

# Cheltenham Borough Council Audit, Compliance and Governance Committee

**Meeting date:** 17 April 2024

**Meeting time:** 6.00 pm

**Meeting venue:** Council Chamber - Municipal Offices

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## **Membership:**

Councillors Adrian Bamford (Chair), David Willingham (Vice-Chair), Matt Babbage, Graham Beale, Tabi Joy, Paul McCloskey and Smith

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**Phone:** 01242 264 129

# Agenda

## **1 Apologies**

## **2 Declarations of interest**

## **3 Minutes of the last meeting (Pages 5 - 10)**

To approve the minutes of the extraordinary meeting held on 18 March 2024.

## **4 Public and Member Questions**

These must be received no later than 12 noon on the seventh working day before the date of the meeting

## **5 Internal Audit Plan 2024-25 (Pages 11 - 26)**

Report of Lucy Cater, Assistant Director, SWAP Internal Audit Services

## **6 Internal Audit Progress Report (Pages 27 - 48)**

Report of Lucy Cater, Assistant Director, SWAP Internal Audit Services

## **7 Counter Fraud and Enforcement Unit update (Pages 49 - 60)**

Report of Emma Cathcart, Counter Fraud and Enforcement

## **8 Review of Draft Accounting Policies 2023/24 (Pages 61 - 82)**

Report of Gemma Bell, Head of Finance and Assets

## **9 Work Programme (Pages 83 - 84)**

## **10 Any other item the chairman determines to be urgent and requires a decision**

## **11 LOCAL GOVERNMENT ACT 1972 - EXEMPT 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 paragraph 3 and 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.

**12 IT Security update (Pages 85 - 92)**

Report of John Chorlton, Chief Technology Officer to be noted, following debate by Members in exempt session.

**13 Date of next meeting**

Wednesday 10 July 2024

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# Cheltenham Borough Council

## Audit, Compliance and Governance Committee

### Minutes

**Meeting date:** 19 March 2024

**Meeting time:** 6.00 pm - 7.00 pm

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**In attendance:**

**Councillors:**

Adrian Bamford (Chair), Matt Babbage and Stan Smith

**Also in attendance:**

Paul Jones (Deputy Chief Executive (Section 151 Officer)), Gemma Bell (Director of Finance and Assets and Deputy S151 Officer) and Peter Barber (Grant Thornton, External Auditors)

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#### **1 Apologies**

Apologies were received from Councillors Willingham, Joy, Beale and McCloskey.

#### **2 Declarations of interest**

There were none.

#### **3 Minutes of the last meeting**

The minutes of the meeting held on 31 January were approved as a true record and signed accordingly.

#### **4 Public and Member Questions**

There were none.

### **5 Interim Auditor's Annual Report, 2021-22 and 2022-23**

Peter Barber of Grant Thornton introduced the combined report for 2021-22 and 2022-23, explaining that the role of the external auditor is to give an opinion on the financial statements and a conclusion on value for money (VFM), based on the National Audit Office (NAO) code and focussing on three areas:

- financial sustainability – how CBC sets, monitors and delivers its budget and savings, an increasingly challenging position to deliver 13-14 years into austerity;
- governance – how CBC makes decisions, whether these are based on complete and accurate information, and how these can be challenged in an appropriate way;
- economy, efficiency and effectiveness – how services are delivered and how delivery is prioritised, given limited resources.

The report was deliberately detailed, with two years' coverage (2021/22 & 2022/23) as required under NAO code.

Peter ran through the three types of recommendation that can arise from the external auditor's VFM work as set out at Appendix B:

- statutory – reserved for the most serious concerns – CBC has none;
- key – where auditors consider appropriate arrangements are not in place – CBC has none;
- improvement – where some strengthening and refining of what is already in place is required – CBC has eight.

The overall message is positive, reflecting the council's current position, and the huge changes it will undergo in the next 18 months. The complex and ambitious projects offer great opportunities but inevitably bring risks – it is crucial that these are carefully managed - risk aware rather than risk averse.

At the Chair's request, he explained why two years are being taken together, and that following a significant delay in reporting for 2021-22, that report is combined with the 2022-23 report – it cannot be called 'final' as the 2022-23 opinion has not been concluded, but 2021-22 can be closed once the report is presented as 'interim', and a certificate issued to confirm closure. Accounts for 2022-23 still have to be published, and auditors have to complete a backstop opinion by the end of September 2024 – at which point the 2022-23 audit can be closed and the new auditors can start on 2023-24.

The Chair welcomed the progress to date, and that CBC has no issues in the significant or key categories. He then turned to the first recommendation concerning economy, efficiency and effectiveness and the use of resources.

The Deputy Chief Executive thanked Peter Barber and his colleagues for their hard work, and welcomed the largely positive report, but said it would be naïve to think there would be no areas where improvement was required, particularly given the financial climate and the recognition of the exciting initiatives ahead, with the

transition of Cheltenham Borough Homes (CBH) and some high-profile asset disposals. He accepts that CBC needs to keep working to financial sustainability – the Number 1 priority of the Golden Valley project, and from a financial perspective the need to mitigate the risk from a number of economic factors to have hit post-Covid, including the situation in Eastern Europe, inflation and high interest rates. He said Recommendation 1 is very much picking up on capacity, recognising the many advantages of CBC and CBH coming together as one team, to ensure services can be maintained for many years.

A Member made the point that the council's biggest risk is around project management, in view of the massive investment in the Golden Valley project and the size of the council. We need to be going in with eyes open to the risk. The Chair said these recommendations are noted and will be reviewed at regular intervals.

The Chair then moved on to Recommendations 2 and 3, concerning the savings programme and workforce strategy.

Peter Barber said there are two improvement recommendations regarding financial sustainability, the first reflecting the reliance placed on reserves in recent years to balance the budget and recognising that this is not sustainable in the medium term. He said that when the budget is set in February, the full prior year of actuals is not yet available to determine what is appropriate going forward. Financial arrangements are being tested like never before, particularly the ability to produce recurring savings. One-off savings store up problems for future years, and while a lot of councils will look similar in five years' time, CBC will be a very different organisation, and there will still need to be further savings and efficiencies and a mechanism in place that is robust enough that when a savings target is set at the beginning of the year, there are arrangements in place to deliver against profile and, if not, what mitigating actions the council will need to take.

The second recommendation is making sure that workforce strategy and policy is in place and aligned to financial and corporate objectives, not least CBH coming back in house and the potential economies of scale that will follow.

The Director of Finance and Assets reminded Members of the peer review report presented at February Council and discussion about the reliance on reserves and balances, a lot of preparation has gone into setting the budget and savings for 2024-25. A number of savings have already been achieved, with delivery in advance of the start of the financial year, which is very positive. It's correct to say that more and more savings need to be identified, but as we have seen in the decisions of the last 12 months, the council is not afraid to be brave, for example in bringing CBH back in house which will bring significant financial benefits, and investing in areas such as HR and Learning and Development. Officers are working hard to ensure the council is taking the right decisions and making the right investments to ensure that efficiencies are generated.

Moving onto the workforce, the Deputy Chief Executive said the council is in the throes of finalising the TUPE, with 01 July identified as the date, and a key part of the work plan being to ensure that terms and conditions are as closely aligned as possible, and that the two workforces are streamlined as one, working to the same

values. After almost twenty years in the job, he said it doesn't get easier, but staff always find a way and get things done, and always delivering a balanced budget. We must cling onto the reality of a longer-term sustainable vision – there will always be an element of commercial activity to generate income while gearing up to the long-term aspiration of being self-financing through the two biggest forms of income – council tax and business rates, which will be coming forward with the growth of North-West Cheltenham and West Cheltenham. This anticipated growth will shore up the annual conundrum of expenditure increase and income not keeping pace; the main reason for income not keeping pace in the last couple of years is that inflation has been in double digits while council tax can only increase by 2.99%, creating an annual gap.

The Chair suggested that monitoring and having arrangements in place is key as things don't always work out as planned, and agreed that it would be sensible to do further work on the workforce plan once CBH staff have joined.

Recommendations 4, 5 and 6 concern governance – decision-making, challenging, and ensuring appropriate controls are in place for key decisions. Peter Barber said this is a challenge for local government which is often criticised for being overly bureaucratic, and must be proportionate in its challenging. Audit, Compliance and Governance and Overview and Scrutiny committees have an important role to play, and this will change as the council changes going forward – it is important to have assurance and get the views of all stakeholders – the CIPFA checklist can be circulated.

As councils become more complex and diverse, they must also think about ensuring there are enough skills on these committees, and best practice suggests independent members should be included for complete and effective assessment. There is also a question around Overview and Scrutiny and how it operates, making sure it calls in the right issues and challenges appropriately without being over-bureaucratic. Also, there is a suggestion that the constitution is revised and updated to reflect the changing nature of the council.

The Chair was aware that a number of south-west councils are starting out on a self-assessment process, and looked forward to the journey. He welcomed the idea of independent members on committees, and was aware that the Overview and Scrutiny Committee was in discussion about bringing the Forward Plan forward for discussion with the Chair.

The Deputy Chief Executive said these recommendations are reflected in the management comments, and the process of self-assessment has already started, with the SWAP team recommending a review to consider independent members. He said he would think of them as critical friends, and believed they would add value to the committees.

