumulated amortisation	(979) 385	(91 50

25. ASSETS HELD FOR SALE

	Current		
	31st March 31st March		
	2021	2020	
	£'000	£'000	
Balance outstanding at start of year	60	-	
Reclassifications from/(to) Property, Plant and Equipment	(12)	60	
Revaluation gains	-	-	
Balance outstanding at year end	48	60	

26. FINANCIAL INSTRUMENTS

Categories of financial instrument

The following categories are carried on the Balance Sheet:

	Cur	rent	Long	term
	31st March 2021 £'000	31st March 2020 £'000	31st March 2021 £'000	31st March 2020 £'000
	2 000	2 000	2 000	2 000
Investments				
Financial assets at amortised cost (note i below) Fair value through other comprehensive income	-	7,035	1,050	603
- shares in unlisted companies (note ii)	-	-	94	1,700
Fair value through P&L - Pooled Funds (note iii)	64	75	6,189	5,783
Total Investments	64	7,110	7,333	8,086
Deletere				
Debtors Financial assets at amortised cost	5,298	5,630	11,304	10,739
	·	•		
Total included in debtors (note iv)	5,298	5,630	11,304	10,739
Cash and Cash equivalents				
Financial assets at amortised cost	7	2,174		
Fair value through P&L (note v)	6,940	18,995		
Financial liabilities at amortised cost	(746)	-		
Total cash and cash equivalents	6,201	21,169		
TOTAL FINANCIAL ASSETS	11,563	33,909	18,637	18,825
Borrowings				
Financial liabilities at amortised cost				
- Public Works Loan Board (PWLB) loans	1,478	759	97,935	99,393
- Bank and other loans	58,814	69,336	15,900	15,900
Total borrowings	60,292	70,095	113,835	115,293
Total borrowings	00,292	10,095	113,033	115,295
Creditors				
Financial liabilities at amortised cost	4,721	9,226	-	-
Total included in creditors (Note vi)	4,721	9,226	-	-
TOTAL FINANCIAL LIABILITIES	65,013	79,321	113,835	115,293
I O I AL I INANOIAL LIADILITILO	00,013	13,321	113,000	113,233

Notes

- (i) These comprise deposits with banks and other local authorities and bank certificates of deposit.
- (ii) These comprise shares held in Gloucestershire Airport Limited. The fair value has been assessed by the council's treasury management advisors, based on projected company cash flows using the airport's business plans (Level 3 inputs in the fair value hierarchy). The valuation is therefore sensitive to small changes in rental, interest and operating income and cost inflation, including aviation fuel and pension

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costs.

The shares are not held for trading and there are no plans to dispose of them.

In addition the council holds shares costing £1 in Ubico Limited. The fair value of the council's interests in the company at 31st March 2021 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 was 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.

- (iii) These comprise units in the CCLA pooled property fund, the Schroders Income Maximiser Fund and CCLA Diversified Income Fund, the carrying (fair) value of which has been assessed using Level 1 inputs in the fair value hierarchy (quoted prices for identical units) at 31st March 2021.
- (iv) Further details of current debtors are given in note 27, page 77. 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 31st March 2021 mainly comprise:

- an outstanding loan of £0.334 million (£0.350 million at 31st March 2020) to the Cheltenham Everyman Theatre (made in 2011/12 for 25 years towards the redevelopment of the theatre)
- loans totalling £7.897 million (£6.304 million at 31st March 2020) made to Cheltenham Borough Homes Limited for between 30 and 50 years for housing redevelopment
- finance lease repayments of £2.635 million (£3.119 million at 31st March 2020) due from Ubico Limited (relating to leases of vehicles and plant)
- a loan of £0.258 million (£0.383 million at 31st March 2020) to Gloucestershire Airport Limited towards the cost of the runway safety project. In addition net investments of £0.450 million were made to the Airport in 2020/21 to add to the investment loan balance brought forward of £0.600 million in 2019/20, taking the outstanding balance to £1.050 million as at 31st March 2021. A further £0.165 million was provided as a loan to fund the sub-station and radar project.

The remainder comprises mortgages for house purchase and other loans.

- (v) These comprise money market funds that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.
- (vi) Further details of current creditors are given in note 29, page 74. The figures shown above exclude receipts in advance, which are not classified as financial instruments.

Income, Expense, gains and losses
Fair Value of financial assets and liabilities

	2020/21				2019/20			
	Financial Liabilities at amortised cost	Financial Assets at amortised cost	Financial Assets: Fair value through P&L	Total £'000	Financial Liabilities at amortised cost £'000	Financial Assets at amortised cost	Financial Assets: Fair value though P&L £'000	Total
		£'000	£'000					
Interest expense	3,891	-	-	3,891	3,948	-	-	3,948

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Fee expense Changes in fair value	64	-	- 780	64 780	40		1 870	41 870
Impairment losses Total expenses in					-	(3)	-	(3)
Surplus or Deficit on the Provision of Services	3,955	-	780	4,735	3,988	(3)	871	4,856
Interest Income Interest Income accrued on impaired financial assets Changes in fair value	1 1	(391)	(276)	(667) -	-	(452) (1)	(326)	(778) (1)
Total income in Surplus or Deficit on the Provision of Services	-	(391)	(276)	(667)	-	(453)	(326)	(779)
(Net gain)/loss for the year	3,955	(391)	504	4,068	3,988	(456)	545	4,077

The fair values of the authority's financial assets and liabilities are shown below, where different to their

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carrying amounts. The fair values have been assessed as equal to the present value of the expected cash flows over the remaining term of the instruments, using the following assumptions:

- for financial liabilities, the new maturity rates from the Public Works Loan Board (PWLB) at 31st March have been used. 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, fair value is assumed to approximate to amortised cost
- the fair value of trade and other short term payables and receivables is taken to be the invoiced or billed amount
- the fair value can be reliably estimated.

	2020/2	21	2019/2	: 0	
	Carrying Fair Value amount £'000 £'000		Carrying amount £'000	Fair Value £'000	
Financial Assets					
Investments at amortised cost Long term debtors at amortised cost	1,050 11,304	1,050 13,507	603 10,258	603 12,320	

The fair value of long term debtors is higher than the carrying amount because the debtors include fixed rate loans where the interest rate receivable from borrowers is higher than the rates available for similar loans at the Balance Sheet date.

	2020/2	21	2019/20	
	Carrying amount £'000	amount £'000		Fair Value £'000
Eta an atal 1 tal 1965 a				
Financial Liabilities				
Borrowing – PWLB loans*	97,935	115,491	99,393	116,028
- long term bank loans	15,900	24,803	15,900	25,080
Total borrowing	113,835	140,294	115,293	141,108

^{*}includes current borrowing

The fair value is higher than the carrying amount because the council's borrowing 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.

In the case of long term bank loans £7 million is subject to 'Lenders Option, Borrowers Option' (LOBO loans) the borrower's options to accept the increased rate or repay the loan have been valued at nil, on the

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assumption that lenders will only exercise their options when market rates have risen above the contractual rate.

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

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 for Capital Finance and the CIPFA Code of Practice on Treasury Management in Local Authorities (both revised in December 2017) and government investment guidance issued under the Act (revised in January 2018). Overall, these procedures require the council to manage risk in the following ways:

- by the adoption of a Treasury Policy Statement and treasury management practices 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 financial 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 23rd March 2020. The two key controls were:

- The Authorised Limit for 2020/21 was set at £320 million. This is the maximum limit of external borrowings or other long term liabilities
- The Operational Boundary for 2020/21 was set at £310 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 investments mainly with banks and other financial institutions, as well as credit exposure to the council's customers. This risk is minimised through the Annual Investment Strategy, which

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requires that investments are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also sets the maximum amounts and time limits in respect of each counterparty. Investments are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria.

The council used the creditworthiness services of Arlingclose Limited during 2020/21. The maximum investment that could be made with an approved UK counterparty was £6 million in 2020/21. No breaches of the council's counterparty criteria occurred during the reporting period and the council does not expect any losses from non-performance by any of its counter-parties.

The council's maximum exposure to credit risk in relation to its investments cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to that individual organisation. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of default applies to all of the council's investments, but there was no evidence at 31st March 2021 that this is likely to materialise. The following analysis summarises the council's potential maximum exposure to credit risk for investments outstanding at 31st March 2021 (excluding Group equities), based on experience of default assessed by the ratings agencies and adjusted to reflect current market conditions.

	Amount at 31 March 2021 £000 (a)	Historical experience of default % (b)	Adjustment for market conditions at 31 March 2021 % (c)	Estimated maximum exposure to Default £000 (a*c)
Investments with banks and other financial institutions				
A+ rated counterparties	6,940	0.06	1.22	10
Unrated pooled funds/MMF's	6,189	-	-	-
	13,129			10

The historical experience of default has been taken from average one year default rates published by the three main rating agencies at May 2021, relating to 2020 figures. Whilst current economic conditions have raised the overall possibility of default, the council maintains strict credit criteria for investment counterparties.

Due to the estimated maximum exposure to default amount being immaterial, no loss provision for 12 month expected credit losses under IFRS 9 has been charged to the Comprehensive Income and Expenditure Statement.

The council does not generally allow credit for its trade debtors as payment is due immediately. This means that all of the £2,175,583 trade debtor balance is technically past its due date for payment. The past due amount can be analysed by age as follows:

	2020/21 £000	2019/20 £000
Less than 3 months	1,961	917
3 to 6 months	136	64
6 months to 1 year	68	9
Over 1 year	11	82
	2,176	1,072

A loss provision of £267,900 at 31st March 2021 (£279,400 31st March 2020) has been provided to cover the expected lifetime credit losses on these debts under IFRS 9.

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 Loan 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.

The maturity analysis of borrowings (excluding interest payable) is as follows:

	31 st March 2021 £'000	31 st March 2020 £'000
Less than 1 year	1,424	695
2-5 years	9,425	9,998
6-10 years	19,548	5,326
Uncertain date maturing in more than 10 years*	83,438	99,274
Total	113,835	115,293

^{*}The council has £7 million (£7 million at 31st March 2020) of 'Lender's option, Borrower's option' (LOBO) loans where the lenders have the option to propose an increase in the rates payable; if this occurs the council will have the option to accept the new rate or repay the loans without penalty. Due to current low interest rates, in the unlikely event the lenders exercise their options; the council is likely to repay the loan(s). The repayment dates of these loans are therefore uncertain, although they are due to mature in 47 years.

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 2020/21, this would have had the following effect on the interest charged or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement:

	Amount outstanding (weighted average) in year £'000	Average actual interest rate	Actual Interest payable / (receivable)	Projected interest rate	Projected interest payable / (receivable)	Variation £'000
Borrowing	2 000	,,,	2000		2000	2 000
Variable rate	37,008	0.73	270	1.73	640	370
Lending Fixed rate (up to1 year) Variable rate	21,151	2.02	427	3.02	639	(212)
Net loss / (gain) on surplus / deficit for year						158

Due to the large proportion of borrowing held at fixed rates the impact on interest payable is limited. Conversely, the proportion of lending at variable rates and fixed rate allows the council to benefit from any

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increase in interest rates in the future. A large proportion of fixed rates is short term so any rate increases will benefit future investment returns.

Changes in interest rates will also affect the fair values of financial liabilities and financial assets classed as Loans and Receivables, however because these are carried at amortised cost rather than fair value, do not impact on the surplus or deficit on the provision of services or reserves. A rise in interest rates for example will reduce the fair value of borrowings and long term investments.

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.

The authority is also exposed to risk in terms of its exposure to market prices. With the exception of 'pooled' funds, nominal gains and losses on borrowings and investments do not impact on the Comprehensive Income and Expenditure Statement or the Movement in Reserves Statement.

The council's investment in a pooled property fund is subject to the risk of falling commercial property prices. For example a 5% fall would result in a £142k charge to Other Comprehensive Income and Expenditure, although it would not affect the surplus or deficit on the provision of services unless the fund units were

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sold. The risk is limited by the council setting a maximum exposure to financial assets invested in property of £3 million and its intention to hold the units in the fund for a minimum period of 5 years.

The risk of rental income affecting future revenue from the fund would occur if commercial properties were to become vacant for long periods of time and would reduce the returns due to be received.

27. SHORT TERM DEBTORS

	31st March 2021 £'000	31st March 2020 £'000
Central Government Bodies	18,350	7,999
Other Local Authorities	6,335	1,745
Other entities and individuals-		
- Council Taxpayers	515	416
- Business Ratepayers	718	245
- Cheltenham Borough Homes Limited	488	530
- Ubico Limited	1,869	1,444
- Housing Rents	432	423
- Sundry Debtors	3,409	2,961
Total	32,116	15,763

Each line is shown 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 2021	31st March 2020
	£'000	£'000
Cash held by the Authority	2	6
Bank current accounts	5	2,168
Short term deposits and money market funds	6,940	18,995
Cash and cash equivalent assets	6,947	21,169
Cash and cash equivalent liabilities - bank overdraft	(746)	-
Net Cash and cash equivalents per Cash flow Statement	6,201	21,169

29. SHORT TERM CREDITORS

	31st March 2021 £'000	31st March 2020 £'000
Central Government Bodies	26,693	3,783
Other Local Authorities	699	1,051
Public corporations and trading funds	-	20
Other entities and individuals-		
- Council Taxpayers	139	123
- Business Ratepayers	2,004	1,833
- Cheltenham Borough Homes Limited	934	1,137
- Ubico Limited	-	46
- Housing Rents	520	442
- Sundry Creditors	4,570	7,336
Total	35,559	15,771

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There is a significant increase in the Central Government Bodies creditor balance at 31 March 2021 as the business grant income received to be passed onto local businesses through the various Government funding schemes has been included here as well as NNDR relief funding. Although grant income was received in March 2020, the main schemes were not launched until 2020/21. Business grant income which is not distributed by the Council is required to be repaid to Central Government so is recognised as a creditor at the year end.

30. PROVISIONS

	Balance at 1st April £'000	Additional provisions made in Year £'000	Amounts used/reallocated in Year	Balance at 31st March £'000
Short term				
Insurance	6	-	-	6
Business rates retention – RV reductions	480	815	(480)	815
	486	815	(480)	821
Long term			, ,	
Business rates retention – RV reductions	1,000	-	(375)	625
			, ,	
Total 2020/21	1,486	815	(855)	1,446
Total 2019/20	1,634	567	(715)	1,486

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.

Business Rates Retention – RV reductions including 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 recorded by the Valuation Office at 31st March 2021 relating to appeals raised against charges up to 31st 2017 and, for charges after this date, on an estimated reduction on the rating list based on historical experience, together with other known likely reductions. It has been split into short and long term elements to reflect the estimated time until settlement.

31. CONTINGENT LIABILITIES

Municipal Mutual Insurance Limited

The council's former insurers, Municipal Mutual Insurance Limited, 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 2021 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 paid 2016/17	(42,402)
Net Payments	368,014
Levy retention	(50,000)
Potential liability 31st March 2021	318,014

This position has not changed since 2016/17, but is kept under review annually to ensure that a solvent run-off of the company's business is still anticipated. The likelihood and timing of any additional liabilities is unknown at this stage.

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	Transfers out			Transfers out		
	1 April 2019	2019/20	2019/20	31 March 2020	2020/21	2020/21	31 March 2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Earmarked Reserves							
Capital Reserve	333	(402)	200	131	(188)	200	143
Equalisation Reserves	2,164	(816)	62	1,410	(216)	14,440	15,634
Repairs & Renewals Reserve	1,263	(276)	292	1,279	(203)	387	1,463
Reserves for Commitments	624	(594)	162	192	(192)	609	609
Other earmarked reserves	1,907	(575)	152	1,484	(348)	361	1,497
Total	6,291	(2,663)	868	4,496	(1,147)	15,997	19,346

Purpose of reserves

- Capital Reserve to help finance the general fund capital programme.
- Equalisation Reserves to smooth out fluctuations in expenditure or income resulting from cyclical events, for example bi-annual local elections, and to cushion the impact of fluctuating activity levels (for example in housing benefit payments or business rates).

The significant increase in Equalisation Reserves in 2020/21 results from additional Section 31 NDR compensation grant received from the government during the year being transferred to the Business Rates Retention Reserve. This money is required to help meet the increased NDR deficit for 2020/21 resulting from the additional business rate retail reliefs awarded during the year due to

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Covid-19. The increased deficit is chargeable to the General Fund in 2021/22.

- **Repairs and Renewals Reserve** to meet the cost of planned and reactive repairs to buildings and infrastructure.
- 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 future planned expenditure, for example support for the revenue budget, risk management, and Public Realm improvements.

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 2021 £'000	31st March 2020 £'000	Purpose of Reserve
Revaluation Reserve	177,219	161,284	Store of gains on revaluation of non-current assets not yet realised through sales
Financial Instruments Revaluation Reserve	(508)	1,099	Store of gains and losses arising from changes in the value of financial instruments (excluding on pooled funds from 1st April 2018) carried at fair value through other comprehensive income and not yet realised through sales
Pooled Investment Funds Adjustment Account	(644)	(1,050)	Store of gains and losses arising from changes in the fair value of pooled investment funds since 1st April 2018
Capital Adjustment Account	198,042	185,891	Store of capital resources set aside to meet past expenditure
Financial Instruments Adjustment Account	(1,455)	(1,601)	Balancing account to allow for differences in statutory requirements and proper accounting practices relating to borrowing and investments
Collection Fund Adjustment Account	(15,044)	(647)	Balancing account to allow for differences in statutory requirements and proper accounting practices for council tax and NNDR (business rates) surpluses/deficits
Pensions Reserve	(58,991)	(51,307)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet.
Deferred Capital Receipts Reserve	3,479	3,926	Capital receipts to be received in future years e.g. from finance lease or mortgage repayments
Accumulating Compensated Absences Adjustment Account	(322)	(122)	Balancing account to allow for differences in statutory requirements and proper accounting practices for staff leave and additional hours not taken at the year end
Total Unusable Reserves	301,776	297,473	

Revaluation Reserve

	2020/21 £'000	2019/20 £'000
Balance at 1st April	161,284	161,755
Revaluation gains on non-current assets	25,671	6,659
Downward revaluation of assets and impairments	(5,395)	(3,730)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	181,560	164,684
Accumulated gains on assets sold, derecognised or reclassified	(827)	-
Difference between fair value and historic cost depreciation	(3,514)	(3,400)
Amount written off to the Capital Adjustment Account	(4,341)	(3,400)
Balance at 31st March	177,219	161,284

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 1st 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.

Financial Instruments Revaluation Reserve

This reserve (formerly the Available-for-Sale Financial Investments Reserve) contains gains arising from increases in the value of investments that have quoted market prices or otherwise do not have fixed or determinable payments, with the exception of gains and losses on pooled investment funds since 1st April 2018, which are contained in a separate reserve (see below). The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost, or when the investments are disposed of and the gains realised.

	2020/21 £'000	2019/20 £'000
Balance at 1 st April	1,099	1,099
Revaluation of investments not charged to the surplus or deficit on the provision of services:		
Downward revaluations	(1,607)	-
Balance at 31 st March	(508)	1,099

Pooled Investment Funds Adjustment Account

This reserve contains gains and losses on pooled funds arising from changes in their fair value from 1st April 2018. Such changes are initially charged to the surplus or deficit in the provision of services but reversed out to this reserve by a statutory override in the Movement in Reserves Statement.

Capital Adjustment Account

	2020/21 £'000	2019/20 £'000
Balance at 1 st April	185,891	191,494
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 	(10,328)	(9,954)
 Revaluation gains/(losses) on Property, Plant and Equipment 	2,225	(2,100)
Amortisation of intangible assets	(115)	(139)
Revenue expenditure funded from capital under statute	(737)	(415)
 Amounts of non-current assets written off on disposal or sale as part of the 		
gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,449)	(2,712)
	175,487	176,174
Capital receipts received on repayment of long term loans	(265)	(399)
Adjusting amounts written out of the Revaluation Reserve	4,341	3,400
Net amount written out for the cost of non-current assets consumed in the year	179,563	179,175
Capital Financing applied in the year:		ļ
Use of Capital Receipts Reserve to finance new capital expenditure	2,578	3,405
Use of the Major Repairs Reserve to finance new capital expenditure	5,126	4,936
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	3,426	1,289
Statutory and voluntary provision for the financing of capital investment charged		
against the General Fund Balance	407	1,836
 Statutory provision for the financing of capital investment charged against 		
usable capital receipts	1,861	396
Capital expenditure charged against the general fund and HRA balances	7,077	3,370
	200,038	194,407
Movements in the market value of Investment properties (charged) or credited to the		
Comprehensive Income and Expenditure Statement	(1,996)	(8,516)
Balance at 31st March	198,042	185,891

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

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April 2007, the date that the Revaluation Reserve was created to hold such gains.

Financial Instruments Adjustment Account

	2020/21 £'000	2019/20 £'000
Balance at 1st April Net Premiums incurred in previous years charged against the General Fund and HRA Balance	(1,601)	(1,747) 146
Balance at 31st March	(1,455)	(1,601)

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.

	2020/21 £'000	2019/20 £'000
Balance at 1st April	(647)	(419)
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	(14,397)	(228)
Balance at 31st March	(15,044)	(647)

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.

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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.

	2020/21 £'000	2019/20 £'000
Balance at 1st April Re-measurement of the net defined benefit liability	(51,307) (9,002)	(61,920) 10,251
Reversal of items relating to retirement benefits charged or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement		·
Employer's pension contributions and direct payments to pensioners payable in the year	(3,535) 4,853	(4,615) 4,977
Balance at 31st March	(58,991)	(51,307)

Deferred Capital Receipts Reserve

This comprises capital receipts receivable in future years, for example from finance leases and mortgage repayments, which are not usable until they are received. The amount at 31st March 2021 includes £3.476 million (£3.921 million at 31st March 2020) for vehicles and plant leased to Ubico Limited under finance leases.

	2020/21 £'000	2019/20 £'000
Balance at 1st April	3,926	2,952
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	380	1,605
Transfer to the Capital Receipts Reserve upon receipt of cash	(827)	(631)
Balance at 31st March	3,479	3,926

34. 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.

Cheltenham Borough Council is a member of the Gloucestershire County Council Pension Fund, for which Gloucestershire County Council is the administering authority. It is contracted out of the State Second Pension. The scheme is a defined benefit statutory scheme that is administered in accordance with the Local Government Pension Scheme Regulations 1997 (as amended). This means that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets.

The principal 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.

