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INTRODUCTION TO CHELTENHAM BOROUGH COUNCIL

**Address and Telephone Number**

Address: Municipal Offices, Promenade, Cheltenham, Gloucestershire, GL50 9SA  
Telephone (All Departments): 01242 262626  
Fax (All Departments): 01242 227131  
Website: www.cheltenham.gov.uk

**Mayor and Deputy Mayor in the 2011/12 Municipal Year**

Mayor: Councillor B Driver  
Deputy Mayor: Councillor C Hay

**Cabinet in 2011/12**

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

**Chairman of Committees in 2011/12**

Licensing Committee Councillor D Seacome  
Planning Committee Councillor L Surgenor  
Economy and Business Improvement Overview and Scrutiny Committee Councillor M Stennett  
Environment Overview and Scrutiny Committee Councillor P Hall  
Social and Community Overview and Scrutiny Committee Councillor A Regan  
Audit Committee Councillor A Wall  
Appointments Committee Councillor R Hay  
Standards Committee Mr S. Laine (Independent Member)

**Chief Officers in 2011/12**

Chief Executive Mr. A North  
Strategic Director Mr. G Lewis  
Strategic Director Mrs. P Pratley  
Director of Resources (Section 151 Responsible Officer) Mr. M Sheldon  
Monitoring Officer / Borough Solicitor Ms. S Freckleton

**External Auditor in 2011/12**

Appointed Auditor: KPMG LLP  
Address: 100 Temple Street, Bristol, BS1 6AG

**Bankers in 2011/12**

Bankers: Lloyds TSB  
Address: 130 High Street, Cheltenham, GL50 1EW

## CHELTENHAM PROFILE

Cheltenham is one of Britain's finest spa towns, set in a sheltered position between the rolling Cotswold Hills and the Severn Vale. It has a population of 115,300 (2010 mid-year population estimate) and with its architectural heritage, educational facilities and quality environment, Cheltenham is an attractive place to live, work and play.

Cheltenham is home to a number of festivals that take place throughout the year which include the world-renowned Jazz, Music, Science and Literature Festivals. Cheltenham Racecourse hosts sixteen days of racing over 8 events every year including the Gold Cup Festival.

The borough also plays host to the Everyman Theatre and the Playhouse Theatre, both of which offer a rich and varied programme of professional and amateur performing arts. Cheltenham Art Gallery and Museum has national recognition as a museum with an outstanding collection and funding has now been secured to build a new extension that will open in June 2013.

However, despite Cheltenham being a relatively affluent place, this wealthy image can obscure the fact that we have areas of poverty and deprivation. The Indices of Deprivation 2010 show a band of deprivation that runs East/West from Springbank, Hesters Way, St. Peters, St. Pauls and Oakley with the three deprivation hotspots of Hesters Way, St. Marks and St. Pauls.

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

There are a number of challenges facing the Council including bridging the funding gap, delivery of our town centre regeneration aspirations, service improvement and service commissioning. However the council is innovative and has put in place extensive plans to ensure that we get the most out of our services at a reasonable cost.

The council has an extensive property portfolio including a number of listed buildings that are operated by the council including the Town Hall, Pittville Pump Room and Art Gallery and Museum. It also has a share in the Regent Arcade shopping centre. These properties help provide the council with a funding stream to support its services provided to the public.



## POLITICAL STRUCTURE

The council has 40 elected members and holds elections every two years for which 50% of the seats are put up for re-election. Following the elections in May 2012 overall political control remained with the Liberal Democrats.

The council is chaired by the Mayor and is responsible for setting the budget and policy framework within which decisions are made. The cabinet consists of the Leader and up to seven Councillors appointed by the council. When

major decisions are to be discussed or made, these are published in the cabinet's Forward Plan in so far as they can be anticipated. If these decisions are to be discussed with council officers at a meeting of the cabinet, this will generally be open for the public to attend except where personal or confidential matters are being discussed.



## PERFORMANCE MANAGEMENT

The council's vision as set out in Cheltenham's Sustainable Community Strategy as the basis of its framework has adopted the twenty year vision for Cheltenham:

***We want Cheltenham to deliver a sustainable quality of life, where people, families, their communities and businesses thrive; and in a way which cherishes our cultural and natural heritage, reduces our impact on climate change and does not compromise the quality of life of present and future generations.***

Applying this twenty year vision, Cheltenham Borough Council has developed an overarching message designed to inspire employees and members to contribute effectively towards ensuring that the borough of Cheltenham remains successful, to set the ethos and culture of the council and to focus all officers' and members' efforts on a common goal.

Our overarching message is simply:

***“Working together to create a great future for Cheltenham”***

Our Corporate Strategy 2010-2015 was agreed in March 2010 and its associated action plan for 2011/12 was agreed in March 2011. This sets out the council's objectives for the next three years:

- Enhancing and protecting our environment
- Strengthening our economy
- Strengthening our communities
- Enhancing the provision of Arts & Culture
- Provide value for money services that effectively meet the needs of our customers.



### The importance of performance management

Performance management is a critical element of the council's management processes. The council is committed to a joined up approach to performance management that involves members and employees working together to ensure that the council keeps on delivering on the issues that matter most to local people and keeps on improving the quality of services at all levels. Our performance management system helps the council to identify what does and does not work and the factors that support or hinder economic, efficient and effective service delivery.

The annual report provides an assessment of our performance against our business plan targets as set out in "Our plans for 2011/12".

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

The Annual Report should be read in conjunction with the Annual Accounts to give you a balanced view of the council's work and finances. If there is anything that you would like to tell us so that we can improve things further, then please do not hesitate to contact us.



### Performance during 2011/12

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

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

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

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

## EXPLANATORY FOREWORD

The purpose of this explanatory forward is to provide electors, local taxpayers, members of the authority and other interested parties with an easy to understand guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the authority's financial position and assists in the interpretation of the accounting statements, including the Group Accounts. The statements should inform readers of the cost of services provided by the council in the year 2011/12 and the council's assets and liabilities at the year end.

### INTRODUCTION

The Accounts for the year ending 31<sup>st</sup> March 2012 have been prepared and published in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: 2011/12 Accounts (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This incorporates International Financial Reporting Standards (IFRS), so that the accounts are now compliant with these standards.

The following statements are included:

|  |   |
|--|---|
| <b>Statement of Responsibilities for the Statement of Accounts</b> | Sets out the respective responsibilities of the authority and the Director of Resources for the accounts.   |
| <b>Comprehensive Income and Expenditure Statement</b>              | This reports the net cost for the year of <i>all</i> the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers.   |
| <b>Balance Sheet</b>   | This summarises the overall financial position of the council at 31 <sup>st</sup> March 2012, showing its assets, liabilities and reserves.   |
| <b>Movement in Reserves Statement</b>                              | This details the movement in the year of all the authority's reserves.  |
| <b>Cash Flow Statement</b>   | This summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.   |
| <b>Group Accounts</b>  | These bring together the accounts of Cheltenham Borough Council, Cheltenham Borough Homes and Gloucestershire Airport Ltd, in which the council has a 50% shareholding.   |
| <b>Housing Revenue Account</b>                                     | A separate account, required by law, which shows income and expenditure associated with the provision of council housing.   |
| <b>Collection Fund</b>   | Reflects the statutory requirement to maintain a separate Collection Fund which shows the transactions in relation to non-domestic business rates and the council tax, indicating how the amounts collected are distributed to Gloucestershire County Council, Gloucestershire Police Authority and Cheltenham Borough Council. |
| <b>Annual Governance Statement</b>                                 | This sets out how the council is meeting its obligations and the improvements it intends to make to its systems of internal control and corporate governance arrangements.  |

These accounts are supported by notes to the accounts which include accounting policies, and a glossary of terms to provide readers with further information.

## STATEMENT OF ACCOUNTS 2011/12

### COUNCIL SPENDING

Cheltenham Borough Council is a large organisation employing over 400 people. The activities vary widely and include the provision and upkeep of council housing, provision for the collection of refuse, leisure and recreation, car parking, cemeteries and crematoria, environmental health and many other services.

### GENERAL FUND REVENUE BUDGET

In February 2011, the council set a net budget of £14.274m for spending on General Fund Services (excluding spending on council housing), of which £1.440m was to be financed by government grant, £4.658m from non-domestic rates and £8.176m from local council tax payers. The table below compares the financial outturn with the budget as detailed in the council's budget book, followed by a brief explanation of the financial aspects of the council's activities, drawing attention to the main characteristics of the council's financial position. This represents the council's management accounts that are included in the Comprehensive Income and Expenditure Statement on page 21, in accordance with the Code.

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

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



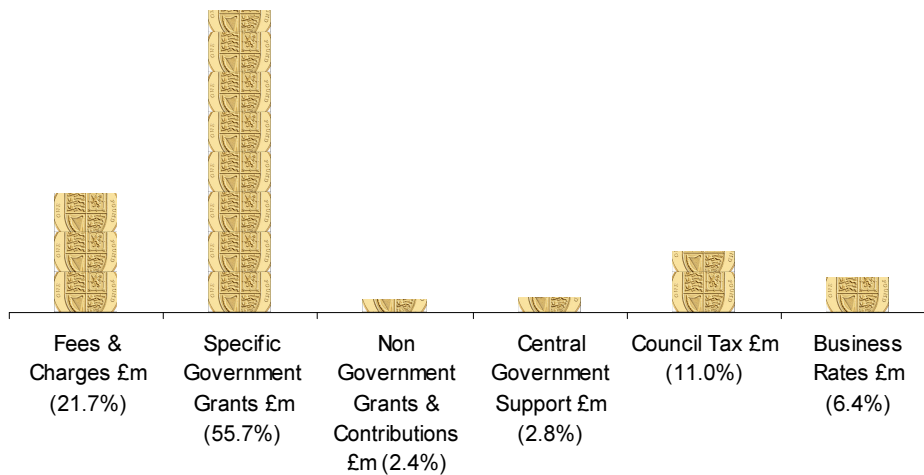
## STATEMENT OF ACCOUNTS 2011/12

Expenditure Statement. The council has its own management arrangements and presents budgets and monitoring statements to cabinet and council which are grouped according to these local arrangements.

During 2011/12 the council continued with the process of formal monitoring of budgets which are reported to cabinet on a quarterly basis. This has assisted in strengthening the sound management of the council's finances and provides a mechanism to ensure that any budgetary problems are identified and rectified as soon as possible during the year.

### WHERE THE MONEY CAME FROM

The following chart provides an analysis of our main sources of income this year for the General Fund (i.e. it excludes income in respect of the Housing Revenue Account). The Government provides our main source of income in the form of general and specific grants. The Government also determines the amount of business rates we receive through pooling arrangements (total collected 2011/12 £50.8m, of which £4.7m is retained as part of the council's accounts).



### BUDGET SAVINGS

The council's track record of strong financial management was maintained during 2011/12 which resulted in council services being delivered within revised budget, with an overall residual saving made in 2011/12 of £149,777. The budget saving has been transferred to the carry forward earmarked reserve and is included in the "use of balances and reserves" line in the Financial Outturn table on page 8. The following summary identifies the major variances between the revised budget and the actual outturn as follows:

|  | Overspend /<br>(Underspend)<br>£ |
|--|----------------------------------|
| Shortfall of Income                            | 190,109                          |
| Additional Employee costs                      | (2,894)                          |
| Other expenditure savings                      | (295,034)                        |
| Treasury Management additional interest income | (41,958)                         |
| <b>Net Saving</b>                              | <b>(149,777)</b>                 |

## STATEMENT OF ACCOUNTS 2011/12

### WHERE THE MONEY WENT

The following table is a summary of General Fund spend based on the council's key priorities (which excludes the Housing Revenue Account).

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



However the above summary does not show how the money was used to deliver our 5 key priorities. Below we explain spend in terms of the services you see for the council tax you pay:

**Priority 1 - Enhancing & Protecting our Environment**

**Total net spend of £3.103m**

Examples of core net spending included:

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

**Priority 2 – Strengthening our Economy**

**Total net spend of £371k.**

Examples of core net spending included:

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

**Priority 3 – Strengthening Our Communities**

**Total net spend of £4.897m.**

Examples of core net spending included:

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

**Priority 4 - Enhancing the Provision of Arts & Culture**

**Total net spend of £2.186m.**

Examples of core net spending included:

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

**Priority 5 - Ensuring we provide Value for Money Services that effectively meet the needs of our customers**

**Total net spend of £4.334m.**

Examples of core net spending included:

- £1,105k on Corporate Management
- £589k on Council Tax Collection
- £631k on Democratic Processes
- £255k on Election Expenses
- £133k on Civic Expenses

## **TREASURY MANAGEMENT / BORROWING FACILITIES**

Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and this Council has adopted the Code and complies with its requirements, one of which is the receipt by Cabinet and Council of an Annual Review Report after the financial year end.

The council manages the cash-flow for the provision of all council services and it uses the money market to invest daily cash-flow surpluses and borrows to fund cash-flow deficits.

In October 2008, many local authorities had deposits in various Icelandic banks with a range of payment due dates. In the week beginning 6<sup>th</sup> October 2008, a number of the banks went into administration. The council had £11m invested with three of these banks. Further details are given under the Exceptional Items heading below and in Note 27 of the notes to the Financial Statements on pages 65 to 71.

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

The conclusion of the year's activity was that the council paid £1.224m in borrowing costs (which was £6,906 more than budgeted for the year); earned £0.190m on investments (which was £17,360 more than budgeted (this excluded interest on the written down value of the Icelandic investments, details of which are shown in note 27) and received £0.469m from the Housing Revenue Account for the use of its balances (which was £22,164 more than budgeted). The overall impact was an additional surplus to the General Fund of £32,618 compared to the revised budget.

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

## **PENSION LIABILITY**

The council is required to account for retirement benefits when committed, even if the payment is many years in the future, in accordance with International Accounting Standard 19 (IAS 19). This provides a reflection of the economic relationship between the council and the pension fund. It represents the council's pension commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced future employer contributions) from a surplus in the pension scheme.

The council's net liability, according to the actuarial assessment at 31<sup>st</sup> March 2012, was £46,472,000 which was an increase of £8,401,000 over the figure for 31<sup>st</sup> March 2011 of £38,071,000. This is principally due to the fact that the financial assumptions as 31<sup>st</sup> March 2012 are less favourable than they were at 31<sup>st</sup> March 2011 as a result of falling real bond yields and poor asset returns. All else being equal, these factors serve to increase the value of the liabilities and thus have a negative impact on the IAS19 pension position.

## **ACCOUNTING POLICIES**

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

## CHANGES IN STATUTORY FUNCTIONS

### Public Sector Equality Duty

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

#### The General Equality Duty:

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

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

#### The specific duties:

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

### Localism Act 2011

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

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

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

### Tenancy Strategy

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

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

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

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

### **Change to Designation of Private Drainage**

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



### **CAPITAL EXPENDITURE**

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

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

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

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

Like most local authorities, the council has been paying for a proportion of its capital expenditure from the proceeds of the sale of its assets. As a result of the downward trend in the economy and housing market specifically, this source of financing has been significantly reduced and only £1.102m of capital receipts were available to finance capital expenditure in 2011/12. The remaining sources of finance were Government Grants £0.423m, developer contributions and partnership funding £0.999m, with £1.065m coming from revenue financing.

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

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



The council plans to continue to fund capital from a range of sources including revenue reserves, developer contributions and capital receipts and will make further use of prudential borrowing to support the council's approved major capital schemes.

### **FUTURE PLANS**

The council has a number of ambitious plans for the town including the following:

#### **Commissioning**

The council has a number of projects in progress since a "commissioning way of working" was adopted in 2010, and the senior management structure re-configured to align behind the approach. These projects include the Art Gallery and Museum refurbishment, and a Leisure and Culture commissioning review of services (to improve current delivery).

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

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

Other major projects include the Joint Core Strategy and the Cheltenham Development Task Force. These provide the opportunity to work together to create a great future for Cheltenham, as well as making a significant contribution to the council's financial gap. A commissioning programme has been proposed moving forward, with two more potential projects to include Green Environment and Housing. Sequencing projects and programmes to ensure optimum use of skills and resources will be critical.

#### **Civic Pride**

The establishment of the Cheltenham Development Task Force in January 2010 has resulted in a step change in the progressing of key sites, identified in the Central Area Ambition leaflet. Key amongst these sites has been North Place & Portland Street. The council promoted the 5 acre site to the market in January 2011.

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

This will deliver a scheme consisting of a minimum 300 space car park, at least 100 accommodation units (of which 40% will be affordable), a bus node and public square. In addition it is anticipated to yield a financial receipt that can be re-invested (subject to council approval) in implementing further steps, such as Boots Corner.

In addition to this major scheme a range of other initiatives have been progressing with both investor and public partner led schemes. These include approval from the Department of Transport for funding to close Boots Corner to through traffic; proposals to connect the Brewery to the High Street; initial discussions relating to future improvements to St. Mary's churchyard and other public realm

improvements.

### **Gloucestershire Airport – runway project**

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

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

### **Bridging the Gap**

The council's Medium Term Financial Strategy (MTFS) is a five year projection of its longer term finances which indicates a funding gap between the income raised through council tax and government support and the cost of providing services at current levels.

In response to the economic crisis, the coalition Government indicated that the public sector will see a significant reduction in government support in order to reduce the level of national debt. So far, the council has been notified of a cash cut of £1.7m (c24%) over the 2 year period 2011/12 and 2012/13. The council's MTFS is now predicted to be in excess of £5.3m over the period 2011/12 to 2016/17.

In response to this, the council has created a programme of activity called 'Bridging the Gap' which develops ideas for meeting the funding gap. So far, the 'Bridging the Gap' programme has been very successful and delivered savings and additional income to bridge the £2.8m funding gap in 2011/12 and £1.1m for 2012/13.

The council has entered into shared service arrangements with Tewkesbury Borough Council to provide legal services and building control services as well as working in partnership with Cotswold District Council and West Oxford District Council in the management of internal audit services. In addition, GO shared Services came into effect from 1<sup>st</sup> April 2012. This will deliver significant savings, reduce duplication of effort and provide service resilience. The aim is to streamline how we do things, make better use of technology and deliver savings so that these services can cost as little as possible whilst at the same time being as efficient as possible.

Through its commissioning programme, the council is looking at alternative delivery models for providing services including the third sector, creation of separate trading companies and Trusts.

The average level of council tax paid by Cheltenham's residents for services provided by the council (based upon a band D equivalent in 2011/12) was £187.12. (2010/11 was £187.12). Given the impact of the financial climate on residents, the ability to significantly raise council tax to maintain services is limited. Therefore, the BtG programme has enabled the council to drive down costs and maintain services and make a contribution to helping to keep its share of the overall level of council tax increases to a minimum.

### **Art Gallery & Museum redevelopment scheme**

In July 2008 the council made a commitment to contribute £2 million to the redevelopment of the Art Gallery & Museum (in addition to the £0.5 million earmarked from the sale of the former Axiom building). The new development will transform Cheltenham Art Gallery & Museum by greatly increasing its exhibition and display space and other facilities. Notable features include a large temporary exhibition gallery, additional space for collections, and for the first time, a dedicated space for the Art Gallery & Museum's extensive education, outreach, lifelong learning and arts development work. The design also includes improved and fully-accessible visitor facilities, including lifts, shop and café and the re-location of

the Tourist Information Centre.

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

### **St. Paul's Regeneration and other social housing schemes**

During 2011/12 the Council's ALMO, Cheltenham Borough Homes Ltd (CBH), completed the development of 16 new affordable housing units at Brighton Road. Significant progress was also made on the construction of a further 48 units (30 affordable rented and 18 shared ownership) in the St Paul's Regeneration Area. Both of these schemes were funded by a combination of social housing grant from the Homes and Communities Agency (HCA), capital grant from the Council and borrowing through the Council.

The Council, working in partnership with CBH, is currently evaluating funding options for 3 other schemes – St Paul's Phase 2, Cakebridge Place and the redevelopment of 4 garage sites.

### **HRA Self Financing**

The Localism Act that passed into law in November 2011 has enabled the reform of council housing finance. The Housing Revenue Account subsidy system has now been abolished with effect from 1<sup>st</sup> April 2012 and replaced with self-financing whereby authorities support their own housing stock from their own income. This reform required a re-adjustment of each authority's housing-related debt based on the valuation of its council housing stock. On the settlement date of 28<sup>th</sup> March 2012 the council was permitted to borrow £27.414 million from the Public Works Loan Board (PWLB), which was paid to the government to pay off debt. In return the council will cease to pay negative subsidy to the government. It is anticipated that this change will be beneficial to the authority, giving additional resources to address local housing needs, including the improvement of existing stock and the development of new units.