A Member asked, for context, what proportion of Audit committees include independent members, and whether they have been on committees for some time or pushed more recently. Peter Barber said that among the many south-west councils he has attended, less than 20% included an independent member five years ago, and now this figure is more like 50%, with 20% of councils having two independent



members. The Chair confirmed this impression and considered independent members a real plus point. He said getting the right people would be critical, but he hoped it was something the council would explore.

With reference to Recommendations 7 and 8, improving economy, efficiency and effectiveness, Peter Barber said one relates to partnership policy – councils don't operate in isolation and have to lever in partners to deliver services. The council must be clear about its aspiration and purpose when entering into partnerships and outcomes against expectation – this will become more important as the council becomes a more complex organisation.

The second issue concerned waivers, and the process to understand the nature, extent and value of these, to provide assurance that a waiver is appropriate, which may be a particularly important issue as the council moves forward over the next 12-18 months. He confirmed that there are no current problems, but noted that a lot of audit committees receive periodical reports on waivers, to understand why they are necessary, and ensure appropriate competition and that best value is achieved. The Chair agreed that things may be more complex going forward, that SWAP has highlighted the issue, and it will be helpful to have this conversation to look back on.

He said that it is excellent to note that most of the recommendations have been addressed, which is excellent. He asked officers if there was anything Members should be aware of with Recommendations 7 and 9.

The Deputy Chief Executive said neither of these raised particular concerns. The Corporate Risk Register and Risk Management Policy have gone through a number of iterations and improvements. He gave assurance that the Corporate Risk Register is reviewed on a monthly basis by the Senior Leadership Team, and this report could be brought to every meeting of Audit, Compliance and Governance or when required. He said every report to Cabinet and Council includes a risk section and likes to think Members are fully informed on how risks are monitored and mitigated. He said Overview and Scrutiny is an important element to assess the officers have got the risks right and the right mitigations are in place.

On Recommendation 10, he noted that following the liquidation of Clearview, the council has been looking to procure a new performance management system. Once established and embedded in the workforce, meaningful performance-related data will be available, which can be brought to Audit, Compliance and Governance or Overview and Scrutiny Committees.

Regarding Recommendation 13, he said CBC is currently advertising for a strategic procurement manager – once in place, key aims for that individual will be laid out.

The Chair felt that KPIs may be something for the committees managing those particular areas rather than Audit, Compliance and Governance. He agreed that the risk process is a matter for this committee.

**6 Any other item the chairman determines to be urgent and requires a decision**

There were none.

**7 Date of next meeting**

The next meeting will be hold on Wednesday 17 April.

## Cheltenham Borough Council

### Audit, Compliance and Governance Committee – 17<sup>th</sup> April 2024

#### Internal Audit Plan 2024-25

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**Accountable member:**

Councillor Peter Jeffries, Cabinet Member for Finance and Assets

**Accountable officer:**

Paul Jones, Executive Director – Finance, Assets and Regeneration

**Accountable scrutiny committee:**

None

**Ward(s) affected:**

N/A

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**Key/Significant Decision:**

No

**Executive summary:**

The Council must ensure that it has sound systems of internal control which facilitate effective management of all the Council's functions. The work planned by SWAP Internal Audit Services, the Council's Internal Audit service, is one of the control assurance sources to the Audit, Compliance and Governance Committee and Leadership Team and which supports the work of the external auditor. The work is also a key component of the Council's governance framework and as assurance source supporting the Annual Governance Statement, which forms part of the statutory accounting standards.

The Internal Audit Charter is a requirement of the arrangement between Cheltenham Borough Council and SWAP Internal Audit Services (SWAP). The charter ensures compliance with good practice as set out in the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards (PSIAS).

**Recommendations:**

**The Audit, Compliance and Governance Committee approves the Proposed 2024/25 Internal Audit Plan**

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**Implications**

### 1.1. Financial implications

There are no financial implications arising from the report

**Signed off by:** Paul Jones, Executive Director Finance, Assets and Regeneration  
[Paul.Jones@cheltenham.gov.uk](mailto:Paul.Jones@cheltenham.gov.uk)

### 1.2. Legal implications

There are no specific legal implications arising from the report and its recommendation.

**Signed off by:** One Legal, [legal.services@onelegal.org.uk](mailto:legal.services@onelegal.org.uk)

### 1.3. HR implications

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.

**Signed off by:** Clare Jones, HR Business Partner, [Clare.Jones@Cheltenham.gov.uk](mailto:Clare.Jones@Cheltenham.gov.uk)

### 1.4. Environmental and climate change implications

None specific arising from the report agreed actions

**Signed off by:** Gemma Bell, Head of Finance (Deputy Section 151 Officer),  
[Gemma.Bell@cheltenham.gov.uk](mailto:Gemma.Bell@cheltenham.gov.uk)

### 1.5. Property/asset implications

There are no specific Property/Asset implications arising from the content of the report

**Signed off by:** Gemma Bell, Head of Finance (Deputy Section 151 Officer),  
[Gemma.Bell@cheltenham.gov.uk](mailto:Gemma.Bell@cheltenham.gov.uk)

### 1.6. Corporate policy framework implications

The Internal Audit Plan is aligned to our Corporate Priorities and provide assurance against the achievement of corporate policy.

**Signed off by:** Ann Wolstencroft, Head of Performance, Projects and Risk,  
[Ann.Wolstencroft@cheltenham.gov.uk](mailto:Ann.Wolstencroft@cheltenham.gov.uk)

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## 2. Promoting equality and reducing discrimination

No implications arising from the report agreed actions.

## 3. Performance management – monitoring and review

The performance of SWAP Internal Audit Services is monitored by both the Audit, Compliance and Governance Committee and the Audit Partnership Board as detailed in the Internal Audit Charter.

Regular monitoring reports are provided to this Committee and, in the interim period regular meetings are held between Internal Audit and the Executive Director of Finance, Assets and Regeneration. New and emerging risks are discussed, and the impact of the recommendations made by Internal Audit are discussed.

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## 4. Background

### Internal Audit Plan

- 4.1. The primary role of Internal Audit is to provide assurance that the Council's systems provide for a proper administration of its affairs. To this end, Internal Audit carries out a programme of audits that is agreed annually with the Council's Leadership Team and the Audit, Compliance and Governance Committee. The Internal Audit service is provided to the Council by SWAP Internal Audit Services (SWAP).
- 4.2. 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.

## 5. Reasons for recommendations

### Internal Audit Plan

- 5.1. A summary of the Proposed Internal Audit Plan for 2023/24 is included in Appendix 'A'. This lists the risk-based assurance and consultancy work planned for the year. Counter fraud related audit work has not been included in this audit plan.
- 5.2. The Plan outlines a programme of work for 2023/24 as developed throughout January and February 2023 but due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to internal audit planning recognises this through a strategic 12 month rolling plan, whereby we have prepared an agile, risk assessed work plan containing key areas of coverage. This approach will ensure we are auditing the right areas, with the correct scope, at the right time.
- 5.3. We will revisit and adjust our programme of work on at least a quarterly basis to ensure alignment with the changing risk profile of the organisation's operations, systems and controls and with regard to sector risks. The regular input of senior management, and the Executive Director of Finance, Assets and Regeneration and review of the Authority's risk register will be considered in this process.
- 5.4. The audit plan contains an element of contingency in order that the plan can remain flexible and respond to new and emerging risks as and when they are identified and may include unannounced activity.

## 6. Alternative options considered

- 6.1. None

## 7. Consultation and feedback

- 7.1. The plan has been developed following consultation with and feedback from Service Managers Team, Leadership Team, the Internal Audit Team and the Audit, Compliance and Governance Committee.

## 8. Key risks

- 8.1. That potential weaknesses within the control framework are not identified and threaten the Council's objectives to meet its corporate priorities.
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**Report author:**

Lucy Cater, Head of Internal Audit

Assistant Director, SWAP Internal Audit Services, [Lucy.Cater@swapaudit.co.uk](mailto:Lucy.Cater@swapaudit.co.uk)

**Appendices:**

Appendix A – Proposed Internal Audit Plan 2024/25



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# Cheltenham Borough Council

## Proposed Internal Audit Plan 2024/25

## Internal Audit Planning 2024/25

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2024/25 financial year.

### Introduction and Objective of the Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Senior Management Team and Audit, Compliance and Governance Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

## Internal Audit Planning 2024/25

The proposed 2024/25 plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives and risks as well as core areas of recommended coverage.

Internal audit is only one source of assurance and should be considered as such.

### Update to Approach

Due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to internal audit planning recognises this through a strategic 12 month rolling plan, whereby we have prepared an agile, risk assessed work plan containing key areas of coverage. This approach will ensure we are auditing the right areas, with the correct scope, at the right time.

We will revisit and adjust our programme of work on at least a quarterly basis to ensure alignment with the changing risk profile of the organisation's operations, systems and controls and with regard to sector risks. The regular input of Senior Management and review of the Authority's risk register will be considered in this process. Our 2023/24 audit plan will contain an element of contingency in order that the plan can remain flexible and respond to new and emerging risks as and when they are identified and may include unannounced activity.