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:

	2020/21 £000	2019/20 Re-stated £000
Comprehensive Income and Expenditure Statement (CIES):		2000
Service cost comprising:		
Current service cost	(2,443)	(3,015)
Past service cost		(49)
Financing and Investment Income and Expenditure:		
Net Interest Expense	(1,092)	(1,446)
Total post-employment benefits charged to Surplus or Deficit on Provision of Services	(3,535)	(4,510)
Other post-employment benefits charged to the CIES:		
Re-measurement of the net defined benefit liability comprising:		
Return on assets (excluding the amount included in the net interest expense)	22,314	(8,533)
Changes in demographic assumptions	(1,893)	5,245
Changes in financial assumptions	(30,951)	11,355
Other experience	1,528	3,131
Total post-employment benefit charged to CIES	(12,537)	6,688
Movement in Reserves Statement:		
Reversal of net charges made to Surplus or Deficit on Provision of Services for post- employment benefits in accordance with the Code	(3,535)	(4,510)
Actual amount charged against General Fund Balance for pensions in the year		
Employer's pension contributions and direct payments to pensioners	4,853	4,977

Up-front Payment of Secondary Pension Contributions

On 1 April 2020, the Council made an up-front payment of £8.675m for secondary employer pension contributions for the three years 2020/21 to 2022/23. This payment covers the discounted cost of the future employer contribution which will be required for these three periods.

The actuary calculated the Equivalent Discounted annual Lump Sums Certified across the three years as follows:

- £3.375 million relating to 2020/21;
- £2.882 million relating to 2021/22; and
- £2.418 million relating to 2022/23.

The savings generated by the payment in advance were judged to be greater value than could have been achieved by investing the balance as part of the Council's treasury management strategy and represented good value for money.

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:

	2020/21 £'000	2019/20 Re-stated £'000
Present value of the defined benefit obligation	(172,864)	(140,754)
Fair value of plan assets	119,173	89,447
Net liability arising from defined benefit obligation	(53,691)	(51,307)

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

		Funded Liabilities Local Government Pension Scheme		
	2020/21 £'000	2019/20 Re-stated £'000		
Opening Balance at 1st April	(140,754)	(158,711)		
Current service cost	(2,443)	(3,015)		
Past service cost (including curtailments)		(49)		
Interest cost	(3,208)	(3,792)		
Contributions from scheme participants	(467)	(451)		
Remeasurement gain/(loss):				
Arising from changes in demographic assumptions	(1,893)	5,245		
Arising from changes in financial assumptions	(30,951)	11,355		
Other experience	1,528	3,131		

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Benefits paid	5,224	5,435
Unfunded benefits paid	100	98
Closing balance at 31st March	(172,864)	(140,754)

Present value of Funded liabilities	(171,395)	(158,711)
Present value of Unfunded liabilities	(1,469)	(3,015)
Closing balance 31st March	(172,864)	(140,754)

The Local Government Pension scheme assets at 31 March 2021 comprised:

	Fair Value of Scheme Assets Fair Value of Scheme Assets Re-stated 2020/21 2019/20		2020/21		Assets	
Asset Category	Quoted prices in active markets	Quoted prices not in active markets	Total	Quoted prices in active markets	Quoted prices not in active markets	Total
	£000	£000	£000	£000	£000	£000
Debt Securities:						
Corporate Bonds - investment grade Corporate Bonds - non investment	13,443.5	-	13,443.5	9,937.9	-	9,937.9
grade	296.8	-	296.8	213.9	-	213.9
UK Government	1,524.8	=	1,524.8	1,640.1	-	1,640.1
Other	457.1	=	457.1	247.2	-	247.2
Private equity:						
All	-	608.5	608.5	-	295.0	295.0
Real Estate:						
UK Property Overseas property	5,769.7	1,774.5	7,544.2	4,961.6	1,586.2	6,547.8
Investment Funds and Unit Trusts:	-	557.8	557.8	-	460.9	460.9
Equities	-	79,075.0	79,075.0	-	56,810	56,810
Infrastructure		606.1	606.1			
Bonds	8,674.8	296.0	8,970.8	7,066.6	-	7,066.6
Other	-	2,739.8	2,739.8	-	4,987	4,987
Derivatives:						
Foreign Exchange	29.3	-	29.3	19.2	-	19.2
Other	8.5	-	8.5	9.2	-	9.2
Cash & Cash equivalents:						
All	3,310.8	_ =	3,310.8	1,032.7		1,032.7
Totals	33,515	85,658	119,173	25,128	64,319	89,447

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

	2020/21 %	2019/20 Re-stated %
Equity investments	67	78
Bonds	23	13
Property	7	8

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Cash	3	1
Total	100	100

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

	Funded Assets Local Government Pension Scheme		
	2020/21 £000	2019/20 Re-stated £000	
Opening fair value of scheme assets 1st April	89,447	99,401	
Interest income	2,116	2,346	
Remeasurement gain/(loss):			
Return on plan assets (excluding the amount included in the net interest expense)	22,314	(8,533)	
Contributions from employees into the scheme	467	451	
Contributions from employer	10,053	1,217	
Contributions from employer in respect of unfunded benefits	100	98	
Unfunded benefits paid	(100)	(98)	
Benefits paid	(5,224)	(5,435)	
Closing fair value of scheme assets 31st March	119,173	89,447	

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 2019. The significant assumptions made in their calculations have been:

		Local Government Pension Scheme		
	2020/21	2019/20		
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.9 years	21.7 years		
Women	24.3 years	23.9 years		
Longevity at 65 for future pensioners *				
Men	22.9 years	22.4 years		
Women	26.0 years	25.3 years		
Rate of pension increase / inflation (CPI)	2.85%	1.9%		
Rate of increase in salaries	3.15%	2.2%		
Rate for discounting scheme liabilities	2.00%	2.3%		

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* Future pensioners' numbers assume members aged 45 as at the last formal valuation date.

Commutation

An allowance is included for future retirements to elect to take 35% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 68% of the maximum tax-free cash for post-April 2008 service.

Prior Year Re-statement and Impact of McCloud judgement

The impact of this judgement is included in the 2019/20 re-stated figures, so is included in the liability at 31 March 2020.

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 31 March 2021 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 2021	Approximate % increase to Employer	Approximate cost to Employer £000
0.5% decrease in Real Discount Rate	9%	14,869
0.5% increase in the Salary Increase Rate	1%	1,190
0.5% increase in the Pension Increase Rate	8%	13,390

The above figures have been derived based on the membership profile of the scheme as at the most recent actuarial valuation, being 31st March 2021.

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 most recent triennial valuation on 31st March 2019.

35. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2020/21	2019/20
	£'000	£'000
Interest received	(681)	(762)
Interest paid	3,821	3,986

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

	2020/21	2019/20
	£'000	£'000
Depreciation	(10,318)	(9,954)
Impairment and downward valuations	2,216	(2,100)
Amortisation	(117)	(139)
Increase (-) / decrease in creditors	(20,991)	(6,350)
Increase / decrease (-) in debtors	(3,928)	7,598
Increase / decrease (-) in inventories	(22)	74
Movement in pension liability	6,618	(3,300)
Carrying amount of non-current assets sold or derecognised	(1,450)	(2,712)
Other non cash items charged to the net surplus or deficit		
on the provision of services	(1,550)	(9,239)
	(29,542)	(26,122)

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

	2020/21	2019/20
	£'000	£'000
Proceeds from the sale of PPE, investment property and intangible assets	2,446	3,462

36. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2020/21	2019/20
	£'000	£'000
Purchase of property, plant and equipment, investment		
property and intangible assets	18,719	58,320
Purchase of Investments	28,500	11,275
Proceeds from the sale of property, plant and equipment,		
investment property and intangible assets	(2,893)	(2,488)
Proceeds from the sale of short and long term investments	(35,059)	(13,023)
Other receipts from investing activites	(265)	(399)
Net cash (inflows) / outflows from investing activites	9,002	53,685

37. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2020/21 £'000	2019/20 £'000
Cash receipts of short and long term borrowing	(227,000)	(265,001)
Other receipts/payments for financing activities	24,053	513
Repayments of short and long term borrowing	238,230	200,644
Net cash flows from financing activites	35,283	(63,844)

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.

2019/20		Note	2020/21
£'000	INCOME		£'000
75,724	Council Tax	(i)	78,488
56,869	Non-Domestic Rates	(iii)	22,178
174	Contribution towards previous year's deficit Non-domestic rates		1,231
174	Non-domestic rates		1,231
132,767	Total Income		101,897
	EXPENDITURE		
75,052	Precepts & Demands from major preceptors and the Authority - Council Tax	(ii)	78,673
	Non-Domestic Rates	(iii)	
27,492	Shares paid to county council and the billing authority	()	28,183
27,492	Payment of central share to government		28,183
560	Transitional protection payments		125
167	Charge payable to General Fund for Costs of Collection		166
	Impairment of debts for Council Tax		
192	Allowance for Impairment		69
	Impairment of debts/appeals for non-domestic rates		
1,862	Allowance for Impairment		2,697
			·
	Contribution towards previous year's surplus		
882	Council Tax		593
133,699	Total Expenditure		138,689
(932)	Surplus / (Deficit) for the Year		(36,792)
(146)	Balance of fund at 1st April		(1,078)
(1,078)	Balance of fund at 31st March	(iv)	(37,870)
(1,010)		()	(5.,5.0)

NOTES TO THE COLLECTION FUND

(i). 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 of 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 A B C D E F G H	5.0 8,092.5 11,527.5 12,563.7 8,481.8 4,727.8 2,490.5 1,920.8 96.2 49,905.8	5/9 6/9 7/9 8/9 1 11/9 13/9 15/9	2.8 5,395.0 8,965.8 11,167.8 8,481.8 5,778.4 3,597.4 3,201.3 192.5 46,782.8
Less Council Tax support (Bathers adjustment for collection changes during the year for valuation bandings, demolition and exemptions, plus adjustres 2nd homes (this amounts to 11).	on rates and for anticipated successful appeals against ons, disabled persons' relief, nents for new properties and		(3,202.5) (435.8)
Council Tax Base for 2020/2	21		43,144.5

(ii). PRECEPTS & DEMANDS

	2020/21 £'000	2019/20 £'000
Gloucestershire County Council	58,043	55,174
Cheltenham Borough Council	9,236	8,917
Gloucestershire Police & Crime Commissioner	11,099	10,683
Charlton Kings Parish Council	122	108
Leckhampton with Warden Hill Parish Council	64	64
Prestbury Parish Council	71	68
Swindon Parish Council	12	12
Up Hatherley Parish Council	26	26
	78,673	75,052

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

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(iii). 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. In 2020/21 the government gave additional one-off reliefs to retail businesses to support them during the Covid-19 pandemic; these amounted to £33.74 million in Cheltenham, largely contributing to the reduction in non-domestic rates income and the increased deficit in the year. The council's share of the increased deficit resulting from these reliefs, to be charged to general fund in 2021/22, is being fully compensated by government grant receivable in 2020/21.

From 1st 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.

Normally district councils such as Cheltenham receive 40%, county councils 10% and central government 50% of business rates collectable, 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, however, 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 31st March 2021 was £134.578 million (£134.807 million at 31st March 2020) and the national non-domestic multipliers for 2020/21 were 51.2p (50.4p in 2019/20) (standard rate) and 49.9p (49.10p in 2019/20) (small business rate).

(iv). 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 heir 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
Council Tax					
Balance at 1st April 2020	58	347	68	-	473
Increase/decrease (-) in the year	(103)	(623)	(121)	-	(847)
Balance at 31 st March 2021	(45)	(276)	(53)	-	(374)
Business Rates					
Balance at 1st April 2020	(705)	(494)	-	(352)	(1,551)
Increase/decrease (-) in the year	(14,293)	(3,256)	-	(18,396)	(35,945)
Balance at 31 st March 2021	(14,998)	(3,750)	-	(18,748)	(37,496)
Fund Balance at 31 st March 2021	(15,043)	(4,026)	(53)	(18,748)	(37,870)

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GROUP ACCOUNTS

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

- Cheltenham Borough Homes Limited (CBH), a company limited by guarantee, in which the council is the sole member, and
- Gloucestershire Airport Limited, 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 financial statements, since the council's shareholdings may not fully reflect its actual share of the companies' assets and liabilities.

Cheltenham Borough Homes Limited has been categorised as a subsidiary company of Cheltenham Borough Council and its interests have been consolidated in accordance with IAS 27 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 line in the Group Comprehensive Income and Expenditure Statement, before the net cost of services.

Gloucestershire Airport Limited 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 are included as a long-term investment, matched by the council's share of the company's reserves, eliminating the share capital. There is no requirement to adjust for transactions incurred and balances held between the council and any joint venture companies.

STATEMENT OF ACCOUNTING POLICIES FOR THE GROUP ACCOUNTS

These are set out in note 1.30 on page 35.

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GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT					
This statement shows the cost in the accounting practices, rather than the	year of providing group services, in a amount to be funded from taxation.	accordance with generally accepted Authorities raise taxation to cover			

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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.

	2019/20				2020/21	
Gross	Gross	Net		Gross	Gross	Net
expenditure	income	expenditure		expenditure	income	expenditure
£'000	£'000	£'000		£'000	£'000	£'000
			Continuing Operations			
2,047	(432)	1,615	Chief Executive	1,703	(29)	1,674
8,775	(1,107)	7,668	Finance and Assets Directorate	7,441	(979)	6,462
27,849	(23,211)	4,638	People and Change Directorate	28,131	(23,499)	4,632
22,051	(13,947)	8,104	Place and Growth Directorate	19,811	(10,650)	9,161
21,028	(20,772)	256	Local Authority housing	18,203	(21,542)	(3,339)
81,750	(59,469)	22,281	Cost of Services	75,289	(56,699)	18,590
719	(750)	(31)	Other operating expenditure	701	(996)	(295)
15,786	(5,130)	10,656	Financing and Investment (income) and expenditure	7,558	(4,395)	3,163
19,629	(35,315)	(15,686)	Taxation and non-specific grant (income) and expenditure	34,460	(57,218)	(22,758)
117,884	(100,664)	17,220	(Surplus) or Deficit on the provision of services	118,008	(119,308)	(1,300)
		(568)	Share of (Surplus) or deficit of Joint Ventures			(195)
		257	Share of Tax expenses of Joint Ventures			23
		16,909	Group (Surplus) or Deficit			(1,472)
			Items that will not be reclassified to the (Surplus) or Deficit on			
			the provision of services			
		(2,930)	(Surplus) or Deficit on revaluation of non-current assets (note 33)			(20,488)
		(15,338)	Remeasurement of the net defined benefit liability /(asset)			14,620
		(136)	Share of other comprehensive income and expenditure of Joint Ventures			(431)
		(18,404)	Other Comprehensive (Income) and Expenditure			(6,299)
		(1,495)	Total Comprehensive (Income) and Expenditure			(7,771)

The notes are shown on pages 21 – 88 and 97 - 102 $\,$

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.

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31 March 2020		Note	31 March 2021
£'000			£'000
414,601	Property, Plant & Equipment	44	444,075
40,748	Heritage Assets	20	41,841
68,068	Investment Property	22	66,438
1,372	Intangible Assets	24	1,165
6,386	Long Term Investments	46	7,239
12,707	Investments in Joint Ventures	39	13,310
4,434	Long Term Debtors	46	4,070
548,316	Long Term Assets		578,138
7 110	Short term Investments	26	64
	Assets held for sale	25	48
	Inventories		152
	Short term Debtors	41	31,635
•	Cash and cash equivalents	42	7,530
	Current assets		39,429
·			
-	Bank overdraft	42	(746)
(70,095)	Short term borrowing	26	(60,292)
(18,791)	Short term creditors	43	(35,723)
(2,287)	Grants receipts in advance - capital	16	(2,726)
-	Grants receipts in advance - revenue	16	(1,332)
(486)	Provisions	30	(821)
(91,659)	Current Liabilities		(101,640)
(1,000)	Provisions	30	(625)
(115,293)	Long term borrowing	26	(113,835)
(225)	Grants receipts in advance - capital	16	(87)
(275)	Grants receipts in advance - revenue	16	(295)
(58,756)	Other long term liabilities	45	(67,782)
(175,549)	Long term liabilities		(182,624)
325,532	Net Assets		333,303
, ,	Usable Reserves	48	(30,490)
	Unusable Reserves	49	(302,813)
(325,532)	Total Reserves		(333,303)

The notes are shown on pages 21 - 88 and 97 - 102

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 unusable reserves. A breakdown of the Total Comprehensive Income & Expenditure line is shown in the Group Comprehensive Income and Expenditure Statement, where the group surplus or deficit line shows the true economic cost of providing the group's services.

	Total Authority Usable Reserves £'000	Authority's share of Usable Reserves of subsidiaries and Joint Ventures	Total Group Usable Reserves £'000	Total Authority Unusable Reserves	Authority's share of Unusable Reserves of subsidiaries and Joint Ventures	Total Group Unusable Reserves	Total Group Reserves
Balance at 31 M arch 2019	28,712	(1,393)	27,319	292,914	3,804	296,718	324,037
Movement in Reserves during 2019/20	(40,005)	(0.404)	(40,000)	40.404	5.000	40.404	4405
Total comprehensive Income & (Expenditure)	(13,805)	(3,104)	(16,909)	13,181	5,223		1,495
Adjustments between company reserves (Note 48)		3,242	3,242	-	(3,242)	(3,242)	-
Adjustments between accounting basis and funding							
basis under regulations (Note 5)	8,622		8,622	(8,622)		(8,622)	-
Increase / (decrease) in 2019/20	(5,183)	138	(5,045)	4,559	1,981	6,540	1,495
Balance at 31 M arch 2020	23,529	(1,255)	22,274	297,473	5,785	303,258	325,532
Movement in Reserves during 2020/21							
Total comprehensive Income & (Expenditure)	2,221	(749)	1,472	9,668	(3,369)	6,299	7,771
Adjustments between company reserves (Note 48)	-	1,379	1,379	-	(1,379)	(1,379)	-
Adjustments between accounting basis and funding							
basis under regulations (Note 5)	5,365	-	5,365	(5,365)	-	(5,365)	-
Increase / (decrease) in 2020/21	7,586	630	8,216	4,303	(4,748)	(445)	7,771
Balance at 31 M arch 2021	31,115	(625)	30,490	301,776	1,037	302,813	333,303

The notes are shown on pages 21-88 and 97-102

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 Limited) 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 Limited and the airport are included; cash flows between the council and CBH Limited are excluded.

2019/20 £'000		2020/21 £'000
15,993	Net (surplus) or deficit on the provision of services	(1,300)
(28,971)	Adjust net surplus or deficit on the provision of services for non-cash movements (note 50)	(31,077)
3,462	Adjust for items in the net surplus or deficit on the provision provision of services that are investing or financing activities	2,446
(9,516)	Cash (inflows) / outflows generated from operating activities	(29,931)
54,257	Investing activities (note 51)	10,889
(63,844)	Financing activities (note 52)	33,678
(19,103)	Net (increase) / decrease in cash and cash equivalents	14,636
2,317	Cash and cash equivalents at beginning of the year	21,420
21,420	Cash and cash equivalents at end of the year (note 42)	6,784
19,103	Net increase / (decrease) in cash and cash equivalents	(14,636)

The notes are shown on pages 21 – 88 and 96 - 102

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.

38. Cheltenham Borough Homes Limited

Cheltenham Borough Homes Limited (CBH) 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 on 1st April 2010 for a further ten years. This was replaced by a new 30 year contract from 1st April 2015. 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 to 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 Limited (CBHS Limited) (Registration No. 07118944). The principal activity of CBHS is the supply of construction services to CBH.

The audited group accounts for CBH Limited (including CBHS Limited) show net liabilities at 31 March 2021 of £11.875 million (£5.259 million at 31st March 2020) and an after tax deficit of £0.998 million in the year to 31st March 2021 (£2.188 million in the year to 31st March 2020).

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 £38,039 at 31st March 2021 (£38,039 at 31st March 2020).

Since CBH's accounts show non-current assets at historic cost, the company's dwellings were re-valued at 31st March 2020 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. There were no significant operational additions or disposals during the year, however a number of apartments were purchased for refurbishment and future letting. If CBH charged depreciation on the Current value of the dwellings, instead of their historic cost, the charge would be around £90,000 less.

The full accounts of Cheltenham Borough Homes Limited and Cheltenham Borough Homes Services Limited for the year ending 31st March 2021 can be obtained from the Company Secretary at the company's registered office – Cheltenham House, Clarence Street, Cheltenham, Gloucestershire, GL50 3JR.

39. 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 listed, however their current fair value

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has been estimated and is included in the council's single entity accounts under long term investments: financial assets at fair value through other comprehensive income.

The registered name of the airport company is Gloucestershire Airport Limited (Registration No. 02774189). The draft accounts of the company show net assets at 31st March 2021 of £26.619 million (restated £25.200 million at 31st March 2020), and an after tax profit of £0.345 million for the year to 31st March 2021 (restated £0.410 million to 31st March 2020). 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.

	Gloucester-	Council's	Gloucester-	Council's
	shire Airport	share	shire Airport	share
	Limited		Limited	
	2020/21	2020/21	2019/20	2019/20
			Restated	Restated
	£'000	£'000	£'000	£'000
Turnover	3,454	1,727	4,730	2,365
Profit on ordinary activities before taxation	391	196	1,136	568
Less tax on profit on ordinary activities	46	23	726	363
Profit for the financial year after taxation	345	173	410	205

	31 March 2021 £'000	31 March 2021 £'000	31 March 2020 Restated £'000	31 March 2020 Restated £'000
Non-current Assets	36,008	18,004	34,751	17,375
Current Assets	1,169	585	820	410
Liabilities due within one year	(3,085)	(1,543)	(2,466)	(1,233)
Liabilities due after one year (excluding pensions)	(2,003)	(1,002)	(1,407)	(703)
Net Pension Liability *	-	-	(1,326)	(663)
Deferred tax liabilities	(5,470)	(2,735)	(5,172)	(2,586)

^{*}The company ceased participation in the Local Government Pension Scheme with effect from 1st April 2020.

The airport did not pay any dividends in the year to 31st March 2021 (nil to 31st March 2020).

During 2011/12 the council loaned £1.190 million to the airport towards the cost of the runway safety project, of which £0.063 million was outstanding at 31st March 2021. Further loans of £0.165 million were advanced in 2020/21 towards capital items. In addition the council provided the company with a temporary overdraft during 2020/21 of £1.050 million, which remained at 31st March 2021.

The Airport's accounts for the year ended 31st March 2021 can be obtained from the Managing Director at the company's registered office - The Terminal Building, Staverton, Cheltenham, Gloucestershire, GL51 6SR.

40. Publica Group (Support) Limited

The council has a significant interest in this company, the results for which are not included in the Group Accounts on the basis of immateriality. During 2020/21 the company generated a surplus of £Nil (£16,124 in 2019/20) and had net assets at 31st March 2021 of £120,932 (£120,932 at 31st March 2020), of which the council's share is £30,233 in both years.

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41. 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), which are sundry debtors.