### **Flood relief work**

The council considers it important, even in the current economic downturn, that it continues to act on the lessons learned in the great Gloucestershire flood of July 2007. Consequently the council has used the Flood Alleviation Fund to support a number of initiatives aimed at reducing flooding risk.

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

The council is also working in partnership with the County Council in the production of a Cheltenham Surface Water Management Plan. The plan has identified a number of surface water flooding "hot spots" for a more detailed analysis and will be looking at the various flood risk management options. This may lead to future funding opportunities.

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

## EXCEPTIONAL ITEMS

### Icelandic Banks

In October 2008, the Icelandic banks Landsbanki Islands Hf, Kaupthing and Glitnir Hf collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer & Friedlander went into administration. The authority had £11 million deposited across these banks with varying maturity dates and interest rates. Although some repayments have been received in respect of these investments, the amounts invested with these banks continue to be subject to the respective administration and receivership processes. Of the original amounts invested plus interest due of £11.6 million, repayments of £6.7 million (58%) had been received by 31<sup>st</sup> March 2012, with a further £0.95 million (8%) received by 30th June 2012.

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

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

The position was reassessed at 31<sup>st</sup> March 2011 (2010/11 accounts) and a reduction in the impairment of £2.7 million was credited to the Comprehensive Income and Expenditure Statement, mainly to reflect the decision by the Icelandic court that local authority deposits in Glitnir bank hf were deemed to have priority status, resulting in a 100% likely recovery rate. (The authority had previously assumed such deposits did not have priority status, in line with the decision of the winding up board, resulting in a recovery rate of just 29%). Since the decision was subject to appeal to the Icelandic Supreme Court, most of the credit was transferred to an earmarked reserve to cover any further impairment, in case the decision was reversed. The remaining £0.230 million was used to reduce the council's borrowing.

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

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

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

## EVENTS AFTER THE BALANCE SHEET DATE

### Icelandic Banks

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

**Sale of North Place**

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

**GO Shared Service**

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

**Ubico Limited**

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

**FURTHER INFORMATION**

Further information about the accounts is available from the GO Shared Service (Finance), Cheltenham Borough Council, Municipal Offices, Promenade, Cheltenham. This is part of the council's policy of providing full information about the council's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed. The accounts are available for inspection by appointment between 16<sup>th</sup> July and 10<sup>th</sup> August 2012 at the Municipal Offices and the appointed day whereby local government electors for the area may exercise their rights under Sections 15 and 16 of the Audit Commission Act 1998 to question the auditor about or make objections to the accounts for the year ended 31<sup>st</sup> March 2012 is designated as 13<sup>th</sup> August 2012.

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

**The Authority's Responsibilities:**

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Resources.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the statement of accounts

**Director of Resources (Section 151 Officer):**

The Director of Resources is responsible for the preparation of the authority's Statement of Accounts which, in terms of the Code, is required to give a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March, 2012.

In preparing this Statement of Accounts, the Director of Resources has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Director of Resources has also:-

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

The Statement of Accounts for 2011/12 provides a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2012.

.....

**Date.....**

**Director of Resources (Section 151 Officer)**

.....

**Chair of Audit Committee**

**Date.....**



**STATEMENT OF ACCOUNTS 2011/12**

**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

This statement shows the cost in the year of providing services, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| 2010/11   |                 |                 | 2011/12           |                 |                 |
|---|-----------------|-----------------|-------------------|-----------------|-----------------|
| Gross expenditure   | Gross income    | Net expenditure | Gross expenditure | Gross income    | Net expenditure |
| £'000   | £'000           | £'000           | £'000             | £'000           | £'000           |
| <i>Continuing Operations</i>  |                 |                 |                   |                 |                 |
| 9,743   | (8,482)         | 1,261           | 9,877             | (8,747)         | 1,130           |
| 10,604  | (3,737)         | 6,867           | 10,017            | (3,500)         | 6,517           |
| 7,724   | (4,231)         | 3,493           | 7,449             | (4,524)         | 2,925           |
| 3,630   | (1,657)         | 1,973           | 2,989             | (1,475)         | 1,514           |
| 4,814   | (6,174)         | (1,360)         | 4,590             | (6,158)         | (1,568)         |
| 60,565  | (17,057)        | 43,508          | 17,233            | (18,052)        | (819)           |
| 34,068  | (33,167)        | 901             | 34,808            | (33,579)        | 1,229           |
| 2,668   | (311)           | 2,357           | 2,384             | (361)           | 2,023           |
| (11,026)  | (150)           | (11,176)        | 1,656             | (150)           | 1,506           |
| <b>122,790</b>  | <b>(74,966)</b> | <b>47,824</b>   | <b>91,003</b>     | <b>(76,546)</b> | <b>14,457</b>   |
| <b>Total Cost of Continuing Operations excluding concessionary fares transferred to Gloucestershire County Council 1 April 2011</b> |                 |                 |                   |                 |                 |
| 2,337   | (642)           | 1,695           | -                 | -               | -               |
| <b>125,127</b>  | <b>(75,608)</b> | <b>49,519</b>   | <b>91,003</b>     | <b>(76,546)</b> | <b>14,457</b>   |
| <b>Cost of Services</b>   |                 |                 |                   |                 |                 |
| 1,328   | (281)           | 1,047           | 882               | (676)           | 206             |
| 4,492   | (1,350)         | 3,142           | 518               | (1,399)         | (881)           |
| (2,714)   | -               | (2,714)         | (253)             | -               | (253)           |
| (25)  | -               | (25)            | -                 | -               | -               |
| -   | -               | -               | 27,414            | -               | 27,414          |
| -   | (17,519)        | (17,519)        | -                 | (15,905)        | (15,905)        |
| <b>128,208</b>  | <b>(94,758)</b> | <b>33,450</b>   | <b>119,564</b>    | <b>(94,526)</b> | <b>25,038</b>   |
| <b>(Surplus) or Deficit on the provision of services</b>  |                 |                 |                   |                 |                 |
| (1,265) (Surplus) / Deficit on revaluation of non-current assets (note 34)  |                 |                 | (1,555)           |                 |                 |
| (21,417) Actuarial (gains) / losses on pension fund assets / liabilities (note 42)  |                 |                 | 8,230             |                 |                 |
| <b>(22,682) Other Comprehensive Income and Expenditure</b>  |                 |                 | <b>6,675</b>      |                 |                 |
| <b>10,768 Total Comprehensive Income and Expenditure</b>  |                 |                 | <b>31,713</b>     |                 |                 |

## STATEMENT OF ACCOUNTS 2011/12

### BALANCE SHEET

This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

The second category of reserves comprises those that the authority is not able to use to provide services. This category includes reserves that held unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movements in Reserves Statement Line 'Adjustments between accounting basis and funding basis under the regulations.'

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

## STATEMENT OF ACCOUNTS 2011/12

### MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year in the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different to the statutory amount required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent purposes. The net increase or decrease before transfers to earmarked reserves line shows the statutory general fund balance and housing revenue account balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

|  | General<br>Fund<br>Balance<br>£'000 | Earmarked<br>General Fund<br>Reserves<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Major<br>Repairs<br>Reserve<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 | Total<br>Usable<br>Reserves<br>£'000 | Unusable<br>Reserves<br>£'000 | Total<br>Reserves<br>£'000 |
|--|-------------------------------------|--|--|---|--------------------------------------|---|--------------------------------------|-------------------------------|----------------------------|
| As originally stated   | 2,446                               | 10,262   | 1,581                                  | -                                       | -                                    | 700                                     | 14,989                               | 185,951                       | 200,940                    |
| Adjustments (note 22)  | -                                   | -  | -                                      | -                                       | -                                    | -                                       | -                                    | 27,306                        | 27,306                     |
| <b>RESTATED Balance at 31 March 2010</b>   | <b>2,446</b>                        | <b>10,262</b>                                  | <b>1,581</b>                           | <b>-</b>                                | <b>-</b>                             | <b>700</b>                              | <b>14,989</b>                        | <b>213,257</b>                | <b>228,246</b>             |
| <b><u>Movement in Reserves during 2010/11</u></b>                                    |                                     |  |  |   |                                      |   |                                      |                               |                            |
| Surplus or (deficit) on the provision of services                                    | 11,279                              |  | (44,729)                               |   |                                      |   | (33,450)                             |                               | (33,450)                   |
| Other comprehensive Income & expenditure   |                                     |  |  |   |                                      |   | -                                    | 22,682                        | 22,682                     |
| <b>Total comprehensive Income &amp; Expenditure</b>                                  | <b>11,279</b>                       | <b>-</b>                                       | <b>(44,729)</b>                        | <b>-</b>                                | <b>-</b>                             | <b>-</b>                                | <b>(33,450)</b>                      | <b>22,682</b>                 | <b>(10,768)</b>            |
| Adjustments between accounting basis and funding<br>basis under regulations (Note 6) | (10,276)                            |  | 46,821                                 | 1,162                                   | 300                                  | -                                       | 38,007                               | (38,007)                      | -                          |
| <b>Net decrease before transfers to reserves</b>                                     | <b>1,003</b>                        | <b>-</b>                                       | <b>2,092</b>                           | <b>1,162</b>                            | <b>300</b>                           | <b>-</b>                                | <b>4,557</b>                         | <b>(15,325)</b>               | <b>(10,768)</b>            |
| Transfers to/from earmarked reserves (Note 33)                                       | (782)                               | 782  |  |   |                                      |   | -                                    |                               | -                          |
| <b>Increase / (decrease) in 2010/11</b>  | <b>221</b>                          | <b>782</b>                                     | <b>2,092</b>                           | <b>1,162</b>                            | <b>300</b>                           | <b>-</b>                                | <b>4,557</b>                         | <b>(15,325)</b>               | <b>(10,768)</b>            |
| <b>RESTATED Balance at 31 March 2011</b>   | <b>2,667</b>                        | <b>11,044</b>                                  | <b>3,673</b>                           | <b>1,162</b>                            | <b>300</b>                           | <b>700</b>                              | <b>19,546</b>                        | <b>197,932</b>                | <b>217,478</b>             |
| <b><u>Movement in Reserves during 2011/12</u></b>                                    |                                     |  |  |   |                                      |   |                                      |                               |                            |
| Surplus or (deficit) on the provision of services                                    | 1,565                               |  | (26,603)                               |   |                                      |   | (25,038)                             |                               | (25,038)                   |
| Other comprehensive Income & expenditure   |                                     |  |  |   |                                      |   | -                                    | (6,675)                       | (6,675)                    |
| <b>Total comprehensive Income &amp; Expenditure</b>                                  | <b>1,565</b>                        | <b>-</b>                                       | <b>(26,603)</b>                        | <b>-</b>                                | <b>-</b>                             | <b>-</b>                                | <b>(25,038)</b>                      | <b>(6,675)</b>                | <b>(31,713)</b>            |
| Adjustments between accounting basis and funding<br>basis under regulations (Note 6) | (3,225)                             |  | 26,027                                 | 897                                     | (300)                                | (69)                                    | 23,330                               | (23,330)                      |                            |
| <b>Net decrease before transfers to reserves</b>                                     | <b>(1,660)</b>                      | <b>-</b>                                       | <b>(576)</b>                           | <b>897</b>                              | <b>(300)</b>                         | <b>(69)</b>                             | <b>(1,708)</b>                       | <b>(30,005)</b>               | <b>(31,713)</b>            |
| Transfers to/from earmarked reserves (Note 33)                                       | 1,246                               | (1,246)  |  |   |                                      |   | -                                    |                               |                            |
| <b>Increase / (decrease) in 2011/12</b>  | <b>(414)</b>                        | <b>(1,246)</b>                                 | <b>(576)</b>                           | <b>897</b>                              | <b>(300)</b>                         | <b>(69)</b>                             | <b>(1,708)</b>                       | <b>(30,005)</b>               | <b>(31,713)</b>            |
| <b>Balance at 31 March 2012</b>  | <b>2,253</b>                        | <b>9,798</b>                                   | <b>3,097</b>                           | <b>2,059</b>                            | <b>-</b>                             | <b>631</b>                              | <b>17,838</b>                        | <b>167,927</b>                | <b>185,765</b>             |

**STATEMENT OF ACCOUNTS 2011/12**

**CASH FLOW STATEMENT**

The cash flow statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

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

**NOTES TO THE ACCOUNTS**

**1. ACCOUNTING POLICIES**

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**i) GENERAL PRINCIPLES**

The Statement of Accounts summarises the council's transactions for the 2011/12 financial year and its position at the year-end of 31st March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 (as amended), which require the accounts to be prepared in accordance with proper accounting practice. The Statement has been prepared primarily in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (The 'Code')* and the *Service Reporting Code of Practice 2012 (SERCOP)*, supported by International Financial Reporting Standards (IFRS).

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

**ii) ACCOUNTING CONCEPTS**

Except where specified in the Code of Practice, or in specific legislative requirements, it is the authority's responsibility to select and regularly review its accounting policies, as appropriate.

These accounts are prepared in accordance with a number of fundamental accounting principles:

- Relevance
- Reliability
- Comparability
- Materiality

Additionally three further concepts play a pervasive role in the selection and application of accounting policies:

**Accruals of Income and Expenditure**

The financial statements, other than the cash flow statement, are prepared on an accruals basis, i.e. transactions are reflected in the accounts in the year in which they take place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- All income and expenditure is credited and debited to the Comprehensive Income and Expenditure Statement, unless it comprises capital receipts or capital expenditure.

**Going Concern**

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

**Primacy of legislative requirements**

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

**iii) PROVISIONS**

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

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

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

Statutory arrangements allow any settlements for back pay arising from discriminatory payments, incurred before the council implemented its equal pay strategy, to be financed from the General Fund in the year that payments actually take place. No provision is included in the accounts as all back claims were settled in the year.

**iv) RESERVES**

The council sets aside specific amounts as earmarked usable reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to form part of the Surplus or Deficit in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. The purpose of each of these earmarked reserves is explained in Note 33 to the financial statements on page 78.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits, and they do not represent usable resources for the council – these reserves are known as unusable reserves and are explained in the relevant policies below.

**v) GRANTS AND CONTRIBUTIONS**

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

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

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been, or it is reasonably certain that they shortly will be, satisfied. Conditions are stipulated that specify that the grants or contributions are required to be consumed by the recipient as specified, or they must be returned to the transferor.



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

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

**vi) EMPLOYEE BENEFITS**

**Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is committed to the termination of the employment of an officer or group of officers.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement on Reserves Statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

**vii) Post Employment Benefits**

Employees of the council are members of the Local Government Pension Scheme, administered by Gloucestershire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council, and is accounted for as a defined benefits scheme:

- The liabilities of the Gloucestershire pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate, based on the indicative rate of return on the adoption of the AA-rated corporate bond basis.
- The assets of the Gloucestershire pension fund attributable to the council are included in the balance sheet at their fair value:
  - quoted securities – current bid value

## STATEMENT OF ACCOUNTS 2011/12

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- unquoted securities – professional estimate of fair value
- unitised securities – current bid price
- property – market value.
- The change in the net pension liability is analysed into seven components:
  - Current service cost: the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past service cost: the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Interest cost: the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.
  - Expected return on assets: the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - Gains/losses on settlements and curtailments: the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Actuarial gains and losses: changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
  - Contributions paid to the Gloucestershire pension fund: cash paid as employer's contributions to the pension fund, in settlement of liabilities.

Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Further information on pension costs and the accounting arrangements can be found in Note 42 to the financial statements on pages 86 to 90.

### vii) VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

**viii) OVERHEADS AND SUPPORT SERVICES**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA SeRCOP 2011/12. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Charges are based on a variety of methods including allocations according to officers' use of time resources, charge per unit of service and administrative building costs according to area occupied.

**ix) INTANGIBLE ASSETS**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

Internally generated assets are capitalised where it can be demonstrated that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**x) PROPERTY, PLANT AND EQUIPMENT**

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis are classified as Property, Plant and Equipment.

**Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it yields benefits to the council for more than one financial year and the cost of the item can be measured reliably. This excludes expenditure on routine repairs and maintenance, which is charged direct to service revenue accounts when it is incurred.

### Measurement

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

Assets are then carried in the Balance Sheet using the following measurement bases:

- Dwellings – fair value, using the basis of existing use value for social housing (EUV-SH)
- Infrastructure, community assets and assets under construction - depreciated historical cost.
- All other assets – fair value, based on the amount that would be paid for the asset in its existing use (EUV).

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

In the case of non-property assets that have short useful lives or low values (or both) e.g. vehicles, plant and equipment, depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued where there have been material changes in the value, and as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

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

Exceptionally, gains would be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

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

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

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

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

### **Disposals and Asset Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale, except in the year in which they were classified for sale. Right to Buy dwellings become surplus on the day that the transfer to the tenant takes place (completion of the sale), and therefore are deemed operational until they are sold.

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

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

Amounts received from a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement of Reserves Statement.

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

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Council dwellings – depreciated on the basis of the Major Repairs Allowance, a measure of the “wearing out” of the stock, provided by the government.
- Other buildings – straight-line allocation over the life of the property as estimated by the valuer; generally 50 years
- Vehicles, plant and equipment – straight-line allocation over 4 to 10 years, depending on the enhanced life of the asset.
- Infrastructure – straight-line allocation over 40 years.

Newly acquired assets are depreciated from the year following that in which they were acquired, although assets in the course of construction are not depreciated until they are brought into use.

Where a Property, Plant and Equipment asset has major components whose cost is significant in relation to the total asset portfolio with different estimated useful lives, these are depreciated separately. An asset is deemed significant if its building element gross book value exceeds the de minimis level of £872,100, as per the council's draft componentisation policy.

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Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets with the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Assets disposed of during the year are depreciated in the year of disposal or in the case of Assets Held for Sale, in the year they were classified for sale.

### **xi) HERITAGE ASSETS**

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

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

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

#### **Archaeology**

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

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

### **xii) CHARGES TO REVENUE FOR NON-CURRENT ASSETS**

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (known as Minimum Revenue Provision) equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by a contribution from the General Fund Balance, by way of an adjusting transaction to the Capital Adjustment Account in the Movement of Reserves Statement.

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

This represents expenditure that may be capitalised under statutory provisions but does not result in the creation of non-current assets for the authority. Such expenditure incurred during the year is charged to the relevant service line in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account reverses the charge, so that there is no impact on council tax.

**xiv) LEASES**

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

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

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

The Authority does not have any finance leases as lessee or lessor under the criteria set out in International Financial Reporting Standards (IFRS).

**Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant and equipment. Charges are made to Service revenue accounts on a straight-line basis over the life of the lease.

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as the rental income.

**xv) FINANCIAL INSTRUMENTS**

**Financial liabilities**

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

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over a number of years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid, subject to the maximum or minimum number of years specified in the regulations. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised cash flows, discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Available-for-sale financial Assets**

Available-for-sale financial assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Assets are maintained in the Balance Sheet at fair value, or amortised cost. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis;
- Equity shares with no quoted market prices – independent appraisal of company valuations or amortised cost.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain or loss is recognised in the Surplus or Deficit on the Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.



## STATEMENT OF ACCOUNTS 2011/12

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Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available-for-Sale Reserve.

### **xvi) INVENTORIES AND LONG TERM CONTRACTS**

Inventories held in stores are included on the Balance Sheet at the latest price paid, with an allowance made for obsolescent and slow-moving items. This is a departure from the requirements of the Code, which require inventories to be shown at the lower of cost and net realisable value. The effect of the different treatment is immaterial. All other inventories held have been valued at the lower of cost and net realisable value. All work in progress is charged to service accounts by the year end so there is a nil value held on the Balance Sheet.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### **xvii) ESTIMATION TECHNIQUES**

Estimation techniques are the methods adopted to assess the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their precise value. Unless specified in the Code or in legislative requirements, the method of estimation will generally be the one that most closely reflects the economic reality of the transaction.

### **xviii) CASH AND CASH EQUIVALENTS**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### **xix) EXCEPTIONAL ITEMS**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### **xx) CONTINGENT LIABILITIES**

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **xxi) CONTINGENT ASSETS**

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

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

### **xxii) PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years

affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **xxiii) EVENTS AFTER THE BALANCE SHEET DATE**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that arose after the reporting period – the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **xxiv) INVESTMENT PROPERTY**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually as necessary according to market conditions in the year. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **xxv) JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant and equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

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

## STATEMENT OF ACCOUNTS 2011/12

### xxvi) INTERESTS IN COMPANIES AND OTHER ENTITIES – GROUP ACCOUNTS

The council has material interests in companies and other separate entities that have the nature of being subsidiaries and joint ventures and require it to prepare Group Accounts. In the council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

#### Basis of Consolidation

The Group Accounts bring together the council's accounts with those of Gloucestershire Airport, in which the council has a 50% shareholding (the remaining 50% of shares are owned by Gloucester City Council) and Cheltenham Borough Homes (CBH) in which the council has 100% shareholding. The accounts of CBH include those of Cheltenham Borough Homes Services Ltd, a wholly owned subsidiary of Cheltenham Borough Homes Limited. Gloucestershire Airport has been treated as a jointly controlled entity (joint venture) and CBH a subsidiary company.