The proposed audit plan at Appendix 1 provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit activity.

Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. Internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

## Internal Audit Planning 2024/25

Our documented risk assessment helps to ensure that sufficient and appropriate areas are identified for consideration in our internal audit programme of work.

As above, it is the responsibility of the Authority's Senior Leadership Team, and the Audit, Compliance and Governance Committee to ensure that, with consideration of our risk assessment, the overall programme of work throughout the year contains sufficient and appropriate coverage.

### Internal Audit Risk Assessment (updated)

Our 2023/24 internal audit programme of work is based on a documented risk assessment, which SWAP will revisit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register has been considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for Cheltenham Borough Council



*It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific Terms of Engagement for the piece of work, which includes the objective and scope for the review.*

Core Audit Areas – Areas of Coverage and Brief Scope	Directorate
<b>Core Financials – Publica Controls (where applicable) and Transactional Testing</b> <i>A review of the controls operating on behalf of the Council, by Publica,, in respect of the Core Financial systems:</i> <ul style="list-style-type: none"> <li>• Accounts Payable (Creditors)</li> <li>• Accounts Receivable (Debtors)</li> <li>• Bank Reconciliation</li> <li>• Procurement - suggested area to be agreed based on highest risk to organisations               <ul style="list-style-type: none"> <li>- Review to ensure procurement of new contracts is in accordance with the updated, and approved, strategy</li> <li>- Assessment of Compliance with Commercial Continuous Improvement Assessment Framework</li> </ul> </li> </ul> <i>A review of the controls operating within the Council</i> <ul style="list-style-type: none"> <li>• Treasury Management</li> <li>• Main Accounting – Assessment of Compliance with CIPFA Financial Management Code</li> </ul>	
<b>Human Resources</b> <ul style="list-style-type: none"> <li>• Payroll – suggested area to be agreed based on highest risk to organisation.</li> </ul> <b>Human Resources – suggested area to be agreed based on highest risk to organisation.</b>	
<b>Revenues and Benefits</b> <i>A review of the controls operating in respect of:</i> <ul style="list-style-type: none"> <li>• Council Tax</li> <li>• National Non-Domestic Rates</li> <li>• Housing Benefit and Council Tax Support</li> </ul> <i>Scope to be confirmed</i>	
<b>ICT Audits</b> <i>Audits to be discussed and confirmed with the Chief Technology Officer and ICT Audit and Compliance Manager</i>	
<b>Regulatory Services</b> <i>A review of either Licensing / Building Control / Environmental Health – suggested area to be agreed</i> <i>A review of an element of Planning e.g. application processing, appeals, income allocation.</i> <i>Area and scope to be confirmed</i>	

# Internal Audit Planning 2024/25

Proposed Audit Areas – Areas of Coverage and Brief Scope	Responsible Officer
<b>Business Grant Post Payment</b> <i>Head of IA working with CFEU Manager re. recovery of overpayment of grants, Bad Debt information to BEIS</i>	
<b>Counter Fraud and Enforcement Unit</b> <i>Review to include processes operated by CFEU, access to data, reporting and governance</i>	
<b>Emergency Planning</b> <i>Review to ensure processes are effective</i>	
<b>Data Protection</b> <i>Security of Data, training provision, reporting arrangements</i>	
<b>Data Retention</b> <i>Review the Council's data retention policies for accuracy and compliance.</i>	
<b>Risk Management</b> <i>Escalating Operational / Strategic Risks</i> <i>Review to assess how high scoring operational / strategic risks are included on the Council's Corporate Risk Register, to ensure Statutory Officers are aware of any potential risks to the Council and can suggest measures for mitigation</i>	
<b>Planning Performance Agreements</b> <i>Review control and transparency of Planning Performance Agreements</i>	
<b>Climate Change - Operational</b> <i>Review to assess what business areas are doing to support the Council's commitment to the Climate Emergency</i>	Can you confirm if you'd like these audits undertaken please
<b>Climate Change</b> <i>Assessment of the Council's commitment to Carbon Reduction targets / Climate Emergency</i>	""
<b>Carbon Reduction</b> <i>Review to assess how carbon data is measured ensuring the Council continues to meet its commitment to carbon reduction.</i>	""
<b>Biodiversity – Compliance for Councils</b> <i>Review to ensure the Council is meeting its obligations in respect of Biodiversity Legislation . Biodiversity Net Gain</i>	
<b>Environment Legislation</b> <i>Review to ensure procedure / systems have been updated to ensure compliance with Environment Act</i>	
<b>Members Allowances</b> <i>Treatment of VAT and appropriateness of Claims</i>	
<b>Public Meetings</b> <i>Policy / Procedure / Training / Safeguarding / Constitution updated re webcasting</i>	



## Internal Audit Planning 2024/25

<b>Performance Management</b> <i>Health check of Performance Data, review of data quality, validity etc to include Planning Service Data Reporting of Programmes and Projects</i>	
<b>Household Support Grants</b> <i>Ensure payments made from Government Funding have been allocated / spent in accordance with guidance (Foodbank / Baby Account)</i>	
<b>Leisure and Culture Facilities</b> <i>Review to determine how the Council ensures the leisure service provider(s) are adhering to statutory Health and Safety regulations. Review to include the examination of tests such as fixed wire testing, fire alarm systems and emergency lighting tests.</i>	
<b>Staff Welfare</b> <i>Assessment of the support in place for staff welfare, during world, national and local issues which may impact staff wellbeing. To Include training for members and officers, data collated from leaver exit interviews and how actioned, issues raised in one to ones (collated and actioned)</i>	<b>Audit requested by Katie Sandey, can you confirm this is okay please</b>
<b>Community Partnerships</b> <i>Richard Gibson Request for review at borough / district level</i>	
<b>Homelessness Loan Deposit Scheme</b> <i>Martin Stacy Request to be undertaken when Housing Options transferred over to CBC  Also wants to include process of maximising HB promotion / uptake so that cost to CBC is minimised</i>	
<b>Preparedness for the switch from Analogue to Digital in 2025</b> <i>Ensure preparedness of the Council for services the switch from analogue to digital will affect e.g. lifeline / careline service, lift telephones, fax machines etc</i>	
<b>Digital Discrimination</b> <i>Ensure all channels of communication are made available (for all services / consultations) to customers and stakeholders</i>	
<b>CBH (HR) Transition Project</b> <i>Time allocated to support the Transition of the CBH HR Service into CBC. Including review of policies and procedures. Work to be undertaken prior to TUPE</i>	<b>Ann W has asked for this audit</b>
<b>CBH Transition Programme</b> <i>Time allocated to support the CBH Transition into CBC</i>	
<b>Publica Transition Programme</b> <i>Time allocated to support the Publica Transition Programme and Workstreams</i>	<b>Not sure if CBC need anytime for this – please confirm</b>
<b>Programmes and Projects</b>	

## Internal Audit Planning 2024/25

<i>Time allocated to support Programmes and Projects – service areas may include Leisure and Waste</i>	
<b>Car Parking</b> <i>Scope to be agreed</i>	
<b>Proposed audits will be considered, during the year, and discussed with Heads of Service, Service Directors, CFO and / or CEO to confirm scope, timing and if it remains appropriate to undertake the audit. Liaison meetings will also identify any further areas (not included above) that would benefit from an Internal Audit Review. The Audit Plan will be updated, and agreed with the CFO as necessary</b>	
<b>Further requested assurance / advisory / support work</b>	
<b>Other Audit Involvement</b>	
<b>Management</b> <i>Preparation of IA Monitoring Reports and preparation and attendance at Audit, Compliance and Governance Committee. Annual Audit Planning. Attendance at Governance and Risk Groups. High level programme monitoring. Liaison meetings with CFO and Leadership Team. IA Team Liaison Meetings with Head of Service.</i> <b>Follow-Up Audits</b> <i>Follow-Up of Previous Year's Agreed Actions</i> <i>Follow-Up audit of all High Priority Agreed Actions</i> <b>Programmes and Projects</b> <i>IA support to programmes and projects as appropriate</i> <b>Grant Certification</b> <i>Review (income and expenditure) and certification of Grants received by the Council ensuring funding requirements have been met (to include Disabled Facilities Grants)</i> <b>Working with the Counter Fraud and Enforcement Unit</b> <i>Provision to ensure collaborative working with the CFEU and to ensure control weaknesses, identified during CFEU activity, are being actioned. Regular liaison meetings</i> <b>Contingency</b> <i>Provision for new work based on emerging risks and Investigations.</i>	





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## Cheltenham Borough Council

### Audit, Compliance and Governance Committee – 17 April 2024

#### Internal Audit Progress Report

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**Accountable member:**

Councillor Peter Jeffries, Cabinet Member for Finance and Assets

**Accountable officer:**

Paul Jones, Executive Director – Finance, Assets and Regeneration

**Accountable scrutiny committee:**

None

**Ward(s) affected:**

N/A

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**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 Service Leadership 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 attached reports and makes comment on its content as necessary**

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#### Implications

### 1.1. Financial implications

There are no financial implications arising from the report

**Signed off by:** Paul Jones, Deputy Chief Executive, Section 151 Officer  
[Paul.Jones@cheltenham.gov.uk](mailto:Paul.Jones@cheltenham.gov.uk)

### 1.2. Legal implications

There are no specific legal implications arising from the report and its recommendation.