42. Cash and Cash Equivalents

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

	31st March 2021 £'000	31st March 2020 £'000
Cash held by the council and subsidiaries	2	6
Bank current accounts of the council and subsidiaries	588	2,419
Short term deposits and money market funds	6,940	18,995
Cash and cash equivalent assets	7,530	21,420
Cash and cash equivalent liabilities - bank overdraft	(746)	-
Net Cash and cash equivalents per Cash flow Statement	6,784	21,420

43. Short term Creditors

	31st March 2021 £'000	31st March 2020 £'000
Central Government Bodies	26,714	4,297
Other Local Authorities	699	1,153
Public corporations and trading funds	-	20
Other entities and individuals-		
- Council Taxpayers	139	123
- Business Ratepayers	2,004	1,833
- Ubico Limited	-	46
- Housing Rents	526	442
- Sundry Creditors	5,641	8,217
	35,723	16,131

44. Group Property, Plant & Equipment

			2019/20					2020/21								
Dw ellings	Other	Vehicles,	Infra-	Community	Surplus	Assets	Total		Dw ellings	Other	Vehicles,	Infra-	Community	Surplus	Assets	Total
	Land and	Plant and	structure	assets	assets	under				Land and	Plant and	structure	assets	assets	under	
	buildings	equipment	assets			construction				buildings	equipment	assets			construction	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
								Cost or valuation								
217,473	137,810	6,692	14,004	148	5,312	1,251	382,690	At 1 April	219,736	142,733	6,753	14,222	148	42,407	3,580	429,579
12,668	97	2,263	218	-	39,600	1,800	56,646	Additions	10,436	169	438	114	-	8	9,928	21,093
								Revaluation increases / (decreases)								
(8,104)	4,960	-	-	-	146	-	(2,998)	recognised in the Revaluation Reserve	7,412	(4,257)	-	-	-	576	-	3,731
								Revaluation increases / (decreases)								
								recognised in the surplus / deficit on								
(1,153)	(74)	-	-	-	(2,100)	-	(3,327)	the provision of services	-	825	-	-	-	1,096	-	1,921
(1,107)	-	(1,605)	-	-	-	-	(2,712)	Derecognition - disposals	(1,070)	(1,190)	(380)	-	-	-	-	(2,640)
-	-		-	-	-	-	-	Derecognition - other	-	-		-	-	-	-	- ₩
-	(60)	-	-	-	-	-	(60)	Assets reclassified to/from held for resale	-	(48)	-	-	-	60	-	a) 2 9 -
(41)	-	(597)		-	(551)	529	(660)	Other Reclassifications	1,767	-	-	-	-	-	(1,767)	<u> </u>
219,736	142,733	6,753	14,222	148	42,407	3,580	429,579	At 31 March	238,281	138,232	6,811	14,336	148	44,147	11,741	4! D 6
								Accumulated Depreciation and								_
								Impairment								9
(6)	(4,470)	(2,850)	(3,256)	_	(143)	(33)	(10.758)	At 1 April	(13)	(7,536)	(3,409)	(3,783)	_	(204)	(33)	(14,978)
(4,613)	(4,339)	(559)	(5,230)		(61)	(33)	, , ,	Depreciation charge	(4,796)	(4,438)	(566)	(5,765)	_	(66)		(10,391)
(4,013)	(4,555)	(333)	(321)		(01)		(10,033)	Depreciation written out to the	(4,730)	(4,430)	(300)	(323)		(00)		(10,551)
4,606	1.273	_	_	_		_	5.879	•	4,809	10.422	_	_	_	223	_	15,454
4,000	1,270						5,075	Depreciation written out to the surplus/	7,000	10,422				220		10,707
<u> </u>	_	_	_	_	_	_	_	deficit on the provision of services	_	278	_	_	_	25	_	303
_	_		_[_	_	_	_	Impairments	_	270		_	_		(9)	(9)
(13)	(7,536)	(3,409)	(3,783)		(204)	(33)		At 31 March		(1,274)	(3,975)	(4,308)		(22)	, , ,	(9,621)
` '					, ,		(, ,					, , ,			` '	
219,723	135,197	3,344	10,439	148	42,203	3,547	414,601	Net Book Value at 31 March	238,281	136,958	2,836	10,028	148	44,125	11,699	444,075

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45. Other Long term liabilities

These comprise the group pension fund liabilities of Cheltenham Borough Council and Cheltenham Borough Homes Limited (CBH). Further details of the council's liabilities are included in note 34 on pages 82 - 87 and for CBH in their accounts. These show a pension liability at 31st March 2021 of £14.091 million (£7.449 million at 31st March 2020).

46. Long term investments and Long term debtors

Long term investments differ from note 26 in the single entity accounts by the fair value of the shares in Gloucestershire Airport Limited, which is replaced in the group accounts by a long term investment in the Airport equivalent to a 50% share of the company's net assets, 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 Limited of £7.759 million.

47. Usable Reserves

These are detailed in the Group Movement in Reserves Statement.

48. 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

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- 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 revaluation gains or losses 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.

49. Unusable Reserves

	31st March 2021 £'000	31st March 2020 £'000
Revaluation Reserve	184,880	168,945
Capital Adjustment Account	205,168	192,729
Financial Instruments Adjustment Account	(1,455)	(1,601)
Financial Instruments Revaluation Reserve	(167)	(166)
Pooled Funds Adjustment Account	(644)	(1,050)
Collection Fund Adjustment Account	(15,044)	(647)
Pensions Reserve	(73,082)	(58,756)
Deferred Capital Receipts Reserve	3,479	3,926
Accumulating Compensated Absences		
Adjustment Account	(322)	(122)
Total Unusable Reserves	302,813	303,258

50. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2020/21 £'000	2019/20 £'000
Interest received	(421)	(513)
Interest paid	3,891	3,986

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

	2020/21 £'000	2019/20 £'000
Depreciation	(10,593)	(10,297)
Impairment and downward valuations	2,216	(2,100)
Amortisations	(211)	(200)
Increase (-) / decrease in creditors	(20,897)	(7,001)
Increase / decrease (-) in debtors	(4,307)	7,612
Increase / decrease (-) in inventories (stock)	(22)	74
Movement in pensions	5,595	(4,902)
Carrying amount of non-current assets sold or derecognised	(1,450)	(2,712)
Other non cash items charged to the net surplus or deficit	-	
on the provision of services	(1,408)	(9,445)
	(31,077)	(28,971)

51. Cash Flow Statement – Investing Activities

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	2020/21 £'000	2019/20 £'000
Purchase of property, plant and equipment, investment		
property and intangible assets	20,484	58,457
Purchase of Investments	28,500	11,604
Proceeds from the sale of property, plant and equipment,		
investment property and intangible assets	(2,893)	(2,488)
Proceeds form the sale of short and long term investments	(35,059)	(13,023)
Other receipts from investing activites	(143)	(293)
Net cashflows from investing activites	10,889	54,257

52. Cash Flow Statement – Financing activities

	2020/21 £'000	2019/20 £'000
Cash receipts of short and long term borrowing	(228,605)	(265,001)
Other receipts for financing activities	24,053	513
Repayments of short and long term borrowing	238,230	200,644
Net cash flows from financing activites	33,678	(63,844)

HOUSING REVENUE ACCOUNT 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.

	2020/21	2019/20
	£'000	£'000
Expenditure		
Repairs and Maintenance	3,816	3,989
Supervision and Management	8,011	7,531
Rents, Rates, Taxes and Other Charges	89	60
Depreciation and Impairment of Non-current Assets	4,391	5,576
Debt Management Costs	86	85
Movement in Bad Debts	69_	157
Total Expenditure	16,462	17,398
Income		
Dwelling Rents	(18,960)	(18,506)
Non-dwelling Rents	(477)	(499)
Charges for services and facilities	(591)	(558)
Contributions towards expenditure	(486)	(603)
Revaluation gains on Non-current Assets	-	-
Other Income	<u> </u>	(2)
Total Income	(20,514)	(20,168)
Net cost of HRA services as included in the Comprehensive		
Income and Expenditure Statement	(4,052)	(2,770)
HBA day (Occupation I Barrella de la constitución d	400	455
HRA share of Corporate and Democratic core	160	155
Net cost of HRA Services	(3,892)	(2,615)
HRA Share of the operating income and expenditure included		
in the Comprehensive Income and Expenditure Statement:		
Gain on sale of HRA Non-current Assets	(947)	(734)
Interest Payable and Similar Charges	1,797	1,748
Interest and Investment Income	(76)	(107)
Capital Grants and Contributions Receivable	(2,490)	(675)
Surplus for the Year on HRA Services	(5,608)	(2,383)

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.

	2020/21 £'000	2019/20 £'000
Balance on the HRA at the end of the previous year	7,069	8,825
Surplus for the year on the HRA Income and Expenditure Statement	5,608	2,383
Adjustments between accounting basis and funding basis under statute (note 1)	(11,177)	(4,139)
Increase/(decrease) in the HRA	(5,569)	(1,755)
Balance on the HRA at the end of the current year	1,500	7,069

NOTES TO THE HRA STATEMENTS

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

	2020/21 £'000	2019/20 £'000
Items included in the HRA Income and Expenditure Account but excluded from the Movement in the HRA Balance		
Capital contributions applied (Gain)/loss on sale of HRA non-current assets Revaluation adjustments – non-current assets Movements in the fair value of non-current assets	(2,489) (947) - (735)	(675) (734) - 640
	(4,171)	(769)
Items not included in the HRA Income and Expenditure Account but included in the Movement in the HRA Balance		
Capital expenditure funded by the HRA	(7,006)	(3,370)
Net adjustments between accounting basis and funding basis under the regulations	(11,177)	(4,139)

2. Housing Stock

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

Туре	Total at 1 April 2020	Additions	Sales	Total at 31 March 2021
Houses and Bungalows	2,097	14	8	2,103
Flats	2,369	22	8	2,383
Shared Ownership (flats)*	15	-	2	13
Shared Ownership (houses)*	-	1	-	1
Total Stock	4,481	37	18	4,500

^{*}Council share of shared ownership properties.

3. HRA Non-Current Assets

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

	1 April 2020 £'000	Revaluations/ Impairments £'000	Additions £'000	Reclass- ifications £'000	Disposals £'000	Depreciation £'000	31 March 2021 £'000
Dwellings Assets under	213,060	12,205	10,437	1,767	(1,070)	(4,791)	231,608
construction	3,388	(8)	6,518	(1,767)	-	-	8,130
Garages* Other land and	2,267	-	16	-	-	(34)	2,249
Buildings**	2,145	(14)	-	-	-	(26)	2,105
Infrastructure	5,403	-	158	-	-	(261)	5,300
Surplus assets	12,705	357	8	-	-	(9)	13,061
Investment property	1,896	391	-	-	-	-	2,287
Equipment	19	-	-	-	-	(3)	16
Intangible Assets	11	(2)	-	-	-	-	9
Total non-current assets	240,894	12,929	17,137	-	(1,070)	(5,124)	264,765

^{*}Garages are included in Other Land & Buildings on the Balance Sheet.

4. Impairment and Revaluation of Non-Current Assets

HRA dwellings are revalued every five years (the last revaluation was undertaken as at 31st March 2020). In interim years the dwelling valuation is updated by the movement in the house price index for Cheltenham published by the Land Registry. The valuation is at Existing Use Value for Social Housing (EUV-SH) or market value (MV) adjusted by a factor to reflect the fact that the properties are socially rented. The adjustment factor is published by the Department for Communities and Local Government and is set regionally. The south-west adjustment factor is currently 35% of Market Value.

5. Dwellings Valuation

The vacant possession value of dwellings within the HRA (i.e. their value without secure tenants) at 1st April 2021 was £661,736,947.

The 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 1 April 2020	-
Transfer to reserve	5,124
Financing of HRA capital expenditure	(5,124)
Balance 31 March 2021	-

7. HRA Capital Expenditure

A summary of HRA capital expenditure and sources of finance for 2020/21 is shown below:

Category	Total Expenditure		Sources of Finance					
		Major Repairs Reserve	Capital Receipts	Capital Contribs	Revenue Contribs	Grants	Loans	Commuted Sums
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
New Build	6,518	_	(1)	_	3,465	2,038	1,016	_
Acquisitions	4,066	-	1,161	-	2,708	2,030	-	197
Major repairs & improvements	6,371	5,110	339	254	668	_	_	_
Garages	16	16	-	-	-	-	-	-
Infrastructure	158	-	-	1	157	-	-	
Land	8	ı	-	1	8	-	1	-
Total	17,137	5,126	1,499	255	7,006	2,038	1,016	197

8. HRA Capital Receipts

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

	2020/21	2019/20
	£000	£000
Sales of Dwellings	1,884	1,709
Sales of Land	-	-
Sales of Investment Property	-	
Mortgage Principal	2	2
Sale of Shared Ownership Flats	152	149
Total	2,038	1,860

9. Rent Arrears

Rent arrears at 31st March 2021 amounted to £775,569 (£824,906 as at 31st March 2020) and the Balance Sheet includes a bad debt provision of £344,000 relating to those arrears (£402,000 as at 31st March 2020).

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10	Interest and	Investment	Income
IV.	IIIICI CSI aliu	IIIAE2IIIEIII	

This includes £76,268 interest from notional cash balances and mortgage interest of £116 (£1	06,865
and £170 respectively in 2019/20).	

GLOSSARY OF FINANCIAL TERMS

Accounting Code of

Practice

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).

Accounting Period

The period of time covered by the accounts, normally a period of twelve months commencing on 1st April for local authority accounts. The end of the accounting period is the balance sheet date.

Accounts

A generic term for statements setting out details of income and expenditure or assets and liabilities or both, in a structured manner. Accounts may be categorised either by the type of transactions they record, e.g. revenue account, capital account or by the purpose they serve, e.g. management accounts, final accounts, balance sheets.

Accounting Policies

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.

Accruals

Sums included in the final accounts to cover income or expenditure attributable to the accounting period but for which payment has not been made/received at the balance sheet date.

Actual

Actual, as opposed to budget, expenditure and income directly attributable to an accounting period.

Actuarial Basis

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

Amortised cost

Financial instruments are shown on the balance sheet at amortised cost, being the principal amount of the loan plus or minus the balance of any premium or discount associated with that loan, plus any interest accrued at the balance sheet date.

Audit of Accounts

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.

Balances

Working balances are reserves needed to finance expenditure in advance of income from debtors, precepts and grants. Any excess may be applied, at the discretion of the 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.

Billing Authority

The authority that sets council tax and collects it from council tax payers.

Budget

A financial plan that expresses an organisation's service delivery plans and capital programmes in monetary terms.

Budget Strategy

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

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include proposals for efficiency savings and possible service changes or reductions, which may free up resources for use on other policies or priorities.

Capital Expenditure

This is expenditure on items providing benefits to the organisation over more than one year, such as land, buildings or vehicles.

Capital Financing

The raising of money to finance capital expenditure. In the past the cost of capital assets was usually met by borrowing, but capital expenditure may also be financed by other means such as contributions from revenue accounts, the proceeds from the sale of capital assets, and capital grants and contributions from developers or others.

Capital Financing Requirement

The capital financing requirement measures the council's underlying need to borrow for capital purposes.

Capital Grants

Grants received towards capital expenditure on a specific service or project.

Capital Programme

This is a financial plan of the capital expenditure projects that the organisation intends to carry out over a specified time period.

Capital Receipt

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.

Cash & Cash equivalents

Cash in hand plus deposits in banks or building societies, repayable on demand or within 24 hours, and deposits maturing within 3 months of the date taken out.

CIPFA

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.

Collection Fund

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.

Consistency

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.

Contingent Asset

An asset which exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events, for example a claim for compensation that a council is pursuing through the due legal process, where the outcome will only be decided by the decision of the courts.

Contingent Liability

A liability which exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events, for example, the default by a borrower on a loan from a third party for which the council has given a guarantee.

Council Tax

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.

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Creditors 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.

accounting period.

Current Liabilities Amounts which will become due or could be called upon during the next accounting

period.

Debtors An amount due to an organisation within the accounting period not received at the

balance sheet date.

Depreciation 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.

Employee Costs 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.

Estimates Original estimate: the estimate for the new year approved before the start of the

financial year, usually at the previous November's price levels.

Revised estimate: the original estimate for the year updated by price changes since

it was prepared and by supplementary estimates and virements.

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.

Finance Lease 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).

Financial Year The local authority financial year commences on 1st April and finishes on 31st March

in the following year.

Government Grants 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.

Impairment 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.

Interest An amount received or paid for the use of a sum of money when it is invested or

borrowed.

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International		
Financial	Reporting	
Standards	(IFRS)	

Provide the required accounting treatment and disclosure of transactions so that an organisation's financial statements present fairly the financial position of the organisation.

Inventories

Items of raw materials and stores a council has purchased to use on a continuing basis but which have not yet been used.

Joint Venture

An entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding agreement.

Materiality

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.

Minimum Revenue Provision (MRP)

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.

National Non Domestic Rates (NNDR)

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.

Non-Current Asset

Assets which can be expected to be of use or benefit to the council for more than one accounting period.

Operating Lease

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.

Precepts

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.

Provision

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 know with certainty.

Revenue Expenditure

Expenditure on the day to day running costs of the council such as wages and salaries, utility costs, repairs and maintenance.

Revenue Expenditure funded from capital under statute (REFCUS)

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.

Revenue Support Grant

A general grant paid by central Government to local authorities to provide the services that it is responsible for delivering.

Subsidiary

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.



Annual Governance Statement 2020/21

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1. Scope of Responsibility

Cheltenham Borough Authority ("the authority") is responsible for ensuring that:

- Its business is conducted in accordance with the law and proper standards;
- Public money is safeguarded and properly accounted for
- Public money is used economically, efficiently and effectively; and
- There is a sound system of governance, incorporating the system of internal control and risk management

The authority has a Best Value 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 these responsibilities, the authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

The authority has developed and approved a code of corporate governance, which is consistent with the core principles and sub-principles as set out in the CIPFA/SOLACE "Delivering Good Governance in Local Government: Framework (2016)" ('the Framework'). This statement explains how the authority has complied with the code and also meets the requirements of Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 (England) which requires the authority to conduct a review at least once a year on the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts.

In addition to this, CIPFA issued its "Statement on the Role of the Chief Finance Officer in Local Government (2015)". The Annual Governance Statement (AGS) reflects compliance with that Statement for reporting purposes. The Executive Director Finance and Assets is the Statutory Section 151 Officer (S151 Officer) for Cheltenham Borough Council.

In February 2021 CIPFA published Bulletin 06, the Application of the Good Governance Framework 2020/21, which contains guidance concerning the impact of the continuing Covid-19 pandemic on governance in local government bodies and the requirements of the Delivering Good Governance in Local Government Framework 2016 CIPFA and Solace (the Framework). It also takes into account the introduction of the CIPFA Financial Management Code 2019 (FM Code) during 2020/21. This AGS has been prepared taking into account this latest guidance.

2. Purpose of Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled including activities through which it is held accountable by, engages with and leads its communities. 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 the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to:

- Identify and prioritise the risks to the achievement of the authority's policies, aims and objectives;
- Evaluate the likelihood of those risks occurring;
- Assess the impact should those risks occur; and
- Manage the risks efficiently, effectively and economically

The governance framework has been in place at the authority for the year ended 31 March 2021 and up to the date of approval of the Annual Statement of Accounts. It should be noted that any changes to CBC arrangements due to COVID19 and the impact on our governance are recorded in this document.

3. **Governance Environment**

The key elements of the authority's governance arrangements are outlined in the Local Code of Corporate Governance. The governance framework includes arrangements for:

- Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users;
- Reviewing the authority's vision and its implications for the authority's governance arrangements;
- Measuring the quality of services for users, ensuing that they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources;
- Defining and documenting the roles and responsibilities of the executive (Cabinet), non- executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication;
- Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff;
- Reviewing and updating Financial Rules, Contract Rules, Constitution, Scheme of Delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls required to manage risks;
- Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained;
- Ensuring the authority's financial management arrangements meet the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015);
- Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities;

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- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful;
- Whistleblowing referrals and for receiving and investigating complaints from the public;
- Identifying the development needs of members and senior officers in relation to their strategic roles, supported by the appropriate training;
- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation; and
- Incorporating good governance arrangements in respect of partnerships, including shared services and other joint working and reflecting these in the authority's overall governance arrangements.

4. Impact of COVID19

COVID19 has had a significant impact on the way we worked during 2020/21. Reduced capacity due to redeployment of resources and those shielding, constraints resulting from home working, social distancing and the financial impact of the pandemic has led to changes in the way CBC operated.

Whilst these changes were significant to the way we operated within a very short space of time CBC put in place a number of measures to ensure there was minimal impact on the governance of the organisation.

From a financial perspective to monitor the impact of COVID19 CBC provided the Ministry for Housing, Communities and Local Government (MHCLG) monthly financial information through the online reporting system DELTA.

Despite the impact of COVID19, CBC was able to effectively maintain services through its business continuity arrangements, support the emergency response efforts in conjunction with the Local Resilience Forum and lead recovery efforts into 2021.

As a result of CBC's efforts during 2020/2021, the Council won two national awards; the Royal Town Planning Institute (RTPI) award for Planning Heroes in a Pandemic and the iESE Transformation Award in the Working Together category. CBC was one of the first Councils in the UK to publish its Recovery Strategy back in May 2020.

2020/2021 was a hugely challenging year and a significant test of our business continuity arrangements, emergency response and recovery efforts. As part of our commitment to continuous improvement SWAP Audit undertook a review of CBC's Response to COVID-19 which resulted in a 'substantial' audit assurance opinion.

Changes made during 2020/21 as a result of COVID19 and their impact/effectiveness are listed underneath each of the principles.

5. Principles

The main areas of the authority's governance framework, and the key evidence of delivery, are set out over the next pages under the headings of the core principles and sub-principles from the CIPFA/SOLACE "Delivering Good Governance in Local Government: Framework (2016).

Principle A

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- The roles and responsibilities of Members and all holders of an office are set out in the authority's Constitution. The Constitution also sets out how decisions are made and the procedures that are followed to ensure these are efficient, transparent and accountable to local people. The Constitution is supported and underpinned by a Code of Conduct for Members', Code of Conduct for Employees and a Protocol for Member/Officer Relations.
- On 23 March 2020 CBC full council agreed, in advance of anticipated emergency Government legislation, to make arrangements for continuity of decision making by temporarily making changes to the Council's Constitution.
- These proposed changes, documented in the council report, were necessary to enable decisions to be taken on non-executive and regulatory functions via temporary changes to the scheme of delegation.
- The alternative arrangements put in place did not override the requirement for decisions to be made within the legal framework of the Local Government Act 1972 and other legislation.
- Throughout this period officers continued to seek legal advice prior to making any decisions and the
 process and procedures for recording decisions still applied to ensure open and transparent decision
 making. CBC continued to publish decisions taken and those decisions were still subject to the call-in
 process and on 15 June 2020 a report went to council outlining urgent decisions which had been taken
 during the emergency.
- Within 6 weeks from the start of lockdown all members were rapidly given laptops to enable CBC council
 and committee meetings to continue online with the first virtual meeting taking place on Thursday 14
 May. This enabled the democratic process and decision making to be rapidly restored. The Public have
 the ability to access all meetings on the CBC YouTube channel.
- New rules were introduced for online meetings with members having to be seen on camera at all times to ensure meetings were quorate, they had to be shown for all parts of the debate prior to voting for/against recommendations with each member canvassed individually for their vote.
- The Code of Conduct for Members' requires declarations at meetings to be made by Members where necessary and these declarations are recorded in the minutes of the meeting. This has continued to happen as part of our online meetings with any declarations made and recorded in the minutes.
- The authority has a Standards Committee to maintain and promote high standards of conduct by

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observing and monitoring the operation of the Code of Conduct for Members'. Any concerns about conduct raised throughout the year 2020/21 continued to be dealt with through online meetings and email.