#### Accounting Policies

The financial statements in the Group Accounts are prepared in accordance with the policies set out above, with the following additions and exceptions:-

The financial statements for Cheltenham Borough Homes (CBH) and Gloucestershire Airport have been prepared under the historical cost convention in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

Property, Plant and Equipment held by Gloucestershire Airport and CBH are valued at historic cost. For the purposes of the Group Accounts, the airport's PPE have been re-valued in order to bring them in line with the council's accounting policies. A formal valuation with a valuation date of 31<sup>st</sup> March 2012 was undertaken by an external valuer in 2011/12.

Depreciation on assets held by CBH and Gloucestershire Airport have been calculated so as to write off the cost of Property, Plant and Equipment over their expected useful lives using the following rates, which are different to those used by the council.

|  | CBH                          | Airport               |
|--|------------------------------|-----------------------|
| (a) Freehold Property                                  |                              | 2% per annum of cost  |
| (b) Plant & Machinery                                  | 20% straight line allocation | 10% per annum of cost |
| (c) Office Equipment                                   |                              | 10% per annum of cost |
| (d) Motor Vehicles                                     | 20% straight line allocation | 10% per annum of cost |
| (e) Computer Equipment                                 | 33% straight line allocation | 20% per annum of cost |
| (f) Taxiway / Runway                                   |                              | 4% per annum of cost  |
| (g) Fixtures & Fittings, Tools & Operational Equipment | 33% straight line allocation |                       |
| (f) Leasehold Buildings                                | Over the life of the lease   |                       |

Leasing – Assets acquired under finance leases or hire purchase contracts by Gloucestershire Airport are capitalised and depreciated in the same manner as other Property, Plant and Equipment.

Equity dividends proposed by the Board of Directors of the Airport are not recorded in the council's financial statements until they are approved by the Shareholders at the annual general meeting. Equity dividends paid are dealt with as a movement on retained profits.

### xxvii) INTEREST ON INVESTMENT AND BORROWING

Interest is credited or debited to the General Fund and the Housing Revenue Account based on the level of their Usable Reserves. The amounts are calculated using the average rate or a consolidated rate of interest earned by the council, in accordance with statutory provisions.

### xxviii) FOREIGN CURRENCY TRANSLATION

Where the Authority has entered into a transaction denominated in a foreign currency the transaction is converted into Sterling at the exchange rate applicable on the date it is received or paid. Where amounts denominated in foreign currency are outstanding at the year end, they are reconverted at the spot exchange

## STATEMENT OF ACCOUNTS 2011/12

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rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **xxviii) DISCONTINUED OPERATIONS**

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

### **xxviii) LONG TERM LOANS**

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

### **xxx) CHANGES IN ACCOUNTING POLICIES**

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

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

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

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

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

**Community Assets**

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

**3. Critical judgements used in applying accounting policies**

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In applying the accounting policies set out on pages 25 to 38, the authority has had to make certain judgments about balances and transactions which may be uncertain depending on future events. The only material critical judgement relates to the impairment of investments in the Icelandic bank Landsbanki. In the absence of further information, it has been assumed that outstanding payments will be received evenly between December 2012 and December 2019, however they may be received from the administrators earlier (note 27, pages 65 to 71 provides further information).

Leases have been classified (as required) in accordance with the IFRS criteria. In making this assessment the council has deemed all existing leases as being operating leases.

The classification of non-current assets has been assessed and judgements made as to those held for investment purposes. As a result, there are no changes made to the classification compared to previous years.

**4. Assumptions made about the future and other major sources of estimation uncertainty**

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The accounts contain estimated figures that are based on assumptions made by the authority about future events that are uncertain. Estimates are made taking into account professional advice, historical experience, current trends and other factors.

The items in the balance sheet at 31st March 2012 for which there is a *significant* risk of material adjustment in the forthcoming financial year are as follows:

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

## STATEMENT OF ACCOUNTS 2011/12

|                |   |  |
|----------------|---|--|
| Surplus assets | The assets are carried on the balance sheet at existing use value, however their use <i>may</i> be changed as part of the sale process, subject to planning approval. | A change in the assets' use may have a significant effect on their fair value and on the sale proceeds receivable, resulting in a revaluation gain. This cannot be quantified at this stage as it is subject to planning permission being granted. |
|----------------|---|--|

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

A credit pension adjustment in respect of past service costs of £12.414 million is included within the non-distributed costs included in the cost of services within the Comprehensive Income & Expenditure Statement for 2010/11 (see pension note 42, page 86). The past service costs included for 2011/12 are £74k.

Section 170 (60) of the Localism Act sets out that settlement payments transactions paid by a local housing authority are deemed to be capital expenditure. The payment made by the authority to the Secretary of State is £27.414 million, which as a material item of expenditure is identified separately on the face of the HRA. The £27.414 million is written out of the HRA as it is defined by statute to be capital expenditure. Long term loans were taken out with PWLB to fund the payment.

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

### **6. Adjustments between Accounting Basis and Funding Basis under regulations**

This note details the adjustments that have been made to the total comprehensive income and expenditure so that it equals the resources generated in the year which are available, under statutory provisions, to the Authority to meet future capital and revenue expenditure.



## STATEMENT OF ACCOUNTS 2011/12

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



## 7. Changes in Operations and Discontinued Operations

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During 2009/10 the council entered into shared service arrangements with Tewkesbury Borough Council to provide legal services and building control services, and with Cotswold District Council for the provision of internal audit services. These arrangements continued for the whole of 2010/11 and 2011/12. Since these operations were set up as a means of sharing expenses they are classified as jointly controlled operations, are accounted for in the authority-only accounts and are not entities for Group accounts purposes.

During 2010/11 the council, in partnership with Cotswold, Forest of Dean and West Oxfordshire District Councils and Cheltenham Borough Homes (CBH) purchased an Enterprise Resource Planning System, providing a single finance, payroll, Human Resources, and procurement system. This system was implemented during 2011/12, with a shared service for financial services for all five organisations being created on 1<sup>st</sup> April 2012. It is anticipated that that this will deliver significant savings, reduce duplication of effort, provide service resilience and lead to the sharing of other 'back office' services between the councils.

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

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

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

## 8. Exceptional Items

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### **Icelandic Banks – Impairment Adjustment:**

Early in October 2008, the Icelandic banks Landsbanki Islands Hf, Kaupthing and Glitnir Hf collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer & Friedlander went into administration. The authority had £11 million deposited across these banks with varying maturity dates and interest rates. The current situation with regards to the recovery of the sums deposited varies between each bank. Based on the latest information available, the authority considered it appropriate to make impairment adjustments to the carrying value of the investments on the balance sheet in 2008/09, 2009/10, 2010/11 and 2011/12. Full details are given in note 27, pages 65 to 71.

### **HRA Self Financing Settlement Paid to Secretary of State**

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

## STATEMENT OF ACCOUNTS 2011/12

### 9. Trading Operations

The council is involved in a number of trading activities; the surplus/(deficit) of which is included in the Comprehensive Income and Expenditure Statement. An analysis of the trading activity is as follows:

| 2010/11 Restated                            |              |                       |                         |                     | 2011/12                   |                |                       |                         |                     |
|---|--------------|-----------------------|-------------------------|---------------------|---------------------------|----------------|-----------------------|-------------------------|---------------------|
| Income                                      | Expenditure  | Net (surplus)/deficit | Contribution to Revenue | (Surplus) / deficit | Income                    | Expenditure    | Net (surplus)/deficit | Contribution to Revenue | (Surplus) / deficit |
| £'000                                       | £'000        | £'000                 | £'000                   | £'000               | £'000                     | £'000          | £'000                 | £'000                   | £'000               |
| <b>Included within Net cost of Services</b> |              |                       |                         |                     |                           |                |                       |                         |                     |
| (1,512)                                     | 741          | (771)                 |                         | (771)               | Town Hall / Pump room     | (1,414)        | 736                   | (678)                   | (678)               |
| (1,461)                                     | 3,049        | 1,588                 |                         | 1,588               | Leisure@Cheltenham        | (1,464)        | 3,084                 | 1,620                   | 1,620               |
| (1,436)                                     | 812          | (624)                 |                         | (624)               | Cemetery and Crematorium  | (1,424)        | 729                   | (695)                   | (695)               |
| (4,942)                                     | 3,226        | (1,716)               |                         | (1,716)             | Car Parks                 | (5,173)        | 3,282                 | (1,891)                 | (1,891)             |
| <b>(9,351)</b>                              | <b>7,828</b> | <b>(1,523)</b>        | <b>-</b>                | <b>(1,523)</b>      | <b>Total</b>              | <b>(9,475)</b> | <b>7,831</b>          | <b>(1,644)</b>          | <b>-</b>            |
| <b>Other Trading Activities</b>             |              |                       |                         |                     |                           |                |                       |                         |                     |
| (281)                                       | 239          | (42)                  |                         | (42)                | Glos CC (schools)         | (274)          | 212                   | (62)                    | (62)                |
| (76)  | 45           | (31)                  | 31                      |                     | - TIC shop / agency       | (72)           | 60                    | (12)                    | 12                  |
| (22)  | 8            | (14)                  | 14                      |                     | - Art gallery/museum shop | -              | -                     | -                       | -                   |
| <b>(379)</b>                                | <b>292</b>   | <b>(87)</b>           | <b>45</b>               | <b>(42)</b>         | <b>Total</b>              | <b>(346)</b>   | <b>272</b>            | <b>(74)</b>             | <b>12</b>           |

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

Town Hall & Pump Room and Leisure@ Cheltenham trading operations are included within the Culture and related services cost of services in the Comprehensive Income and Expenditure Statement.

Cemetery & Crematorium trading operations are included within the Environment and Regulatory services cost of services in the Comprehensive Income and Expenditure Statement.

Car Parking trading operations are included within the Highways and Transport services cost of services in the Comprehensive Income and Expenditure Statement.

**STATEMENT OF ACCOUNTS 2011/12**

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**10. Expenditure on Publicity**

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Set out below, under the requirements of section 5(1) of the Local Government Act 1986, is the council's spending on publicity.

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

**11. Agency Services**

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The council has agency agreements with Gloucestershire County Council, whereby the council is responsible for maintaining highway verges and trees within the Borough and enforcing on-street parking regulations under the provisions of the Civil Parking Enforcement Regulations. The County Council reimburses the council for the works, including a contribution towards administrative costs.

A summary of expenditure incurred in respect of these activities, which is included in the Comprehensive Income and Expenditure Statement, is as follows:-

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

**12. Other operating Expenditure**

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**Analysis of other operating expenditure**

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

**STATEMENT OF ACCOUNTS 2011/12**

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**13. Financing and Investment income and expenditure**

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

**14. Taxation and non specific grant income**

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

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

**15. Members' Allowances**

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

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**STATEMENT OF ACCOUNTS 2011/12**

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**16. Officers' Emoluments**

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

| Remuneration Band   | No of Employees |                            |
|---------------------|-----------------|----------------------------|
|                     | 2011/12         | No of Employees<br>2010/11 |
| £50,000 - £54,999   | -               | 1                          |
| £55,000 - £59,999   | 1               | -                          |
| £60,000 - £64,999   | 4               | 5                          |
| £65,000 - £69,999   | 2               | 2                          |
| £70,000 - £74,999   | -               | -                          |
| £75,000 - £79,999   | -               | -                          |
| £80,000 - £84,999   | -               | -                          |
| £85,000 - £89,999   | 2               | 1                          |
| £90,000 - £94,999   | 2               | 3                          |
| £95,000 - £99,999   | -               | -                          |
| £100,000 - £104,999 | -               | -                          |
| £105,000 - £109,999 | -               | -                          |
| £110,000 - £114,999 | 1               | -                          |
| £115,000 - £119,999 | -               | -                          |
| £120,000 - £124,999 | -               | 1                          |
| <b>Total</b>        | <b>12</b>       | <b>13</b>                  |

## STATEMENT OF ACCOUNTS 2011/12

The following tables set out the remuneration disclosures for Senior Officers whose *salary* is less than £150,000 but equal to or more than £50,000 per year.  
**2011/12 Senior Officers emoluments – Salary between £50,000 and £150,000 per year**

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

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

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

**STATEMENT OF ACCOUNTS 2011/12**

**2010-11 Senior Officers emoluments – Salary between £50,000 and £150,000 per year**

| Post holder information  | Salary         | Expenses Allowances | Compensation for loss of office | Benefits in Kind e.g. car allowance | Other payments | Total remuneration excluding pension contributions 2010/11 | Pension contributions | Total Remuneration inc. pension contbns 2010/11 |
|--|----------------|---------------------|---------------------------------|-------------------------------------|----------------|--|-----------------------|---|
|  | £              | £                   | £                               | £                                   | £              | £  | £                     | £   |
| Chief Executive (note 1)   | 108,083        | 1,347               |                                 | 1,267                               | 10,061         | 120,758  | 17,308                | 138,066   |
| Assistant Director – Customer Access & Service Transformation (note 2) | 66,104         | 318                 | 26,401                          | 1,033                               |                | 93,856   | 7,449                 | 101,305   |
| Executive Director   | 89,104         | 732                 |                                 | 1,239                               |                | 91,075   | 13,054                | 104,129   |
| Executive Director   | 89,104         | 699                 |                                 | 1,239                               |                | 91,042   | 13,054                | 104,096   |
| Civic Pride Managing Director  | 84,070         | 779                 |                                 | 1,239                               |                | 86,088   | 12,316                | 98,404  |
| GO Shared ERP Programme Manager (note 3)                               | 65,391         | 308                 |                                 | 909                                 |                | 66,608   | 9,580                 | 76,188  |
| Director Operations  | 63,533         | 552                 |                                 | 1,239                               |                | 65,324   | 8,571                 | 73,895  |
| Director Resources   | 62,437         | 571                 |                                 |                                     |                | 63,008   | 9,078                 | 72,086  |
| Director People OD & Change  | 61,019         | 344                 |                                 | 1,239                               |                | 62,602   | 8,939                 | 71,541  |
| Director Commissioning   | 61,019         | 209                 |                                 | 1,239                               |                | 62,467   | 8,939                 | 71,406  |
| Director Built Environment   | 61,019         |                     |                                 | 1,239                               |                | 62,258   | 8,939                 | 71,197  |
| Director Wellbeing & Culture   | 58,505         | 683                 |                                 | 1,239                               |                | 60,427   | 8,571                 | 68,998  |
| <b>TOTAL</b>   | <b>869,388</b> | <b>6,542</b>        | <b>26,401</b>                   | <b>13,121</b>                       | <b>10,061</b>  | <b>925,513</b>   | <b>125,798</b>        | <b>1,051,311</b>                                |

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

**Note 2:** Assistant Director – Customer Access & Service Transformation – left during 2010-11. The whole time salary is £58,505; additional payments in respect of paid leave.

**Note 3:** GO Shared ERP Programme Manager – jointly funded by CBC, Cotswold District Council, West Oxfordshire District Council and Forest of Dean District Council.

**17. Related Party Transactions**

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The council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council. Out of 50 Third Party Declaration forms issued to relevant members and officers, 49 were received. This equates to a 98% return rate (100% in 2010/11).

Central Government

The UK Government has effective control over the general operations of the council - it is responsible for providing the statutory framework and legislation within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits).

Members and Officers

Members of the council have direct control over the council's financial and operating policies. No member or officer has declared an interest with any outside commercial organisation. Several Members serve officially on bodies that receive major grants from the council and these are listed below.

Assisted organisations

The council provided financial assistance to 26 local bodies (32 in 2010/11) and voluntary organisations totalling £1,213,738 (£1,488,955 in 2010/11). It is the council's best value policy to have a Service Level Agreement in place for all grants exceeding £10,000, referred to as Conditional Offers of Grants.

Council employees are eligible to be members of the Local Government Pension Scheme, administered by Gloucestershire County Council. The total employer's contributions into the superannuation fund by the council were £3,228,000 in 2011/12 (£3,320,000 in 2010/11).

The total grants over £35,000 made during 2011/12 are as follows, together with the number of members who are officially appointed to serve on those organisations:

|   | Cash<br>Grant<br>£ | Support<br>Costs<br>£ | Total<br>Grant<br>£ | No's of<br>Members |
|---|--------------------|-----------------------|---------------------|--------------------|
| Everyman Theatre                              | 265,450            | 18,628                | 284,078             |                    |
| Citizens Advice Bureau                        | 154,931            | 6,847                 | 161,778             |                    |
| Cheltenham Community & Voluntary Action Group | 34,000             | 96,696                | 130,696             |                    |
| Playhouse Theatre                             | 65,700             | 3,450                 | 69,150              | 2                  |
| Town Centre Management                        | 26,200             | 42,913                | 69,113              |                    |
| Business & Economic Development Grants        | 61,851             | -                     | 61,851              |                    |
| Young Art Centre                              | 1,745              | 48,348                | 50,093              |                    |
| Hesters Way Renewal Area                      | 40,200             | 4,500                 | 44,700              |                    |
| Whaddon Renewal Area                          | 40,200             | 3,800                 | 44,000              |                    |
| Youth Affairs                                 | 37,479             | 6,628                 | 44,107              |                    |
| Business & Economic Development Grants        | 35,000             | 0.00                  | 35,000              |                    |
|   | <b>762,756</b>     | <b>231,810</b>        | <b>994,566</b>      |                    |



## STATEMENT OF ACCOUNTS 2011/12

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### Companies and joint ventures

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

The council has a 50% share in Gloucestershire Airport. The Airport's accounts have been consolidated into the Group Accounts, which are shown on pages 92 to 101. One member serves on the Airport's Board of Directors, over which the council has no control.

Gloucestershire Airport purchased goods and services from the council totalling £24,088 during 2011/12 (£24,067 in 2010/11). At 31st March 2012 £12,188 was owed by the Airport to the council (£11,997 at 31st March 2011) in respect of these goods and services. In addition the council loaned £1.195 million to the Airport during 2011/12 (Nil in 2010/11). This loan is shown as a long term debtor on the council's balance sheet.

The council has an Arm's Length Management Organisation (Cheltenham Borough Homes). The accounts for this company have been consolidated into the Group Accounts, which are shown on Pages 92 to 101. Four councillors serve on the company's Board of Directors.

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

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

On 31<sup>st</sup> March 2012, the council had 4 councillors who were members of the following parish councils:

|                              |   |
|------------------------------|---|
| Leckhampton with Warden Hill | 1 |
| Up Hatherley                 | 1 |
| Prestbury                    | 1 |
| Charlton Kings               | 1 |

## STATEMENT OF ACCOUNTS 2011/12

### 18. External Audit Costs

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

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

### 19. Grant Income

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

|   | 2010/11<br>£'000 | 2011/12<br>£'000 |
|---|------------------|------------------|
| <b>Credited to Taxation and Non Specific grant income</b> |                  |                  |
| Revenue Support Grant                                     | (1,118)          | (1,440)          |
| New Homes Bonus   | -                | (338)            |
| Performance Reward Grant                                  | -                | (180)            |
| Area Based Grant  | (40)             | -                |
| Non Domestic Rates  | (7,701)          | (4,658)          |
| Capital Grants and Contributions                          | (589)            | (984)            |
| <b>Total</b>  | <b>(9,448)</b>   | <b>(7,600)</b>   |

#### Credited to Services

|  |                 |                 |
|--|-----------------|-----------------|
| Civic Pride Grant                                    | -               | (10)            |
| Flood defence grants                                 | (320)           | (558)           |
| Election grants                                      | (105)           | (142)           |
| Concessionary Transport Scheme grant                 | (640)           | -               |
| Homelessness grants                                  | (268)           | (242)           |
| Housing Benefits subsidy & Administration grants     | (31,438)        | (32,409)        |
| Council Tax Benefits subsidy & Administration grants | (7,440)         | (7,386)         |
| NNDR – Cost of Collection grants                     | (198)           | (192)           |
| Recycling grants                                     | (109)           | (100)           |
| Contaminated Land Grants                             | (148)           | (25)            |
| Art Gallery & Museum Grants                          | (99)            | (75)            |
| Other Grants   | (131)           | (40)            |
| Other partnership funding and contributions          | (331)           | (1,591)         |
| <b>Total</b>   | <b>(41,227)</b> | <b>(42,770)</b> |

#### Receipts in Advance – Revenue

|  |   |       |
|--|---|-------|
| Commutated Grounds Maintenance contributions | - | (184) |
|--|---|-------|

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

**20. Amounts reported for Resource Allocation Decisions (Segmental Reporting)**

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The analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SeRCOP) 2011/12. However decisions about resource allocations are taken by the council's Cabinet on the basis of budget reports analysed across divisions headed by Directors. These reports are prepared on a different basis from the accounting policies used in these financial statements. Specifically:

- charges for depreciation, revaluation and impairment of assets are excluded
- the cost of retirement benefits is based on the employer's pensions contributions paid rather than the current service cost of benefits accrued in the year
- revenue expenditure funded from capital under statute is excluded.