Monitoring the implementation of Internal Audit recommendations assists the Council to minimise risk areas and thereby reduce the prospects of legal challenge.

**Signed off by:** One Legal, [legal.services@onelegal.org.uk](mailto:legal.services@onelegal.org.uk)

### 1.3. HR implications

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.

**Signed off by:** Clare Jones, HR Business Partner, [Clare.Jones@Cheltenham.gov.uk](mailto:Clare.Jones@Cheltenham.gov.uk)

### 1.4. Environmental and climate change implications

None specific arising from the report agreed actions

**Signed off by:** Gemma Bell, Head of Finance (Deputy Section 151 Officer),  
[Gemma.Bell@cheltenham.gov.uk](mailto:Gemma.Bell@cheltenham.gov.uk)

### 1.5. Property/asset implications

There are no specific Property/Asset implications arising from the content of the report

**Signed off by:** Gemma Bell, Head of Finance (Deputy Section 151 Officer),  
[Gemma.Bell@cheltenham.gov.uk](mailto:Gemma.Bell@cheltenham.gov.uk)

### 1.6. Corporate policy framework implications

The Internal Audit Plan is aligned to our Corporate Priorities and provide assurance against the achievement of corporate policy.

**Signed off by:** Ann Wolstencroft, Head of Performance, Projects and Risk,  
[Ann.Wolstencroft@cheltenham.gov.uk](mailto:Ann.Wolstencroft@cheltenham.gov.uk)

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## 2. Promoting equality and reducing discrimination

No implications arising from the report agreed actions.

### 3. Performance management – monitoring and review

Regular monitoring reports are provided to this Committee and, in the interim period regular meetings are held between Internal Audit and the Executive Director of Finance, Assets and Regeneration. New and emerging risks are discussed, and the impact of the recommendations made by Internal Audit are discussed.

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### 4. Background

- 4.1. The Audit Plan for 2023/24 was approved by this Committee in April 2023. 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 considered 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.
- 4.2. 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.
- 4.3. 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.

### 5. Reasons for recommendations

- 5.1. This report highlights the work completed by Internal Audit and provides comment on the assurances provided by this work.

### 6. Alternative options considered

- 6.1. None

### 7. Consultation and feedback

- 7.1. *None*

### 8. Key risks

- 8.1. That weaknesses within the control framework, identified by the Internal Audit Activity, continue to threaten organisational objectives, if agreed actions are not implemented.
- 

### Report author:

Lucy Cater, Head of Internal Audit

Assistant Director, SWAP Internal Audit Services, [Lucy.Cater@swapaudit.co.uk](mailto:Lucy.Cater@swapaudit.co.uk)

### Appendices:

## Page 30

Appendix A – Internal Audit Progress Report, April 2024

Appendix B – Open Agreed Actions and Summary of All Agreed Actions 2022/23 – 2023/24



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# Cheltenham Borough Council

## Report of Internal Audit Activity

April 2024

## Contents

The contacts at SWAP in connection with this report are:

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**Jaina Mistry**

Principal Auditor

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- Contents:

Internal Audit Definitions

Audit Plan Progress

Finalised Audit Assignments

## Internal Audit Definitions

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

<b>No</b>	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.
<b>Limited</b>	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.
<b>Reasonable</b>	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.
<b>Substantial</b>	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.

# Internal Audit Definitions

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 Plan Progress

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
Key Financial Control	Payroll	Final Report	High Substantial	0	-	-	-	Reported in September
Key Financial Control	Treasury Management and Cashflow Forecasting	Final Report	High Substantial	0	-	-	-	Reported in September
Governance	Business Continuity Management – Elections and Revenues and Benefits	Final Report	Medium Reasonable	2	-	2	-	Reported in September
Governance	Business Continuity Management – Corporate Reporting	Final Position Statement	N/A	-				Reported in September
Governance	Access to Information	Final Report	Medium Reasonable	4	-	2	2	Reported in January
Key Financial Control	Bank Reconciliation	Final Report	Low Substantial	1	-	-	1	Reported in January
ICT	ICT Business Continuity Management	Final Report	Low Substantial	2	-	1	1	Reported in January
Governance	Transparency Data	Final Report	Medium Reasonable	3	-	3	-	Reported in January
Key Financial Control	Revs and Bens – Council Tax and NNDR	Final Report	High Substantial	0	-	-	-	Reported in January
Key Financial Control	Revs and Bens – Council Tax Support and Housing Benefits	Final Report	High Substantial	0	-	-	-	Reported in January
Operational	Grant Income	Final Report	High Limited	4	-	3	1	Report Included
Key Financial Control	Use of Waivers	Final Report	Low Substantial	2	-	-	2	Report included

## Audit Plan Progress

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
Operational	Section 106 Agreements and Funds	Draft Report						
Operational	CIL	Draft Report						
Key Financial Control	Accounts Payable	Draft Report						
Governance	Audit Committee Effectiveness	Audit in Progress						
Key Financial Control	Appointment of Consultants and Contractors	Audit in Progress						
Operational	Government Grant Funding	Audit Ready						
Key Control	Human Resources	Audit Ready						
Governance	Projects – Lessons Learned	Audit Cancelled						Learnings from Minster Xchange project have informed projects and controls have been replicated across all projects.
Key Control	Payroll	Audit Deferred						
Operational	Accounts Payable – Qtly Review	In Progress						
Support	Business Grant Funding – Aged Debt	On-Going						Quarterly review of Business Grant Overpayment Aged Debts with Head of Service, Counter Fraud and Enforcement Unit for reporting to BEIS



## Audit Plan Progress

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
Advisory	Procurement and Commissioning Group	On-Going						
Follow-Up	Follow-Up of Agreed Actions (not included in an audit above)	On Going						
Other Audit Involvement	Working with the Counter Fraud and Enforcement Unit	On Going						
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 are the Internal Audit reports, of each audit review finalised,  
since the last Committee update



## Grant Income – Final Report – March 2024

### Audit Objective

To provide assurance that there are effective controls over the administration and management of the Council's grant income by Service Managers including communication with the Finance Service and allocation of grant income.

### Assurance Opinion



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.

### Number of Agreed Actions

Priority	Number
Priority 1	0
Priority 2	3
Priority 3	1
Total	4

### Risks Reviewed

The Council incorrectly awards and/or spends grant funding due to error, omission, fraud, or poor budgetary controls resulting in financial loss and reputation damage.

### Assessment

Medium

### Key Findings

	CBC do not have a policy/procedure for governing the administration and management of the Council's grants.
	Grant funding agreements are not always issued to grant recipients and the arrangements for reviewing the funding agreements are not always documented.
	There was no formal process for panel members to declare conflict of interests before they are involved in the assessment, evaluation and decision making to award grants. There was not always segregation of duties between the staff involved in the grant evaluation and award process and those involved in approving grants for payment. The grant assessment process does not include the requirement to undertake due diligence on the governance and financial viability of potential recipients of grants.
	There was a lack of clarity to record third-party grant spends to voluntary, communities, social enterprise organisations "VCSE" on CBC's Grants to VCSE Organisations annual published register.

### Audit Scope

We will focus on reviewing controls in the following areas:

- Policies and procedures that govern the administration and management of the Council 's grant income.
- Process for allocating and administering grant income to third parties that includes due diligence, decision-making processes.
- Controls over grant expenditure to ensure it is in accordance with the grant terms and conditions.
- The accountability and oversight of grant income and expenditure.

### Conclusion

A "limited" audit opinion has been provided. During our audit testing no grant funding error or fraud was identified. We found 4 improvements to strengthen the existing controls that are in place to administer and manage the CBC's grant income and key findings contributing to the assurance are detailed above. Areas of good practice identified within this audit are detailed as follows:

- The Council approved that third-party grant priorities were aligned to its strategic objectives/priorities.
- Cheltenham Health & Wellbeing "HWB" grant eligibility and evaluation criteria was defined. There was a process in place for allocating, evaluating and awarding HWB grants to third parties and there was a record of the decisions made.
- Regular performance reports were provided to Cheltenham Integrated Locality Partnership on the HWB grant's activity and financial performance.
- The Household Support Fund grant's performance outcomes were defined and an annual report was provided to CBC Cabinet on progress against the grant outcomes.
- There was an annual meeting with Finance to discuss grant income and expenditure performance.

## Use of Waivers – Final Report – November 2023

### Audit Objective

An audit review to assess if requests for waivers from procurement procedures are compliant with the Council's Financial rules, and procurement policies and procedures. It will also seek assurance that they are given proper oversight, documentation is retained and that they are authorised appropriately.

### Executive Summary



#### 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.

#### Management Actions

Priority 1	0
Priority 2	0
Priority 3	2
<b>Total</b>	<b>0</b>

#### Organisational Risk Assessment

Low

Failure to comply with procurement policy leads to increased cost of contracts, reduced quality of contractors and an increased risk of procurement fraud.

### Key Conclusions



To ensure the Waiver Register can be updated in a timely manner and to mitigate against any waivers being missed, the Contract Waiver Report Templates should be updated to state a copy of all approved waivers must be sent to Procurement.