- Statutory Officers' responsibilities are defined in the Constitution and are employed in accordance with statutory guidance.
- The Executive Director Finance and Assets leads the promotion and delivery of good financial
 management through the Executive Leadership Team, attendance at Council, Cabinet and Committee
 meetings and organises specialist workshops/training for officers and Members as appropriate and as
 part of the member induction programme following borough elections every 2 years. Induction is open
 to all members.
- Due to the financial impact of COVID19 a revised budget was presented and approved by full Council in November 2020 by the Executive Director of Finance and Assets.
- Registers of interest are completed by Members and officers and a register of gifts and hospitality is maintained. Declarations of interest are declared and recorded at meetings.
- The Monitoring Officer and Executive Director Finance and Assets are members of the authority's Executive Leadership Team and meet with the Chief Executive to discuss any matters relevant to their statutory functions.
- Internal audit reviews are designed to ensure services are complying with internal and external policies and procedures / statutory legislation. Where non-compliance is identified, this is reported to management and to Members via the Audit, Compliance and Governance Committee.
- Whistleblowing Policies are in place.
- We work with a Gloucestershire wide Counter Fraud unit to help prevent and detect fraud and corrupt practices, including abuse of position. The service reports to Audit, Compliance and Governance Committee twice a year. Throughout 2020/21 the Counter Fraud unit have been working closely with our Revenues and Benefits team to ensure that all discretionary grant schemes put in place as a result of COVID19 have sufficient pre and post payment checks and controls in place to give assurance that the COVID19 business grants were paid to eligible business.
- During the COVID19 pandemic CBC recognised the leadership role it had in the community. As well as
 providing emergency support to people and communities through the 'Community Support Hub' the
 communication team recognised they had a role to play to ensure people upheld COVID regulations. As
 well as passing on key Government and County Council messages where appropriate an on street
 presence was established to remind and support CBC businesses and residents on rules around COVID19
 safety and social distancing measures.
- During the pandemic CBC launched a number of new communication campaigns designed to not only remind people of key COVID19 messages but also to recognise the effort their residents had been making to comply with COVID19 regulations. The Council's external communications were recognised as examples of best practice by CommsHero and Commscreatives, two leading edge communications companies.

Principle B

Ensuring openness and comprehensive stakeholder engagement

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- The annual accounts are published in a timely manner and in accordance with specified timescales so that the financial position and performance of the authority is open to public scrutiny. COVID19 changed reporting timescales during 2020/21 but CBC continued to meet all deadlines and requirements.
- Committee meetings, agendas and minutes are published in accordance with the Forward Plan and publication of agendas is done in accordance with the Local Government Act 1972. Where statutory timescales are not met then the appropriate consultation takes place with the Chair of the Overview and Scrutiny Committee with regard to call-in. Council, Cabinet and Committee reports clearly outline their purpose, so the public can understand what the decision is aiming to achieve. Reports also address financial, legal, equalities, risk and sustainability implications to aid Members in their decisions making.
- Members and the public are able to ask questions at Council, Cabinet and the Overview and Scrutiny
 Committee. Public questions can be asked at other committee meetings, e.g. Audit, Licensing and Planning.
 All meetings are held in public unless exempt business is under discussion. This continued during 2020/21
 and COVID19 although the public had to watch all proceeding via the CBC YouTube channel.
- Members of the public are able to speak at Planning Committee although during 2020/21 this was via an online link sent to them via the CBC democratic services team.
- Overview and Scrutiny committee promotes open and transparent decision-making, democratic accountability and holds the Cabinet to account for its decisions.
- Following the independent review undertaken in 2019-20 of the Overview and Scrutiny committee implementation of the action plan continued throughout the year with all actions now being completed.
- At the start of the pandemic all partner stakeholders Publica, Ubico, The Cheltenham Trust and Cheltenham Borough homes were involved in all of our Business Continuity meetings to ensure they were supported and we consulted on the best way to continue providing services.
- As part of the budget setting process consultation takes place through the authority's website and by attendance at meetings of the parish councils and business community by the Executive Director Finance and Assets and Cabinet Member Finance / Leader of the Council. During 2020/21 all such interactions were all undertaken online and through telephone calls.
- Engagement with staff happens in a number of ways; whole authority staff sessions, directorate team
 meetings, monthly managers meetings and one-to-one meetings. During 2020/21 the impact of COVID19
 meant all of these interactions continued but were undertaken via our WebEx system. As well all of the
 meetings above during the first eight months of the pandemic weekly information bulletins were sent to
 all staff, members and partners updating them on the latest CBC news as well the latest pandemic
 information for our Borough.
- Outside the budget process, engagement and consultation with the public is undertaken through public
 meetings, surveys and other mechanisms as required throughout the year or around specific topics, e.g.
 Cheltenham Plan. During the initial stages of the pandemic no consultations were undertaken other than
 online however, as restrictions eased appointments were made so individuals could come to the municipal
 offices to view plans etc.
- A Statement on Community Involvement is approved which sets out the opportunities by which the public and
 organisations can engage with the planning system, including the procedures and methods used to consult
 on planning applications.
- Performance against the corporate plan is monitored via Overview and Scrutiny and reported on an annual

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basis to Cabinet.

- During 2020/21 additional meetings (every two weeks) with the Leader and Lead Member for Finance were undertaken to ensure the financial impact of COVID19 was monitored, discussed and managed.
- Transparency data is published on the website and includes supplier payments, senior management structure charts, annual pay policy statement, and our gender pay gap report for the previous financial year. Where data is not available in the published data sets, instructions are available on how to make a Freedom of Information Request and the procedure that will be followed to answer the request.
- In November, the Local Government Association (LGA) took part in a mini form of peer review through a Renewal and Recovery Panel to provide feedback on the Council's emergency response and recovery efforts. This report was published and is available on the Council's website.

Principle C

Defining outcomes in terms of sustainable economic, social, and environmental benefits

- The vision for Cheltenham is articulated in the Cheltenham Place Vision document. The vision sets out the ambitions, aspirations and actions that the authority, together with its key partners, will take to bring about a thriving town in terms of businesses and their workforces, culture and creativity, people and communities. During COVID19 our Marketing Cheltenham team supported CBC through the delivery of key COVID19 messages as well as supporting businesses as rules were relaxed.
- Our Corporate Plan sets out the authority's purpose, principles and priorities for the future. Guided by
 an agreed set of principles the priorities in the plan were developed to make the biggest difference to
 Cheltenham's communities, businesses and residents, in line with Cheltenham's place vision. This plan
 is now supported by our COVID19 recovery strategy (see below).
- As with all areas of the world COVID19 has had a substantial impact on our town and visitor economy.
 In May 2020 the Cabinet put in place a new recovery strategy for CBC. This strategy does not replace our Place Vision or Corporate Plan but compliments these strategic documents by defining our priorities and a 'Local New Deal' for Cheltenham.
- In response to the initial lockdown during 2020 to ensure the most vulnerable were supported, we rapidly established a community 'help-hub'. Working with Gloucestershire County Council, supported by Cheltenham Borough Homes and The Cheltenham Trust (TCT) we re-deployed staff to support hundreds of vulnerable residents to ensure they had the essentials of food, their prescriptions, as well as to hear a friendly voice. With our well-established community connections and Councillor insight, we gathered intelligence from across the town, swiftly realising that local food banks were struggling to meet demand. Therefore, the Mayor's Foodbank fund was established and raised thousands of pounds. Combining our community grant funding with additional funding from Gloucestershire County Council we were able to give funding grants to those charities/community groups that were providing essential support for the most vulnerable.
- The Borough has a statutory development plan in place made up of the Gloucester, Cheltenham and Tewkesbury Joint Core Strategy (adopted 2017) and The Cheltenham Plan (adopted 2020), together these plans make provision for the long term growth of our area delivering sustainable, social and

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- environment benefits across the Borough. A review of the JCS is underway and Cheltenham continues to work collaboratively with its partners Tewkesbury Borough and Gloucester City on development plan formulation and its delivery. We await guidance from government arising from the recent White Paper that will drive fundamental reforms of the planning system; this guidance is expected later this year.
- Following the Council's Cabinet formally declaring a climate emergency in July 2019 in 2020/21 specific
 funding was made in the budget to start work on both CBC and Cheltenham becoming carbon neutral
 by 2030. Changes were made to Cabinet portfolios with the Leader assigning two new posts, one
 covering economy and development and, the other covering climate and communities.

Principle D

Determining the interventions necessary to optimise the achievement of the intended outcomes

- A mixed economy approach to service delivery is in place. In order to continue to deliver the priority outcomes of Members, and to operate within a more constrained financial cost base, the authority has over a number of years created a number of new organisations to deliver once in-house provided services.
- Each partner service is assigned a client officer who undertakes frequent and direct liaison with the service provider and monitors the contract performance and delivery. Each member of the Executive Leadership Team holds accountability for one of these services and provides the strategic guidance and support to the client officers. Executive Leadership Team and client officers keep relevant Cabinet members apprised of commissioned service performance as well as Cabinet Members being engaged directly in performance meetings with commissioned service providers.
- During 2020/21 a number of services provided for CBC by The Cheltenham Trust were either unable to
 operate due to the COVID19 restrictions or able to operate in a limited capacity. During this period the
 Executive, Client officers, Members and leadership of the Cheltenham Trust worked together to
 maximise income (through changed operations and grant funding), minimise redundancies (through
 furloughing of employees), to ensure that these services were sustained at a level to enable them to
 restart and continue operating following the pandemic.
- We also worked with our Partners, Cheltenham Borough Homes and The Cheltenham Trust, to provide support to our communities through our Community Help Hub providing food, shopping, general wellbeing support and a prescription collection service.
- We continue to work on achieving the aims of our commercial strategy that sets out the authority's ambition to be an enterprising and commercially focused authority. This will be even more important in the future following COVID19. By continuing to drive down the Council's net costs and increase income via a commercial mind-set with the aim to hold down council tax as far as possible, now and in the longer

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term helps the Authority protect frontline services from cuts which is exceptionally important following COVID19.

- The drive towards financial sustainability includes identifying new opportunities to generate income and investment in projects that provide good financial returns. The authority's commercial strategy aligns closely with other key strategies including place-making, economic growth, digital transformation, workforce and skills development, investment and asset management. Whilst the pandemic has caused financial challenges it also has the potential to create an opportunity for the future in a review of the way we work as a Council. The Director of Finance and Assets oversees all commercial work to ensure it fits with our role as a council and within our financial framework.
- The authority's budgets are prepared annually in accordance with objectives, strategies and the MTFS is finalised following consultation with Members, customers, stakeholders and officers.
- Financial stewardship in respect of both capital and revenue proposals is reviewed and challenged by the Budget Scrutiny Working Group and considered regularly by the Executive Leadership Team.
- The MTFS is a live document and is updated as necessary, to respond to the changing environment and
 in such circumstances would be discussed by the Executive Leadership Team to determine any necessary
 mitigating actions that would then be discussed with the Cabinet. Due to the financial impact of COVID19
 a revised budget was presented and approved by full Council in September 2020 by the Executive
 Director of Finance and Assets.
- Processes are in place to identify and respond to external changes, for example: changes to legislation
 and regulation, emerging risks and opportunities, risk management, development and delivery of the
 corporate strategy, performance management, medium term financial planning, budget monitoring are
 designed to capture and incorporate external factors and to enable the authority to respond
 appropriately.
- Corporate risks are considered by the Executive Leadership Team (ELT) on a monthly basis. Operational risks are monitored and managed at Manager level. Any strategic risks scoring 16 or more are escalated to the corporate risk register. CBC now has two senior officers qualified in risk management (MOR).
- In previous years ELT met on a weekly basis to deal with matters of urgency, items require strategic
 consideration or to make decisions. During the 2020/21 COVID19 pandemic ELT met daily to assess the
 situation and deal with the consequences of the pandemic. This enabled consistent, coordinated yet
 rapid decision making leading to CBC being able play a lead role in the Borough supporting businesses,
 the community and our own staff ensuring that all government advice was acted upon promptly and our
 vulnerable people had the necessary support.
- Initially during the pandemic a number of projects, e.g. townscape were halted to ensure we adhered to government guidance on the safety of the workforce etc. This also meant we were able to quickly redeploy resource to the more urgent needs such as getting food, prescriptions and support to those in

need.

Principle E

Developing the entity's capacity, including the capability of its leadership and the individuals within it

- During 2020/.21 we continued to work on our organisational change programme, although with a reduced level of resource, focusing on the development of a range of leadership programmes for our people designed to give them behaviours and skills for the future.
- Throughout the pandemic we utilised our Learning and Management System to offer our people a range
 of wellbeing courses designed to support them through the difficulties being experienced as a result of
 COVID19. As well as learning through our LMS managers undertook training on 'managing remotely' to
 ensure they had the relevant skills to both deliver services and support their teams remotely.
- Publica support services continue to work with CBC in the areas of Human Resources, Finance and ICT. Specifically important during 2020/21 has been the support received by CBC from Publica in the area of Health and Safety and ICT. To ensure that we adopted safe working practices that adhered to the changing government guidance throughout the pandemic a new health and safety group was formed. This group which initially met twice a week was responsible for advising managers and reviewing risk assessments to ensure our staff were safe in their workspaces (both home and office), safe in the delivery of services and had all the relevant personal protective equipment. Publica ICT acted swiftly ensuring that within a very short space of time all staff and members had laptops with the relevant technology enabling them work from home. The Council's previous investment in smart working technology was a key reason why CBC was able to become a virtual Council in a short space of time, as well as being able to continue to maintain data security.
- All new employees take part in an induction programme, online during the pandemic, and ongoing staff
 development needs are identified through the appraisal process and 1:1's. The launch of our new online
 one to one process has been delayed due to COVID19 but will be rolled out in the first quarter 2021/22.
 The Chief Executive is appraised by the Group Leaders.
- The introduction of regular all manager, all employee and member WebEx meetings enabled information to be easily and consistently cascaded.
- All new Members undertake a comprehensive Members induction programme that is delivered after each borough election (i.e. every 2 years). New Members are matched with a senior officer under a "buddy" system to provide practical support as they develop into their roles. Training is provided for Members on an ongoing basis as appropriate and necessary. Members on certain committees (e.g. Planning and Licensing) are required to undertake initial and ongoing "top up" training in order to take their place on the committee. The authority is a member of the Local Government Association who provide individual mentoring and support to Members and officers as necessary or requested.
- During the last year Members have undertaken learning and development in a number of areas including Planning Reform, Equalities and Diversity, the NHS and City Fibre.

Principle F

Managing risks and performance through robust internal control and strong public financial management

- A corporate governance group meets on a quarterly basis, is chaired by the Executive Director of People and Change, and its attendees are the other statutory officers, plus internal audit, counter fraud, risk manager and HR.
- Officers are required to maintain Service / Operational Risk Registers and the ELT reviews the corporate risk register on a monthly basis that is then provided to informal cabinet.
- Any service level risks that score 16 or above are incorporated in the corporate risk register.
- The MTFS is reviewed and updated on a regular basis so that Members and ELT are aware of the
 financial standing of the authority in terms of delivering against cost reduction or revenue raising
 targets. Performance against budget is reported to Cabinet and any significant variances explained.
 During 2020/21 additional meetings were held with the Leader and Lead Member for Finance to
 monitor the impact of COVID19.
- During 2020/21 the decision was taken to bring the finance function, being undertaken by Publica, back in house. A Head of Finance was externally recruited with the successful candidate starting in January 2020.
- The Statement of Accounts is produced and published annually in accordance with statutory legislation

 these statutory dates were adjusted for the 2020/21 year due to COVID19. Aligned with this is the production of this Annual Governance Statement that identifies how the authority has met its governance reporting obligations.
- External Audit recommendations are reported to Audit, Compliance and Governance Committee following the completion of their annual audit process with follow-ups of recommendations also reported. Any recommendations are incorporated into the planning for the next years Audit.
- Internal Audit is delivered through SWAP Internal Audit Services(SWAP) and processes ensure
 compliance with Public Sector Internal Auditing Standards. Internal Audit agreed actions are followed
 up and reported to Audit, Compliance and Governance Committee with further follow up being
 reported where agreed actions have not been implemented in full. During 2020/21 SWAP continued
 to undertake scheduled audits wherever possible.
- Copies of all Internal Audit reports are provided to the Executive Director Finance and Assets who
 ensures that other relevant Executive Directors are made aware of any significant issues or
 recommendations.
- The Audit, Compliance and Governance Committee reviews and approves the Risk Management Policy on an annual basis. Risks are identified when undertaking Internal Audit reviews and reported when necessary.
- A risk-based Audit Plan is drafted annually following consultation with Officers, Members and the Executive Director Finance and Assets. The Audit Plan is approved at Audit, Compliance and Governance Committee prior to the financial year.

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- Audit reports, once completed are discussed with the service manager. Executive summaries, including
 findings, and progress on the Annual Plan are reported to Audit, Compliance and Governance
 Committee, on a quarterly basis.
- Agreed Actions made in audit reports are followed up 6 months after the completion of the audit and findings reported to Audit, Compliance and Governance Committee.
- The authority's services are delivered through a mix of direct service delivery and delivery through other standalone organisations, e.g., Cheltenham Borough Homes delivers housing; Ubico deliver environmental services including waste management, street cleansing and grounds maintenance; The Cheltenham Trust is responsible for the authority's town hall, Pittville Pump Room, The Wilson, Leisure@ and Prince of Wales Stadium. Contracts and agreements are in place with each of these organisations that include performance management and reporting arrangements. Client officers monitor contractual requirements and performance measures. During 2020/21 CBC have been working with all of these organisations to understand the impact of COVD19, work with and support these organisations to ensure the continued delivery of services wherever possible.
- Organisational performance against the authority's corporate plan objectives is reviewed by the Executive Leadership Team to ensure key programmes of work remain on track to achieve CBC goals and objectives.
- A Counter Fraud Unit supports all the Gloucestershire Local Authorities, West Oxfordshire District Council and other third parties. Where investigations identify possible improvements to the internal control framework, the Counter Fraud Unit will liaise with the Internal Audit Team to ensure the improvements are followed up and implemented by Management. During COVID19 the Counter Fraud team have been working with CBC to ensure that COVID19 grant payments are only made to qualifying organisations and to reduce the risk fraud.
- Our Data Protection Policy provides a framework for all other Information security and Information Management Polices all of which are available to all data users on the Councils intranet. It also provides the responsibilities and accountabilities for the roles of the Data Protection Officer, Senior Information Risk Officer (SIRO) and the Single Point of Contact (SPoC).
- A range of training documentation is produced to support the training on Data Protection. Documentation is regularly reviewed and used to deliver an agreed annual training programme that includes induction for elected Members and employees.
- The authority is part of the Gloucestershire Information Sharing Partnership. This will enable data to be shared when necessary.
- Audit reviews ensure data is held securely whether electronic or hard-copy.

Principle G

Implementing good practices in transparency, reporting, and audit to deliver effective accountability

• The authority publishes its performance in achieving delivery of its corporate plan objectives on an

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annual basis. Performance monitoring reports considered by Overview and Scrutiny are published on the authority's website in accordance with publication standards and guidelines.

- Data in respect of transparency is published on the authority's website.
- The Council's Audit, Governance & Compliance Committee review the Local Code of Corporate Governance
- The Statement of Accounts is produced and published annually in accordance with statutory legislation. Aligned with this is the production of the Annual Governance Statement which identifies how the authority has met it's governance reporting obligations
- External Audit recommendations are reported to Audit, Compliance and Governance Committee, following the completion of their annual audit process, follow-ups of recommendations are also reported
- Internal Audit processes ensure compliance with Public Sector Internal Auditing Standards. Internal
 Audit agreed actions are followed-up and reported to Audit Committee, further follow-up is planned if
 agreed actions have not been implemented in full.

6. Review of Effectiveness

The authority 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 senior managers, the annual opinion from the Head of Internal Audit, the officer Corporate Governance Groups and comments made by the external auditors, other review agencies and inspectorates.

The authority's process for maintaining and reviewing the effectiveness of the governance framework has included the following:

- Directors complete an Annual Assurance Statement at the end of each financial year. These governance declarations provide appropriate management assurance that key elements of the system of internal control are in place and are working effectively and help to identify areas for improvement.
- Annual Assurance Statements are also completed by Client Officers in respect of external service providers, The Cheltenham Trust, One Legal, Publica, Ubico and CBH.
- Where the assurance review highlights elements that do not fully or partially meet the systems of internal control then the Directors and Client officers explain what action needs to be taken within an agreed timeframe.
- ELT review the Corporate Risk Register on a monthly basis and service risk registers are managed by each manager.
- The SWAP Assistant Director (Head of Internal Audit) provides the Audit, Compliance and Governance Committee, as the Committee charged with governance, with an Annual Opinion on the control environment of the authority, which includes its governance arrangements.
- Investigation of, and decisions on, allegations of failure to comply with Members Code of Conduct are considered and determined through processes involving the Monitoring Officer/Independent Person(s)/Standards Committee/Sub-Committee as set out in the Constitution.

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A full induction programme is delivered for newly elected members.

The Executive Director Finance and Assets ensures training and awareness sessions are carried out for the Audit, Compliance and Governance Committee periodically.

- The External Auditors (Grant Thornton) present progress reports to the Audit, Compliance and Governance Committee. The Chief Executive and Executive Director Finance and Assets attend audit liaison meetings with the external auditors on a regular basis.
- The External Auditor's Annual Audit Letter and follow-up of management responses to issues raised in the Letter or other reports are overseen by the Audit, Compliance and Governance Committee.
- Performance with regard to achievement of corporate priorities, budgets and risk are reported and monitored as outlined in this statement.
- The Audit, Compliance and Governance Committee review the Annual Governance Statement.
- The Audit, Compliance and Governance Committee review the Annual Statement of Accounts and reports from both Internal Audit (SWAP) and External Audit (Grant Thornton), including quarterly progress reports.
- Council approves the annual budget, reviews and approves the Treasury Management Strategy.
- Internal Audit monitors the quality and effectiveness of systems of internal control. Audit reports
 include an opinion that provides management with an independent judgement on the adequacy and
 effectiveness of internal controls. Reports including agreed actions for improvement are detailed in an
 action plan agreed with the relevant Executive Director/Service Manager.

On the balance of our 2020/21 audit work for Cheltenham Borough Council, enhanced by the work of external agencies, I am able to offer a **Low Substantial Assurance** opinion in respect of the areas reviewed during the year.