The income and expenditure of Directorates recorded in the budget reports for the year, together with a reconciliation to the figures shown in the Comprehensive Income and Expenditure Statement, is shown below. The council's organisation structure changed in 2011/12 and the 2010/11 comparative figures are presented in the previous management structure format, relevant in 2010/11.

**STATEMENT OF ACCOUNTS 2011/12**

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

| <b>Segmental Analysis<br/>- General Fund Services<br/>2010/11 comparative figures</b> | <b>Employees<br/>Costs</b> | <b>Other<br/>Service<br/>Expenses</b> | <b>Support<br/>Service<br/>Costs</b> | <b>Total<br/>Expenditure</b> | <b>Fees &amp;<br/>Other<br/>income</b> | <b>Gov't<br/>Grants</b> | <b>Total<br/>Income</b> | <b>Net<br/>Expenditure</b> |
|---|----------------------------|---------------------------------------|--------------------------------------|------------------------------|--|-------------------------|-------------------------|----------------------------|
|   | <b>£'000</b>               | <b>£'000</b>                          | <b>£'000</b>                         | <b>£'000</b>                 | <b>£'000</b>                           | <b>£'000</b>            | <b>£'000</b>            | <b>£'000</b>               |
| Strategic Management  | 706                        | 473                                   | (607)                                | 572                          | (13)                                   | (320)                   | (333)                   | 239                        |
| Assistant Chief Executive   | 992                        | 2,096                                 | 423                                  | 3,511                        | (470)                                  | (133)                   | (603)                   | 2,908                      |
| Built Environment   | 2,637                      | 7,493                                 | (41)                                 | 10,089                       | (7,946)                                | (648)                   | (8,594)                 | 1,495                      |
| Community Services  | 911                        | 776                                   | 2                                    | 1,689                        | (203)                                  | (268)                   | (471)                   | 1,218                      |
| Financial Services  | 1,877                      | 289                                   | (598)                                | 1,568                        | (242)                                  | 0                       | (242)                   | 1,326                      |
| CAST  | 2,856                      | 39,021                                | (1,936)                              | 39,941                       | (528)                                  | (39,078)                | (39,606)                | 335                        |
| Wellbeing and Culture   | 3,144                      | 4,397                                 | 656                                  | 8,197                        | (3,376)                                | (50)                    | (3,426)                 | 4,771                      |
| Human Resources & Org. Developmt  | 521                        | 71                                    | (565)                                | 27                           | (38)                                   | 0                       | (38)                    | (11)                       |
| Operations  | 6,078                      | 3,733                                 | 1,016                                | 10,827                       | (4,803)                                | (275)                   | (5,078)                 | 5,749                      |
| Programmed Maintenance (Revenue)  | 0                          | 510                                   | 0                                    | 510                          | 0                                      | 0                       | 0                       | 510                        |
| Business Change   | 81                         | 88                                    | 580                                  | 749                          | (102)                                  | 0                       | (102)                   | 647                        |
| Bad debt provision  | 0                          | 46                                    | 0                                    | 46                           | 0                                      | 0                       | 0                       | 46                         |
|   | <b>19,803</b>              | <b>58,993</b>                         | <b>(1,070)</b>                       | <b>77,726</b>                | <b>(17,721)</b>                        | <b>(40,772)</b>         | <b>(58,493)</b>         | <b>19,233</b>              |

## STATEMENT OF ACCOUNTS 2011/12

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

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

#### Reconciliation to Subjective Analysis 2010/11 Comparative

#### Reconciliation to Subjective Analysis 2011/12

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

## STATEMENT OF ACCOUNTS 2011/12

### 21. Property, Plant & Equipment

| 2010/11  |                          |                               |                        |                  |                |                           |                | 2011/12           |                          |                               |                        |                  |                |                           |                 |
|--|--------------------------|-------------------------------|------------------------|------------------|----------------|---------------------------|----------------|-------------------|--------------------------|-------------------------------|------------------------|------------------|----------------|---------------------------|-----------------|
| Council dwellings                              | Other Land and buildings | Vehicles, Plant and equipment | Infra-structure assets | Community assets | Surplus assets | Assets under construction | Total          | Council dwellings | Other Land and buildings | Vehicles, Plant and equipment | Infra-structure assets | Community assets | Surplus assets | Assets under construction | Total           |
| £'000  | £'000                    | £'000                         | £'000                  | £'000            | £'000          | £'000                     | £'000          | £'000             | £'000                    | £'000                         | £'000                  | £'000            | £'000          | £'000                     | £'000           |
| <b>Cost or valuation</b>                       |                          |                               |                        |                  |                |                           |                |                   |                          |                               |                        |                  |                |                           |                 |
| 259,220  | 78,387                   | 3,419                         | 7,690                  | 226              | 25             | 137                       | 349,104        | 152,037           | 75,373                   | 4,993                         | 8,454                  | 226              | 25             | -                         | 241,108         |
| 2,884  | 186                      | 1,574                         | 627                    | -                | -              | -                         | 5,271          | 4,072             | 79                       | 1,982                         | 660                    | -                | -              | 1,013                     | 7,806           |
| 1,062  | 99                       | -                             | -                      | -                | -              | -                         | 1,161          | 713               | (47)                     | -                             | -                      | -                | -              | -                         | 666             |
| (108,549)                                      | -                        | -                             | -                      | -                | -              | -                         | (108,549)      | -                 | -                        | -                             | -                      | -                | -              | -                         | -               |
| (2,580)  | -                        | -                             | -                      | -                | -              | -                         | (2,580)        | (277)             | (50)                     | -                             | -                      | -                | -              | -                         | (327)           |
| -  | (3,404)                  | -                             | -                      | -                | -              | -                         | (3,404)        | -                 | -                        | -                             | -                      | -                | 3,404          | -                         | 3,404           |
| -  | -                        | -                             | 137                    | -                | -              | (137)                     | -              | (588)             | -                        | -                             | -                      | -                | 588            | -                         | -               |
| -  | 105                      | -                             | -                      | -                | -              | -                         | 105            | -                 | -                        | -                             | -                      | -                | -              | -                         | -               |
| <b>152,037</b>                                 | <b>75,373</b>            | <b>4,993</b>                  | <b>8,454</b>           | <b>226</b>       | <b>25</b>      | <b>-</b>                  | <b>241,108</b> | <b>155,957</b>    | <b>75,355</b>            | <b>6,975</b>                  | <b>9,114</b>           | <b>226</b>       | <b>4,017</b>   | <b>1,013</b>              | <b>252,657</b>  |
| <b>Accumulated Depreciation and Impairment</b> |                          |                               |                        |                  |                |                           |                |                   |                          |                               |                        |                  |                |                           |                 |
| (62,487)                                       | (1,968)                  | (1,789)                       | (640)                  | -                | -              | -                         | (66,884)       | (3,129)           | (3,642)                  | (2,345)                       | (845)                  | -                | -              | -                         | (9,961)         |
| (3,101)  | (1,992)                  | (613)                         | (232)                  | -                | -              | -                         | (5,938)        | (3,242)           | (1,834)                  | (696)                         | (227)                  | -                | -              | -                         | (5,999)         |
| -  | 103                      | -                             | -                      | -                | -              | -                         | 103            | -                 | -                        | -                             | -                      | -                | -              | -                         | -               |
| 62,487   | -                        | -                             | -                      | -                | -              | -                         | 62,487         | -                 | -                        | -                             | -                      | -                | -              | -                         | -               |
| -  | -                        | -                             | -                      | -                | -              | -                         | -              | -                 | -                        | -                             | -                      | -                | -              | -                         | -               |
| (28)   | -                        | 57                            | 27                     | -                | -              | -                         | 56             | -                 | -                        | -                             | -                      | -                | -              | -                         | -               |
| -  | -                        | -                             | -                      | -                | -              | -                         | -              | -                 | 7                        | -                             | -                      | -                | -              | -                         | 7               |
| -  | 320                      | -                             | -                      | -                | -              | -                         | 320            | -                 | -                        | -                             | -                      | -                | (320)          | -                         | (320)           |
| -  | -                        | -                             | -                      | -                | -              | -                         | -              | -                 | -                        | -                             | -                      | -                | -              | -                         | -               |
| -  | (105)                    | -                             | -                      | -                | -              | -                         | (105)          | -                 | -                        | -                             | -                      | -                | -              | -                         | -               |
| <b>(3,129)</b>                                 | <b>(3,642)</b>           | <b>(2,345)</b>                | <b>(845)</b>           | <b>-</b>         | <b>-</b>       | <b>-</b>                  | <b>(9,961)</b> | <b>(6,371)</b>    | <b>(5,469)</b>           | <b>(3,041)</b>                | <b>(1,072)</b>         | <b>-</b>         | <b>(320)</b>   | <b>-</b>                  | <b>(16,273)</b> |
| <b>148,908</b>                                 | <b>71,731</b>            | <b>2,648</b>                  | <b>7,609</b>           | <b>226</b>       | <b>25</b>      | <b>-</b>                  | <b>231,147</b> | <b>149,586</b>    | <b>69,886</b>            | <b>3,934</b>                  | <b>8,042</b>           | <b>226</b>       | <b>3,697</b>   | <b>1,013</b>              | <b>236,384</b>  |
| <b>Net Book Value at 31 March</b>              |                          |                               |                        |                  |                |                           |                |                   |                          |                               |                        |                  |                |                           |                 |

### Depreciation

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

- Council dwellings - depreciation is deemed equivalent to the Major Repairs Allowance provided by the Government, as permitted by the Code and statutory guidance
- Other Land and Buildings - 50 years
- Vehicles, Plant, Furniture and Equipment- between 4 – 10 years, depending on the estimated life of the asset
- Infrastructure - 40 years

### Revaluations

The Authority re-values its land and buildings every five years, the last formal revaluation for non-dwelling land and buildings being completed in 2009/10 with a re-valuation date of 1st April 2009. Valuations were carried out externally by GVA Grimley. Valuations of land and buildings were carried out using the methodologies and bases of estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The last formal revaluation for dwellings was completed in 2010/11 with a revaluation date of 1st April 2010. The revaluation was carried out internally by the council's property section, headed by David Roberts MRICS.

Vehicles, plant and equipment are not re-valued, in accordance with the council's accounting policies and are carried at depreciated historic cost as a proxy for fair value. Similarly Infrastructure, community assets and assets under construction are not re-valued, and are carried at historic cost.

### Effects of changes in Estimates

In 2010/11 the authority re-valued its dwelling stock at 1st April 2010, with the result that its net book value was reduced by £46 million. As there was no balance on the revaluation reserve for these assets, all of the reduction in value has been charged to the Housing Revenue Account (HRA) and Comprehensive Income and Expenditure Statement. The valuation takes into account the social housing use of the stock (to reflect the secure tenancies), and the downward revaluation is wholly due to a reduction in the discount factor for social housing from 44% to 31%, as recommended by the latest government valuation guidance. The uplift for 11/12 for dwelling stock is £0.712m

### Componentisation

Under the Code, the Authority is required to account separately for expenditure on major building components incurred from 1st April 2010, so that they can be depreciated over their respective useful lives. No components were identified in 2011/12

### Reclassifications

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

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

## STATEMENT OF ACCOUNTS 2011/12

### Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure financed by borrowing. The CFR is analysed in the second part of the note.

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

### Commitments under capital contracts

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



## 22. Heritage Assets

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

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

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

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

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

The museum holds significant collections in the following areas:

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

## STATEMENT OF ACCOUNTS 2011/12

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

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

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

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

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

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

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

### Community Assets

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

## STATEMENT OF ACCOUNTS 2011/12

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### 23. Investment Properties

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

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

There are no restrictions on the authority's ability to realise the value inherent in its investment property or on its right to the remittance of income and the proceeds of disposal. The authority has no contractual obligations to purchase, construct, enhance or develop investment property, however some lease agreements require the council to repair and maintain properties.

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

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

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

## 24. Assets held under leases

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### The Authority as Lessee

The council's policy in the past has been to acquire vehicles, plant and equipment through leasing arrangements. In 2011/12 vehicles, caddies and waste bins were not leased but purchased and funded by prudential borrowing.

Leases can fall into one of two categories:

**(i) Finance Leases**

No new finance lease arrangements were entered into and no leasing payments were made in 2011/12 or 2010/11.

**(ii) Operating Leases**

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

### The Authority as Lessor

The council seeks to obtain income from property it owns but does not need for its own occupation, either by selling the freeholds or granting leases. Where the council grants leases it does so at best consideration unless it wishes to support the tenant financially (e.g. tenants who provide a service to the community).

Where the council wishes to support a tenant financially it needs to be satisfied that the use of the property supports the Corporate Plan objectives and is not otherwise commercially viable. The council uses a system where the tenant pays a rent equivalent to best consideration and enters into a service agreement linked to the lease which includes a grant in lieu of some or all of the rent depending on the service provided from the property.

Under the Code of Practice for Local Authority Accounting 2011/12 leases of property are accounted for as separate leases of land and buildings. Prior to 2010/11 each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated single lease, or as a finance lease where it was previously treated as an operating lease.

Similarly under IFRS the criteria for the classification of operating and finance leases changed and it is possible leases of property, plant and equipment previously treated as operating leases are finance leases under the code.

The authority does not have any leases where the accounting treatment has changed and all leases in existence from 1st April 2011 onwards have been deemed to be operating leases

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

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

## STATEMENT OF ACCOUNTS 2011/12

### 25. Intangible Assets

Intangible Assets are defined as 'non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights'. All of the intangible assets held relate to computer software.

Software licenses are held for a number of the council's main software packages e.g. the Financial Management System. The balance is amortised to the relevant service revenue account over the useful life of the software on a straight line basis, to reflect the pattern of consumption of benefits (generally five years). Newly acquired intangibles are amortised from the year in which they are used.

The movement in Intangible asset balances during the year is as follows:

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

During 2010/11 the council, in partnership with Cotswold, Forest of Dean and West Oxfordshire District Councils and Cheltenham Borough Homes (CBH) purchased an Enterprise Resource Planning System, providing a single finance, payroll, Human Resources, and procurement system. This system was implemented during 2011/12, with a 'go live' date for Cheltenham of 1st April 2012. Expenditure of £0.164 million was incurred during the year, being Cheltenham's share of the ongoing cost of procurement and development.

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

**STATEMENT OF ACCOUNTS 2011/12**

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**26. Assets Held for Sale**

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|   | Current            |                    |
|---|--------------------|--------------------|
|   | 31st March<br>2012 | 31st March<br>2011 |
|   | £'000              | £'000              |
| <b>Balance outstanding at start of year</b>                                 | <b>3,084</b>       | -                  |
| Assets newly classified as held for sale<br>- Property, Plant and Equipment | -                  | 3,084              |
| Revaluation losses  | -                  | -                  |
| Revaluation gains   | -                  | -                  |
| Impairment losses   | -                  | -                  |
| Assets declassified as held for sale  | (3,084)-           | -                  |
| Fair value of assets sold   | -                  | -                  |
| Other movements   | -                  | -                  |
| <b>Balance outstanding at year end</b>                                      | <b>-</b>           | <b>3,084</b>       |

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

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

**STATEMENT OF ACCOUNTS 2011/12**

**27. Financial Instruments**

Overall Investments

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

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

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

The unquoted equity investment of £435,222 (shown at cost), consists of shares held in Gloucestershire Airport (see Group Accounts, pages 92 to 101), for which a fair value cannot reliably be measured. This is because the range of reasonable fair value estimates could be significant due to the runway development project, currently underway. There are no current plans to dispose of the shares.

Investments in Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki Islands Hf, Kaupthing and Glitnir Hf collapsed and their UK subsidiaries of the banks, Heritable and Kaupthing, Singer & Friedlander went into administration. The authority had £11 million deposited across three of these banks with varying maturity dates and interest rates as follows:

**STATEMENT OF ACCOUNTS 2011/12**

| <b>Bank</b>                     | <b>Date invested</b> | <b>Maturity date</b> | <b>Amount invested<br/>£'000</b> | <b>Interest<br/>rate (%)</b> |
|---------------------------------|----------------------|----------------------|----------------------------------|------------------------------|
| Kaupthing, Singer & Friedlander | 18/07/06             | 20/07/09             | 2,000                            | 5.30                         |
| Kaupthing, Singer & Friedlander | 14/12/07             | 15/12/08             | 1,000                            | 5.86                         |
| Landsbanki Islands Hf           | 19/07/06             | 19/07/10             | 2,000                            | 5.29                         |
| Landsbanki Islands Hf           | 19/07/06             | 19/07/11             | 2,000                            | 5.31                         |
| Landsbanki Islands Hf           | 14/12/06             | 14/12/09             | 1,000                            | 5.40                         |
| Glitnir Bank Hf                 | 14/12/06             | 15/12/08             | 3,000                            | 5.56                         |

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

The current situation with regards to the recovery of the sums deposited varies for each bank. In 2008/09 the authority made impairment adjustments for the deposits, based on the latest information available at the time. The impairment charges were reviewed at 31st March 2010, at 31st March 2011 and again at 31st March 2012, based on the latest information and guidance, and as a result further adjustments have been made in 2009/10, 2010/11 and 2011/12. As not all the available information is definite as to the amounts and timings of payments to be made by the administrators and receivers, it is likely that further adjustments will be made to the accounts in future years.

***Kaupthing, Singer and Freidlander Ltd (KS&F)***

Kaupthing, Singer & Friedlander is a UK registered bank, in administration under English Law. The company was placed in administration on 8th October 2008 and the administrators are partners of Ernst & Young LLP. The council had £3 million invested with this bank.

The latest creditor progress report, issued by the administrators in April 2012, indicates a return to creditors in the range of 81p to 86p in the £. Claims are based on the principal and interest accrued up to 7th October 2008. Up until 31st March 2012 repayments of 63p in the £ had been received as follows:

| <b>Date</b>   | <b>Distribution<br/>p in the £</b> | <b>Amount<br/>£'000</b> |
|---------------|------------------------------------|-------------------------|
| July 2009     | 20                                 | 614                     |
| December 2009 | 10                                 | 307                     |
| April 2010    | 5                                  | 154                     |
| July 2010     | 10                                 | 307                     |
| December 2010 | 8                                  | 246                     |
| May 2011      | 5                                  | 154                     |
| October 2011  | 5                                  | 154                     |
|               | <b>63</b>                          | <b>1,936</b>            |

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

In 2008/09 the authority decided to recognise impairments based on it recovering 60p in the £ (the minimum indicated amount at the time) in equal annual instalments up to October 2012 (the date at the time up to when the High Court had permitted the administration to be extended). In 2009/10 the estimated recoverable amount increased to between 65p to 78p in the £, so for the purpose of calculating the impairment adjustment for that year the authority assumed the mid-point in the range (71p in the £), in accordance with accounting guidance at the time. It was



assumed repayments would be received evenly at six monthly intervals, from July 2010 to January 2013.

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

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

The administrators' statements and further information can be found at [www.kaupthingsingers.co.uk](http://www.kaupthingsingers.co.uk)

#### ***Landsbanki Islands Hf***

This bank is an Icelandic institution. Following steps taken by the Icelandic government in early October 2008, its domestic assets and liabilities were transferred to a new bank (Landsbanki), with the management of the affairs of the previous bank being placed in the hands of a resolution committee or winding up board under Icelandic law.

The winding up board recognised local authority claims as having priority status under Icelandic law, however other creditors filed objections to this decision. The Reykjavik District Court subsequently issued a judgement verdict on 1st April 2011 confirming that local authorities' claims qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. This ruling was subsequently confirmed by the Icelandic Supreme Court on 28 October 2011.

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

Claims are based on principal and interest accrued up to 22nd April 2009, in accordance with Act 44/2009, which has recently been passed in Iceland. As the loans matured after 22nd April 2009, interest can only be claimed up to that date at the contractual rate.

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

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

In 2008/09 the authority decided to recognise an impairment based on it recovering 88p in the £ (the latest information at the time). In the absence of further information, it was assumed repayments would be divided equally between December 2010, December 2011 and December 2012.