Most of the Officers we spoke to had a good awareness of procurement rules, but said they would appreciate refresher training on the use of waivers. The Senior Procurement Business Partner advised training will be delivered on the new Procurement Strategy in 2024, and the use of waivers will be included.



CBC Officers attend the Publica Procurement and Commissioning Group monthly to review the pipeline and forward plan and discuss any supply chain and framework updates.

During fieldwork approval evidence was supplied for all waivers in our sample.

### Audit Scope

A review of the Waiver process was undertaken (November 2023) and controls were reviewed in the below areas;

- Processes for requesting and approving waivers.
- Staff awareness.
- Document retention.
- Process oversight.

Discussions were held with the Senior Procurement Business Partner, and a sample of Officers who had a waiver approved during the period reviewed (01/01/2023 – 08/11/2023).

A random sample were selected to ensure waivers followed the prescribed process. Waivers that are requested but not approved are not recorded.

### Other Relevant Information

The total number of waivers approved at CBC during the test period reviewed were 13, with a total cost of £667.6K. The criterion for granting waivers is stated in the Council's Contract Rules, which are being complied with. We accept urgent works require waivers to be used, but making better use of the Procurement and Commissioning Group meetings should help to reduce the number of waivers being requested.

2 actions have been agreed with Publica to address the findings.

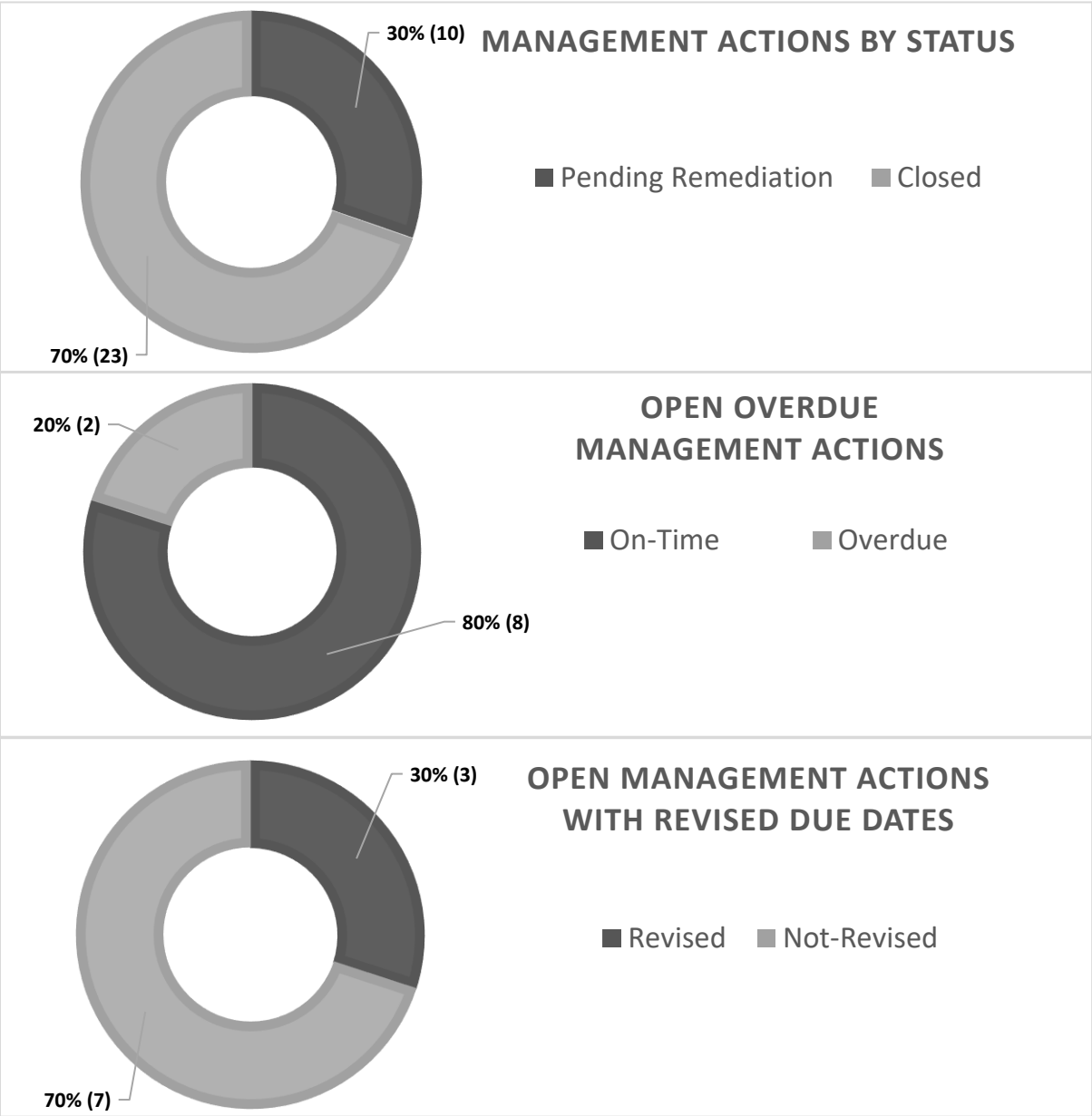


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OPEN AGREED ACTIONS - 1ST APRIL 2024											
AP ID	ID	Audit Title	Issue Title	Issue Status	Period	Priority Score	AP Status	Timescale	Revised Timescale	Revised Timescale 2	Follow-Up Assessment
424	382	CBC - Planning Enforcement - 2020/21	The Built Environment Local Enforcement Plan (Planning) has not been recently reviewed (Pentana 44647)	Pending Remediation	2020/21	3	In Progress	31/07/2021	30/04/2022	31/12/2023	AM 17.11.23: Officers have advised that the draft policy is being reviewed and there will need to be engagement with members before implementation. It will be included with the forward plan for Cabinet but approval is likely to be after the May 2024 elections.
2992	2794	CBC - Access to Information - 2023/24	Retention of Personal Data does not comply with the Council's Privacy Statement	Pending Remediation	2023/24	2	In Progress	31/10/2023	31/03/2024	--	The Customer Relations and Information Officer advised this has been partially implemented. She confirmed the review of the FOI spreadsheet has been completed, and the new digital platform for FOI will automatically delete anything older when the system is brought in.
3100	2898	CBC - Bank Reconciliation - 2023/24	Review of Suspense Accounts	Pending Remediation	2023/24	3	In Progress	31/03/2024	--	--	
3164	2958	PUB - ICT Business Continuity/Disaster Recovery 2023/24	Documentation Updates	Pending Remediation	2023/24	3	In Progress	31/03/2024	30/06/2024	--	CTO requested timescale extension due to other work taking priority.
3175	2968	PUB - ICT Business Continuity/Disaster Recovery 2023/24	ICT and Emergency Planning Formal Engagement and Alignment	Pending Remediation	2023/24	2	In Progress	31/03/2024	30/06/2024	--	CTO requested timescale extension due to other work taking priority.
3536	3313	PUB - Use of Waivers - 2023/24	Contract Waiver Report Templates	Pending Remediation	2023/24	3	In Progress	31/12/2024	--	--	
3537	3314	PUB - Use of Waivers - 2023/24	Use of Waivers Training	Pending Remediation	2023/24	3	In Progress	31/12/2024	--	--	
4186	3925	CBC - Grant Income - 2023/24	Policies and Procedures	Pending Remediation	2023/24	2	In Progress	30/09/2024	--	--	
4187	3926	CBC - Grant Income - 2023/24	Grant funding terms and conditions	Pending Remediation	2023/24	2	In Progress	30/09/2024	--	--	
4188	3927	CBC - Grant Income - 2023/24	Assessment and awarding grants	Pending Remediation	2023/24	2	In Progress	30/09/2024	--	--	
4189	3928	CBC - Grant Income - 2023/24	Reporting and Transparency	Pending Remediation	2023/24	3	In Progress	30/09/2024	--	--	

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Summary of All Internal Audit Agreed Actions 2022/23 – 2023/24



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## **Cheltenham Borough Council**

### **Audit, Compliance and Governance Committee**

**17 April 2024**

### **Counter Fraud and Enforcement Unit Report**

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**Accountable member:**

Cabinet Member Finance and Assets, Councillor Peter Jeffries

**Accountable officer:**

Paul Jones, Deputy Chief Executive (S151 Officer)

**Ward(s) affected:**

All indirectly

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**Key Decision:** No

**Executive summary:**

The purpose of the report is to provide the Audit, Compliance and Governance Committee with assurance over the counter fraud activities of the Council. Direct updates will continue to be provided biannually.

Work plans are presented detailing progress and results for consideration and comment as the body charged with governance in this area.

The report also provides the annual update in relation to the Regulation of Investigatory Powers Act 2000 (RIPA), the Investigatory Powers Act 2016 (IPA) and the Council's existing authorisation arrangements.

## **Recommendations:**

### **That the Audit, Compliance and Governance Committee:**

**Considers the report and work plan at Appendix 2 and makes comment as necessary.**

---

## **1. Implications**

### **1.1. Financial, Property and Asset implications**

The report details financial savings generated by the Counter Fraud and Enforcement Unit.