7. Significant Governance Issues During 2019/2020

In preparing the 2019/2020 statement and reviewing the effectiveness of the governance arrangements a number of areas were identified where the Council needs to focus attention and improve arrangements over the next financial year. These areas of work were to strengthen the control framework. These actions and outcomes are set out in the table below.

No	Key Area of Focus	Planned Actions	Lead officer	Outcome
1	Clearview	Focus on full implementation of	Darren Knight	Progress
		Risk, Organisational		delayed and
		Performance and Project		rollout ongoing
		Management modules		into 2021/2022

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2	Procurement	Ensure there is capacity to undertake all procurements required by CBC	Gill Morris	Not completed ongoing review.
3	Financial Rules Training	Develop module for Learning Management System	Gemma Bell	Not completed due to COVID19 rollover to 2021- 22 action plan
4	Availability of Training Budgets	Consolidate training budgets and ensure they are available to support training requirements	Darren Knight / Paul Jones	Completed and ready for 2021/2022
5	The Cheltenham Trust manual financial processes as per audit recommendations	Processes to be reviewed.	Paul Jones	Completed
6	Impact of COVID19	Recovery Strategy	ELT / Darren Knight lead	Completed and Recovery Strategy approved by Cabinet

8. Significant Governance Issues During 2020/2021

There were no significant governance issues identified during 2020/2021.

9. Approval of Leader and Chief Executive

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit, Compliance and Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Cheltenham Borough Council:

Rowena Hay Gareth Edmundson

Leader of the Authority Chief Executive

Date: 29.10.2021 Date: 29.10.2021

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Independent auditor's report to the members of Cheltenham Borough Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Cheltenham Borough Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, Movement in Reserves Statement, the Cash Flow Statement, the Collection Fund – Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Statement of Movement in Reserves and the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the HRA Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director - Finance & Assets use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Executive Director - Finance & Assets conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director - Finance & Assets use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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The responsibilities of the Executive Director - Finance & Assets with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director - Finance & Assets and Those Charged with Governance for the financial statements' section of this report.

Other information

The Executive Director - Finance & Assets is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director - Finance & Assets and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 12, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director - Finance & Assets. The Executive Director - Finance & Assets 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director - Finance & Assets determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, the Executive Director - Finance & Assets is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit, Compliance and Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003; the Local Government Act 1972; the Local Government and Housing Act 1989 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit, Compliance and Governance Committee, concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit, Compliance and Governance Committee, whether they were aware
 of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or
 alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, we determined that the principal risks were in relation to:
 - those of a large value in isolation or when compared to the average value
 - journals posted without a description, by the senior officers or by users who seldom post journals
 - journal entries that increased revenues or that reclassified costs from the income statement to the balance sheet
 - closing entry journals.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Executive Director Finance & Assets has in place to prevent and detect fraud:
 - journal entry testing, with a focus on the above-mentioned principal risks as well as other risk factors determined by the engagement team;

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- challenging assumptions and judgements made by management in its significant accounting estimates in respect valuation of land and buildings, council dwellings, investment properties and surplus assets, defined benefit pensions liability valuations, depreciation and fair value estimates
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of land and buildings, council dwellings, investment properties and surplus assets, defined benefit pensions liability valuations, depreciation and fair value estimates.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

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Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- · Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

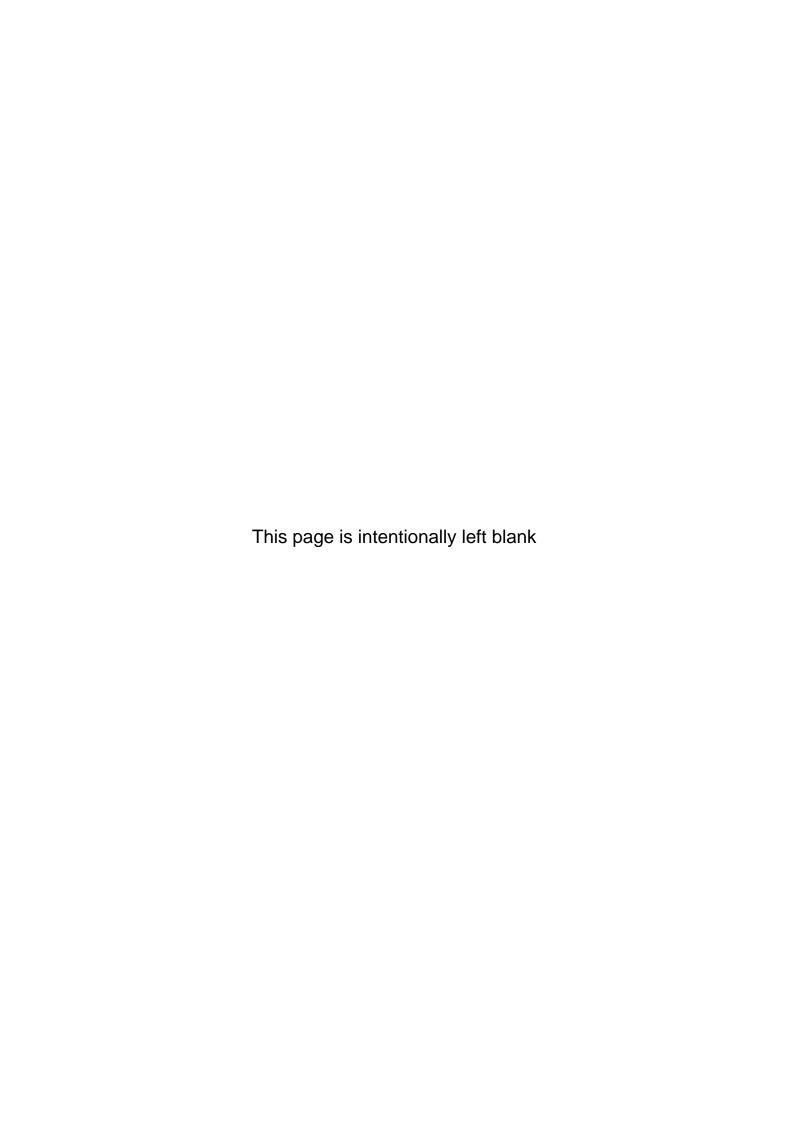
We cannot formally conclude the audit and issue an audit certificate for Cheltenham Borough Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

Barrie Morris, Key Audit Partner

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



Agenda Item 9

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Cheltenham Borough Council

Audit, Compliance and Governance Committee – 12th January 2022 Internal Audit Progress Report

Accountable member	Councillor Peter Jeffries, Cabinet Member for Finance and Assets
Accountable officer	Paul Jones, Executive Director – Finance and Assets
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	The Council must ensure that it has sound systems of internal control that facilitate the effective management of all the Council's functions. The work delivered by SWAP Internal Audit Services (SWAP), the Council's internal audit service, is one of the control assurance sources available to the Audit, Compliance and Governance Committee, the Executive Leadership Team and Corporate Management Team and supports the work of the external auditor.
	The Annual Internal Audit Opinion presented to the Audit, Compliance and Governance Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Progress Report, however, is designed to give the Audit, Compliance and Governance Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.
Recommendations	The Audit, Compliance and Governance Committee considers the progress report and makes comment on its content as necessary
Financial implications	There are no financial implications arising from the report
	Contact officer: Gemma Bell, Head of Finance (Deputy Section 151 Officer)
	Gemma.Bell@cheltenham.gov.uk, 07341 780601
Legal implications	None specific arising from the report recommendation
	Contact officer: One Legal legal.services@tewkesbury.gov.uk, 01684 272012
HR implications (including learning and organisational development)	There are no specific HR implications arising from the content of the report. The HR Team continue to work closely with CBC and SWAP to ensure that any HR related recommendations from audits are actioned.
остогоринот,	Contact officer: Julie McCarthy, HR Manager - Operations <u>Julie.mccarthy@publicagroup.uk,</u> 01242 264355
Key risks	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.
Corporate and community plan	"Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It

Implications	helps an organise page 230sh its objectives by bringing a systematic, disciplined approach age 230sh its objectives by bringing a systematic, disciplined approach age 230sh its objectives by bringing a systematic, disciplined approach and improve the effectiveness of risk management, control and governance processes." (Chartered Institute of Internal Auditing UK and Ireland). Therefore, the internal audit activity impacts on corporate and community plans.
Environmental and climate change implications	Relevant to particular audit assignments and will be identified within individual reports.
Property/Asset Implications	There are no specific Property/Asset Implications arising from the content of the report Contact officer: Gemma Bell, Head of Finance (Deputy Section 151 Officer) Gemma.Bell@cheltenham.gov.uk, 07341 780601

1. Background

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- 1.1 The Audit Plan for 2021/22 was approved by this Committee on 21st April 2021. 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 In order to satisfy the requirements of the Public Sector Internal Audit Standards (PSIAS) and to reflect changes within the Council, SWAP needs to focus upon areas where the organisation now requires assurance. This reinforces the requirement for Internal Audit to follow a more flexible and risk-based plan.
- 1.3 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.

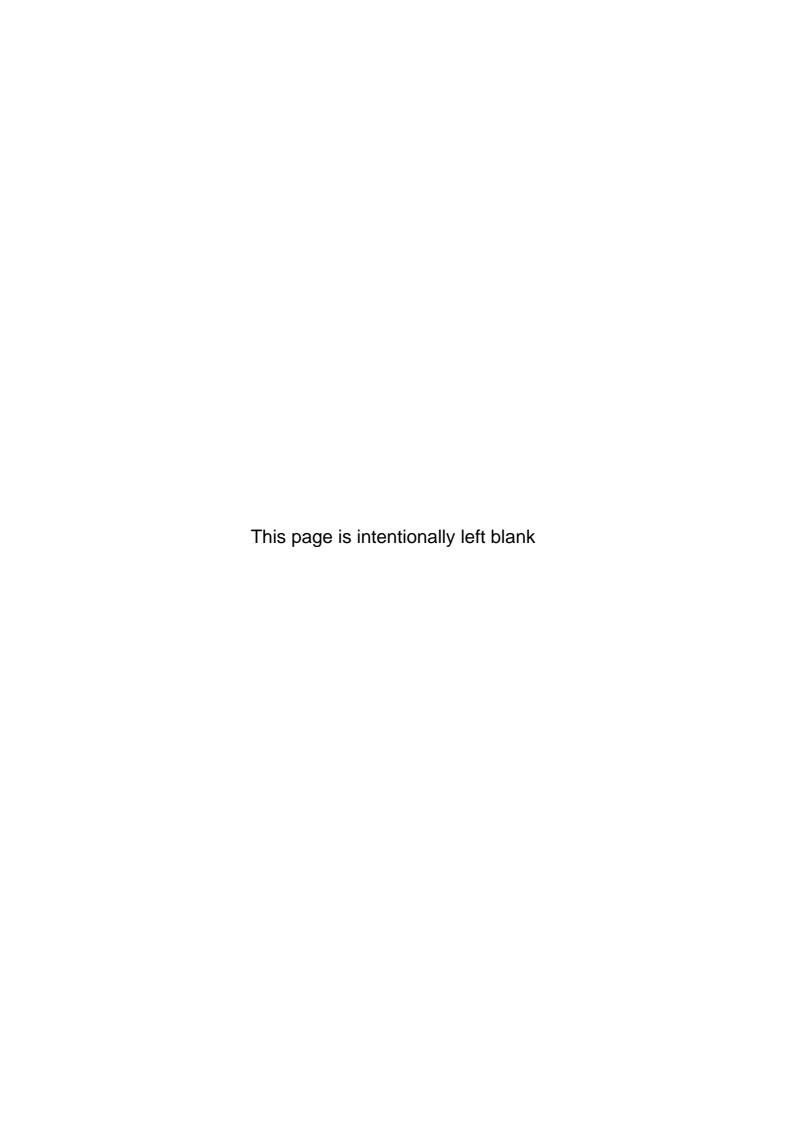
2. Reasons for recommendations

2.1 This report highlights the work completed by Internal Audit and provides comment on the assurances provided by this work.

3. Internal Audit Output

- 3.1 The Internal Audit Service is provided to this Council through SWAP Internal Audit Services (SWAP). SWAP is a locally authority-controlled company.
- 3.2 The SWAP report attached at **Appendix 'A'**, sets out the work undertaken by SWAP for the Council since the Committee's last meeting. It follows the risk-based auditing principles, and, therefore, this is an opportunity for the Committee to be aware of emerging issues which have resulted in SWAP involvement.
- 3.3 Officers from SWAP will be in attendance at the Committee meeting and will be available to address Members' questions.

Report author	Lucy Cater, Assistant Director, SWAP Internal Audit Services
	lucy.cater@swapaudit.co.uk
	01285 623340
Appendices	Internal Audit Progress Report





Cheltenham Borough Council

Report of Internal Audit Activity

January 2022

Contents

The contacts at SWAP in connection with this report are:

David Hill

Chief Executive Tel: 01935 848540 david.hill@swapaudit.co.uk

Lucy Cater

Assistant Director Tel: 01285 623340

lucy.cater@swapaudit.co.uk

Appendices:

Appendix A – Internal Audit Definitions

Appendix B – Audit Plan Progress

Appendix C – Summary of Audit Assignments

Appendix D – High Priority Findings and Agreed Actions

Appendix E – Summary of Agreed Actions



Internal Audit Definitions APPENDIX A

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- No
- Limited
- Reasonable
- Substantial

Audit Framework Definitions

Control Assurance Definitions

No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Non-Opinion – In addition to our opinion based work we will provide consultancy services. The "advice" offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.



Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

	Categorisation of Recommendations
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management
Priority 3	Finding that requires attention.

Definitions of Risk

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Audit Area	Status	Opinion	No of			1	Comments
			Rec	1	2	3	
/ In Progress at Annual Opinion							
Payroll	Final Report	Low Substantial	0				Reported in September
Systems Admin	Final Report	Medium Reasonable	2		2		Reported in September
Data Recovery Capabilities	Final Report	Low Substantial	1			1	Reported in September
	/ In Progress at Annual Opinion Payroll Systems Admin	/ In Progress at Annual Opinion Payroll Final Report Systems Admin Final Report	/ In Progress at Annual Opinion Payroll Final Report Substantial Systems Admin Final Report Reasonable Data Recovery Canabilities Final Report Low	Audit Area Status Opinion of Rec / In Progress at Annual Opinion Payroll Final Report Low Substantial Medium Reasonable Low 1 Data Recovery Capabilities Final Report Low 1	Audit Area Status Opinion of Rec 1 / In Progress at Annual Opinion Payroll Final Report Low Substantial Medium Reasonable Low Reasonable Low 1	Audit Area Status Opinion of Rec 1 2 / In Progress at Annual Opinion Payroll Final Report Low Substantial Medium Reasonable Low 1 Data Recovery Capabilities Final Report Low 1	Audit Area Status Opinion of Rec 1 2 3 / In Progress at Annual Opinion Payroll Final Report Systems Admin Final Report Data Recovery Capabilities Final Report Final Report Low Substantial Medium Reasonable Low 1 1



		Status	Opinion	No of				Comments
Audit Type	Audit Area				Priority			Comments
				Rec	1	2	3	
2021/22 Audit Plan								
Operational	Accounts Payable	In Progress		0				Quarterly review of payments made. See Appendix C
Governance	Governance of Programmes and Projects	Final Report	High Reasonable	2		2		Reported in September
Operational	Procurement Cards	In Progress						
Operational	Election Expenses – Treatment of VAT	In Progress						
Follow-Up	Planning Enforcement	Final Report	Medium Reasonable	3		2	1	See Appendix C
Operational	Procurement (Contract Management and Monitoring)	Final Report	Medium Substantial	1			1	See Appendix C
Operational	Emergency Planning	Final Report	Low Reasonable	4	1	2	1	See Appendix C
Operational	Publica Performance Information	In Progress						
Governance	Risk Management	In Progress						
Governance	Governance and Monitoring of Strategic Partnerships	In Progress						
Key Financial Control	Revenues and Benefits							
	 Council Tax and National Non- Domestic Rates 	Final Danast	Medium			-		Soc Appendix C
	 Housing and Council Tax Benefits Final Report Subst	Substantial	-				See Appendix C	
Key Financial Control	Core Financials							

A	Audit Aroo	Status	0-:-:	No				Comments
Audit Type	Audit Area		Opinion	of Rec	1	Priority 2	3	
	Accounts Payable							
	Main Accounting and Accounts Receivable	In Progress						
	• Payroll	Scope Agreed						
	 Treasury Management and Bank Reconciliation 	Final Report	High Substantial	-				See Appendix C
Key Financial Control	Human Resources							
Operational	Business Grant Funding – Post Payment Assurance	Final Report	High Substantial	-				See Appendix C
Key Financial Control	Other Support Service provided by Publica • Procurement (Compliance with Strategy)							
ICT	Vulnerability Management	Scope Agreed						
ICT	Accounts with Admin Privileges	Scope Agreed						
Grant Certification	Disabled Facilities Grants	Complete						
Grant Certification	Restart Grants	Complete						
Follow-Up	Follow-Ups of Recommendations made in Substantial and Reasonable Audits	On Going						
Other Audit Involvement	Working with the Counter Fraud Unit	On Going						

Audit Type	Audit Area	Status	Opinion	No of		Priority	1	Comments
				Rec	1	2	3	
Other Audit Involvement	Management of the IA Function and Client Support	On Going						
Other Audit Involvement	Contingency – Provision for New Work based on emerging risks							

The following information provides a brief summary of each audit review finalised since the last Committee update



<u>Procurement (Contract Management and Monitoring) – Final Report – November 2021</u>

Audit Objective

To provide assurance that appropriate systems are in place to ensure that contracts are developed, managed, and monitored in accordance with the Council's policies and procedures.

Assurance Opinion		Number o	of Actions
internal controls operating ef and being consistently applie		Priority	Number
	management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives	Priority 1	0
		Priority 2	1
		Priority 3	0
		Total	1

Risks Reviewed	Assessment
The Council does not follow legislative requirements or its own Procurement and Contract Rules.	Low
Ineffective contract management and monitoring arrangements leave the Council unable to deliver key services	Low

Key Findings



Two versions of the Contract Rules were published on the Council's website and an out of date version was published on the staff intranet.

An action has been agreed to review and update the out of date information.



Robust and effective contract management and monitoring is undertaken in accordance with the terms of the contract. Evidence of pricing being subject to scrutiny and challenge was seen. There were no variations to the contract and any expenditure incurred was supported with appropriate purchase orders.



We have revisited the agreed actions that were made in the previous procurement audit and can confirm 4 have been implemented and one is in progress.

Audit Scope

This work addressed the above objective and reviewed the controls operating in the following areas:

- Development of contracts including legal review
- Variation to contracts
- Management and monitoring of contracts

One of the contracts for recycling material sales was selected for review.

A virtual meeting with the Contract Manager and evidence provided has helped to inform the assurance opinion.

Testing undertaken has assessed the effectiveness of processes operating.

We also followed up recommendations from our previous Procurement & Contract Management audits.

Observation

During fieldwork we identified that the contractor's business continuity arrangements were not formally reviewed. This was addressed along with other contracts managed by the officer. It may be useful to remind all officers responsible for managing and monitoring contracts that discussing and reviewing contractors' business continuity arrangements are key to ensuring minimal impact on service delivery if a problem was to occur.

Review of a contract that covered all 4 Publica councils found strong controls were operating, but contract documentation could be strengthened.

<u>Treasury Management and Bank Reconciliation – Final Report – September 2021</u>

Audit Objective

To ensure that the key controls within Treasury Management and Bank Reconciliations are operating effectively.

Assurance Opinion		Number o	of Actions
	A sound system of governance, risk	Priority	Number
Limited Reasonable ma	management and control exists, with internal controls operating effectively	Priority 1	0
	and being consistently applied to support the achievement of objectives	Priority 2	0
None Substantial	in the area audited.		0
		Total	0

Risks Reviewed	Assessment
1. Inadequate treasury management arrangements in place, resulting in financial loss.	Low
2. If bank reconciliations are not regularly carried out, there is a risk of inaccurate financial reporting, loss of income and fraud.	Low
3. If previous recommendations made are not implemented, the organisation may be open to unnecessary risk exposure	Low

Key Findings



Treasury Management Strategies are approved in accordance with the budget setting process. Regular reports and cashflow forecasts are presented to senior management. A Treasury Management Outturn report is presented to members each year.



Completed bank reconciliations are reviewed, anomalies investigated and approved by a senior independent officer within 2 to 3 days of month end.



The agreed action from our previous audit has been implemented.

Audit Scope

A high-level review was completed in the following areas

- Treasury Management Strategy approval and reporting process
- Bank Reconciliation procedures.
- Follow up on last year's recommendations

We held discussions with the Publica Business Partner Accountant and the Senior Accounting Technician. And reviewed evidence provided to support discussions held.

Bank statements and the bank reconciliations from February 2021 were reviewed for all Councils and Publica.

Conclusion

Robust controls are operating effectively within the areas reviewed. We did not identify any areas which warrant further review or reporting.

Business Grant Post Payment Assurance – Final Report – November 2021

Audit Objective

To provide assurance that COVID-19 related business grants were paid to eligible businesses, in accordance with Government guidance

Assurance Opinion

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

	Number of Actions				
	Priority	Number			
(1	Priority 1	0			
/	Priority 2	0			
S	Priority 3	0			
	Total	0			

Risks Reviewed	Assessment
If sufficient checks and controls are not in place, ineligible recipients may receive COVID-19 business grants resulting in potential financial, fraud and reputational risk to the Council.	Low

Key Findings

In February 2021 post payment assurance checks were completed for a sample of high value business grants paid between March and April 2020.

We have undertaken additional post payment assurance checks on further Government grant schemes. Work included reviewing information held on Companies House, to confirm company numbers and that businesses were active on the prescribed date. Rateable values were verified to ensure they agreed with information held on Council systems. Bank details from applications were also checked to ensure names and numbers matched.



We can confirm that no significant findings were made as a result of this work. All COVID-19 business grant payments tested were found to have been paid to eligible businesses, in accordance with Government guidance.

We can confirm post payment checks have been and continue to be undertaken by the Counter Fraud Team to identify potential fraudulent claims and then subsequent recovery actions where required. We have taken this assurance as well as the post payment assurance checks we have undertaken to support our overall opinion.

Audit Scope

A review of a sample from all COVID-19 business grants payments since November 2020 was carried out to ensure that the payments were made to eligible recipients, in line with Government guidance.

The payments tested were made between November 2020 and July 2021. Businesses were selected at random. All grant payments made to selected businesses since November 2020 were examined.

Further Comment

Conditions were placed on the grant schemes that had to be actioned by officers e.g. regular data submission, reconciliations. We can confirm these conditions have been met.

<u>Planning Enforcement Follow-Up – Final Report – November 2021</u>

Follow Up Audit Objective

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2020/21 Planning Enforcement Position Statement have been implemented.