In 2009/10 more up to date information indicated a recovery rate of 94.85p in the £, assuming the deposits had priority status. Repayments were expected to be made at annual intervals between October 2011 and October 2018 (with nearly 20% in 2018). The significant extension in the repayment profile, offset partly by the increased recovery rate, resulted in an increased impairment adjustment for the deposits in 2009/10.

For 2010/11 a recovery rate of 94.85p was again used, again assuming the deposits had priority status, with repayments assumed to be made between December 2011 and December 2018. The slight extension of the repayment profile resulted in a small increase in the impairment charge for the deposits.

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

However there is an exchange rate risk arising from:

- \* a proportion of the February 2012 repayment continuing to be held in Icelandic Kroner (ISK)

- \* future repayments being made in a basket of different currencies

and the amounts ultimately received in Sterling will depend on the prevailing exchange rate at the time of repayment or conversion. This may mean the council receiving more or less than 100% of the value of the investments shown on the council's balance sheet, depending on future exchange rate movements. The risk is not however deemed significant enough to materially affect the carrying values of the deposits.

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

The resolution committee's presentations and further information can be found at [www.lbi.is](http://www.lbi.is)

#### **Glitnir Bank Hf**

Glitnir Bank Hf is also an Icelandic entity. Following steps taken by the Icelandic government in early October 2008, its domestic assets and liabilities were transferred to a new bank (Glitnir), with the management of the affairs of the previous bank being placed in the hands of a resolution committee or winding up board under Icelandic law.

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

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However The Reykjavik District Court subsequently issued a verdict on 1st April 2011 confirming that local authorities' claims qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. This ruling was subsequently confirmed by the Icelandic Supreme Court on 28 October 2011, although interest due was to be payable up to 22<sup>nd</sup> April 2009 *or the date of maturity (if earlier)*.

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

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

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

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

The resolution committee's presentations and further information can be found at [www.Glitnirbank.com](http://www.Glitnirbank.com)

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

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

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The carrying amounts have been classified as short or long term according to the profile of expected repayments. Those amounts expected to be repaid within twelve months, which total £1.434 million, have been classified as short term, leaving £2.219 million recoverable in the long term.

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

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

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

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

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

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

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

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

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

### Debtors

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

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

### Borrowing

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

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

|  |  |               |               |
|--|--|---------------|---------------|
| <b>Analysis of PWLB loans by maturity:</b> |  |               |               |
| 1 year                                     |  | 2,055         | -             |
| 2-5 years                                  |  | -             | 2,000         |
| 6-10 years                                 |  | -             | -             |
| More than 10 years                         |  | 38,774        | 9,000         |
|  |  | <b>40,829</b> | <b>11,000</b> |
| <b>Analysis of Bank loans by maturity</b>  |  |               |               |
| 2-5 years                                  |  | -             | -             |
| 6-10 years                                 |  | -             | -             |
| More than 10 years                         |  | 15,900        | 15,900        |
|  |  | <b>15,900</b> | <b>15,900</b> |

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

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

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

### Creditors

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

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

### Reclassifications

There were no reclassifications of financial instruments during the year.

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*Income, Expense, gains and losses*

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

*Fair Value of assets and liabilities carried at amortised cost*

Financial assets and liabilities represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values have been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised
- where an instrument will mature in the next twelve months, the carrying amount is assumed to approximate to fair value
- the fair value of trade and other payables and receivables is taken to be the invoiced or billed amount.

The fair values of the long and short term investments equate approximately to their carrying values at the balance sheet date. The investments with Icelandic banks have been impaired so that their carrying values, representing the present value of the likely amounts to be recovered, would equate to their expected fair value. All other loans will mature within the next twelve months.

As regards borrowing, the fair value of PWLB loans held at 31<sup>st</sup> March 2012 is £45,024,416 (£12,041,926 at 31<sup>st</sup> March 2011) compared to the carrying value of £40,829 at 31<sup>st</sup> March 2012 (£11,000,000 at 31<sup>st</sup> March 2011). The fair value is higher than the carrying amount because the

## STATEMENT OF ACCOUNTS 2011/12

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authority's portfolio includes fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the authority would have to pay if it requested early repayment of the loans.

For all other long term borrowing the fair value equates to £18,725,045 at 31<sup>st</sup> March 2012 (£15,835,439 at 31<sup>st</sup> March 2011) compared to the carrying value of £15,900,000 at 31<sup>st</sup> March 2012 (£15,900,000 at 31<sup>st</sup> March 2011).

The fair value of all short term borrowing is deemed equal to its carrying value (amortised cost).

Short term debtors and creditors are carried at amortised cost as this is a fair approximation of their value.

### Nature and extent of risks arising from financial instruments

The council has adopted CIPFA's *Treasury Management in the Public Services: Code of Practice* and has set treasury management prudential indicators to control key financial instrument risks in accordance with CIPFA's prudential code.

The council's activities expose it to a variety of financial risks:

- credit risk – the risk that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the council might not have funds available to meet its commitment to make payments
- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates
- exchange rate risk – the risk of fluctuations in exchange rates where the transaction is denominated in a foreign currency.

The authority's overall risk management is carried out by a central treasury team, subject to policies set out in the treasury management strategy approved by Council in February 2011. The council provides written policies for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the authority's customers. Deposits during the 2011/12 were made with financial institutions that were rated independently with all three agencies (Fitch, Moody's and Standard & Poor) and met the council's lending criteria as approved in its Investment Policy 2011/12.

The policy dictates the maximum amount of lending that can be held with any one institution, set in accordance with the institution's credit rating and the guidance of the council's treasury advisors, Arlingclose. The maximum investment that can be made with an approved counterparty was £7 million in 2011/12. No credit limits were exceeded during the year.

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



## STATEMENT OF ACCOUNTS 2011/12

and owns the housing stock which Cheltenham Borough Homes manages on behalf of the council.

### Liquidity risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority could be required to replenish a significant portion of its borrowings at a time of unfavourable interest rates. This risk is reduced by working towards a rolling programme to ensure the maturity of loans is spread over a period of time.

### Market risk

The authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. By way of illustration, if interest rates were 1% higher in 2011/12, this would have had the following effect:

|  | Amount<br>outstanding<br>(weighted<br>average) in<br>year<br>£'000 | Average<br>actual<br>interest<br>rate<br>% | Actual<br>Interest<br>paid /<br>(receivable)<br>£'000 | Projected<br>interest<br>rate<br>% | Projected<br>interest<br>paid /<br>(receivable)<br>£'000 | Variation<br>£'000 |
|--|--|--|---|------------------------------------|--|--------------------|
| <b>Borrowing</b>   |  |  |   |                                    |  |                    |
| Fixed rate   | 27,900   | 4.32                                       | 1,207   | 4.32                               | 1,207  | -                  |
| Variable rate  | 10,500   | 0.38                                       | 40  | 1.38                               | 163  | 123                |
|  | <b>38,400</b>  | <b>3.24</b>                                | <b>1,247</b>  | <b>4.225</b>                       | <b>1,370</b>   | <b>123</b>         |
| <b>Lending</b>   |  |  |   |                                    |  |                    |
| Fixed rate   | -  | -  | -   | -                                  | -  | -                  |
| Variable rate  | 8,200  | 2.26                                       | (185)   | 3.26                               | (267)  | (82)               |
|  | <b>8,200</b>   | <b>2.26</b>                                | <b>(185)</b>  | <b>3.26</b>                        | <b>(267)</b>   | <b>(82)</b>        |
| <b>Net loss / (gain)<br/>on surplus / deficit<br/>for year</b> | <b>30,200</b>  |  | <b>1,062</b>  |                                    | <b>1,103</b>   | <b>41</b>          |

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

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

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

### Foreign exchange risk

The authority has short term investments held in 'escrow' accounts denominated in Icelandic Kroner (ISK) (see section on Icelandic banks, pages 65-71), the Sterling value of which

## STATEMENT OF ACCOUNTS 2011/12

fluctuates according to prevailing exchange rates. This risk will continue until the amounts are released to the council in Sterling, which is subject to the authorisation of the Central Bank of Iceland.

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

### 28. Inventories

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

### 29. Short Term Debtors

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

Each line is presented net of any impairments or provision for bad debts.

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**30. Cash / Cash Equivalents and Bank Overdraft**

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

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

**31. Short Term Creditors**

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

**32. Provisions**

|                        | <b>Balance at<br/>1st April</b> | <b>Additional<br/>provisions<br/>made<br/>in Year</b> | <b>Amounts<br/>used<br/>in Year</b> | <b>Unused<br/>Amount<br/>Reversed</b> | <b>Balance at<br/>31st<br/>March</b> |
|------------------------|---------------------------------|---|-------------------------------------|---------------------------------------|--------------------------------------|
|                        | <b>£'000</b>                    | <b>£'000</b>  | <b>£'000</b>                        | <b>£'000</b>                          | <b>£'000</b>                         |
| General Fund Insurance | 96                              | 127   | (82)                                | -                                     | 141                                  |
| <b>2011/12</b>         | <b>96</b>                       | <b>127</b>  | <b>(82)</b>                         | <b>-</b>                              | <b>141</b>                           |
| <b>2010/11</b>         | <b>535</b>                      | <b>-</b>  | <b>411</b>                          | <b>28</b>                             | <b>96</b>                            |

The Insurance Provision was established to fund the cost of claims from third parties against the council under insurance policy excesses. The provision represents the value of an assessment of the council's liability in respect of the current insurance claims outstanding with the council's insurers. Transfers between the Insurance Provision and the Insurance Reserve are made in order to provide adequate funding for the outstanding claims liability notified by the insurance company.

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The insurance reserve is used to fund losses for which the council does not carry insurance cover, fluctuations in insurance premiums and corporate risk management strategy implementation.

### 33. Usable Reserves and transfers to / from Earmarked Reserves

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement on page 23. Movements in the earmarked reserves shown on the statement are detailed below.

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

#### Purpose of reserves

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

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

Repairs and Renewals Reserves – to meet the cost of planned and reactive repairs to buildings and infrastructure and to fund the renewals programme for computer equipment.

Reserves for Commitments – to cover the cost of budget commitments where spending did not take place in the year approved, but is planned to take place in the following year.

Other earmarked reserves – sums built up to cover the future costs of planned expenditure, for example redevelopment of the Art Gallery and Museum, risk management initiatives, vehicles and equipment, and Civic Pride match funding.

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### 34. Unusable Reserves

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

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

#### Revaluation Reserve

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

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

The balance on the reserve therefore represents the amount by which the fair values of non-current assets carried on the Balance Sheet are greater because they are carried at re-valued amounts rather than at depreciated historical cost. The reserve for 2010/11 was restated as a result of heritage assets (see note 22).

### Capital Adjustment Account

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

## STATEMENT OF ACCOUNTS 2011/12

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The Capital Adjustment Account accumulates on the debit side the write-down of the historical cost of non-current assets as they are consumed by depreciation and impairments, or written off on disposal. On the credit side it accumulates the resources that have been set aside to finance capital expenditure. The balance on the Account thus represents timing differences between the historical cost of non-current assets that have been consumed and the cost financed in accordance with statutory requirements.

The Account also contains accumulated gains and losses on Investment properties that have yet to be consumed by the Authority and revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

### Financial Instruments Adjustment Account

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

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

Where premiums and discounts arising on the early repayment of loans are required to be charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over a number of years. The council has a policy of spreading the gain or loss over the period that was remaining on the loan when it was repaid. The reconciliation of amounts required to be charged to the Comprehensive Income and Expenditure Statement to the net charge made against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movements in Reserves Statement.

In 2010/11 two outstanding premiums were extinguished using capital receipts received from asset sales, thus reducing the annual charge to the General Fund Balance.

### Collection Fund Adjustment Account

This account reflects the difference between the rate at which collection fund surpluses or deficits are released to the council's General Fund Balance according to proper accounting practice, and the rate at which they are released according to statute. Proper accounting practice requires the surpluses or deficits generated in the year to be included in the Comprehensive Income and Expenditure Statement for the year, whereas statute does not allow these to be released to the general fund balance until the following year. The balance on this account therefore represents the surplus available to be released to the general fund balance in the future.

|  | 2011/12<br>£'000 | 2010/11<br>£'000 |
|--|------------------|------------------|
| <b>Balance at 1st April</b>  | <b>93</b>        | <b>93</b>        |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (38)             | -                |
| <b>Balance at 31st March</b>   | <b>55</b>        | <b>93</b>        |

## STATEMENT OF ACCOUNTS 2011/12

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### Accumulating Compensated Absences Adjustment Account

This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for staff absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account via the Movement in Reserves Statement.

|   | 2011/12<br>£'000   | 2010/11<br>£'000   |
|---|--------------------|--------------------|
| <b>Balance at 1st April</b>   | <b>(72)</b>        | <b>(81)</b>        |
| Settlement or cancellation of accrual made at the end of the preceding year   | 72                 | 81                 |
| Amounts accrued at the end of the year  | <u>(84)</u>        | <u>(72)</u>        |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from that chargeable in the year according to statutory requirements | <u>(12)</u>        | <u>9</u>           |
| <b>Balance at 31st March</b>  | <b><u>(84)</u></b> | <b><u>(72)</u></b> |

### Pensions Reserve

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

### Deferred Capital Receipts Reserve

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

## **35. Impairment Losses and Adjustments**

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

## **36. Termination Benefits**

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

These termination benefits are summarised in the table below:



## STATEMENT OF ACCOUNTS 2011/12

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

### 37. Contingent Liabilities

The council has a potential liability in respect of the run off of Municipal Mutual Insurance to the value of £474,018.56 (also £474,018.56 at 31st March 2011). This will only materialise if the assets of the company do not cover the insurance claims yet to be settled, the likelihood and timing of which is unknown at this stage.

On 17<sup>th</sup> August 2010 statutory instrument 2010 No.1812 came into force, amending the existing local land charges rules by removing the ability for authorities to charge for personal searches in respect of one or more parcels of land. As such a fee was incompatible with the Environmental Information Regulations 2004(a), which came into force in January 2005, potentially this might result in back claims for overpaid amounts in previous years.

### 38. Contingent Assets

There are no known material contingent assets at 31<sup>st</sup> March 2012.

### 39. Authorisation of Accounts for issue

IAS 10 *Events after the Balance Sheet Date* requires the establishment of a date after which events will not have been recognised in the Statement of Accounts. For the audited accounts this is the date the accounts are signed by the Chief Finance Officer. On this basis, the date beyond which there can be no reasonable expectation that events could have been taken into account by the authority is 19<sup>th</sup> September 2012. This is the date after which any events are not recognised in the audited accounts for the year 2011/12.

### 40. Events after the Reporting Period

#### Icelandic Banks

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

#### Sale of North Place

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

**GO Shared Service**

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

**Ubico Ltd**

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

## STATEMENT OF ACCOUNTS 2011/12

### 41. Trust Funds

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

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

The purpose of each of the funds is as follows:

- Captain Wild      To fund the acquisition of objects for the Art Gallery and Museum and books to facilitate the study of the contents of the Art Gallery and Museum
- Major Mason      To fund the maintenance of parks in Charlton Kings.
- Miss Privett      To fund the maintenance and upkeep of Charlton Kings cemetery.
- Phyllis Kay      To fund the acquisition of paintings created in the last 100 years for the Art Gallery and Museum, but not abstract works of art.
- Leslie Young      To fund the acquisition of objects for the Art Gallery and Museum.
- Garden of Remembrance      Donations from the public to fund the enhancement of the garden of remembrance at the cemetery.

In addition to the above, four other trust funds were maintained outside of the council's accounts until 1<sup>st</sup> January 2012, at which point the administration of the trusts was transferred out of the council's responsibility. The balances as at 31<sup>st</sup> December 2011 (when the council's involvement with the Trusts ended) and the nil balances as at 31<sup>st</sup> March 2012 are shown below:

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

The capital value of the Trust funds is based on the share values at 31<sup>st</sup> March 2012. The purpose of each of the funds is as follows:

- Turner Long      Annuities to indigent men and women over 50 years of age
- Caroline Strickland      Support to Almshouses - Hales Road
- Hay Trust      Support to Almshouses - Naunton Park
- Walker Memorial      Annuities to indigent men and women over 50 years of age

**42. Defined Benefit Pension Scheme**

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Participation in the Pension Scheme

As part of the terms and conditions of employment of its officers and other employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS), which is categorised as a defined benefit scheme and administered by Gloucestershire County Council, who are required to act in the best interest of the fund's beneficiaries. It is a funded scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension liability with investment assets. The retirement benefits are determined independently of the investors of the scheme and the council has an obligation to make extra contributions where assets are insufficient to meet employee benefits.

Transactions Relating to Post-Employment Benefits

In accordance with the requirements of International Accounting Standard 19 – *Employee Benefits* (IAS19), the operating costs of providing retirement benefits to employees are included in the Comprehensive Income and Expenditure Statement. The costs of retirement benefits are recognised in the Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out in the Movement in Reserves Statement.

The employers' contributions to the pension fund of £3,228,000 (£3,320,000 in 2010/11) have been replaced by the current service (pension) costs, being the increase in the present value of the defined benefit scheme's liabilities expected to arise from employee service in the current period. These are included in the cost of services and total £1,996,000 for 2011/12 (£2,464,000 in 2010/11).

Past service costs represent discretionary benefits awarded on early retirement, to include added years and unreduced pension benefits awarded under the rule of 85. The total past service costs are £74,000 for 2011/12 ( negative £12,414,000 costs in 2010/11) and are included in the cost of services as non-distributed costs.

The effect of the change in the use of the retail prices index (RPI) to the Consumer Prices index (CPI) in calculations on future pension increases resulted in a negative past service cost item in the Comprehensive Income and Expenditure Statement in 2010/11.

Curtailments show the cost of the early payment of pensions benefits of employees made redundant in the previous financial year. These are included in the cost of services as non-distributed costs and total £102,000 for 2011/12 (£48,000 for 2010/11).

The expected return on employer assets is based on the long-term future expected investment return on assets as at 31<sup>st</sup> March 2012. This is £4,684,000 for 2011/12, representing 41.4% of pensionable pay (£5,013,000 in 2010/11, being 41.3%) and is included in the Financing and investment income and expenditure within the Comprehensive Income and Expenditure Statement.

## STATEMENT OF ACCOUNTS 2011/12

The interest charged on pension scheme liabilities reflects the expected increase during the period in the present value of the scheme liabilities because the benefits are one year closer to settlement. This is £5,911,000 for 2011/12, representing 52.2% of pensionable pay (£7,318,000 for 2010/11, being 60.3%) and is included in the Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.

The overall effect on the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year is summarised in the following table:-

| <b>Comprehensive Income and Expenditure Statement</b>  | <b>2011/12<br/>£'000</b> | <b>2010/11<br/>£'000</b> |
|--|--------------------------|--------------------------|
| <i>Cost of Services:</i>   |                          |                          |
| current service cost   | (1,996)                  | (2,464)                  |
| past service costs   | (74)                     | 12,414                   |
| curtailments   | (102)                    | (48)                     |
| <i>Financing and Investment income and Expenditure:</i>  |                          |                          |
| expected return on scheme assets   | 4,684                    | 5,013                    |
| interest on pension scheme liabilities   | (5,911)                  | (7,318)                  |
| <b>Total post employment benefit charged to the deficit on the provision of services</b>   | <b>(3,399)</b>           | <b>7,597</b>             |
| <i>Movement in Reserves Statement:</i>   |                          |                          |
| reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with IAS 19 | (3,399)                  | 7,597                    |
| <i>Actual amount charged against the General Fund Balance for pensions in the year:</i>  |                          |                          |
| employer contributions payable to scheme   | (3,228)                  | (3,320)                  |

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

### Assets and Liabilities in relation to Post-Employment Benefits

In accordance with IAS 19, the council has to disclose its share of assets and liabilities related to pension schemes for its employees. The underlying assets and liabilities for retirement benefits attributable to the authority at 31<sup>st</sup> March are as follows:

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

**STATEMENT OF ACCOUNTS 2011/12**

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

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

Expected returns on assets reflect long term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £2,178,000 (2010/11 £5,748,000).

*Basis for estimating Assets and Liabilities*

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the fund being based on the latest full valuation of the scheme as at 1<sup>st</sup> April 2010.