**Signed off by:** Gemma Bell, Director of Finance and Assets (Deputy S151 Officer),  
[Gemma.Bell@cheltenham.gov.uk](mailto:Gemma.Bell@cheltenham.gov.uk)

### **1.2. Legal implications**

In general terms, the existence and application of an effective fraud risk management regime assists the Council in effective financial governance which is less susceptible to legal challenge.

The Authority is required to ensure that it complies with the Regulation of Investigatory Powers Act 2000, the Investigatory Powers Act 2016 and any other relevant/statutory legislation regarding investigations. Any authorisations for directed/covert surveillance or the acquisition of communications data undertaken should be recorded appropriately in the Central Register.

**Signed off by:** One Legal, [legalservices@onelegal.org](mailto:legalservices@onelegal.org)

### **1.3. Environmental and climate change implications**

Not applicable.

### **1.4. Corporate Plan Priorities**

This report contributes to the following Corporate Plan Priorities:

- Being a more modern, efficient and financially sustainable council

### **1.5. Equality, Diversity and Inclusion Implications**

The promotion of effective counter fraud controls and a zero tolerance approach to internal misconduct promotes a positive work environment.

The CFEU seeks to ensure that public authorities' actions are consistent with the Human Rights Act 1998 (HRA). It balances safeguarding the rights of the individual against the needs of society as a whole to be protected from crime and other public safety risks.

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## 2. Background

- 2.1. In administering its responsibilities the Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or a Councillor.
- 2.2. The Council is committed to an effective counter fraud and corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities, thus supporting corporate priorities and community plans.
- 2.3. The Audit, Compliance and Governance Committee oversees the Council's counter fraud arrangements and it is therefore appropriate for the Committee to be updated in relation to counter fraud activity.
- 2.4. Work plans have been agreed with the Director of Finance and Assets, the Monitoring Officer and members of the Councils Corporate Management. The Committee, as the body charged with governance in this area, is presented with a copy of the work plan for information.
- 2.5. Attached at Appendix 2 is a copy of the work plan for 2023/24.
- 2.6. The work plan for 2024/25 is being finalised but will include a focus on fraud risk mitigation regarding grant schemes and polygamous working as high-risk areas. This work will include both prevention and detection activities.

## 3. Reasons for recommendations

- 3.1. **Counter Fraud and Enforcement Unit Update**
- 3.2. The CFEU Head of Service forms part of the core Multi-Agency Approach to Fraud (MAAF) group. The core group consists of attendees from Gloucestershire Constabulary Economic Crime Team, Trading Standards, Victim Support, NHS and colleagues from Gloucester City and County Councils. The MAAF has been set up to discuss fraud trends, victim care and communication of fraud scams across Gloucestershire. Through collaborative working the main purpose is to raise awareness to minimise and disrupt fraud. The CFEU Head of Service has also joined the Thames Valley MAAF Group, representing West Oxfordshire District Council.
- 3.3. It has been agreed that the Gloucestershire MAAF will have a dedicated webpage. This would be serviced through the ICT team at Tewkesbury Borough Council, funding has been requested from the Office of the Police and Crime Commissioner to support this. The website is an opportunity to put in place a communication medium that will be accessible to residents and staff in the county and beyond. This dedicated webpage will enable the group to shape fraud related messaging and offer guidance, advice on fraud and signpost people to the support that is available. The site will enable the group to educate our communities on the changing threat and to provide success stories and testimonials in order to reduce the stigma and increase reporting.
- 3.4. In relation to the Business Grant Schemes, as previously reported, the focus now relates to debt; recovery, reconciliation and transfer to the Department for Business and Trade (DBT). Cheltenham Borough Council have three debts to which this applies, details have been sent to

BT, confirmation is pending. This work continues with an extended deadline of 31 December 2024.

- 3.5. All Local Authorities participate in the Cabinet Office's National Fraud Initiative, which is a data matching exercise to help prevent and detect fraud nationwide. The use of data by the Cabinet Office in a data matching exercise is carried out with statutory authority under Part 6 of the Local Audit and Accountability Act 2014. It does not require the consent of the individuals concerned under Data Protection Legislation.
- The team have reviewed the 979 Council Tax Single Person Discount matches relating to the 2022/2023 data sets. 122 enquiry letters were issued to residents requesting further information. 37 accounts have been amended resulting in increased Council Tax revenue of £18,433. No Civil Penalties were applied.
  - 484 further matches have been received relating to Council Tax Reduction Scheme, Housing Benefit, tenancy, housing applications and internal data anomalies. 336 have been reviewed to date with 20 referrals being issued to the Department for Work and Pensions.
  - 1,461 matches have been received in relation to the 2023/24 data sets. These relate to Council Tax discrepancies, the team have almost completed the review are underway. Results will be reported to Audit, Compliance and Governance Committee.
- 3.6. In addition to the review of single person discount anomalies identified by the NFI exercise, the CFEU and the Revenues Team are undertaking additional proactive work to review those households with a discount applied. Since 1 April 2023, 1,913 individual households have been contacted by email and 735 have been contacted by post to confirm occupation details. The team are now undertaking verification activity on a further 730 households to confirm eligibility for a discount. A report will then be collated regarding results and information detailing the most effective method of review.
- 3.7. As previously reported results were received in relation to a review of the Housing Waiting List which was undertaken during 2022/23. This included verification of applications within Emergency Band (49 applications), Gold Band (59 applications) and Silver Band (521 applications). Results detailed that 30 applications were removed and 8 applications were downgraded representing a figure of £128,940 in loss avoidance. Each cancelled housing application represents a property which can be reallocated to another eligible family. The National Fraud Initiative applies a figure of £4,283 for each application removed, to represent the value of future losses prevented as a result of removing an applicant. This represents a saving on the cost of temporary accommodation. In addition, the result of the band re-prioritisation is that those families who are correctly banded have a greater chance of being housed and housed more speedily.
- 3.8. In addition to the work carried out under the annual work plan attached at Appendix 2, as a dedicated investigatory support service, the CFEU undertakes a wide range of enforcement work according to the requirements of each Council. This includes criminal investigation and prosecution support for enforcement teams, investigations into staff/member fraud and corruption, or tenancy and housing fraud investigation work.

3.9. 2023/24:

- The team received 49 referrals from across the Council and closed 49 cases. This excludes any Council Tax Reduction Scheme referrals.
- Work undertaken with the Public Protection Team resulted in the successful prosecution of an individual for offences relating to the Protection from Eviction Act 1977. The individual was found guilty at trial, received a Fine for £210, and was ordered to pay £7,540.60 in costs.
- The CFEU undertakes the investigation of alleged fraud and abuse in relation to the Council Tax Reduction Scheme (Council Tax Support) and act as the single point of contact for Department for Work and Pensions (DWP) Housing Benefit investigations. 44 referrals were received and 40 cases were closed.
- Increased Council Tax revenue of £19,519 has been raised. 3 Criminal Penalties and 4 Civil Penalties totalling £2,364 were applied. In addition an individual pleaded guilty to offences relating to the Council Tax Reduction Scheme. The individual received a Fine of £108 and was ordered to pay £85 costs.

3.10. Work with Cheltenham Borough Homes 2023/24:

- 351 referrals received requesting checks for homelessness, right to buy, succession or housing applications. In relation to right to buy applications, additional checks have been introduced to ensure that any resultant benefit issues are addressed.
- 17 referrals received relating to housing and tenancy fraud such as abandonment, illegal succession, subletting, false housing applications, right to buy fraud.
- 4 cases received for debt tracing.

3.11. As a result of investigations, 3 Abandoned Properties were recovered and a Right to Buy Application was withdrawn representing £168,000 in loss avoidance.

3.12. The Fraud Advisory Panel, Charity Commission, Tenancy Fraud Forum and others have produced a new method using a standard formula to arrive at an average national cost to the taxpayer per detected tenancy fraud of £42,000.

3.13. **Regulation of Investigatory Powers Act 2000 (RIPA) / Investigatory Powers Act 2016 (IPA)**

3.14. The Council's policies are based on the legislative requirements of these Acts and supporting guidance relating to directed surveillance and the acquisition of communications data.

3.15. The Policies were reviewed and presented to the Audit, Compliance and Governance Committee in January 2020; these were adopted by Cabinet in February 2020. The Use of the Internet and Social Media in Investigations and Enforcement Policy was presented to Audit, Compliance and Governance Committee in September 2021 and adopted by Cabinet in November 2021.

3.16. The Policies were to be reviewed within the CFEU work plan during 2023/24 and this was undertaken by the Investigatory Powers Commissioner's Office (IPCO). The Policies were fully endorsed with a request to remove any reference to the OSC Procedures and Guidance

document as it has been removed from circulation. This has been done. It is not therefore proposed that the Policies will be presented to Members for approval following the review, but copies can be found on the Council's website. There have been no subsequent amendments to date.