Assurance Opinion Reason able No Substantial

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Follow Up Progress Summary						
Priority Complete In Progress Not Started Summa						
Priority 1	0	0	0	0		
Priority 2	2	2	0	4		
Priority 3	3	0	1	4		
Total	5	2	1	8		

Key Findings



The current Local Enforcement Plan (LEP) is dated January 2014. Legislation requires the LEP to be reviewed at least every 5 years. The service area advised that review and update of the LEP has not started due to the operational changes taking place. To mitigate the risk of legal challenge, the agreed action to review and update this plan must be completed as soon as possible.



Work is in progress to review the current KPIs and ensure effective KPIs are developed to help service delivery. These will then be uploaded to the Clearview system to aid performance monitoring. A consistent process for recording case notes/discussions is being trialled and will be implemented shortly.



The 5 agreed actions relating to various administrative controls have been completed. This includes up to date consolidated information being published on the Council's website.

Conclusion

A review of evidence provided, and testing undertaken can confirm the control environment has improved since our review in May 2021. Good progress has been made against the agreed action plan.

We have been advised that discussions are taking place with the System Administrator to extract more meaningful information from the Uniform system. It is hoped this will help improve current processes.

Where actions are in progress or not started, revised target implementation dates have been agreed and will be monitored as part of our agreed action tracking process.

Emergency Planning – Final Report – November 2021

Audit Objective

To provide assurance the emergency planning framework supports local communities in an emergency.

Assurance Opinion



There is a generally sound system of governance, risk management and control in place. Some issues, noncompliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Number of Agreed Actions				
Priority Number				
Priority 1	1			
Priority 2	2			
Priority 3	1			
Total 4				

Risks Reviewed

Assessment

Ineffective emergency planning and responses result in non-compliance with statute and insufficient actions, causing damage to human welfare and the environment.

Medium

Key Findings



At the time of audit work, the DEPLO was the only CBC officer on call for emergency planning with support from the deputy-DEPLO. There were also no trained loggists. The DEPLO is liaising with ELT to ensure Emergency Planning roles, including on-call roles, are adequately resourced.



2 of the 4 gold commanders in the Emergency Response Plan have not undertaken training in the last 3 years as per the Emergency Response Plan. We were advised officers will be trained and a training schedule will also be introduced for members.



There is no guidance for how to use WhatsApp securely. The Counter Fraud Unit are developing a Social Media Policy, which will include its use. Emergency Planning will liaise with Counter Fraud to ensure officers are aware of how to share information correctly in emergency planning WhatsApp



The Emergency Planning Contact Directory contained officers who were no longer Council employees. Emergency Planning will liaise with HR to ensure they are notified of all leavers so the directory can be updated promptly.



CBC is reviewing its Emergency Planning documentation. At the time of audit work, the Flood Response Plan had been drafted and was being reviewed by the Environment Agency. All response plans are held on Resilience Direct, the central government hosted system used by the Local Resilience Forum (LRF). CBC regularly attend LRF meetings and work closely with the Gloucestershire Civil Protection team. A tabletop exercise to validate the Emergency Response Plan was undertaken in September 2021.

Audit Scope

In October 2021 a review of Emergency Planning documentation and procedures was undertaken. We looked at a selection of controls in the below areas;

- Planning and implementation
- Information sharing and communication
- Ongoing management

Discussions were held with the DEPLO, and a demonstration of the Resilience Direct system was provided.

The Emergency Planning Internal Contact Directory was reviewed to ensure it was current. And CBC's Flood Response Plan was checked to ensure it was in place and had been recently updated.

Observations

- The DEPLO confirmed CBC plan to do more work with parish councils on community resilience for issues such as flooding that are becoming more common and effecting more areas.
- At the time of audit work there was no Emergency Planning Comms. Plan. The DEPLO advised it was being drafted and would be introduced as an appendix of, or alongside the Emergency Response Plan.
- Emergency planning being under resourced and having 1 officer on call is a risk to the Council fulfilling its obligation as a category 1 responder, but we note the substantial assurance given for CBC's response to the Covid-19 pandemic.

<u>Accounts Payable – Continuous Auditing Analysis - December 2021</u>

Audit Scope

- **1. Duplicate payments** review covers a period of 2 years, checking for potential duplicate payments for the Council and between Councils and/or Publica and/or CBH. Findings have been summarised and reported to AP for further review and correction where necessary. Findings have been followed-up during the subsequent review.
- **2. Sundry Suppliers** review covers current quarter, checking for numerous payments made to a supplier. Where examples of these are identified they have been reported to AP for further review and where appropriate the creation of a specific supplier record on AP will be required.

Testing / Findings	Q1 (Aug 21)	Q2 (Nov 21)	Q3	Q4
Duplicate Payments				
Number of Duplicate Payments identified (paid twice including HRA expenditure)	6	1		
Value of Duplicate Payments identified (paid twice by including HRA expenditure)	£3,614.64	£150.00		
Number of Payments recovered either by Credit Note or Refund request from previous quarter	n/a	£0		
Value of Payments outstanding from previous quarter	n/a	£3,614.64		
Number of Duplicate Payments identified (paid by CBC and CBH)	3	0		
Value of Duplicate Payments identified (paid by CBC and CBH)	£2,116.18	£0		
Number of Payments recovered either by Credit Note or Refund request from previous quarter	n/a	2		<u> </u>
Value of Payments outstanding from previous quarter	n/a	£1,112.54		_
Sundry Suppliers				7
Number of supplier(s) appearing more than once under the Sundry Supplier Record	1	1		
Number of payments made to supplier(s) who appear more than once under the Sundry Supplier Record	2	2		
Supplier record created on BW	0	0		

For Information

This continuous report will be included within the annual AP audit report and will support the annual assurance score.

Council Tax, NNDR, Housing Benefits and Ctax Support - Final Report - December 2021

Audit Objective

To ensure key financial system controls are operating effectively for Council Tax, Non-Domestic Rates, Housing Benefits and Council Tax Support, and that opportunities for error, fraud or corruption are minimised.

Number of Actions

Assurance Opinion Limited Reasonable Substantial

Substantial - A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

	Priority	Number
h	Priority 1	0
d e	Priority 2	0
a	Priority 3	0
	Total	0

Risks Reviewed	Assessment
1. The Council does not collect all Council Tax and Business Rates due as a result of errors, omissions or fraud leading to financial loss or reputational damage.	Low
2. Housing Benefits and Council Tax Support claims are not processed correctly, completely and on a timely basis as a result of errors, omissions or fraud leading to financial loss or reputational damage to the Council.	Low

Key Findings



During another challenging year for the Revenues and Benefits Service area, key control processes continue to be performed. Financial reconciliations are completed frequently, accurately and independently checked. Any items in the suspense accounts are regularly checked and cleared. Council Tax processes to collect arrears and refund overpayments are returning to normal. Due to the demand Business Grants payments had on the team, there is an understandable backlog in some Non-Domestic Rates arrears processing, however processing has recommenced and is performed regularly. Also, due to the increased workloads, 2 previous low priority agreed actions have not yet been fully implemented and we have therefore extended the target dates and will follow-up on these in due course.



As things begin to return to normal, the Benefits team are now consistently achieving their processing targets for new claims and change in circumstances. The recovery of Housing Benefit overpayments is now receiving more focus following an Officer's temporary role change in response to the Pandemic. More time to quality checking to ensure processes are actioned accurately is being devoted, although this is yet to return to pre-pandemic levels.

Audit Scope

This audit reviewed key control processes in the following areas.

Council Tax and Business Rates

- Key controls to include financial reconciliations and variance reporting.
- Follow up of last year's recommendations

Housing Benefit and Council Tax Support

- Financial reconciliations and variance reporting.
- HB & CTS Application processing times. Following the increased grant processing work, assurance that business as usual has not been adversely impacted.

Additional Information

The Service Area recognises their Business Continuity Plan is need of a review and update. As part of this process, it is important some thought is given to the impact of a significant ICT outage, such as a 'ransomware' attack.

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Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update December 2021
Planning Enforcement Follow-Up 44904	2	Enforcement performance monitoring is not recorded.	The Enforcement Manager advised the recording of one-to-ones in the conversation section of the L&D system is being trialled. The officer is hoping to have this action fully implemented by the end of October 2021. Review of the Enforcement Notices Issued spreadsheet can confirm the total number of Enforcement Notices issued are recorded against properties accordingly.	Nov 2021	Senior Enforcement & Compliance Officer	Ongoing
Planning Enforcement Follow-Up 45224	2	Formal Planning Enforcement KPIs are not maintained.	Data quality will be reviewed to determine future KPIs. And that these KPIs will be added into Clearview along with the rationale behind them.	Jan 2022	Enforcement Manager	1
Emergency Planning 46219	1	CBC Emergency Planning is not fully resourced	We will liaise with ELT to ensure Emergency Planning roles and on-call roles are adequately resourced.	Jan 2022	DEPLO	
Emergency Planning 46173	2	Some Gold Commanders have not undertaken training in the last 3 years.	We will; •Ensure all officers undertake training every 3 years as per the ERP. •Introduce a cycle of awareness sessions for Members.	Mar 2022	DEPLO	

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update December 2021
Emergency Planning 46171	2	No guidance for the use of Emergency Response WhatsApp groups.	We will liaise with the Counter Fraud Unit and ensure the Social Media Policy and guidance for WhatsApp use is provided to all emergency response officers. This guidance will ensure officers share information relating to emergency incidents securely, and chats are removed from personal devices when necessary.	Jan 2022	DEPLO	
Procurement (Contract Management and Monitoring) 46226	2	Two versions of the Contract Rules were published on the Council's website and an out of date version was published on the staff intranet. The version within the Constitution does not include the 'Invitation to Tender' section. The section also refers to paragraph 11.3, but there is no paragraph 11.3.	The Head of Finance will ensure the correct version of Contract Rules are published in the Constitution and on the staff intranet.	Mar 2022	Chief Executive Officer	
Systems Admin 45115	2	Previous Recommendations not implemented		Jan 2022	ICT Audit and Compliance Manager	
Systems Admin 45236	2	Some controls not as robust as expected		Jan 2022	ICT Audit and Compliance Manager	

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update December 2021
Governance of Programmes and Projects 45523	2	The Corporate Project Management Guidelines Document (2016) and old template documentation from 2016 are in the project management guide. We were advised the guide was updated in 2020, but old content has not yet been removed. The Business Change Team Leader confirmed the resource that would action this has been involved with the response to the pandemic and elections.	 We will review the intranet and remove old content from the project management guide. We will review and update project template documentation. 	Oct 2021	Business Change Team Leader	PM guide on the intranet has been updated. Templates have been updated. Agreed Action Complete and recommendation closed.
Governance of Programmes and Projects 45816	2	Benefits realisation processes are currently inconsistent. The Business Change Team Leader advised Clearview will be used going forward to inform managers when this needs to be completed. The officer advised service areas should have ownership of tracking outcomes and user experiences; however, this is not clearly stated in the project management guide.	 We will update principle 4 on the project management guide to state benefits realisation is the responsibility of the service area. ELT will ensure there is ongoing oversight of projects and programmes in Clearview. 	Oct 2021	Executive Director of People & Change	Ongoing
Accounts Payable 45450	2	Amendments to supplier accounts cannot be monitored.	We will contact Publica Business World On System Support & Maintenance to investigate how we can monitor amendments made to supplier accounts, and we will monitor account amendments weekly.	Sept 2021	AP Team Leader	This will be followed up during the annual Accounts Payable audit.

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update December 2021
Human	2	The Action Plan, which underpins	In line with the People Strategy and	Jun 2021	Talent	L & D Reports were quarterly but have
Resources		CBC's People Strategy, does not	the Council's aspirations and		Development	changed to six monthly as quarterly was
(Learning and		include timeframes, target dates or	objectives, a formalised/documented		Business Partner	too frequent.
Development)		key deliverables. It would benefit from	work plan will be produced annually			IA received a copy of the latest report.
45225		more frequent review and update to	to detail the work required of the			
		ensure that actions are delivered on	Learning and Development Team by			
		time and in line with requirements.	Cheltenham Borough Council. This			Agreed Action Complete and
		The Action Plan or equivalent revised	work plan will include an outline of			recommendation closed.
		document should be shared with CBC	the project or work required, key			
		ELT on a regular basis to provide	deliverables and timeframes.			
		oversight and ensure actions meet the	Quarterly progress reports will be			
		objectives set out in the CBC People	produced for the Executive			
		Strategy.	Leadership Team (ELT). At the end of			Q Q
			the year, a summary of work			
			delivered will also be produced			
			based on the work plan and shared			
			with ELT.			

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update December 2021
ICT Business Continuity 44817	2	It is important the ICT Service have a full understanding of each Service Area and the wider organisation's business requirements to ensure a structured recovery in the event of a disruption to service. Business applications have been grouped together and documented in the ICT BCP plans, however there are some inconsistencies between the criticality of Service area's tolerable downtime, and the potential restoration of those services by the ICT team. There are also inconsistences within the plan itself whereby it is stated Business Applications will be restored within 48 hours, but then also state recovery will be within 1 week to 10 days.	 Work on the Asset Inventory has already commenced and is to be completed. A revised BCM & Emergency Plans template is being introduced by CBC DEPLO / ICT Audit & Compliance Manager. 	Dec 2021	ICT Audit and Compliance Manager	Asset inventory work is in progress and ongoing. Hardware and Software inventory Audits are due to be undertaken in this year's Audit plan. New Business Continuity Templates include Business Impact Analysis' have been issued and are in use. Agreed Action Complete and recommendation closed.

High Priority Recommendation Follow-Up

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update December 2021
Asset Management 44678	2	Reconciliation between the Uniform system and the Council's finance system is not completed as per the Financial Rules.	Work with finance to implement a process whereby income recorded in Uniform is reconciled with the Business World system in accordance with the financial rules.	May 2021 Mar 2022	Head of Finance	Finance Business Partner for CBC advised the following: "I would suggest that the below would be more beneficial, add more value and improve the accuracy and completeness of our financial information: 1.A process mapping of reoccurring invoices raised in property. I think this will highlight many manual processes open to human error and a lack of segregation of duty 2.A focus on how new leases are processed and sent to AR, what checks happen here 3.As above, but when tenants leave leases and the close down process As these invoices are mainly on reoccurring invoices set up by AR I think the focus really needs to be on the adding, and deleting of these reoccurring invoices rather than periodic snap shots." The CBC Head of Finance is aware of this and has agreed to a revised implementation date

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update December 2021
ICT Incident Management 44560	2	As part of the Information Security framework of policies, the Incident Management Policy is out of date and requires review, update, and approval. Update of the policies has been impacted by the Covid-19 pandemic, and the need for a review is recognised by the ICT Audit & Compliance Manager.	ICT Audit and Compliance Manager will review and update all ICT Security Policies following the completion of the Cyber Security audit report. The aim to have drafted policies by April 2021 for circulation to all network users.	April 2021 Mar 2022	ICT Audit and Compliance Manager	The refresh and update of all ICT Policies is in progress and will be subject to consultation. Revised implementation date
ICT Incident Management 44562	2	There is a lack of detailed standard operating procedural documentation. Incident management investigation is currently based on a high-level process flow-chart denoted in the Incident Management policy; however, this lacks detailed information on how to conduct an incident investigation.	We have now commenced with documenting our cyber incident and investigation managements procedures	Jan 2022	ICT Audit and Compliance Manager	Ongoing The ICT Audit and Compliance Manager is working with the Security Engineer on an incident playbook that define the procedures and steps to be taken during an incident investigation. On target for completion by January 2022.
Property Use of Contractors 42058	2	We recommend i. that process documents and associated procedures, aligned with CBC's Contract and Financial Rules, are documented and put in place so that a consistent approach to tasks can be followed and undertaken within the team as soon as possible. ii. A review of the service design should be undertaken to ensure that appropriate and effective processes and structures are in place.	Develop flow charts and sub processes to be agreed and signed off by section 151 officer. Started and talked already with Director and Publica Procurement to produce report on options going forward for strategic procurement of building related needs.	Mar 2020 Oct 2021	Senior Building Surveyor Head of Finance	We issued a follow up report in April 21, confirming this action had been partially implemented. But due to staff departures, the remaining elements have not been completed. Further follow up required.

Audit Name	Priority	Finding	Agreed Action(s)	Due Date / Rev Date	Responsible Officer	Update December 2021
Property Use of Contractors 42057	2	i. that unless specialist skills are required to complete specific works, only approved framework contractors are used for general building works. ii. that the progress of updating the contractor framework is pursued and if necessary escalated through Publica/One Legal Client Officers and Senior Management to ensure focus on this requirement is maintained.	Now using only framework contractors or obtaining waivers for non-specialist works. Additional frameworks are being pursued though One Legal for use of the GCC framework and Publica Procurement for additional frameworks.	Mar 2020 Oct 2021	Senior Building Surveyor Head of Finance	We issued a follow up report in April 21, confirming attempts had been made to implement this action. But due to staff departures, the action is ongoing. Further follow up required.

Agreed Actions APPENDIX E

Summary of all Agreed Actions from April 2020 and Progress against them

CBC ONLY				
	1	2	3	Total
TOTAL in Audit Period				
(From 4/20)	1	12	7	20
Open and current	1	4	2	7
Open and Outstanding/Overdue				
Subject to follow up	0	0	0	0
Open with date extended	0	5	2	7
Closed	0	3	3	6

PUB ONLY				
	1	2	3	Total
TOTAL in Audit Period				
(From 4/20)	0	10	13	23
Open and current	0	5	7	12
Open and Outstanding/Overdue				
Subject to follow up	0	1	2	3
Open with date extended	0	2	2	4
Closed	0	2	2	4

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Cheltenham Borough Council

Audit, Compliance and Governance Committee – 12 January 2022 Future Provision of External Audit from 2023/24

Councillor Peter Jeffries, Cabinet Member for Finance and Assets						
Gemma Bell, Head of Property, Finance and Assets (Deputy s151 Officer)						
None directly						
No						
In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 (the Act) and the Local Audit (Appointing Person) Regulations 2015 (the Regulations). Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.						
One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.						
Local Authorities are required to take a decision as to whether they want to opt in or opt out of the national scheme before the 11 March 2022. In line with the delegations of the Audit, Compliance and Governance Committee, a recommendation should be made to Full Council on 25 February 2022.						
The Audit Committee recommends that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors from 1 April 2023.						

Financial implications

If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees from 2023/24, although it is anticipated that any increase will be minimised through using PSAA.

Contact officer: Gemma Bell, Head of Property, Finance and Assets (Deputy s151 Officer)

Gemma.bell@cheltenham.gov.uk, 01242 264124

Legal implications	The process as set out in the report and the recommendation will ensure compliance with the Local Audit and Accountability Act 2014. Contact officer: Sarah Farooqi, Legalservices@onelegal.org.uk
HR implications (including learning and organisational development)	There are no direct HR implications for this Council. Contact officer: Julie McCarthy, julie.mccarthy@cheltenham.gov.uk, 01242 264355
Key risks	As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.
Corporate and community plan Implications	None.
Environmental and climate change implications	None.

1. Background

- **1.1** The Local Audit and Accountability Act 2014 (the Act) established new arrangements for the audit and accountability of relevant authorities, including local authorities.
- 1.2 These new arrangements include the ability of such bodies to appoint their own local public auditors via an auditor panel. This may be carried out individually or jointly with one or more other authorities.

2. Reasons for Recommendations

- 2.1 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.
- 2.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation the Audit Committee makes the recommendation above to Full Council.
- **2.3** The PSAA procurement strategy for the contract is attached at Appendix 2 to aid Members in their decision-making.

3. Process and advantages

- 3.1 As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1st April 2015. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).
- 3.2 It remains the view of the Society of District Council Treasurers (and of the other Treasurers' Societies) that the sector-led procurement by the PSAA is likely to be less resource intensive and likely to produce better outcomes. The PSAA has recently contacted Cheltenham Borough Council to establish whether the Council was interested in opting in to the PSAA national scheme for external audit appointments from 1 April 2023 onwards.
- 3.3 The deadline for opting in to the PSAA scheme is Friday 11 March 2022. It is therefore important that this issue is considered by Full Council at its next meeting.
- 3.4 The main advantages of using PSAA are set out in its prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.
 - Assure timely auditor appointments
 - Manage independence of auditors
 - Secure highly competitive prices
 - Save on procurement costs
 - Save time and effort needed on auditor panels
 - Focus on audit quality
 - Operate on a not for profit basis and distribute any surplus funds to scheme members.

4. Alternative options

4.1 An alternative option would be to establish an auditor panel and conduct a procurement exercise either alone or with other authorities. This is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

Report author	Contact officer: Gemma Bell, Head of Property, Finance and Assets (Deputy s151 Officer) Gemma.bell@cheltenham.gov.uk, 01242 264124
Appendices	Appendix 1 – Risk Assessment Appendix 2 – PSAA Procurement Strategy 2022

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 the Council decides not to opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors, then it would have to establish an auditor panel and conduct its own procurement exercise which could be more expensive, time consuming and lead to a lack of alignment with the other local authorities in respect of an approach to audit planning.	CBC Section 151 officer	December 2016	2	2	4	Accept	Opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.	11/3/2022	CFO	

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Audit services procurement strategy 2022

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

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Introduction

- 1. Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association (LGA) in August 2014. It has a Board of non-executive directors supported by a Chief Executive and a team of staff who have significant experience and skills in managing contracts for public audit services. More information about the PSAA Board and Executive team can be found at http://www.psaa.co.uk/about-us/who-we-are/.
- 2. In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 (the Act) and the Local Audit (Appointing Person) Regulations 2015 (the Regulations). Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.
- 3. During the next few months all eligible bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.
- 4. In relation to appointing auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme managed by PSAA.
- 5. Events since 2018 have resulted in an audit industry that is under enormous pressure and the local audit system is experiencing its share of the strain and unavoidable instability as impacts cascade down to the frontline of individual audits.
- 6. We believe that PSAA's national scheme offers the best option for local bodies to secure the appointment of appropriately qualified auditors in the current challenging market conditions. The Local Government Association and MHCLG¹ have expressed similar views.

Background to the procurement

7. One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

¹ Immediately prior to the publication of this document it was announced that MHCLG has been renamed to Department for Levelling Up, Housing and Communities (DLUHC). The document refers to the department as MHCLG.

- 8. In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, we have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.
- 9. We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the outcomes of a further procurement to take effect from 1 April 2025), we believe that it is strongly preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.
- 10. We will, however, consider the circumstances in which it may possibly be necessary to extend one or more current contracts nearer to the commencement of the procurement. This will enable our approach to take into account latest information including any relevant policy announcements or clarifications.
- MHCLG's Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. Following the publication of its response to the consultation on changes to the Local Audit (Appointing Person) Regulations 2015, the government has committed to introduce secondary legislation to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year. New regulations are expected to come in to force this Autumn. These changes would enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.
- 12. PSAA has set the length of the next compulsory appointing period to cover the audits of the five consecutive financial years commencing 1 April 2023.
- 13. PSAA needs to enter into new contracts with audit firms in order to make auditor appointments to opted-in bodies by 31 December 2022, as required by the Appointing Person Regulations. This procurement strategy sets out our current plans for the basis on which the procurement of audit services will be carried out.