The main assumptions used in their calculations, agreed with the council, are shown in the table below:

|   | <b>31<sup>st</sup> March<br/>2012</b> | <b>31<sup>st</sup> March<br/>2011</b> |
|---|---------------------------------------|---------------------------------------|
| <b>Mortality Assumptions:</b>   |                                       |                                       |
| Longevity at 65 for current pensioners - men  | 21.7                                  | 21.7                                  |
| Longevity at 65 for current pensioners - women  | 23.6                                  | 23.6                                  |
| Longevity at 65 for future pensioners - men   | 23.5                                  | 23.5                                  |
| Longevity at 65 for future pensioners - women   | 25.8                                  | 25.8                                  |
| Rate of inflation (CPI)   | 2.5%                                  | 2.8%                                  |
| Pension increase rate   | 2.5%                                  | 2.8%                                  |
| Rate of increase in salaries  | 4.3%                                  | 4.6%                                  |
| Rate of discounting scheme liabilities  | 4.8%                                  | 5.5%                                  |
| Expected return on assets   | 5.5%                                  | 6.7%                                  |
| Take-up of option to convert annual pension into retirement grant for pre April 2008 service  | 50.0%                                 | 50.0%                                 |
| Take-up of option to convert annual pension into retirement grant for post April 2008 service | 75.0%                                 | 75.0%                                 |

## STATEMENT OF ACCOUNTS 2011/12

Cheltenham Borough Council's share of assets in the LGPS, valued at bid value, consists of the following categories, by proportion of the total assets held by the fund:

| <b>Assets at 31<sup>st</sup> March 2012</b> |            |                                  | <b>Assets at 31<sup>st</sup> March 2011</b> |               |                                  |     |
|---|------------|----------------------------------|---|---------------|----------------------------------|-----|
| <b>Value</b>                                |            | <b>Expected long term return</b> | <b>Value</b>                                |               | <b>Expected long term return</b> |     |
| <b>£'000</b>                                | <b>%</b>   | <b>%</b>                         | <b>£'000</b>                                | <b>%</b>      | <b>%</b>                         |     |
| 50,818                                      | 71         | 6.2%                             | Equities                                    | 47,876        | 68                               | 7.5 |
| 15,030                                      | 21         | 3.9%                             | Bonds                                       | 16,897        | 24                               | 4.9 |
| 4,294                                       | 6          | 4.4%                             | Property                                    | 4,224         | 6                                | 5.5 |
| 1,431                                       | 2          | 3.5%                             | Cash  | 1,408         | 2                                | 4.6 |
| <b>71,573</b>                               | <b>100</b> |                                  | <b>Total</b>                                | <b>70,405</b> | <b>100</b>                       |     |

It must be recognised that pension fund investments are made for the long term, and that market values and net fund liabilities at a given point in time, are only indicative of the position of the fund at that date.

### Scheme History

| <b>Amounts for current and previous accounting periods</b> | <b>31<sup>st</sup> March 2012<br/>£'000</b> | <b>31<sup>st</sup> March 2011<br/>£'000</b> | <b>31<sup>st</sup> March 2010<br/>£'000</b> | <b>31<sup>st</sup> March 2009<br/>£'000</b> | <b>31<sup>st</sup> March 2008<br/>£'000</b> |
|--|---|---|---|---|---|
| Fair value of employers assets                             | 71,573                                      | 70,405                                      | 72,946                                      | 51,561                                      | 65,549                                      |
| Present value of liabilities                               | (118,045)                                   | (108,476)                                   | (143,351)                                   | (88,642)                                    | (90,626)                                    |
| <b>Surplus / (Deficit)</b>                                 | <b>(46,472)</b>                             | <b>(38,071)</b>                             | <b>(70,405)</b>                             | <b>(37,081)</b>                             | <b>(25,077)</b>                             |

## STATEMENT OF ACCOUNTS 2011/12

The liabilities show the underlying commitments that the council has in the long-term to pay retirement benefits. The net liability of £46.5m has a substantial impact on the net worth of the council as recorded in the Balance Sheet, although the overall balance remains positive at £185m. Statutory arrangements for funding the pension deficit mean that the financial position of the Authority remains healthy.

The deficit on the LGPS will be made good by increased contributions over the remaining working life of the employees, as assessed by the scheme's actuary.

The total contributions expected to be made to the Local Government Pension Scheme in 2012/13 is £3,165,000.

### History of Experience Gains and losses

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

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



**GROUP ACCOUNTS**

The Group Accounts bring together the council's accounts with those of Gloucestershire Airport Limited, in which the council has a 50% shareholding (the remaining 50% of shares are owned by Gloucester City Council), and Cheltenham Borough Homes (CBH), a company limited by guarantee where the council is the sole member. From 2012/13 the Group Accounts will include Cheltenham's share of Ubico Ltd (see note 40 on pages 83 - 84), a joint venture company operating from that date.

The purpose of the Group Accounts is to reflect the full value of the council's investments in companies within the council's financial statements, since the council's shareholdings may not fully reflect its share of the companies' assets and liabilities.

Cheltenham Borough Homes Limited has been categorised as a subsidiary company of Cheltenham Borough Council and its interests have been consolidated in accordance with IAS 27.

IAS 27 requires income and expenditure, assets and liabilities to be consolidated on a line-by-line basis. The operating income and expenditure has been included within the local authority housing (HRA) line before net cost of service. Taxation has been disclosed as a separate line before net operating expenditure, although it should be noted that Cheltenham Borough Homes has been granted exemption from Corporation Tax.

The Group Balance Sheet has been prepared by combining Cheltenham Borough Homes' assets and liabilities with those of the council on a line by line basis, eliminating inter-organisation debtors and creditors.

Gloucestershire Airport Limited has been categorised as a joint venture company as the decisions regarding the operating and financial policies of the company require the consent of all parties. Its assets and liabilities have been consolidated with the council's in accordance with IAS 31.

IAS 31 requires the Gross Equity Method to be used when consolidating joint ventures. Under this method, the council's share of the operating result of the Airport is reported gross (i.e. gross turnover and expenditure) as a separate line before net cost of service within the Group Comprehensive Income and Expenditure Statement. Taxation has been disclosed as a separate line before net operating expenditure.

In the Group Balance Sheet the council's share of the gross assets and liabilities are included as a long-term investment. The council's share of the Airport's reserves is also included.

**PRIOR YEAR ADJUSTMENTS**

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

**STATEMENT OF ACCOUNTING POLICIES FOR THE GROUP ACCOUNTS**

These are set out on pages 25 to 38 and note 1(xxvi) page 37.

**STATEMENT OF ACCOUNTS 2011/12**

**GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

This statement shows the cost in the year of providing group services, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

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

**STATEMENT OF ACCOUNTS 2011/12**

**GROUP BALANCE SHEET**

This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the Group. The net assets of the Group (assets less liabilities) are matched by reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves comprises those that the Group is not able to use to provide services. This category includes reserves that held unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movements in Reserves Statement Line 'Adjustments between accounting basis and funding basis under the regulations.'

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

**STATEMENT OF ACCOUNTS 2011/12**

**GROUP STATEMENT OF MOVEMENT IN RESERVES**

This statement shows the movement in the year in the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement.

|   | Total Authority Usable Reserves<br>£'000 | Authority's share of Usable Reserves of subsidiaries and Joint Ventures<br>£'000 | Total Group Usable Reserves<br>£'000 | Total Authority Unusable Reserves<br>£'000 | Authority's share of Unusable Reserves of subsidiaries and Joint Ventures<br>£'000 | Total Group Unusable Reserves<br>£'000 | Total Group Reserves<br>£'000 |
|---|--|--|--------------------------------------|--|--|--|-------------------------------|
| As originally stated  | 14,989                                   | (6,544)  | 8,445                                | 185,951                                    | 21,596   | 207,547                                | 215,992                       |
| Adjustments (note 22)   | -  | -  | -                                    | 27,306                                     | -  | 27,306                                 | 27,306                        |
| <b>Restated Balance at 31 March 2010</b>  | <b>14,989</b>                            | <b>(6,544)</b>   | <b>8,445</b>                         | <b>213,257</b>                             | <b>21,596</b>  | <b>234,853</b>                         | <b>243,298</b>                |
| <b><u>Movement in Reserves during 2010/11</u></b>                                 |  |  |                                      |  |  |  |                               |
| Surplus or (deficit) on the provision of services                                 | (31,280)                                 | 63   | (31,217)                             | -  | -  | -                                      | (31,217)                      |
| Other comprehensive Income & expenditure  | -  | -  | -                                    | 22,682                                     | 7,032  | 29,714                                 | 29,714                        |
| <b>Total comprehensive Income &amp; Expenditure</b>                               | <b>(31,280)</b>                          | <b>63</b>  | <b>(31,217)</b>                      | <b>22,682</b>                              | <b>7,032</b>   | <b>29,714</b>                          | <b>(1,503)</b>                |
| Adjustments between company and authority reserves (Note 52)                      | (2,170)                                  | -  | (2,170)                              | -  | 2,170  | 2,170                                  | -                             |
| Adjustments between company reserves (Note 52)                                    | -  | 7,014  | 7,014                                | -  | (7,014)  | (7,014)                                | -                             |
| Adjustments between accounting basis and funding basis under regulations (Note 6) | 38,007                                   | -  | 38,007                               | (38,007)                                   | -  | (38,007)                               | -                             |
| <b>Net decrease before transfers to reserves</b>                                  | <b>4,557</b>                             | <b>7,077</b>   | <b>11,634</b>                        | <b>(15,325)</b>                            | <b>2,188</b>   | <b>(13,137)</b>                        | <b>(1,503)</b>                |
| Transfers to/from earmarked reserves (Note 33)                                    | -  | -  | -                                    | -  | -  | -                                      | -                             |
| <b>Increase / (decrease) in 2010/11</b>   | <b>4,557</b>                             | <b>7,077</b>   | <b>11,634</b>                        | <b>(15,325)</b>                            | <b>2,188</b>   | <b>(13,137)</b>                        | <b>(1,503)</b>                |
| <b>Balance at 31 March 2011</b>   | <b>19,546</b>                            | <b>533</b>   | <b>20,079</b>                        | <b>197,932</b>                             | <b>23,784</b>  | <b>221,716</b>                         | <b>241,795</b>                |
| <b><u>Movement in Reserves during 2011/12</u></b>                                 |  |  |                                      |  |  |  |                               |
| Surplus or (deficit) on the provision of services                                 | (23,542)                                 | 257  | (23,285)                             | -  | -  | -                                      | (23,285)                      |
| Other comprehensive Income & expenditure  | -  | -  | -                                    | (6,675)                                    | (7,580)  | (14,255)                               | (14,255)                      |
| <b>Total comprehensive Income &amp; Expenditure</b>                               | <b>(23,542)</b>                          | <b>257</b>   | <b>(23,285)</b>                      | <b>(6,675)</b>                             | <b>(7,580)</b>   | <b>(14,255)</b>                        | <b>(37,540)</b>               |
| Adjustments between company and authority reserves (Note 52)                      | (1,496)                                  | -  | (1,496)                              | -  | 1,496  | 1,496                                  | -                             |
| Adjustments between company reserves (Note 52)                                    | -  | (1,313)  | (1,313)                              | -  | 1,313  | 1,313                                  | -                             |
| Adjustments between accounting basis and funding basis under regulations (Note 6) | 23,330                                   | -  | 23,330                               | (23,330)                                   | -  | (23,330)                               | -                             |
| <b>Net decrease before transfers to reserves</b>                                  | <b>(1,708)</b>                           | <b>(1,056)</b>   | <b>(2,764)</b>                       | <b>(30,005)</b>                            | <b>(4,771)</b>   | <b>(34,776)</b>                        | <b>(37,540)</b>               |
| Transfers to/from earmarked reserves (Note 33)                                    | -  | -  | -                                    | -  | -  | -                                      | -                             |
| <b>Increase / (decrease) in 2011/12</b>   | <b>(1,708)</b>                           | <b>(1,056)</b>   | <b>(2,764)</b>                       | <b>(30,005)</b>                            | <b>(4,771)</b>   | <b>(34,776)</b>                        | <b>(37,540)</b>               |
| <b>Balance at 31 March 2012</b>   | <b>17,838</b>                            | <b>(523)</b>   | <b>17,315</b>                        | <b>167,927</b>                             | <b>19,013</b>  | <b>186,940</b>                         | <b>204,255</b>                |

## STATEMENT OF ACCOUNTS 2011/12

### GROUP CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the Group during the reporting period. The statement shows how the Group generates and uses cash by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations of the Group are funded by way of taxation and grant income or from the recipients of services provided by the Group. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

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

**NOTES TO THE GROUP ACCOUNTS**

These notes follow on from those of the council's single entity accounts above, since many of these are also applicable to the group accounts. Notes that are unique to the group accounts are shown below.

**43. Cheltenham Borough Homes Limited**

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Cheltenham Borough Homes (CBH Ltd) is a company limited by guarantee and is governed by its memorandum and articles of association. The liability in respect of the guarantee is set out in the memorandum of association and is limited to £1 per member of the company, the sole member being Cheltenham Borough Council. The company commenced on 1st April 2003 with a seven year contract with the council to manage and maintain its social housing stock. The contract was renewed at 1st April 2010 for a further ten years. The registered name of the company is Cheltenham Borough Homes Limited (Registration No. 04587658).

During 2010/11 the company commenced the construction of new rented housing stock that will be owned and managed by the company. To facilitate this process the company set up a wholly owned subsidiary during 2009/10, the registered name of which is Cheltenham Borough Homes Services Ltd (CBHS Ltd) (Registration No. 07118944). The principal activity of CBHS is the supply of construction services to CBH.

The audited group accounts for CBH Ltd (including CBHS Ltd) show net assets at 31<sup>st</sup> March 2012 of £2,006,378 (net assets of £529,273 at 31<sup>st</sup> March 2011) and a trading profit of £185,793 in the year to 31<sup>st</sup> March 2012 (compared to a loss of £283,554 in the year to 31<sup>st</sup> March 2011). The net assets have increased mainly due to the acquisition of assets under construction (part funded by social housing grant and land donated by Cheltenham Borough Council), resulting in increased tangible fixed assets of £1.7 million, offset by an increased pension liability of £1 million, resulting mainly from actuarial losses.

The net assets of Cheltenham Borough Homes are valued at cost (in accordance with company accounting rules) and may not therefore reflect their market value. The directors consider it appropriate to prepare the accounts on a going concern basis which assumes the company will be able to meet its liabilities as they fall due. The accounts of the company do not show any contingent liabilities or assets at 31 March 2012. The council's commitment to meet losses is limited to the shares that it holds.

The accounts of Cheltenham Borough Homes Ltd and Cheltenham Borough Homes Services Ltd for the year ending 31<sup>st</sup> March 2012 can be obtained from the Company Secretary at the company's registered office – Cheltenham House, Clarence Street, Cheltenham, Gloucestershire, GL50 3RD.

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

**44. Gloucestershire Airport Limited**

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

The registered name of the airport company is Gloucestershire Airport Ltd (Registration No. 02774189). The audited accounts of the company show net assets at 31<sup>st</sup> March 2012 of £485,441 (compared to net assets of £876,338 at 31<sup>st</sup> March 2010) and an after tax profit of £92,103 for the year to 31<sup>st</sup> March 2012 (£690,369 to 31<sup>st</sup> March 2011). The main reason net liabilities have reduced is due to a significant increase in the net pension deficit, resulting mainly from an actuarial loss of £0.483 million. The council's commitment to meet losses is limited to the shares that it holds.

The following table discloses the council's share of the Airport's results and net assets as follows:

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

The net assets of the Airport Company as shown in the company accounts are valued at cost (in accordance with company accounting rules) and may not therefore reflect their market value. The value of the Airport company could, therefore, be significantly different to that suggested by the stated net assets of the company or the share capital issued.

The Airport did not pay any dividends in the year to 31<sup>st</sup> March 2012 (nil to 31<sup>st</sup> March 2011). Equity dividends proposed by the Board of Directors of the Airport are not recorded in the Airport's financial statements until they are approved by the shareholders at the annual general meeting and are recorded as a movement on retained profits.

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

## STATEMENT OF ACCOUNTS 2011/12

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

The Group Balance Sheet has been prepared by combining the council's 50% share of the Airport's assets and liabilities as a long-term investment, eliminating the share capital. Since the Airport's accounts show non-current assets at historic cost, they have been re-valued and shown in the group balance sheet at fair value, to bring them in line with the council's accounting policies:

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

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

This upward revaluation results in an increase in Unusable Reserves in the group accounts compared to the council's own accounts of £15.3 million, of which £8.8 million relates to operational property (so included in the Revaluation Reserve) and £6.5 million investment property (so included in the Capital Adjustment Account). If the Airport charged depreciation on the operational element of the re-valued assets the charge would be around £0.4 million, based on a life of 30 years.

There is no requirement to adjust for transactions carried out and balances held between the council and Gloucestershire Airport Limited. The cash flows of the Airport are also not required to be included in the Group Cash flow Statement.

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

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

### **45. Short term debtors**

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These are as stated in note 29 to the single entity statements, with the addition of CBH debtors (excluding those with the council). All of the CBH external debtors are sundry debtors.



## STATEMENT OF ACCOUNTS 2011/12

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### 46. Cash and Cash Equivalents

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

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

### 47. Short term Creditors

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

## STATEMENT OF ACCOUNTS 2011/12

### 48. Group Property, Plant & Equipment

| 2010/11  |                          |                               |                        |                  |                |                           |                 | 2011/12  |                          |                               |                        |                  |                |                           |              |                 |
|--|--------------------------|-------------------------------|------------------------|------------------|----------------|---------------------------|-----------------|--|--------------------------|-------------------------------|------------------------|------------------|----------------|---------------------------|--------------|-----------------|
| Council dwellings                              | Other Land and buildings | Vehicles, Plant and equipment | Infra-structure assets | Community assets | Surplus assets | Assets under construction | Total           | Council dwellings  | Other Land and buildings | Vehicles, Plant and equipment | Infra-structure assets | Community assets | Surplus assets | Assets under construction | Total        |                 |
| £'000  | £'000                    | £'000                         | £'000                  | £'000            | £'000          | £'000                     | £'000           | £'000  | £'000                    | £'000                         | £'000                  | £'000            | £'000          | £'000                     | £'000        |                 |
| <b>Cost or valuation</b>                       |                          |                               |                        |                  |                |                           |                 |  |                          |                               |                        |                  |                |                           |              |                 |
| 259,220  | 78,552                   | 3,967                         | 7,690                  | 226              | 25             | 282                       | 349,962         | At 1 April   | 152,037                  | 75,537                        | 5,578                  | 8,454            | 226            | 25                        | 3,075        | 244,932         |
| 2,884  | 192                      | 1,628                         | 627                    | -                | -              | 2,930                     | 8,261           | Additions  | 6,749                    | 79                            | 2,102                  | 660              | -              | -                         | 1,539        | 11,129          |
| 1,062  | 99                       | -                             | -                      | -                | -              | -                         | 1,161           | Revaluation increases / (decreases) recognised in the Revaluation Reserve                            | 713                      | (47)                          | -                      | -                | -              | -                         | -            | 666             |
| (108,549)                                      | -                        | -                             | -                      | -                | -              | -                         | (108,549)       | Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services | -                        | -                             | -                      | -                | -              | -                         | -            | -               |
| (2,580)  | (7)                      | (17)                          | -                      | -                | -              | -                         | (2,604)         | Derecognition - disposals  | (277)                    | (50)                          | (18)                   | -                | -              | -                         | -            | (345)           |
| -  | (3,404)                  | -                             | -                      | -                | -              | -                         | (3,404)         | Assets reclassified to/from held for resale  | -                        | -                             | -                      | -                | -              | 3,404                     | -            | 3,404           |
| -  | -                        | -                             | 137                    | -                | -              | (137)                     | -               | - Other Reclassifications  | (588)                    | -                             | -                      | -                | -              | 588                       | -            | -               |
| -  | 105                      | -                             | -                      | -                | -              | -                         | 105             | Other movements  | -                        | -                             | -                      | -                | -              | -                         | -            | -               |
| <b>152,037</b>                                 | <b>75,537</b>            | <b>5,578</b>                  | <b>8,454</b>           | <b>226</b>       | <b>25</b>      | <b>3,075</b>              | <b>244,932</b>  | <b>At 31 March</b>   | <b>158,634</b>           | <b>75,519</b>                 | <b>7,662</b>           | <b>9,114</b>     | <b>226</b>     | <b>4,017</b>              | <b>4,614</b> | <b>259,786</b>  |
| <b>Accumulated Depreciation and Impairment</b> |                          |                               |                        |                  |                |                           |                 |  |                          |                               |                        |                  |                |                           |              |                 |
| (62,487)                                       | (2,103)                  | (2,240)                       | (640)                  | -                | -              | -                         | (67,470)        | At 1 April   | (3,172)                  | (3,777)                       | (2,866)                | (845)            | -              | -                         | -            | (10,660)        |
| (3,101)  | (1,999)                  | (700)                         | (232)                  | -                | -              | -                         | (6,032)         | Depreciation charge  | (3,259)                  | (1,842)                       | (783)                  | (227)            | -              | -                         | -            | (6,111)         |
| -  | 103                      | -                             | -                      | -                | -              | -                         | 103             | Depreciation written out to the Revaluation Reserve  | -                        | -                             | -                      | -                | -              | -                         | -            | -               |
| 62,487   | -                        | -                             | -                      | -                | -              | -                         | 62,487          | Depreciation written out to the surplus/ deficit on the provision of services                        | -                        | -                             | -                      | -                | -              | -                         | -            | -               |
| -  | -                        | -                             | -                      | -                | -              | -                         | -               | Impairment losses / (reversals) recognised in the Revaluation Reserve                                | -                        | -                             | -                      | -                | -              | -                         | -            | -               |
| (71)   | -                        | 57                            | 27                     | -                | -              | -                         | 13              | Impairment losses / (reversals) recognised in the surplus / deficit on the provision of services     | -                        | -                             | -                      | -                | -              | -                         | -            | -               |
| -  | 7                        | 17                            | -                      | -                | -              | -                         | 24              | Derecognition - disposals  | -                        | 7                             | 32                     | -                | -              | -                         | -            | 39              |
| -  | 320                      | -                             | -                      | -                | -              | -                         | 320             | Assets reclassified to/from held for resale  | -                        | -                             | -                      | -                | -              | (320)                     | -            | (320)           |
| -  | -                        | -                             | -                      | -                | -              | -                         | -               | - Other Reclassifications  | -                        | -                             | -                      | -                | -              | -                         | -            | -               |
| -  | (105)                    | -                             | -                      | -                | -              | -                         | (105)           | Other movements  | -                        | -                             | -                      | -                | -              | -                         | -            | -               |
| <b>(3,172)</b>                                 | <b>(3,777)</b>           | <b>(2,866)</b>                | <b>(845)</b>           | <b>-</b>         | <b>-</b>       | <b>-</b>                  | <b>(10,660)</b> | <b>At 31 March</b>   | <b>(6,431)</b>           | <b>(5,612)</b>                | <b>(3,617)</b>         | <b>(1,072)</b>   | <b>-</b>       | <b>(320)</b>              | <b>-</b>     | <b>(17,052)</b> |
| <b>148,865</b>                                 | <b>71,760</b>            | <b>2,712</b>                  | <b>7,609</b>           | <b>226</b>       | <b>25</b>      | <b>3,075</b>              | <b>234,272</b>  | <b>Net Book Value at 31 March</b>  | <b>152,203</b>           | <b>69,907</b>                 | <b>4,045</b>           | <b>8,042</b>     | <b>226</b>     | <b>3,697</b>              | <b>4,614</b> | <b>242,734</b>  |

**49. Other Long term liabilities**

These comprise the group pension fund liabilities of Cheltenham Borough Council and Cheltenham Borough Homes Ltd. Further details of the council's liabilities are included in note 42 on pages 86 to 90 and for CBH in their accounts. Due to an actuarial loss of £1.072 million during the year the CBH accounts show a pension liability at 31<sup>st</sup> March 2012 of £0.979 million (asset of £34,000 at 31<sup>st</sup> March 2011).