- 3.17. The Council must have a Senior Responsible Officer and Authorising Officers to approve any applications for surveillance or the use of a Covert Human Intelligence Source, before the Court is approached. The Senior Responsible Officer is the Chief Executive, Gareth Edmundson and the Authorising Officers are the Monitoring Officer, Claire Hughes and the Head of Public Protection, Louis Krog.
- 3.18. All applications for communications data are made online via the National Anti-Fraud Network (NAFN) which acts as the single point of contact for Councils. There is a requirement for the Council to nominate a Designated Senior Officer who will confirm to NAFN that the Council is aware of any request and approves its submission. This role is undertaken by the Counter Fraud and Enforcement Unit.
- 3.19. The Investigatory Powers Commissioner's Office and the Office for Communications Data Authorisations are the overseeing bodies of this activity. The two organisations are merging to improve efficiency whilst protecting the independent decision making of each. The merged organisation will remain under the name IPCO.
- 3.20. The Investigatory Powers (Amendment) Bill looks to make changes to the IPA following a review of the original Act in light of technological changes and evolving threats. A summary of any changes that impact the Council's activities will be provided as the matter progresses.
- 3.21. In May 2023, the Council was notified of its usual three-yearly inspection by IPCO, regarding its compliance with the legislation. The last inspection took place in August 2020. The inspection was completed by the CFEU remotely and the report confirmed full compliance. The next inspection is due in 2026.
- 3.22. The CFEU has developed a summary and guidance document for all enforcement staff, this will be issued with a reminder to book refresher training with the CFEU. A copy will be issued to all Members for information and reference.
- 3.23. There have been no RIPA applications made by the Council during 2023/24 and no applications were made for communications data. There has been 4 Non-RIPA applications made during 2023/24 concerning overt activity.
- 3.24. The Council takes responsibility for ensuring its procedures relating to surveillance and the acquisition of communications data are continuously improved and all activity is recorded.

#### **4. Alternative options considered**

- 4.1. None.

## 5. Consultation and feedback

- 5.1. Work plans are agreed and reviewed regularly with the Director of Finance and Assets and the Monitoring Officer.
- 5.2. Any Policies drafted or revised by the Counter Fraud and Enforcement Unit have been reviewed by One Legal and have been issued to the relevant Senior Officers, Governance Group and Executive Leadership Team for comment.

## 6. Key risks

- 6.1. The Council is required to proactively tackle fraudulent activity in relation to the abuse of public funds.
- 6.2. Failure to undertake such activity would accordingly not be compliant and expose the authority to greater risk of fraud and/or corruption. If the Council does not have effective counter fraud and corruption controls it risks both assets and reputation.
- 6.3. The RIPA and IPA Policies demonstrate the Council's consideration of necessity, proportionality and public interest when deciding on surveillance activity or the decision to obtain personal communication data. The application of the Policies and Procedures, to govern surveillance and the obtaining of personal communications data, minimises the risk that an individual's human rights will be breached. Furthermore, it protects the Council from allegations of the same.

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### Report author:

Emma Cathcart, Head of Service Counter Fraud and Enforcement Unit,  
[Emma.Cathcart@cotswold.gov.uk](mailto:Emma.Cathcart@cotswold.gov.uk)

### Appendices:

- i. Risk Assessment
- ii. Work Plan 2023/2024

### Background information:

N/A.

**Appendix 1: Risk Assessment**

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
1	The authority suffers material loss and reputational damage due to fraud	Executive Director Finance and Assets	3	3	9	Reduce	Maintain a Counter Fraud Team to reduce the likelihood of the risk materialising and also to help recover losses, thus reducing the impact.	Head of Service, Counter Fraud and Enforcement Unit	Ongoing
2	Without dedicated specialist staff in place, the Council may be unable to take effective and efficient measures to counter fraud, potentially resulting in authority suffering material losses due to fraud and error	Executive Director Finance and Assets	3	4	12	Reduce	Retain a specialist Counter Fraud Unit to tackle the misuse of public funds on behalf of the Council.	Head of Service, Counter Fraud and Enforcement Unit	Ongoing



Area of Work	Task	Detail
Bribery and Corruption	Assessment Template Review	2024/25 work plan
Governance	Delivery of two reports for Audit, Compliance and Governance Committee	April / September
Governance	Fighting Fraud & Corruption Locally - Checklist Compliance	Draft Completed, to be presented to Governance Group
Governance	Government Functional Standard 013: Counter Fraud - Compliance	Draft Completed, to be presented to Governance Group
Governance	Fraud Risk Strategy / Response Plan	Presented to Audit, Compliance and Governance Committee September 2022 - next review 2025
Governance	Development of Service Specific Fraud Risk Registers	Revenues, Benefits, HR and Procurement to be finalised 2024/25
Policy	Counter Fraud and Anti-Corruption Policy	Reviewed and Approved by Audit, Compliance and Governance Committee September 2022 / Cabinet December 2022 - next review 2025/26
Policy	Corporate Enforcement Policy	Reviewed and Approved by Cabinet September 2019 - Next Review 2022: Commenced
Policy	CTAX, CTRS & HB Penalty and Prosecution Policy	Reviewed and Approved by Audit, Compliance and Governance Committee September 2023 / Cabinet November 2023 – next review 2026/27
Policy	Proceeds of Crime & Anti-Money Laundering Policy	Reviewed and Approved by Audit, Compliance and Governance Committee April 2021 - next review 2024/25
Policy	Whistle-Blowing Policy	Reviewed and Approved by Audit, Compliance and Governance Committee April 2022 - next review 2025/26

Area of Work	Task	Detail
Policy	RIPA (Surveillance & CHIS)	Reviewed and Approved by Audit, Compliance and Governance Committee January 2020 / Cabinet February 2020 - reviewed 2023/24 / next review 2026/27
Policy	IPA (Acquisition of Communications Data)	Reviewed and Approved by Audit and Governance Committee January 2020 / Cabinet February 2020 - reviewed 2023/24 / next review 2026/27
Policy	Use of the Internet and Social Media in Investigations and Enforcement	Reviewed and Approved by Audit, Compliance and Governance Committee September 2021 / Cabinet November 2021 - reviewed 2023/24 / next review 2026/27
Procedure	Development and roll out of Proceeds of Crime and Money Laundering Procedure	2024/25 work plan
Procedure	Development and roll out of Use of the Internet and Social Media in Investigations and Enforcement Procedure	2024/25 work plan
Serious and Organised Crime	Checklist / Risks	To be included within the Fraud Risk Registers
Serious and Organised Crime	Proactive Fraud Drive - Transient / Cash Businesses	2024/25 work plan
Statutory / Regulatory	Collation and Publication of Fraud Transparency Data	Complete - Published May
Statutory / Regulatory	RIPA / IPA - Annual Report to Members / Advisory / Inspection SPoC	Annual updates completed April. Inspection complete, next inspection 2026.
Strategy : Detection	Housing Waiting List review	2022/23 Emergency 49 reviewed / 9 discrepancies referred / 1 removal 2022/23 Gold 59 reviewed / 22 discrepancies referred / 6 removals / 2 downgraded 2022/2023 Silver 521 reviewed / 128 discrepancies referred / 23 removals / 6 downgraded Loss Avoidance = <b>£128,490</b>

Area of Work	Task	Detail
Strategy : Detection	National Fraud Initiative Match Reviews - Revenues / Benefits	See report
Strategy : Detection	National Fraud Initiative Match Reviews - Housing	See report
Strategy : Detection	National Fraud Initiative Match Reviews - Payroll	See report
Strategy : Detection	Test and Trace - Assurance and Enforcement Activities (sample 10%)	50 reviewed = 47 NFA / 3 Recoveries = <b>£1,500</b>
Strategy : Detection	Business Grants - Assurance and Enforcement Activities	Debt recovery and transfer
Strategy : Detection	SMI Review (sample 20)	Commenced - 2024/25 work plan
Strategy : Detection	Business Rates Review Self Catering Accommodation - Assurance and Enforcement Activities	Pending guidance / regulations
Strategy : Detection	Procurement Proactive Fraud Drive - Supplier Payment Review	Commenced - 2024/25 work plan
Strategy : Detection	Business Rates Proactive Fraud Drive - Small Business Rates Relief	2024/25 work plan

Strategy : Detection	Proactive Fraud Drive - Single Person Discount Households	See report
Strategy : Prevention	Development of Fraud Awareness Literature (staff)	Complete - to be issued to staff
Strategy : Prevention	Development of Right to Buy Debt Recovery Process	2024/25 work plan
<b>Area of Work</b>	<b>Task</b>	<b>Detail</b>
Strategy : Prevention	MAAF Support / Work Streams	Member Awareness Session 17 May 2023 / Staff Awareness Session 2 August 2023
Strategy : Prevention	Training Members / Staff - Fraud Awareness / RIPA & IPA / Criminal Enforcement CPIA, PACE, Disclosure Training / Money Laundering	As required

RIPA = Regulation of Investigatory Powers Act 2000

IPA = Investigatory Powers Act 2016

CPIA = Criminal Procedure and Investigations Act 1996

PACE = Police and Criminal Evidence Act 1984

## Cheltenham Borough Council

### Audit, Compliance and Governance Committee

17 April 2024

### Review of Draft Accounting Policies 2023/24

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**Accountable member:**

Councillor Peter Jeffries, Cabinet Member for Finance and Assets

**Accountable officer:**

Gemma Bell, Director of Finance and Assets (Deputy s151 Officer)

**Ward(s) affected:**

All

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**Key Decision:** No

**Executive summary:**

To update Members on the Council's draft accounting policies which will be included in the 2023/24 Statement of Accounts, providing Members with the opportunity to review these policies before the unaudited accounts are published on 31 May 2024.