Objectives of the procurement

- 14. Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.
- 15. The objectives of the procurement are to maximise value for local public bodies by:
 - securing the delivery of independent audit services of the required quality;
 - awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;

- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.
- 16. It is necessary to enter into contracts with a number of audit suppliers to provide sufficient capacity for all of the audits required, enable PSAA to manage auditor independence issues and, if possible, grow the number of active suppliers in the local audit market.

Scope of the procurement

- 17. The procurement will cover the audits of the accounts of all eligible bodies that opt into the appointing person scheme. Eligible bodies include local authorities, combined authorities, police and crime commissioners including PFCCs, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.
- 18. There are currently 476 eligible bodies that will receive invitations to opt into the appointing person arrangements during September 2021. This number may reduce slightly from 1 April 2023 given the planned reorganisation in the counties of Cumbria, North Yorkshire, and Somerset. The closing date for acceptance of the opt-in invitation is 11 March 2022. We expect to receive acceptances from eligible bodies throughout the opt-in period and will maintain and publish an up to date record of bodies joining the scheme on the PSAA website.
- 19. PSAA has allowed a considerably longer period during which an eligible body can opt in compared to the statutory minimum period of eight weeks. It is hoped this will enable eligible bodies to meet the requirement under the regulations to make the decision to opt in at a full council meeting. (As corporations sole, the full council requirement does not apply to police and crime commissioners and police, fire and crime commissioners).
- 20. In order to maximise the potential economies of scale for eligible bodies as a result of entering into large contracts with firms, and to manage any auditor independence issues, PSAA will seek to provide as much clarity and certainty as possible concerning the volume and nature of audits it is able to offer to firms.

Evolution of this strategy

21. This strategy has been developed based on our knowledge and experience of previous procurements for audit and related services, including the lessons learned from our 2017 procurement and the research we have commissioned since that time. Importantly it has been shaped by the feedback received to the market engagement exercise and consultation with eligible bodies, which we undertook in June 2021. A summary of the response to PSAA's consultation and market engagement has been published.

- 22. PSAA has produced a risk allocation matrix (attached as an appendix) to inform the development of its commercial model and pricing approach as described in this strategy. It sets outs PSAA's assessment of the risks that each party is required to bear so provision can be made to mitigate and manage these risks in the most effective and economical manner.
- 23. This procurement strategy was agreed by the PSAA Board on 15 September 2021. It has also been shared and discussed with members of the Liaison Committee chaired by MHCLG and involving representatives of FRC, NAO, CIPFA, ICAEW and the LGA. In a number of areas feedback has helped us to evolve our thinking on the procurement characteristics outlined in the June 2021 draft prospectus and market engagement documents.
- 24. PSAA will continue to informally engage with the market following the publication of this procurement strategy until the contract notice is published.
- 25. Two market briefings will be held in November 2021 and January 2022 to explain and answer questions about our procurement strategy.
- 26. Shortly after the January briefing, we expect to publish the contract notice. From that point forward, all engagement in respect of the procurement will be conducted in accordance with the arrangements described in the procurement documentation.
- 27. The significant work to reform audit in the wake of the four government reviews (Kingman's review of the FRC; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit) is underway.
- 28. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Alongside changes to the general and local audit framework, the Government is reviewing the public sector procurement regulations, following the UK's withdrawal from the European Union.
- 29. Given this context we will keep the procurement strategy under review and may make appropriate revisions as a result of any policy, regulatory or other significant changes arising.

The procurement strategy

The procurement route

30. The Public Contract Regulations 2015 (the Contract Regulations), unless superseded, will apply to the procurement and it will be carried out in accordance with those Regulations.

Choice of procurement procedure

- 31. PSAA is keen, if possible, to enter into contracts with a larger number of suppliers registered as local public auditors than the current five. This could include a nonregistered firm working with a registered firm.
- 32. This will give PSAA the ability to manage auditor independence issues, for example, where an audit supplier has a pre-existing relationship with an opted-in body which prevents it from accepting an audit appointment. It will also provide the flexibility to enable PSAA to respond to the significant number of joint or shared working arrangements for which partner eligible bodies often express a preference for the appointment of a common audit supplier. By entering into contracts with a number of suppliers, PSAA will help to support the drive towards a long term competitive and more sustainable market for local public audit services.
- 33. Because the nature of the services being procured is highly specialised, PSAA will follow the restricted procedure (rather than the open procedure) in accordance with the Contract Regulations. This will enable PSAA to identify those suppliers with the necessary financial standing, technical capability, skills and experience to provide services and then invite all those shortlisted to tender.
- 34. Bids will be accepted from suppliers which are registered as, or that are currently proceeding through the registration process to become, a local public auditor with a supervisory body approved by the Financial Reporting Council, currently the Institute of Chartered Accountants in England and Wales (ICAEW). The registration and ongoing monitoring processes test supplier quality and competence.
- 35. Bids from consortia or other forms of joint working arrangements will be permitted where at least one member organisation within the consortium or arrangements is individually registered as (or going through the process of registration to become) a local public auditor with the ICAEW.
- 36. An award made to a supplier going through the registration process will be conditional on the ICAEW, as the Registered Supervisory Body, approving their registration and the procurement will not seek to prejudice ICAEW's approval process.
- 37. Suppliers invited to tender will be asked to quote prices for a contract length of five years, which matches the opt-in period for eligible bodies. The contracts will include the option to extend the contract duration by up to a further two years, by mutual agreement.
- 38. Variant bids will not be permitted.

Contract lots

- 39. PSAA will structure its procurement and invite bids as set out in the paragraphs below, subject to confirmation once the number of eligible bodies opting into the scheme is known.
- 40. There will be a single England-wide contract area, containing between 7 and 11 lots. There will also be a further two lots which will be classed as "development lots".
- 41. The size of the lots will be graduated to enable bidders to match their capacity and risk appetite with their preferred lot size.
- 42. The number of individual lots and their indicative value will be clearly set out in the invitation to tender. PSAA will reserve the right to award work in excess of the lot size as a mitigation should we be unable to award all lots.
- 43. For each individual lot, PSAA will give an indication of the minimum volume of work which the lot will contain.
- 44. The two "development lots" will be sized at around 2% and 1% of opted-in bodies in order to encourage new entrants.
- 45. There will be no requirement for bidders to participate in joint audits.
- 46. Except for the development lots, each lot in its final form will reflect a sensible balance of geography and a blend of the different authority types, taking account of the guiding principles used when making auditor appointments as set out in para 54 below. Most lots are likely to include one or more public interest entity (PIE) audits. However, in addition to the two development lots, two further lots will exclude any PIE audits.
- 47. The indicative value of each lot will be expressed by reference to the 'audited body notional value' (ABNV), which comprises the published scale fees for 2021/22 for all opted-in bodies. This will establish a consistent baseline for bidders' pricing.
- 48. Within the invitation to tender we will provide further information that will be helpful to bidders in their consideration of bid prices covering:
 - those future regulatory and Code-related changes up to April 2023 that we expect bidders to reflect in their pricing. Correspondingly, we will identify those possible changes where there is insufficient information available to do so and outline how these will be handled; and
 - a schedule of opted-in bodies which details the most recent audit year completed, the scale fee and the nature and value of recurring fee variations that are already baked into the scale fee.
- 49. Named audits will not be allocated to a lot until the procurement is complete and the subsequent consultation processes with opted-in bodies and successful bidders have taken place. Having a larger number of lots increases the opportunity for a greater

- proportion of a lot to be concentrated in specific geographical areas rather than being spread across the country.
- 50. There is no "auditor of last resort" in England, unlike other UK public sector procurers of volume public audit services. Given the statutory nature of audit, and its obligation to make an auditor appointment to every opted-in body, PSAA will endeavour to encourage the market to bid in a manner which represents value for money for the public purse, without damaging sustainability.
- 51. When making auditor appointments following contract award, PSAA will consider the status of prior year audits and will be guided by the following principles:
 - ensuring auditor independence;
 - ensuring any contractually guaranteed levels of work are met;
 - ensuring a blend of authority types for each audit firm;
 - taking account of a firm's principal locations (as specified in its tender response);
 - providing continuity of audit firm, where appropriate; and
 - accommodating joint/shared working arrangements between local bodies where possible.

Bidding rules relating to lots

- 52. In the interests of market sustainability, and subject to receiving sufficient bids and to the outcome of the evaluation of responses to the invitation to tender, PSAA expects to award no more than 35% of the aggregate value of its total portfolio (and potentially a lesser maximum percentage) to any single supplier. Ideally PSAA wants to enter into long term contracts with a larger number of suppliers than we do currently, reflecting a more balanced distribution of work. Our lot structure will aim to enable this, subject to us receiving sufficient bids. The exact number of lots that any successful bidder could be awarded will be set out in the invitation to tender documents.
- 53. Bidders will be required to indicate the maximum amount of work per annum that they are able/would be willing to deliver, as a percentage of PSAA's total work based on 2021/22 scale fees. Where a bidder submits bids for multiple lots, this information would be used by PSAA to ensure that any bidder is not awarded work in excess of its stated capacity. In addition, bidders will be permitted to indicate that, should they win a lot, their bids for smaller sized lots are to be withdrawn.
- 54. Bidders will not be required to bid for all lots. However, they will be able to bid for all lots which fall within the range which they have specified as their maximum capacity.
- 55. PSAA will award contracts to a number of suppliers, to enable it to:
 - manage any independence issues that may arise when making auditor appointments to opted-in audited bodies;
 - respond to shared or joint working arrangements between audited bodies;

- make an appropriate auditor appointment to each opted-in audited body after fulfilling its statutory duty to consult such bodies on proposed appointments; and
- support the drive for longer-term market sustainability.
- 56. Contract lots will be awarded to the suppliers submitting the most economically advantageous tenders i.e. assessed using a price/quality ratio.
- 57. Bidders will be invited to express their bids for each lot as a fixed proportion of the relevant ABNV. Bidders can submit a percentage value that is greater or less than 100%. Bidders will be able to submit different bid rate percentages for each lot.
- 58. PSAA recognises that the location of an audit is an important consideration for bidders. Bidders for all lots, other than the "development lots", will therefore be able to select up to four geographical areas which would be least attractive/convenient for them to audit (from a pre-defined list of English County and Combined Authority areas²). PSAA would seek to avoid appointing the bidder, if successful, to audits within the selected geographic areas. In the event that it was necessary to appoint the bidder to any audits in those areas, the relevant bid rate would be increased by a premium of 30% in respect of the audits concerned.
- 59. It is recognised that bidders for the "development lots" may have the capacity to work in a relatively limited geographical area compared to larger suppliers. They will therefore be able to select up to 4 areas in which they would be able to undertake audits and provide details of any exclusions within those areas using the same predefined list of English County and Combined Authority areas.
- 60. Should either or both of the development lots not be awarded, PSAA would seek to offer the additional volume of work initially to the highest scoring winning bidder across all the lots and, if this is declined, to offer it to the second highest scoring winning bidder across the lots and so on working down through lot winning bidders.

Audit Fees

- 61. PSAA strongly believes the national, sector-led, collective scheme offers benefits to both audit services suppliers and eligible bodies. By opting into PSAA's scheme, individual bodies will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members. Audit services suppliers avoid the expense of participating in multiple procurements and, where successful, the challenge of being subject to and managing a range of different contract management regimes.
- 62. PSAA's costs of managing the scheme are covered by audit fees paid by opted-in bodies. Over the current contract term, from 2018 to 2023, our annual operating costs have averaged approximately 4% of total annual contract spend. We plan to continue to

² Counties (including any Councils or Other Relevant Local Bodies within the County area), and Combined Authorities (including any Councils or Other Relevant Local Bodies within the Combined Authority area)

- manage our own costs appropriately and to ensure that the national scheme offers excellent value for its members.
- 63. PSAA will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties.
- 64. As a not-for-profit organisation, PSAA returns to opted-in bodies any surplus funds generated by the scheme after all costs have been met. This obligation is set out clearly in our articles of association. Our most recent distribution of surplus funds, totalling £5.6m was announced in August 2021.
- 65. PSAA expects to make a statement on the impact of the procurement outcome on 2023/24 scale fees following contract award in late Summer 2022.
- 66. PSAA will consult on the proposed scale of fees for 2023/24 and subsequently expects to publish the fees applicable no later than the end of November 2023, subject to approval of the anticipated amendment to the Appointing Person Regulations which would move the latest date by which audit fees must be set from 31 March to 30 November of the year to which the audit relates.
- 67. For each year of the contract, PSAA intends to increase the remuneration paid to its audit firms by reference to the annual increase in CPI.
- 68. Additional fees (fee variations) are part of the legal framework. They only occur if substantially more or less work is required than is envisaged in the scale fee or the auditor is entitled to recover costs or expenses from the audited body under specific provisions in the regulations, for example in relation to public interest reports or objection work.
- 69. The regulations require PSAA to consider every fee variation on a case-by-case basis. Over the past nine months we have made improvements to our internal processes to enable the handling of a larger number of claims and we will continue to review and make improvements where possible for the benefit of all parties.
- 70. PSAA reviews and robustly assesses each fee variation proposal. We apply our technical knowledge and experience of all audits to assess each submission and can compare with similar submissions for other bodies across all our audit suppliers before reaching a decision. Our process requires that fees for additional work are discussed with and explained to the audited body before they can be proposed to PSAA. The Regulations require that the proposals must be approved by PSAA before they can be invoiced.
- 71. PSAA will provide a copy of the current rate card with the invitation to tender. Each winning bidder will be remunerated for additional work for each lot that it wins at a rate equal to the current rate card multiplied by its bid rate for that particular lot.

- 72. PSAA will update the rate card through the appointing period in line with changes to scale fees that are not related to the level of work for example, inflation.
- 73. The hourly rates used as part of the determination of the valuation of variations will continue to be the same for all audited bodies.

Procurement process

- 74. The key stages in the procurement process are set out below. In accordance with the Contract Regulations, PSAA will ensure that at each stage the process complies with the requirements of equal treatment, non-discrimination, transparency, and proportionality.
- 75. PSAA will use the Delta e-tendering platform to undertake this procurement.

Timetable and key milestones

76. The timetable and key milestones for the procurement are summarised in Table 1. The target dates are provisional and may be subject to change.

Table 1 – indicative procurement timetable

Key milestone	Target Date
Publish Contract Notice and issue documentation on request	w/c 7 February 2022
Deadline for submission of Selection Questionnaires	w/c 14 March 2022
Issue invitation to tender to short-listed suppliers	w/c 4 April 2022
Deadline for submission of tenders	w/c 11 July 2022
PSAA Board approval of contract awards, assuming a satisfactory outcome	August 2022

- 77. Following a statutory consultation process auditor appointment for opted-in bodies will be made by 31 December 2022 for audit years from 2023/24.
- 78. This timetable is consistent with the requirement set out in the Local Audit and Accountability Act 2014, for an authority to appoint an auditor to audit its accounts for a financial year by no later than 31 December in the preceding financial year.

Contract Notice

79. The purpose and scope of the procurement will be set out in the Contract Notice to be published on the Find A Tender Service and Contracts Finder.

Pre-qualification (selection) stage

- 80. The pre-qualification (selection) stage will be designed to enable PSAA to assess potential audit suppliers' ability to meet PSAA's requirements.
- 81. The selection questionnaire evaluation criteria will be:
 - compliance with grounds that would otherwise lead to mandatory or discretionary rejection under the Contract Regulations;
 - satisfactory organisational, financial and economic standing and insurance arrangements;
 - capability and capacity;
 - technical and professional knowledge and experience; and
 - eligibility for appointment under the Act and Regulations, either through being registered with ICAEW or going through the process of registration.
- 82. Evaluation at this stage will result in a pass or fail outcome for each potential supplier. All suppliers achieving a pass outcome will be invited to tender.

Tender stage

- 83. The tenders for each lot will be evaluated in accordance with the published evaluation criteria to identify the most economically advantageous tenders. The relative weighting of price and quality will be 20:80 with 5 marks of the 80 quality marks being attributed to social value, which equates to 5% of the overall score. PSAA plan to ask bidders to describe the additional social value they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced.
- 84. The quality of responses at tender stage will be assessed against a range of relevant criteria such as audit approach, quality assurance, client communications and resourcing and capacity & capability including sector knowledge. Aligned with the Government's proposal that the ARGA become the local audit system leader, we will seek the FRC's input in developing our approach.
- 85. Bidders will only be requested to provide one response to the quality section of the tender irrespective of the number of contract lots they bid for, although some questions may require a lot-specific response. The "development lots" will be assessed against the same criteria but in some areas may have a different assessment focus requiring a separate response from bidders interested in these lots.
- 86. The formal tender evaluation criteria and methodology will be described in the invitation to tender documentation, and published on the PSAA website.

Establishment of a Dynamic Purchasing System (DPS)

- 87. Alongside the publication of a Contract Notice for the main audit services procurement outlined above, PSAA will publish a second, separate Contract Notice to establish a DPS.
- 88. The form of selection questionnaire used for the main audit services procurement would include a box that bidders could tick to signal their agreement to automatically qualify to participate in the DPS if they pass the pre-qualification stage of the main audit services procurement.
- 89. Once the DPS is established, a supplier that is not a member of the DPS (e.g. a firm that decided not to tick the box on the main procurement selection questionnaire or a new supplier to the local audit market) could apply to join at any point during the DPS's period of validity if they satisfy the selection requirements, and none of the grounds for exclusion apply. PSAA would evaluate the supplier's selection questionnaire within the legally required timescale of 10 working days of receipt unless there are justifiable reasons for an extension.
- 90. The establishment of a DPS has the potential to offer several benefits over the life of the term of the contracts awarded from the main audit services procurement:
 - provide an alternative to the current practice of automatically seeking to distribute additional audits between contracted firms, for example, in the event of local government reorganisation, or if existing bodies request to join the scheme after the initial opt-in invitation and procurement processes;
 - enable suppliers who are not awarded a contract from the main audit services
 procurement to bid for PSAA work, so they are not "locked out" (and provide
 winning suppliers the opportunity to bid for further audits);
 - enable consideration of different contract durations and the potential to stagger future tenders, subject to the proposed changes to the Regulations being implemented; and
 - should any of the 2017 audit services contracts need to be extended, provide a mechanism through which to undertake the procurement of services for the audits beyond 2023/24 or 2024/25.
- 91. Additionally, the DPS will provide a potential option in the event of not receiving sufficient bids to the main audit services procurement.
- 92. PSAA do not intend to use the DPS to procure replacements for auditor appointments made as part of the 2022 contract award before the end of the contract's duration unless there is a specific reason for doing so. Such reasons might include the identification of an independence conflict, the breakdown of auditor-audited body relationship, or as a result of a supplier's poor performance in line with agreed contract terms.
- 93. The key characteristics of any procurement undertaken through the DPS are likely to be very similar to those used for the main procurement, for example the evaluation ratio of 20:80, price to quality. Clearly there will also need to be some differences, for example, to reflect that a DPS procurement may be for an individual audit, small group of audits

- or a more significant volume of work. All procurement documentation will be available when the Contract Notice for the DPS is published at the same time as the Contract Notice for the main procurement in early February 2022.
- 94. PSAA expect the DPS to become operational during May 2022, and intend to maintain it throughout the next contract period.

Appendix - Risk Allocation Matrix

Introduction

The allocation and management of risk is central to all commercial contracts and is one of the core commercial principles informing the approach to contracting with third parties. Each party seeks to minimise its overall risk and maximise its reward, which creates an inherent tension between contracting parties. Effectiveness and value for money of contracted services will only be achieved where risk allocation is appropriate and where the party managing the risk is the one most reasonably able to do so.

Purpose

PSAA produced this risk allocation matrix to inform the development of its commercial model and pricing approach for contract of audit services to deliver the national scheme for local auditor appointments from April 2023. It sets outs PSAA's assessment of the risks that each party is required to bear so provision can be made to mitigate and manage these risks in the most effective and economical manner.

Review

The risk allocation matrix will be reviewed periodically up to the point that the procurement is initiated where appropriate in the light of comments from audit firms and to ensure that it reflects the emergence of new information and any changes in circumstances.