**50. Long term investments and Long term debtors**

Long term investments differ from note 27 in the single entity accounts by the shares in Gloucestershire Airport of £0.435 million, which are replaced in the group accounts by a long term investment in the Airport of £15.6 million, shown immediately below long term investments.

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

**51. Usable Reserves**

These are detailed in the Group Movement in Reserves Statement.

**52. Group Movements in the Movement in Reserves Statement**

Adjustments are required between company and authority usable and unusable reserves for

- the receipt by CBH of social housing capital grant of £1.1 million. This has been credited to the Taxation and non specific grant income line within the Group Comprehensive Income and Expenditure Statement and transferred to the Capital Adjustment Account in the Group Balance Sheet, as it has been used to finance new housing properties under construction by CBH
- a capital grant of £0.390 million from the council to CBH to finance housing new build. This has been removed in the Group Comprehensive Income and Expenditure Statement as it is internal to the Group.

In addition transfers are required between the company usable and unusable reserves to reflect the classification of the pension reserves by the companies as usable reserves, as part of their profit and loss reserve.

**53. Unusable Reserves**

| Reserve   | 31st March<br>2011<br>£'000 | 31st March<br>2012<br>£'000 |
|---|-----------------------------|-----------------------------|
| Revaluation Reserve                                     | 51,256                      | 46,677                      |
| Capital Adjustment Account                              | 211,247                     | 189,385                     |
| Financial Instruments Adjustment Account                | (2,889)                     | (2,734)                     |
| Collection Fund Adjustment Account                      | 93                          | 55                          |
| Pensions Reserve  | (38,071)                    | (46,472)                    |
| Deferred Capital Receipts Reserve                       | 152                         | 113                         |
| Accumulating Compensated Absences<br>Adjustment Account | (72)                        | (84)                        |
| <b>Total Unusable Reserves</b>                          | <b>221,716</b>              | <b>186,940</b>              |

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

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

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

**MOVEMENT ON THE HRA STATEMENT**

The reconciliation Statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989:

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

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

| <b>2010/11</b><br><b>£000's</b> |   | <b>2011/12</b><br><b>£000's</b> |
|---------------------------------|---|---------------------------------|
|                                 | <b>Items included in the HRA Income and Expenditure Account but excluded from the Movement on the HRA Statement</b>   |                                 |
| (9)                             | Amortisation of premiums and discounts  | (9)                             |
| -                               | HRA self financing payment to Secretary of State  | 27,414                          |
| 784                             | Gain/(loss) on sale of HRA fixed assets   | (385)                           |
| 46,090                          | Impairment losses   | 125                             |
| -                               | Capital contributions   | (72)                            |
| 6                               | Revenue expenditure charged to capital under statute  | -                               |
| <b>46,871</b>                   | <b>Items not included in the HRA Income and Expenditure Account but included in the Movement on the HRA Statement</b> | <b>27,073</b>                   |
| 83                              | Transfer from Major Repairs Reserve (net)   | 81                              |
| (133)                           | Capital expenditure funded by the HRA   | (1,127)                         |
| <b>46,821</b>                   | <b>Net adjustments between accounting basis and funding basis under regulations</b>                                   | <b>26,027</b>                   |

**2. Housing Stock**

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

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

**3. HRA Fixed Assets**

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

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

**4. Dwellings Valuation**

The vacant possession value of dwellings within the HRA at 1st April 2011 was £482,642,139. This valuation and the lower Balance Sheet valuation show the economic cost to Government of providing council housing at less than open market rents.

**5. Major Repairs Reserve**

An analysis of movements on the reserve is shown below:

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

**6. Housing Repairs Account**

An analysis of movements on the account is shown below:

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

**7. HRA Capital Expenditure**

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

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

**8. HRA Capital Receipts**

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

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

**9. Payment to Secretary of State – Self Financing Settlement**

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

**10. HRA Subsidy**

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

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

**11. Rent Arrears**

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

**12. Rent Rebates Subsidy Limitation**

The Secretary of State has directed that the additional cost of rent rebates granted to tenants which arises from council rents being in excess of the specified limit should be charged to the HRA and credited to the General Fund. In 2010/11 this amounted to £87,029 (£129,671 in 2010/11), a figure which will reduce in future years as government policy on rent restructuring is implemented.

**13. Interest and investment income**

This is made up of £4,017 mortgage interest and £79,020 on notional cash balances (£4,984 and £83,220 respectively in 2010/11).



## THE COLLECTION FUND - INCOME AND EXPENDITURE ACCOUNT

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

## NOTES TO THE COLLECTION FUND

## 1. INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for uniform business rates, the council collects Non-Domestic Rates for its area, which are based on local rateable values multiplied by a uniform rate set by the government. Certain reliefs are available and the figure shown is net of these reliefs. The total amount collected, less deductions for the cost of collection and bad and doubtful debts, is paid to a central pool (NNDR pool) managed by central government, which in turn pays back to authorities their share of the pool based on a standard amount per head.

The total non-domestic rateable value at 31<sup>st</sup> March 2012 was £136.9913m (£136.953m at 31<sup>st</sup> March 2011) and the national non-domestic multiplier for 2011/12 was 43.30p (41.40p in 2010/11), resulting in gross income before cost of collection and provision for bad debts and interest of approximately £50m (approximately £47m 2010/11). The income shown in the Collection Fund of £50.8m is net of these adjustments.

## 2. CALCULATION OF COUNCIL TAX

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund Account.

From 1st April 1993, Community Charge was replaced by Council Tax and from the same date these accounts were consolidated with the council's accounts.

Council Tax is a property based tax with various reductions being made for differing circumstances i.e. single occupancy (25% discount). The District Valuer has valued all domestic property in the area and has placed them into one of eight bands. A factor is then applied to each band so that the tax base can be expressed as a "Band D" equivalent (see below).

| Band | Estimated Number<br>of Properties in<br>each Band (adjusted<br>for discounts) | Ratio | Band "D"<br>Equivalents |
|------|---|-------|-------------------------|
| A    | 7,195.95  | 6/9   | 4,797.30                |
| B    | 10,559.30   | 7/9   | 8,212.79                |
| C    | 11,839.20   | 8/9   | 10,523.73               |
| D    | 7,731.10  | 1     | 7,731.10                |
| E    | 4,186.10  | 11/9  | 5,116.34                |
| F    | 2,293.70  | 13/9  | 3,313.12                |
| G    | 1,750.25  | 15/9  | 2,917.08                |
| H    | 67.20   | 2     | 134.40                  |
|      |   |       | 42,745.86               |

Less adjustment for collection rates and for anticipated changes during the year for successful appeals against valuation bandings, demolitions, disabled persons' relief and exemptions, plus adjustments for new properties. (This amounts to 1.00% of the tax base).

**Council Tax Base for 2011/12**

(422.96)

**42,322.90**

**3. PRECEPTS**

The precepts on the Collection Fund are as follows:-

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

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

**4. FUND BALANCE**

The balance of the Fund is to be shared between the council and its major precepting authorities in 2013/14 (Gloucestershire County Council and Gloucestershire Police Authority). The amounts are transferred to the council's general fund and the County Council and Police Authority funds.

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

|  | <b>CBC share</b><br><b>£'000</b> | <b>County share</b><br><b>£'000</b> | <b>Police share</b><br><b>£'000</b> | <b>Total</b><br><b>£'000</b> |
|--|----------------------------------|-------------------------------------|-------------------------------------|------------------------------|
| Balance at 1 <sup>st</sup> April 2011        | 93                               | 533                                 | 98                                  | 724                          |
| Decrease in the Year                         | (38)                             | (214)                               | (40)                                | (292)                        |
| <b>Balance at 31<sup>st</sup> March 2012</b> | <b>55</b>                        | <b>319</b>                          | <b>58</b>                           | <b>432</b>                   |

**ANNUAL GOVERNANCE STATEMENT 2011 - 2012**

**Scope of responsibility**

1. Cheltenham Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
2. There are legal and formal controls in place to ensure that it is clear who is accountable for money and governance controls at the local level. The Local Government Act 2000 provides the current governance arrangements for local government with the ultimate accountability lying with the full council. The Cabinet is responsible for proposing the policy framework and budget to Council. Once agreed, the cabinet then goes on to implement those decisions.
3. In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions as defined by the constitution, and the management of risk.
4. The Council has approved and adopted a Code of Corporate Governance (CCG), which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government.
5. You can download a copy of the local Code of Corporate Governance (CCG) from the council's website or a copy can be obtained from the Municipal Offices, Promenade, Cheltenham Gloucestershire GL50 9SA
6. This statement explains how Cheltenham Borough Council has complied with the code and also meets the requirements of regulation 4(3) and (4) of The Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

**The purpose of the CCG – the Governance Framework**

7. The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
8. The internal controls are a significant part of the framework to support the management risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to support the achievement of Cheltenham Borough Council's objectives and actions.
9. The CCG for the period commencing 1<sup>st</sup> April 2011 was reviewed by the Corporate Governance Group and approved by Council in March 2010 and there was a further review in March 2012 by the Audit Committee.

**The Governance Framework**

10. The Code of Corporate Governance identifies 6 principles that underpin the effective governance of the council, and these have been used when assessing the adequacy of its governance arrangements. The main elements that contribute to these arrangements are set out below:

**Principle 1 - Focusing on the purpose of the Council and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.**

11. The council has a 5 year Corporate Strategy (2010 -15) which clearly articulates how the council will deliver better outcomes for the community either directly or in partnership. The strategy was based on the sustainable community strategy – a document which was drawn up following extensive public consultation on key issues and priorities for the town and which sets out a long term vision for Cheltenham.
12. The Corporate Strategy action plan is updated on an annual basis to reflect new priorities and any issues which have arisen since it was approved to provide a clear work programme based on priorities for the council. This document is approved by Council. Monitoring reports are considered by the Senior Leadership Team and taken to meetings of the overview and scrutiny committees to ensure that the council’s objectives are progressing as planned.
13. The Corporate Strategy supports Cheltenham’s Community Strategy which sets out its vision for the long-term future of Cheltenham as

*“We want Cheltenham to deliver a sustainable quality of life, where people, families, their communities and businesses thrive; and in a way which cherishes our cultural and natural heritage, reduces our impact on climate change and does not compromise the quality of life of present and future generations.”*

14. On 28th June 2010, the Council formally agreed to adopt a strategic commissioning approach that
  - i. puts a strong focus on understanding the needs of Cheltenham and its people in designing outcomes for public services,
  - ii. seeks to work much more closely (including sharing budgets where appropriate) with other parts of the public service and the voluntary and community sector (VCS) and
  - iii. makes objective, transparent, evidence-based decisions about how services should be provided and by whom.
15. By using this strategic commissioning approach, the council will improve the outcomes for people who rely on the council and the wider public sector whilst at the same time creating opportunities for financial savings.
16. The 2011-2012 Corporate Strategy also included an additional commitment to this Vision

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

17. The above vision for commissioning has been realised through a programme of change led by the Chief Executive. The Strategic Commissioning Programme had its own governance arrangements and was managed through a programme board for the period up to spring 2012; it considered which services should be in scope for commissioning, and how they will be delivered in the future.
18. During 2011/12 there were 3 key commissioning reviews;
  - 1) Built Environment services
  - 2) Leisure and Culture services
  - 3) Partnership working.

19. These reviews have followed the commissioning cycle; a Commissioning Protocol and toolkit were developed to ensure that commissioning reviews are inclusive and comprehensive.
20. The Built Environment and Leisure and Culture Commissioning reviews began by analysing;
- community needs
  - what resources are available to CBC and our partners to meet the needs and
  - what our priorities are.
21. On the 18<sup>th</sup> October 2011 Cabinet received an update report on the Built Environment review and approved a series of recommendations that included;
- i. an outcome framework to be used as a basis for the development of a service specification
  - ii. the restructuring of the team to assist delivery of the outcomes and agreed service specification
  - iii. a request for a further report with regards to the local setting of planning fees and identifies the additional planning income which may be realised.
  - iv. a review of alternative delivery models for building control is undertaken in 2013, as part of the programmed review of the current shared service arrangement with Tewkesbury Borough Council.
  - v. the testing of in-scope range of built environment services against private sector service alternatives in 2013/14, to confirm whether the internal service continues to deliver value for money, based on an assessment of both cost and quality.
  - vi. the Director of Built Environment explores the opportunities to extend the charging for pre application process to other areas currently not within scope.
  - vii. the commissioning division working with the Voluntary and Community Sector to support market development in areas which will underpin the localism bill.
22. In 2012/13 the Council will decide on the most appropriate way for Leisure and Culture to achieve its objectives.
23. Cheltenham Borough Council and Cotswold District Council formed a Local Authority Company (Ubico) and are partners in the wider Gloucestershire Joint Waste Partnership. The new Company and the Joint Partnership can operate independently of one another.
24. The decision to form Ubico from April 2012 contributes to the council's strategic commissioning objectives and is the chosen vehicle for partnership working in this case with the aim of delivering improved outcomes and value for money. It is estimated that annual savings for the council will increase to c£400,000 by 2014/15.
25. Tewkesbury Borough Council has requested to join Ubico and there is potential for other local authorities to join in the future. This will provide the opportunity for improving outcomes and value for money within Cheltenham and the wider partnership area.
26. The Place Based Commissioning review commenced July 2010 with the aim "To have a fit for purpose Cheltenham Strategic Partnership (CSP) that is ensuring partner resources are targeting the priority needs in Cheltenham". As part of the review, senior officers and practitioners within the public sector and the voluntary and community sector, participated in the Partnership Improvement Programme (PIP) to consider the strengths of partnership working in Cheltenham and areas where they would like to improve to meet local needs in the light of changing legislation.

27. A draft structure of three new partnerships was proposed and agreed by all participants. With simplified governance arrangements a more flexible approach, outcomes focused with the potential to engage diverse groups.
28. The draft structure was consulted on over the summer and the final proposals were endorsed by the CSP on 29 September and CBC's Cabinet on 18 October. The new partnerships are;
  1. Positive Participation Partnership
  2. Positive Lives Partnership
  3. Strategic Leadership Group
29. Members of Executive Board agreed to take a lead on the partnerships, and along with the relevant Cabinet member are able to ensure that the council's views are fully represented at partnership meetings.
30. The Cabinet agreed a Medium Term Financial Strategy which is in line with the priorities as set out in the council's business plan and identifies any expenditure which may need to be incurred to meet new legislation or changes in service provision and reflects the financial impact of government plans to tackle the level of national debt. In order to address year on year budget shortfalls, efficiency savings and new or improved income, the council has described within its Medium Term Financial Strategy how it will broadly achieve the budget gap target while keeping council tax at a reasonable level. Each year the council looks to areas where it can make its efficiency savings, budget cuts or additional income, which will not impact on its ability to deliver in priority areas.
31. In February 2012, Cabinet and council members met to discuss the final budget report for 2012/13. The government had announced that it would cut on-going support to the council by a further £534k in 2012/13 which cumulatively equated to a 23% cut over two years. As a result the council had to identify, prioritise and make savings to meet this funding gap. This reflected on the budget consultation exercise that was undertaken during 2010/11 and new objectives identified by elected Members.

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

32. The council's constitution defines and documents the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The Leader has allocated executive functions to himself, Cabinet Members, Cabinet and officers and those functions are undertaken in accordance with the Council's Budget and the Policy Framework (which includes the 5 year Corporate Strategy).
33. The council's constitution and policy framework are approved by Council, and is subject to periodic review. A constitution working group comprising of elected members and officers led the review in 2011/12. The constitutional changes mainly relate to Part 3 - Responsibility for Functions, Part 4 - Procedure Rules, O&S Rules, Budget and Policy Framework Rules, Financial Rules, Contract Rules, Part 5 - Employee Code of Conduct.
34. There were three overview and scrutiny committees that held to account the bodies exercising executive functions and assisted with policy formulation; from May 2012, there will be one overview and scrutiny committee assisted by scrutiny task groups. This change has arisen out of a review which commenced in July 2011. The brief was 'to ensure that there was an

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

35. The council has two committees which deal with governance, internal control and ethical arrangements, (Audit Committee and Standards Committee).
36. The Audit Committee meets four times per year and its terms of reference are set out in the council's constitution. The council's external auditors have access to the committee, and the committee also has responsibility for overseeing the risk management process. A review of the Risk Management Policy including the Risk Scorecard took place in March 2012 to ensure that they reflected the changes brought about by the Senior Officer restructure and the strategic move towards becoming a Commissioning Authority by April 2012. The Audit Committee also receives routine information papers on the work of the Corporate Governance Group which monitors Significant Issues arising from the Annual Governance Statement.
37. The Localism Act 2011, which abolished the statutory national standards framework for elected members, removes the requirement for a statutory standards committee. Therefore, the council will be deciding in 2012 whether to retain a local standards committee and, if so, what form it will take.
38. The Staff and Support Services Committee, which dealt with employee related functions, was discontinued in February 2011; those functions are now dealt with by the Appointments and Remuneration Committee and senior officers. In addition there are two quasi judicial committees which deal with licensing and planning.
39. Cheltenham Borough Council's Cabinet agreed in July 2011 to partner with three other councils, West Oxford DC, Forest of Dean DC, and Cotswold DC - to implement a new shared service called the Go Partnership covering Finance, Procurement, Human Resources and Payroll. Employees involved in the provision of these services transferred (TUPE) into the employment of Cotswold District Council (as the employing council) from April 2012.
40. The Financial Rules were reviewed in co-ordination with the GO Partnership and approved by Council in October 2011. The new Rules allow greater conformity across the partnership organisations when processing work or customer accounts. Also, the Contract Rules were reviewed on the same basis and approved by Council in March 2012. Both sets of Rules took effect 1<sup>st</sup> April 2012.
41. The council has a Chief Executive who is the Head of Paid Service which is a statutory position as defined within the Local Government and Housing Act 1989. The Chief Executive co-ordinates the Council's activities, including its management structure, the number of staff employed and the salary grades of chief officers.
42. A pay policy statement is required to be produced annually under section 38 of the Localism Act. The Council agreed its 2012/13 statement in March 2012 which is available to employees through the intranet and to the public through the internet.
43. The Council approved revisions to the Constitution in March 2012, Article 2 refers to the roles and functions of elected Members.
44. Article 12 refers to the roles and responsibilities of the statutory officers.
45. The Council also approved a revised Code of Conduct for all employees on the 26<sup>th</sup> March 2012 which provides additional information on roles and responsibilities.
46. The Council appointed a Monitoring Officer under a shared service agreement with Tewkesbury Borough Council (to ensure lawfulness and fairness of decision making and to



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

47. The Executive Board and the Senior Leadership Team have clear terms of reference and provide guidance and advice to Members on policy options and implications. All reports identify options, the financial, legal and HR implications, any risks associated with the matter, as well as how it addresses priorities within the Corporate Strategy.
48. The council has an internal audit function called Audit Cotswolds which reports to the council's Audit Committee. Audit Cotswolds is a partnership with the Internal Audit Services at Cotswold District Council and West Oxfordshire District Council. Audit Cotswolds is managed by a Partnership Board with its own Terms of Reference and representatives from each authority.
49. In 2011/12 Audit Cotswolds Board considered that the partnership had been successful and should move to a more formalised governance arrangement. A report was made to Cabinet in November 2011 confirming that the partnership had met the original business case objectives. It was agreed that the partnership be formalised through a Section 101 agreement (delegation of functions) of the Local Government Act 1972 from April 2012.
50. The Corporate Governance Group has agreed Terms of Reference and is chaired by the Chief Executive it reviews the effectiveness of the council's internal controls and reports the results to the Audit Committee.
51. The council has external inspection and audit undertaken by KPMG, the external auditors appointed by the Audit Commission, and their annual management letter is presented to Members.
52. In September 2011 KPMG published its report to those charged with governance (ISA 260) where they confirmed that the wording of the 2010/11 Annual Governance Statement accords with their understanding. They also concluded that it complied with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE in June 2007; and that it was not misleading or inconsistent with other information that they were aware of from their audit of the financial statements.
53. The council has a treasury management panel with cross party support from Members that oversees the council's treasury management strategy and an asset management working group that oversees the way in which the council manages its property assets.
54. The council's policies are easily accessible to employees and Members on the intranet and they are also provided with update/briefing seminars as appropriate.