**Recommendations:**

- That the committee notes the content of these draft accounting policies and make any comments as necessary.
- 

#### 1. Implications

##### 1.1 Financial, Property and Asset implications

As detailed throughout this report.

**Contact officer:** Gemma Bell, [gemma.bell@cheltenham.gov.uk](mailto:gemma.bell@cheltenham.gov.uk), 01242 264124

## 1.2 Legal implications

None specific directly arising from the report.

**Contact officer: One Legal – [legalservices@onelegal.org.uk](mailto:legalservices@onelegal.org.uk) 01684 272012**

## 1.3 HR implications (including learning and organisational development)

None arising directly from this report.

**Contact officer: Julie McCarthy, [julie.mccarthy@cheltenham.gov.uk](mailto:julie.mccarthy@cheltenham.gov.uk) 01242 264355**

## 1.4 Key Risks

None.

## 1.5 Corporate and community plan Implications

None.

## 1.6 Environmental and climate change implications

None.

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# 1. Background

- 1.1 The Committee is requested to review the Council's accounting policies, as included in the statement of accounts, on an annual basis. The Council's auditors have previously recommended that this review is done prior to the review and sign-off of the Council's final audited statement of accounts. This is to aid the Committee's understanding of the policies in place and their application in the statement of accounts.
- 1.2 This report therefore includes the draft accounting policies included in the draft statement of accounts. It should be noted that the DLUHC timetable for the publication of unaudited Statement of Accounts has been brought back to 31 May for 2023/24.
- 1.3 The deadline for publishing final audited accounts is currently proposed as 31 May 2024 however this is subject to ongoing consultation. The final accounting policies will be reviewed again by the Committee when the audited accounts are presented for approval. It should be noted that the Council's Statement of Account for 2022/23 has still not been audited and the outcome of the consultation and decisions by Grant Thornton will determine whether this will be the final outcome for the accounting period.
- 1.4 This means additional preparation and audit work will need to be undertaken to assure the prior year balances disclosed in the 2023/24 Statement of Accounts and the final impact on the 2023/24 accounts is still not fully understood.

# 2. Accounting Policies

- 2.1 The Statement of Accounts are prepared in accordance with proper accounting practices and regulations by following the CIPFA Code of Practice on Local Government Accounting ('The Code'), supported by International Financial Reporting Standards

(IFRS's) and International Accounting Standards (IAS's).

- 2.2** The Council's accounting policies outline the relevant accounting principles and methodologies adopted by the Council, in order to meet these statutory requirements. They can be used to aid understanding of the statements as well as providing a comparison to other organisations. Any changes to accounting policies from previous financial years are disclosed as a separate note to the accounts.
- 2.3** The accounting policies have been reviewed in 2023/24 to ensure they are up to date and relevant to the statements, a copy of which is included as Appendix A to this report.

### **3. Changes to accounting policies for 2023/24**

- 3.1** There are no material changes to the accounting policies in 2023/24.
- 3.2** 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 will be introduced in the 2024/25 Code and apply from 1 April 2024:
- IFRS 16 Leases
- 3.3** 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 finance lease liabilities or material operating leases (as disclosed in note 23 of the Statement of Accounts on the Council as Lessee and the HRA accounts).

### **4. Conclusion**

- 4.1** It should be noted that the draft accounting policies may be updated as part of the final audited Statement of Accounts. The Committee will have the opportunity to review the final version as part of the approval of the audited Statement of Accounts for 2023/24.

#### **Report author:**

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#### **Appendices:**

Appendix 1 - Draft Accounting Policies 2023/24

#### **Background information:**

Code of Practice on Local Authority Accounting in the UK 2023/24 Accounts





## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

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#### 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 (as amended), 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 2021/22 (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 of the effective interest rate for the relevant financial instrument rather than the cash flows

fixed or determined by the contract.

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- All income and expenditure is credited and charged to the Comprehensive Income and Expenditure Statement, unless it comprises capital receipts or capital expenditure.

### **Going Concern**

The accounts are prepared on the assumption that the council will continue its operations for the foreseeable future. This means in particular that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to significantly curtail the scale of operations.

### **Primacy of legislative requirements**

The council derives its powers from statute and its financial and accounting framework is closely controlled by primary and secondary legislation. Where legislative requirements and accounting principles conflict, legislative requirements take precedence.

## **1.3 EMPLOYEE BENEFITS**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within twelve months of the year-end. They include such benefits as salaries and wages, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the 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.

### **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 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**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the authority when there is reasonable assurance that:

- the authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income and expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

### **Community infrastructure levy**

The authority has elected to charge a community infrastructure levy (CIL). The levy is charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. The CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used 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 AND NON-DOMESTIC RATES RECOGNITION

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the collection fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the collection fund, billing authorities, major preceptors and central government (for NDR) share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### Accounting for council tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the collection fund adjustment account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

## 1.7 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.

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

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

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

The initial cost of an asset is recognised to be:

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

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

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

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

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

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

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

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and that are expected to be used during more than one financial year are classified as property, plant and equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### **Measurement**

PPE assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. The council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the authority.

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)

- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

## **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

## **Depreciation**

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain community assets) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 40 years.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

## 1.10 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.

#### **1.11 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

#### **1.12 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.

#### **1.13 NON-CURRENT ASSETS – DISPOSALS AND ASSETS HELD FOR SALE**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets are classified as held for sale where the asset is available for immediate sale in its present condition and where the sale is highly probable i.e. the asset has been advertised for sale and a buyer sought and the completion of the sale is expected within twelve months of the

balance sheet date. Dwellings sold under Right to Buy are deemed to become surplus on the day that the transfer to the tenant takes place (completion of the sale), and are therefore considered operational until they are sold.

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

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

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets (Property, Plant and Equipment, Investment or Heritage assets) and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale), and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of, or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment, Heritage or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are written off to the Capital Adjustment Account.

Amounts received from a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to Housing Revenue Account (HRA) disposals, as specified by statutory regulations, is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement of Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Such amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### **1.14 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.

### 1.15 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.

### 1.16 LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

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

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### **The authority as lessee**

##### Finance leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the capital adjustment account in the Movement in Reserves Statement for the difference between the two.

#### Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

#### **The authority as lessor**

##### Finance leases

Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement 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 in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the deferred capital receipts reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

#### Operating leases

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and

arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **1.17 FINANCIAL INSTRUMENTS**

### Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund balance to be spread over future years. The authority 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. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund balance is managed by a transfer to or from the financial instrument adjustment account in the Movement in Reserves Statement.

### Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The authority holds financial assets measured at:

- amortised cost, and
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

#### **Financial assets at amortised cost**

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the authority has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the financing and investment income and expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund balance is managed by a transfer to or from the financial instrument adjustment account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of a financial asset are credited or debited to the financing and investment income and expenditure line in the CIES.

### **Expected credit loss model**

The authority recognises expected credit losses on all of its financial assets held at amortised cost or where relevant FVOCI, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

### **Fair value through OCI**

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

### **Fair value through P&L**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the surplus or deficit on the provision of services.

## **1.18 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.

#### **1.19 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.

#### **1.20 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.

#### **1.21 PROVISIONS**

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing or amount of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the council becomes aware of the event, based on its best estimate of the likely settlement. When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

#### **1.22 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.

### **1.23 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.

### **1.24 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.

### **1.25 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.

### **1.26 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.



## **1.27 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.

## **1.28 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.

## **1.29 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 inter-organisation transactions and balances.

At 31 March 2022 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 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.

<b>ANNUAL ITEMS</b> (standing items to be added to the work plan each year)	
<b>April</b>	
?Audit progress report and sector updates	Bishop Fleming
?External audit plan (for the current year)	Bishop Fleming
Annual plan (for the upcoming year)	Internal Audit
Internal audit monitoring report	Internal Audit
Counter Fraud Unit report (inc. RIPA / IPA update)	Counter Fraud and Enforcement Unit
Annual review of Code of Corporate Governance and Local Code of Corporate Governance (if CIPFA guidance has changed)	Claire Hughes
Annual Review of Draft Accounting Policies	Gemma Bell
IT Security update EXEMPT	John Chorlton/Tony Oladejo
<b>July</b>	
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	Beth Cordingley
Review of Risk Register	Ann Wolstencroft
Annual Governance Statement and Local Code of Corporate Governance	Claire Hughes
Annual Governance Statement	Claire Hughes
Corporate Risk Update (h/o from April)	Ann Wolstencroft
<b>September</b>	
Audit Findings Report - ISA260 – for previous year	Grant Thornton
Internal audit monitoring report	Internal Audit
Counter Fraud and Enforcement Unit update	Counter Fraud and Enforcement Unit
Review of Risk Register	Ann Wolstencroft
Statement of Accounts (previous year, inc. letter of representation)	Finance Team
Annual Review of Risk Management Policy (h/o from April)	Ann Wolstencroft
<b>January</b>	
Audit committee update	External Auditors
Internal audit monitoring report	Internal Audit
Review of Risk Register	Ann Wolstencroft

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