Risk id	Risk Category Explanatory comments		Potential risk allocation	
			PSAA	Audit Firms
1.	Data inaccuracy Risk that inaccurate (or incomplete) data is provided to bidders during the procurement exercise leading to inaccurate pricing or solution.	PSAA will make available the latest information about the audits at the commencement of the procurement, e.g. the most recent audit year completed, the scale fee and the nature and extent of recurring fee variations that are already baked into the scale fee but do not warrant the accuracy of this information. PSAA will adjust the ABNV to reflect any inaccuracies subsequently discovered in this information (see 12 below).	•	
2.	Inflation Risk that the cost of supplier's inputs will rise over time due to inflation.	 The contract will provide indexation on the price paid to audit firms based on the annual application of the prevailing rate of CPI. There is also an inflation risk for the audit firm; the cost pressures they experience may exceed their estimates and any allowance provided by an index-based adjustment. 	shared	

Risk id	Risk Category	Explanatory comments	Potential ris	sk allocation
IG			PSAA	Audit Firms
3.	Performance / availability Risk that the service will not be delivered to the requisite performance/availability levels.	 Audit firms must deliver the service in accordance with the NAO's Code of Audit Practice and all regulatory requirements e.g. of the FRC. The contract will include a performance measure that relates to the audit firm's stated capacity to deliver to a number of audits equal in value to the lot size plus a margin (say 5% of the lot size) for audits awarded before the end of 2022. The availability of sufficient audit resources is a supplier risk. 		•
4.	Volume /demand Risk that the actual usage of the service is less than the guaranteed minimum.	 Local bodies that decide to opt into PSAA's scheme are then statutorily committed to remain in the scheme for the full appointing period of five years, unless they are abolished under local government reorganisation. Contractual provision will guarantee a minimum volume of work. 	•	
5.	Volume /demand Risk that the actual usage of the service is greater than the lot size plus a small margin (say 5%) for audit awards before the end of 2022.	PSAA may only award work in excess of this figure with the supplier's agreement.	•	r age 202
6.	Volume/demand Substantial additional work.	 PSAA will pay for substantial additional work and certain statutory actions as defined in the Appointing Person regulations namely the consideration of the making of and the making of a public interest report or a written recommendation under Schedule 7 of the 2014 Act; the exercise of any functions under section 27 of the 2014 Act in relation to the right to make objections at the audit; any application to the court under section 28 of the 2014 Act for a declaration that an item of account is contrary to law or any appearance as respondent to any appeal against such a declaration; the consideration of the issue of and any issue of an advisory notice under Schedule 8 of the 2014 Act; any application for judicial review under section 31 of the 2014 Act or any appearance as respondent to any application for judicial review made in respect of the exercise of the auditors' functions. 	•	

Risk id			Potential risk allocation	
Iu			PSAA	Audit Firms
		Substantial additional work will include future regulatory and code related changes unless notified to bidders in the ITT.		
7.	Change in law	The supplier mostly takes this risk. The supplier shall neither be relieved of its obligations to supply services under the contract nor be entitled to an increase in charges as the result of the general change in law.	•	•
8.	Performance risk Risk that the services have/project has not been planned adequately for the purpose required or are not properly performed. Performance Indicators.	 Audit firms will have the responsibility for the adequacy of the planning and performance of the service provided and their compliance with the output/performance specification. The scope of local audit is fixed by third parties. It is determined by the requirements of the: NAO's Code of Audit Practice which sets the scope of the audit; The Code of Practice on Local Authority Accounting published by CIPFA/LASSAC which sets the format of the financial statements; HM Treasury in respect of the arrangements for Whole of Government Accounts; and FRC (expected to become ARGA in the year this contract starts) who regulate the work of auditor in the application of International Auditing Standards. PSAA intends to establish a series of KPIs as part of its contract management arrangements. 		• Tayer Aoo
9.	Delivery risk Risk that the delivery of the audit does not meet planned timescales.	 The Accounts & Audit Regulations effectively set a target date for completion of the audit. The past two years (2018/19 and 2019/20) have featured high levels of delayed opinions as a result of a variety of factors. As a result there is a current backlog of outstanding opinions. Audit firms must meet the target dates unless there are good reasons outside their control such as the poor preparation of audit papers or the need for statutory actions. 	shared risk	

Risk id	Risk Category	Explanatory comments	Potential ri	sk allocation
IG			PSAA	Audit Firms
10.	Scope of the Contract Audits are not allocated until after contract award. Audits are awarded remote from the audit firm's principal office.	 Current thinking is that contract lots will be based on work of a specified value of work that is populated with named audits, reflecting a blend of authority types, after completing the tender evaluation process, in consultation with both winning firms and bodies. We are aware that audit firms expressed a preference for bidding for audits on a geographic basis. However, having considered this approach thoroughly we have concluded that it is likely to put at risk the statutory requirement on the appointing person to appoint an independent auditor to every opted-in authority. We intend to introduce a mechanism to enable bidders to reflect geographical preferences in their bids. In addition, when making auditor appointments following contract award (and therefore with audit quality matters already having been assessed), PSAA will have regard to the status of prior year audits and will be guided by the following principles: ensuring auditor independence; ensuring any minimum guarantees of work are delivered; ensuring a blend of authority types for each audit firm; taking account of a firm's principal locations (as specified in its tender response); providing continuity of audit firm, where appropriate; and accommodating joint/shared working arrangements where possible. 		• rage zo4
11.	The audit services fee Pricing for Code compliant audits where there is no substantial additional or lesser work or no statutory actions.	 The ITT will ask for prices based on the "audited body notional value" for 2021/22. The ABNV is the scale fee for 2021/22 plus any recurring fee variations that have subsequently been approved. The winning bidder of each lot will be remunerated for their work to deliver Code compliant audits at a rate equal to the ABNV for that lot multiplied by its bid rate for that lot. Where individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit, PSAA propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts. Our independent research indicates a minimum fee level of £31,000 should apply, based on the 2020/21 scope of audit work, to any opted-in body (a police and crime commissioner and a chief constable constitute one body 		•

Risk id	Risk Category	Explanatory comments	Potential ris	sk allocation
Iu			PSAA	Audit Firms
		 FSAA cannot anticipate scale fees for the next appointing period at this stage because they will depend on the prices achieved in the procurement and any changes in audit requirements. Where any price increase means that the scale fee for a body does not reach the floor set by the minimum fee, the fee for that body would increase to reach the minimum level. PSAA consults each year on the fee scale and will consult in 2023 on the 2023/24 fee scale. 		
	Valuation of substantial additional work.	 The hourly rates used as part of the determination of the valuation of variations will continue to be the same for all audited bodies. The winning bidder of each lot will be remunerated for additional work at a rate equal to the current rate card (which will be included in the ITT) multiplied by its bid rate for that lot. The rate card will be updated through the appointing period in line with changes to scale fees that are not related to the level of work – for example, inflation. 		7 29 0
12.	Termination Risk that PSAA will terminate (or partially terminate) the contract early i.e. before the end of the initial contract term.	Contractual provisions describe the conditions under which termination would be invoked, covering: Insolvency or change of control Material irremediable or unremedied breach Persistent failure Corruption, bribery, or discrimination Serious security risk Legislative changes.		• 200
13.	Subcontractor insolvency Risk that a subcontractor within the supplier's or subcontractors' supply chain becomes insolvent during the course of the contract term.	The audit firm must take this risk as it is responsible for its own supply chains. Failure in the subcontractor supply chain is explicitly excluded from the definition of a 'Force Majeure Event'.		•

Risk	sk Risk Category Explanatory comments Potential risk		sk allocation	
id			PSAA	Audit Firms
14.	Industrial action Risk of industrial action including by any of the supplier's staff.	The audit firm must take this risk as it is responsible for its own employee relations and it has the ability to control and it is a core element of service delivery. An industrial dispute relating to the audit firm's (or any subcontractor's) personnel is explicitly excluded from the definition of a 'Force Majeure Event'. The audit firm must also take the risk of disruption by other industrial action e.g. the transport network but not industrial action at PSAA or the audited body.		•
15.	Force majeure Risk of unforeseen events outside of the reasonable control of the supplier, that affect the supplier's ability to deliver any aspect of the contract to requirement time, budget, and performance.	Neither Party shall be liable to the other Party for any delay in or failure to perform its obligations under the Contract (other than a payment of money) if such delay or failure results from a Force Majeure Event. Each Party shall use all reasonable endeavours to continue to perform its obligations hereunder for the duration of such Force Majeure Event. However, if any such event prevents either Party from performing all of its obligations under the Contract for a period in excess of six (6) Months, either Party may terminate the Contract by notice in writing with immediate effect.	shared risk	

		Item	Author
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20 April 2022			
Audit progress report and sector updates	Grant Thornton		
External audit plan (for the current year)	Grant Thornton		
External Audit Fee Letter (for previous year)	Grant Thornton		
Annual plan (for the upcoming year)	Internal Audit		
Internal audit monitoring report	Internal Audit		
Counter Fraud Unit report (inc. RIPA / IPA update)	Counter Fraud Unit		
Annual review of Code of Corporate Governance	Darren Knight		
Annual Governance Statement	Darren Knight		
Annual Review of Risk Management Policy	Ann Wolstencroft		
Cyber Security Business Continuity Arrangements (inc review of databases and data	Darren Knight		
sources). Exempt report			
13 July 2022			
Internal audit opinion (for the previous year)	Internal Audit		
Auditing Standards – communicating with the Audit Committee	Paul Jones/Chair		
Statement of Accounts (previous year) (inc. letter of representation)	Finance Team		
Annual update on FOI and EIR	Judy Hibbert/Beth Cordingley		
September 2022			
Audit Findings Report - ISA260 (for the previous year)	Grant Thornton		
Internal audit monitoring report	Internal Audit		
Counter Fraud update and future work provision	Counter Fraud Unit		

ANNUAL ITEMS (standing items to be add	led to the work plan each year)
January	
IT Security update	John Chorlton/Tony Oladejo
Audit committee update	Grant Thornton
Annual Auditors report (for previous year)	Grant Thornton
Internal audit monitoring report	Internal Audit

Author

Audit, Compliance and Governance Committee 2022 work plan

Item

Annual governance statement – significant issues action plan	Ann Wolstencroft			
April April				
Audit progress report and sector updates	Grant Thornton			
External audit plan (for the current year)	Grant Thornton			
External Audit Fee Letter (for previous year)	Grant Thornton			
Annual plan (for the upcoming year)	Internal Audit			
Internal audit monitoring report	Internal Audit			
Counter Fraud Unit report (inc. RIPA / IPA update)	Counter Fraud Unit			
Annual review of Code of Corporate Governance (if CIPFA guidance has changed)	Darren Knight			
Annual Governance Statement	Darren Knight			
Annual Review of Risk Management Policy	Ann Wolstencroft			
July				
Internal audit opinion (for the previous year)	Internal Audit			
Auditing Standards – communicating with the Audit Committee	Paul Jones/Chair			
Statement of Accounts (previous year) (inc. letter of representation)	Finance Team			
Annual update on FOI and EIR	Judy Hibbert/Beth Cordingley			
September				
Audit Findings Report - ISA260 (for the previous year)	Grant Thornton			
Internal audit monitoring report	Internal Audit			
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Cheltenham Borough Council Audit Committee – 12th January 2022 ICT Security Update

Tony Oladejo: ICT Audit and Compliance Manager

John Chorlton: Chief Technology Officer

Accountable member	Martin Horwood	
Accountable officer	Tony Oladejo (ICT Security & Compliance Manager) / John Chorlton (Chief Technology Officer)	
Ward(s) affected	AII	
Key/Significant Decision	No	
Executive summary	To update the Audit Committee on the Cyber Security Action Plan in place, outlining the progress made against millstones to provide assurance that Cyber related risks are being managed and appropriate actions are being undertaken	
Recommendations	That the Report be noted	
Financial implications	None	
	Contact officer: paul.Jones@cheltenham.gov.uk	
Legal implications	None	
	Contact officer: onelegal@tewkesbury.gov.uk	
HR implications	None	
(including learning and organisational development)	Contact officer: Deborah.bainbridge@publicagroup.uk	
Key risks	Failure to control and secure ICT systems and data against unauthorised access including Cyber-crime attack	
Corporate and community plan Implications	None	
Environmental and climate change implications	None	
Property/Asset	None	
Implications	Contact officer: Gemma.Bell@cheltenham.gov.uk	

1. Introduction

The ICT Service has responsibility for ICT Security on behalf of the four partner Councils (Cheltenham Borough Council, Cotswold District Council, Forest of Dean District and West Oxfordshire District Council) as well as Publica, Ubico and the Cheltenham Trust.

The ICT Service staff are employed by Publica. The infrastructure and systems they operate are owned by the Councils.

The shared ICT team supports 1500 people, around 300 servers and over 150 application systems.

2020 saw a major Cyber Security ransomware incident at Redcar & Cleveland Council. This was followed up by the Hackney Borough Council incident in 2021. A similar incident is currently being investigated at Gloucester City Council. These high profile incidents along with the international Solarwinds incident in December 2020 has certainly focused the attention of Government, Auditors and more recently Cyber Insurance providers.

During 2021, with the support of the Councils and LGA funding, we have invested in our ICT staff capabilities and Cyber Security systems as well as putting a strategy in place to move towards a Zero Trust architecture. This work is ongoing and summarised within this report.

The experience of others has shown that sadly it is no longer a question of "if, but when something happens", which has led to both a change of mindset to Cyber Security as well as the strategies we now employ.

We have an assured, secure, government-accredited security infrastructure that is able to evolve as the organisation changes.

However people and human behaviours remain our greatest risk. Staff awareness around Data Protection and Information Security and good practice when using technology should continue to be mandatory for all employees. ICT needs to double our efforts on staff awareness training during 2022.

2. ICT & Cyber Security Update 2021

2.1 Investment in ICT Staff Training

We have recognised that it is essential to have a team with the right skills and experience and have invested accordingly to assure we do.

Our staff currently hold the following security related qualifications...

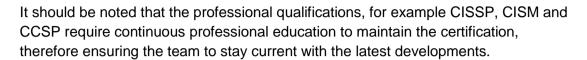
- 1 x BSc (Hons) Forensic Computing and Security
- 1 x OSCP Offensive Security Certified Professional (April 2021)
- 3 x CISSP Certified Information Systems Security Professional
- 1 x CCSP Certified Cloud Security Professional



OFFENSIVE

We have staff currently studying for

- 1 x CISM Certified Information Security Manager
- 1 x CCSP Certified Cloud Security Professional
- 1 x OSEP Offensive Security Experienced Penetration Tester
- 1 x OSWE Offensive Security Web Expert







2.2 Additional Ransomware Protection introduced during 2021

Highly secure storage is now in place protecting all on-premise data. This system keeps immutable backups for the previous 30 days that the ICT team cannot delete without raising a support case with a 3rd party and providing multiple forms of verification. This, in the event of a ransom attack, should help protect the data from the malicious actors and allow the Councils to roll back to a point in time when the data being held ransom is accessible.

This won't protect us from a ransomware attack and we will still experience downtime. However it should minimise the amount of time it takes to recover once the root cause has been identified and eradicated from the infrastructure.

2.3 Security Information and Event Management (SIEM) introduced during 2021

During the Solarwinds incident in December 2020, our investigations were significantly delayed waiting on a 3rd party to provide log data. In that case, data from the PDNS (Protective Domain Name Service) system run by the The National Cyber Security Centre (NCSC). At the time, this was not a comfortable position to be in. This, along with reviewing the learning points from other major Council Cyber incidents has led to the deployment of a SIEM system.

We now collect over 40 million log events every day and retain those logs for 13 months. We expect the logs reviewed to increase to 60 million a day as we enable more of our systems to pass data to the SIEM system.

Obviously a member of staff is unable to review 60 million events a day, so the platform uses Machine Learning / Al to identify threats and trends and alert accordingly.

The 40 million events each day turns into an average of 30 incidents. A typical incident is unusual behaviour. For example, a member of staff in Planning attempting a connection to a Council Tax system in a different Council.

The SIEM gives us insights to how and where our systems and devices are used. The diagram shows the location of Council laptops (from all 4 Council) that are remote to our offices. This image was taken on the 11th November 2021.

On the same day the SIEM system identified a Council employee working from Spain. When this happens, the ICT Team follows up to ensure the arrangement has been agreed by management before taking any action.

More interesting incidents are logon attempts against our Cloud Services by unknown 3rd parties. These are usually focused around senior



Council Employees and Councillors with high profiles on Council websites and social media channels. As you would imagine the domain cheltenham.gov.uk is a particular target of interest.

The SIEM system allows us to collect all the security data for an incident into one place and understand the nature and vectors of the cyber threat.

In extreme cases, our system has the ability to isolate users and devices automatically.

The system has additional detection capabilities which can be explored further in a confidential cyber security briefing.

In the event of a catastrophic Cyber Attack, the SIEM is our first port of call for investigation. The system is hosted externally to our offices allowing us to understand what has happened before bringing internal systems back online.

2.4 MITRE ATT&CK framework mapping

MITRE ATT&CK is an open framework and knowledge base of adversary tactics and techniques based on real world observations. It describes the steps or tactics a hacker has to overcome to be successful with details on how each step could be achieved.

ICT are working on cross referencing the framework with the preventative measures we have in place, which will allow us to focus future security enhancements on areas where we have less protection.

We hope to be able to share this confidential information with Audit Committees during 2022 to give a visual representation of what our capabilities are and any areas of weakness that need to be addressed.

2.5 User Training & Education

Our continual approach is to mitigate Cyber security risk by educating our employees and users about safe data practices and constantly reinforcing this with training and ongoing communication messages.

All Cheltenham staff were, in October, issued with Cyber Security training via the Learning Portal.

The learning and development team will be rolling out additional online training for all staff throughout the year.

2.6 Data Loss through Shadow ICT

Shadow ICT through the use of unauthorised cloud based software continues to be a significant risk. Whilst guidance is in place for staff to use supported authorised Council systems, the nature of the Internet allows an end user to sign up and populate a cloud based application within minutes.

Thankfully this is not common in highly sensitive areas such as Finance & Revenues/Benefits.

Training and guidance will continue to be provided to reduce this risk.

2.7 Log4J Vulnerability

Almost exactly 12 months after the Solarwinds incident reported previously to the Audit Committee, the world was introduced to the log4j vulnerability. Log4j is a Java software component used by programmers around the world to add logging capabilities to their systems. It is used by most companies, from Apple through to Zoom. On 10th/11th December it became public that this component had a vulnerability which had gone undetected for up to 10 years. To trigger the vulnerability all you needed to do was get a particular string of characters into the logging system of the software that used the component. This could be via something as simple as using the characters as the username you use to login to the system. The logging system component would then create a connection with the hacker's computer. This is very easy to do and there are multiple videos available online showing you how to do it.

As you can imagine this has caused world wide panic within the tech community, vendors, companies & Government. To further complicate things, the initial "patch" to resolve the issue had additional vulnerabilities.

On 11th December our security systems were updated to monitor and specifically block attacks related to log4j. The ICT Cyber team spent the weekend learning how the vulnerability was triggered and recreated it.

Our internal systems have been tuned and focused to look for the vulnerability. Since the 13th of December, ICT has been scanning our entire infrastructure looking for software that uses log4j. We have also contacted our vendors for a position statement. At the time of writing (31st December) we have upgraded or removed all instances with 2 exceptions. The remaining instances are protected using additional network segmentation and, when the vendors release patches, will be patched immediately. Our Cyber Security visibility systems are being modified and enhanced to detect future vulnerabilities similar to log4j. This work should be completed in the first two weeks of January.

In total we detected and mitigated over 30 different installations of software containing log4j. We have no evidence that suggests this vulnerability has been used against us.

One particular problem is that future upgrades could reintroduce the vulnerability so we are going to have to remain vigilant. Currently new software solutions purchased by the Councils are evaluated, from a Cyber Security point of view, on their infrastructure components, location of data and the connectivity they need to other systems and the Internet. In the future we are going to need to evaluate the software components used in the development of the system.

2.8 Cyber Response to Gloucester City Council

On Tuesday 21st December, Cheltenham BC were notified that Gloucester City Council were infiltrated and a ransomware encryption attempt was made over the weekend of 18th/19th December. On the 20th, Gloucester City shutdown all their internal systems.

On Tuesday 21st December, the ICT put email quarantine procedures in place. All emails received from @gloucester.gov.uk were held pending a manual check by ICT staff. Simple emails, e.g. meeting requests, meeting cancellations etc were allowed through quickly. Emails with attachments and other non-text content were checked thoroughly before being allowed.

At the time of writing, 31st December, Gloucester City was still offline and is working with the NCSC & NCA to understand what happened and restore their systems.

3. Summary of ICT Security & Data Protection Risks & Mitigation

Risk	Risk Scores (after mitigation)	Mitigation
Reputation damaged due to successful Cyber Attack against Councils	(I) 4 x (L) 3 = 12	ICT Staff Training BCP & DR Plans Ensuring Council Leaders are aware of the risks.
Loss of ICT staff with Security Skills	(I) 4 x (L) 3 = 12	Flexible contracts ICT Staff Training
Data loss through user error	(I) 4 x (L) 3 = 12	Back up program BCP & DR Plans Incident mgt procedures
Supply Chain attacks – Especially in light of Solarwinds	(I) 3 x (L) 3 = 9	Reduce lateral movement across the network through the use of SIEM and

		segmentation.	
Ransomware attacks – Hackney & Redcar Councils recent cyber incidents	(I) 4 x (L) 3 = 12	Immutable Storage, Network segmentation, Backup & DR processes.	
Unsupported out of date Software applications	(I) 4 x (L) 3 = 12	Regular scanning to identify and remove the software. PSN Certification process forces the removal.	
Shadow ICT - sensitive data in Cloud applications without security	(I) 3 x (L) 3 = 9	Staff training & clear guidance	
Phishing Emails / Spam	(I) 3 x (L) 3 = 9	Awareness & training Existing anti-malware solutions which block the outbound connections. Additional capabilities are coming in April 2022 with Microsoft 365.	

4 Looking forward - Plans & Challenges for 2022

4.1 Migration to Microsoft 365 from on-premise Exchange.

The move to Microsoft 365, enhancing collaboration opportunities with 3rd parties and maintaining our levels of security is going to be a security challenge. Learning from other organisations shows this can easily go out of control. We are aware we need to proceed with caution.

4.2 Deployment of additional micro segmentation

Micro segmentation allows us to control network traffic between different parts of the network. During 2022 we will be replacing our current micro segmentation product, vmware NSX with a solution to help us bridge the gap between on-premise servers and cloud hosted servers. Once this work is complete we will be able to evaluate options to move more of our computing and storage to the Cloud.

4.3 Cyber Security Insurance

It is clear the insurance industry is reacting to the increased number of Cyber Security incidents. Whilst the Councils have managed to obtain insurance this year, it can not be counted on for future years. During the Cyber Insurance renewal process in November we learnt how the Cyber Insurance industry

measures Cyber risk and we will be modifying our internal systems and configurations to better fit the industry requirements whilst maintaining high levels of security.

4.4 Continue on Zero Trust journey

We will continue to move towards a 'Zero Trust' approach to our security architecture as championed and used by the NCSC, GCHQ and other similar organisations. This is achieved by building trust into the user's identity, and the services they access rather than the networks and devices they connect with.

Given the age of some of the Council's core systems, this will take some time. Each new system procured will be required to support our Zero Trust ambitions.

4.5 Begin using internal Multi Factor Authentication

Whilst multi factor authentication is enforced for all devices external to our network, we will begin enabling multi factor authentication for users within our network perimeters during 2022/23. This will help us on our journey towards zero trust.

4.7 Introduction of Cheltenham Online Customer Platform

The introduction of the new Online Customer Platform at Cheltenham will be the first time Cheltenham Borough Council deploys a complex system that integrates internal systems with an online presence. All current online solutions are currently hosted and managed by the Council. This is an exciting development as Cheltenham moves towards the Cloud and the benefits this can bring, not to mention the benefits to the residents.

However, tight integration between a system hosted externally by a 3rd party and our core application systems introduced additional security challenges that need to be managed carefully. During the project implementation we will be adapting our security solutions to operate in this new climate and deploy additional monitoring.

5 Conclusion

As the risks from cyber-attack and data loss increase, the importance of having well trained staff, robust procedures and innovative solutions in place has never been greater.

The investment made to date in both staff and systems puts the Shared ICT team and the Councils it supports in a strong position, however we can't get complacent.

Ongoing investment is essential as is ensuring that everyone plays their part in ICT security and data protection. We will continue to learn from the experiences of others and work closely with both our suppliers and key Government agencies to safeguard the services provided from disruption.

Appendix 1: Summary of specific Cyber activities in 2021

Jan 21 to Mar 21	Deployment of a new ICT monitoring tool to replace Solarwinds Liaise with procurement to add additional steps into the procurement process.	Completed
Apr 21 to Jun 21	Internal Audit - Malware/Anti-Virus Audit & Disaster Recovery Audits Commence Pre-PSN/Cyber Essentials Plus technical control review before recertification.	Completed
Jul 21 to Sept 21	Internal /Penetration Scan work commences for annual 2021 PSN submission (Delayed due to COVID and enhanced to cover new COVID deployments). External PSN audit commenced. SIEM Solution is deployed pulling together and combining all security data sources.	Completed
Oct 21 to Dec 21	Review PSN scan findings and mitigating any risks found where appropriate. Submit PSN Code of Connection to Cabinet Office. Continue to spread awareness of Cyber Security to staff through awareness and putting more regular information/blog posts on the portal.	Completed