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

55. In 2004 the council adopted a series of nine values that underpin everything it does; these are promoted to staff and Members on the intranet, and were incorporated into the council's competency framework which forms part of the annual appraisal of employees.
56. The code of corporate governance was reviewed March 2012 and a revised code was approved by the Audit Committee in March 2012 and will be included in the council's constitution from

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

57. All Members and officers are subject to codes of conduct, and periodically training sessions are held. Members and officers must declare any interests and registers of those declarations are maintained. The council's Monitoring Officer and Standards Committee are responsible for ensuring that reported breaches of the Code of Members' Conduct are investigated appropriately. The Code of Members' Conduct will be reviewed in 2012 in the light of the abolition of the national standards framework.
58. The Chief Executive and other members of the Senior Leadership Team routinely promote good governance messages to employees and Members through the intranet, employee blogs and Twitter.
59. Members of staff are encouraged to shadow the Chief Executive to promote their understanding of the wider aspects of the council's work. They are then given the opportunity to be a guest on the Chief Executives' Blog to provide their views on the experience to other staff.
60. The council's Whistle Blowing policy was reviewed and revised in August 2010 and its Anti-Fraud and Anti-Corruption Policy is currently under review to ensure that it aligns to the requirements of the new Bribery Act and the working arrangements of the Go Partnership. These documents are available on the council web site, and accessible to Members and employees from the intranet site.
61. The council has a complaints process and quarterly reports analysing the nature and type of complaint are considered by the senior leadership team.
62. There is a competency framework for its employees, who are assessed through the annual appraisal process. These competencies reflect the core values of the council which underpin good governance arrangements.

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

63. In December 2010 the Council, as required by legislation, adopted new executive arrangements based on the new style strong leader and Cabinet model to take effect from May 2012. As the council already operates executive style arrangements the main differences with the new model is that the Leader will be appointed for a 4 year term (subject to removal by Council) and must appoint a deputy leader.
64. The Leader can delegate their executive functions to members of the Cabinet or to officers and this is set out in the council's constitution. Meetings of Cabinet are held in public, agendas are published in advance and the minutes of the meetings are available on the council's web site or for public view in libraries and the council offices. Decisions made by the Cabinet must be in accordance with the Budget and the Policy Framework which are approved by Council.
65. Arrangements are in place for other council committees with published agendas and minutes. For all meetings of the council the public are able to ask questions (with advance notice).
66. There are currently three overview and scrutiny committees which hold the Cabinet to account and have (subject to criteria) the ability to call in decisions of the Cabinet. A review involving officers and Members took place during 2011/12 to consider the work of these committees, following this review Council agreed in December 2011 that the new arrangements should be

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

67. In March 2011 the Council agreed a 5 year Corporate Strategy (2010-2015) alongside an action plan for 2011-12. The Senior Leadership Team has collective ownership in ensuring that the Corporate Strategy and its supporting actions are monitored and delivered.
68. The council has a performance monitoring system which provides up to date information as to how the council is performing against a number of performance measures and milestones including those set out in the Corporate Strategy and action plan.
69. The council also prioritises expenditure based on need and provides scrutiny and Cabinet with quarterly budget monitoring reports. The council has an appraisal process where all employees are set objectives for the coming year which meet the business plan priorities.
70. The Council approves the council's standing orders, financial rules and scheme of delegation and these are periodically reviewed to ensure that they are still relevant and appropriate. The constitution working group plays an important role in reviewing the council's constitution ensuring that changes are considered in greater detail ahead of their consideration by council. The council has a Risk Management policy which was revised and approved by the audit committee in March 2012 and clearly identifies roles and responsibilities for both Members and staff.
71. The Senior Leadership Team is responsible for the management of corporate risk process. The corporate risk register which includes the risk, mitigating actions, deadlines and the details of the responsible officers is updated and reported to them on a monthly basis. These risks were reported to Economy and Business Improvement overview and scrutiny committee and the Cabinet. Divisional risks are the responsibility of Directors and individual service managers. Any divisional risk that has corporate implications and scores 16 or over is escalated to the Senior Leadership Team for consideration.
72. Internal Audit carried out an assessment of the risk management process and has made a number of recommendations for improvement. These recommendations are being monitored by the Corporate Governance group and a new risk management module has been ordered to improve functionality and reports.
73. The Cabinet agreed new RIPA guidelines in October 2010 and these were reviewed in March 2012. There were no applications to use these powers during 2011/12. Staff who could be involved in the process attended training sessions and information about the process has been made available on the intranet.
74. The council has an Information Management Group that developed an Information Management Strategy that was approved by SLT; it also reviewed the information management and data protection procedures and processes. These reflect partnership working and the sharing (where appropriate) of information with other organisations.
75. Internal auditors reviewed the Corporate Governance arrangements following the 2010/11 assurance check which led to a number of further improvements to the process and reporting protocols.
76. The council's budget is set annually and agreed by council. Monitoring reports are presented to Cabinet and an outturn report and annual statement of accounts is approved by the Audit Committee.

77. The council manages its budgets through cost centre managers who are responsible for the day to day management of their income and expenditure in line with financial rules. The council reports how it intends to balance its budget when the council approves the budget proposals each February and reports progress in the quarterly Budget Monitoring Reports to Cabinet.

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

78. There is a People and Organisational Development Strategy that sets out the council's longer term aspirations for member and officer development, together with an annual action plan. Skills gaps within the organisation have been identified and a programme of learning interventions is being delivered. Progress will be monitored and development reassessed as part of the appraisal process. There is a member training programme, which is supported by both the human resources division and democratic services. Generic training needs for Members are identified in consultation with Members and group leaders. All Members have personal learning accounts on the council's Learning Gateway, to log training needs and record training undertaken.
79. During the course of the year the council's external auditors identified the need to review the way in which the council delivers training to its Members and this has resulted in a greater input from the human resources division, better usage of the council's learning gateway system and proposals for supporting new Members following the election (e.g. "buddying" new Members with officers to help them orientate themselves into the council). A new on-line risk management training module for Members and staff has been developed which is available through the learning gateway.
80. Officer learning and development needs are identified through the appraisal process and 1-2-1s and fed into the professional and corporate training programmes. The Senior Leadership Team and service managers have recently completed a leadership development programme, the principles of which are used to underpin coaching relationships for executive directors, directors, service managers and the wider organisation. The senior leadership team has adopted a "balanced scorecard" approach to their appraisal process.
81. The council has adopted a programme and project management approach to its key change programmes and has released capacity for programme and project support. This approach has enabled the better use of resources to focus on the key delivery issues.
82. Certain Members were appointed to represent the council on outside bodies i.e. companies, charities and unincorporated associations. The council's constitution includes guidance to officers and Members who take an active part in these organisations. This guidance was reviewed and updated to reflect best practice and changes to the CBC Code of Members' Conduct. The Guidance includes a checklist of issues that should be considered in the event of being nominated to an outside body.

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

83. Cheltenham Borough Council as a whole, through the Cabinet is accountable for allocating resources. There are a range of checks and systems in place to provide assurance that they achieve value for money.
84. The principal local checks on regularity and propriety are as follows:
- i. Clarity about who is accountable for resources
  - ii. A set of financial duties and rules

- iii. Internal assurance checks by the section 151 officer of the council; and external checks by an independent auditor
  - iv. Transparency through publication of annual accounts and spending.
85. Councillors have to make judgements about what value for money means in local terms and where available resources need to be allocated to match what their community's need. These decisions are based on a range of information including consultation exercises and advice from officers; these decisions are made at public meetings.
86. Council, Cabinet and committee meetings are open to the public with agendas and minutes being publicly available. Members of the public are able to ask questions at such meetings. The council has an adopted equality policy which recognises the need to engage with different sections of the community.
87. The council has a complaints and comments system for members of the public. There is a three stage complaint system which gives divisions an opportunity to resolve a complaint at the first point of contact, but if a complainant is still unhappy they are entitled for the matter to be investigated on behalf of the chief executive. Complainants may also refer matters to the local government ombudsman for investigation once they have been through the council's complaint system.
88. The council publishes a leaflet with its council tax demands which summarises performance and at the end of each financial year also publishes an annual report. This year the leaflet contained additional information to inform customers about the Go and UBICO projects and how information will be shared to enable the delivery of services.
89. In July 2010 the council agreed and published guidance and procedures for the way in which it deals with petitions from members of the public which may include a debate at council or the matter being considered by overview and scrutiny committee. Advice on how to submit a petition is provided on the council's website and a public participation section is being produced for inclusion in the council's constitution.
90. The council has been working with the police and county council on a neighbourhood-based approach to helping local residents tackle and resolve local problems. There are 14 neighbourhoods in Cheltenham with coordination groups that meet every 3 months to agree local priorities, councillors and officers take part in the group meetings to help co-ordinate agreed courses of action.
91. The council has a well established web site which provides access to many of its services online, including a "report it" tool which was used 285 times during the year to tell us about issues of concern. We took steps to improve the interactive nature of the website by developing systems that allow improved access to council services and information. All of the council's committee meetings have their agendas, minutes and supporting papers published on the website.
92. The council makes significant use of the social media including Facebook, Twitter and You Tube in order to get across key messages and to receive feedback, staff and members are also made aware of issues that have been discussed in the media through monthly briefings and the intranet.
93. CBC was ranked 2nd in the Public Sector Customer Services Forum social media reputation index for December 2011. We've seen an increase in the number people using Twitter to contact us and ask questions and we've had some good feedback from customers about the service.

94. The Department for Communities and Local Government introduced a Code of Recommended Practice for all local authorities on Data Transparency for spending on goods and services over £500. The council complies with this Code and continues to consider additional information and data that it can publish.
95. The council published senior officer remuneration as part of its annual accounts as of the 31<sup>st</sup> October in line with government guidelines.
96. We also published information on the council's contracts and tenders register which is linked to the expenditure data.

### **Delivery of services and outcomes through third parties**

97. In September 2010 the council considered an options appraisals for the future delivery of environment services which indicated that the formation of a Local Authority Company (LAC) involving a partnership between Cheltenham Borough Council (CBC) Cotswold District Council (CDC) and Tewkesbury Borough Council (TBC) would be the most viable and effective means by which to deliver their services. It would also provide the first step towards achieving joined up waste services across Gloucestershire. In March 2011 elected Members of TBC decided against joining the LAC at that time, CBC and CDC agreed to continue.
98. In June 2011 Members of CBC and CDC approved the formation of a LAC called UBICO Ltd. Tewkesbury Borough Council asked to re-join the partnership from April 2013 (which was approved by the Board) and there is potential for other local authorities to join in the future. This will provide the opportunity for improving outcomes and value for money within the wider partnership area. CBC went live on 1st April with relevant staff transferring to the LAC via TUPE. In August 2012 CDC will also go live with relevant CDC & SITA UK staff transferring to the LAC via TUPE.
99. The council delivers its housing management responsibilities through Cheltenham Borough Homes (CBH) an arms length management organisation and wholly owned company of the council. CBH has its own internal control procedures and arrangements which are subject to internal and external audit as well as independent inspection. Annually, Audit Cotswolds review the procedures and policies and report on the adequacy of arrangements. The company is overseen by a board of directors which includes tenants and has an audit committee.
100. A resources committee oversees CBH finances, manages HRA finances and reports to the board of directors. The board receives quarterly reports on performance. CBH has a service level agreement with the council and the management fee and level of service is agreed on an annual basis. Monthly monitoring meetings are held to discuss performance. Payroll and payments services are administered by CBC on behalf of CBH and the company shares the council's financial ledger system. CBH completes an annual assurance certificate to confirm compliance with the agreed governance arrangements.
101. The council is a shareholder of Gloucestershire Airport, which is a company limited by shares, and is subject to the requirements set by the companies act. There is a board of directors which monitors the company's performance and is responsible for internal control activities. The airport has a commercial director and company secretary as well as an airport director. The statutory accounts are audited each year by a private firm of accountants, and presented to the board and to the shareholders, and are approved at the AGM in September. The council's Director of Resources or designated representative receives regular management accounts for the airport, and either he or the strategic director or their designated representative attends the monthly airport programme board meetings.

## Review of effectiveness

102. Cheltenham Borough Council has responsibility under The Accounts and Audit (England) Regulations 2011 for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control and the arrangements for the management of risk. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit Partnership annual opinion report, and also by comments made by the external auditors and other review agencies and inspectorates.
103. The effectiveness of the governance framework draws on evidence from:
- Internal and external audit and inspection
  - Financial controls
  - Risk and performance management
  - Assurance statements from each division
  - Legal standards
  - Code of corporate governance.
104. The council approved the code of corporate governance and it established a Corporate Governance Group which oversees the review of the effectiveness of the code of corporate governance and internal control. All directors have to complete an annual statement of assurance which outlines the key control areas to which the division should comply.
105. The Corporate Governance Group reviews the statements to identify common themes which need to be reflected in any action plan. Individual Directors are expected to take forward any specific control improvements within their own service plan. These certificates along with evidence from other sources such as audit letters, internal audit reports, corporate controls and the code of corporate governance are reviewed by the Director of Resources, Audit Partnership Manager and the Governance, Risk and Compliance officer who identify control issues to be included in the annual governance significant issues action plan for the forthcoming year.
106. The Audit Committee considers the Annual Governance Statement as part of the statement of accounts and makes recommendations to Council regarding its approval. The audit committee is then responsible for monitoring progress against the actions taken, or proposed, to deal with significant governance issues.
107. Although internal control procedures are the responsibility of officers, major service issues, budgets and risks are discussed with the relevant Cabinet Member. There is also a Cabinet Member who has responsibility within their portfolio for corporate governance, internal audit and risk. Regular briefings are held with that Cabinet Member so that they are aware of any issues.
108. The Head of Internal Audit's Annual Opinion identified four areas as receiving 'limited' assurance opinions, which therefore presented risks to the achievement of organisational objectives in those areas. Where there remain recommendations for implementation in 2012-13 the significant governance issues table below includes details for the Corporate Governance Group to monitor.

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

### Significant governance issues

The Senior Leadership Team and the Audit Committee have been advised on the implications of the result of the review of the effectiveness of the governance framework, and an action plan to address weaknesses and ensure continuous improvement of the system is in place.

### Significant issues action plan

| Control issue and source   | Action  | Lead officer               |
|--|---|----------------------------|
| Matters identified by Internal Audit <ul style="list-style-type: none"> <li>• Building Control Shared Service Reporting – August 2011</li> </ul> | Proposed actions for meeting the requirements as set out in the Shared Service Agreement are being managed.                                 | Head of Building Control   |
| <ul style="list-style-type: none"> <li>• Registration of Interests, Gifts &amp; Hospitality – October 2011</li> </ul>                            | Process implemented for ensuring Registers of Interests are properly maintained<br><br>A revised Employee Code of Conduct will be issued.   | GOSS HR Operations Manager |
| <ul style="list-style-type: none"> <li>• Payroll – January 2012</li> </ul>   | Payroll resilience issues are being managed via the GO Shared Services. Ongoing operational issues to be overseen by the GO Client Officer. | GO Client Officer          |
| <ul style="list-style-type: none"> <li>• Refuse &amp; recycling stock control – November 2011</li> </ul>   | Stock and procurement controls are being managed by Ubico Ltd and CBC management.   | Ubico Ltd & CBC Management |



STATEMENT OF ACCOUNTS 2011/12

| Control issue and source  | Action  | Lead officer                           |
|---|---|--|
| <p>Matters identified through the Assurance Review</p> <ul style="list-style-type: none"> <li>• Compliance with Equalities Regulations</li> </ul> | <p>Review and revise report writing as necessary to ensure that legislative and policy requirements relating to equality are embedded within the decision making processes.</p>                         | <p>Director of Commissioning</p>       |
| <ul style="list-style-type: none"> <li>• Business Continuity Testing</li> </ul>   | <p>To review, develop and test ICT Business Continuity Plan to ensure that it is robust enough to mitigate the identified risks for the council and its partner organisations</p>                       | <p>Director – Resources</p>            |
| <ul style="list-style-type: none"> <li>• Safeguarding Children and Vulnerable Adults</li> </ul>   | <p>Review of operational processes related to maintaining a register which identifies the training needs that relate to child protection and safeguarding for each appropriate post in the Council.</p> | <p>Strategy and Engagement Manager</p> |

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements which were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed: On behalf of Cheltenham Borough Council

Leader of Council

.....  
Councillor Steve Jordan

**GLOSSARY OF TERMS**

|                                      |   |
|--------------------------------------|---|
| <b>Accounting Period</b>             | The period of time covered by the accounts, normally a period of twelve months, commencing on 1 <sup>st</sup> April for local authority accounts.   |
| <b>Accounts</b>                      | A generic term for statements setting out details of income and expenditure or assets and liabilities or both, in a structured manner. Accounts may be categorised either by the type of transactions they record, e.g. revenue account, capital account or by the purpose they serve, e.g. management accounts, final accounts, balance sheets.  |
| <b>Accruals</b>                      | Sums included in the final accounts to cover income or expenditure attributable to the accounting period but for which payment has not been made/received at the balance sheet date.  |
| <b>Actual</b>                        | Actual, as opposed to budget, expenditure and income directly attributable to an accounting period, generally referred to as 'actuals'.   |
| <b>Amortised cost</b>                | Financial instruments are shown on the balance sheet at amortised cost, being the principal amount of the loan plus or minus the balance of any premium or discount associated with that loan, plus any interest accrued at the balance sheet date.   |
| <b>Audit</b>                         | An independent examination of an organisation's activities, either by internal audit or the organisation's external auditor.  |
| <b>Balances</b>                      | Working balances are reserves needed to finance expenditure in advance of income from debtors, precepts and grants. Any excess may be applied, at the discretion of the authority, to reduce future demands on the Collection Fund or to meet unexpected costs during the year. Balances on holding accounts and provisions are available to meet expenditure in future years without having adverse effect on revenue expenditure. |
| <b>Budget</b>                        | A statement of the income and expenditure policy plan of the council over a specified period. The most common is the annual Revenue Budget expressed in financial terms and including other physical data, e.g. manpower resources.   |
| <b>Capital Financing</b>             | The raising of money to finance capital expenditure. In the past the cost of capital assets was usually met by borrowing, but capital expenditure may also be financed by other means such as leasing, contributions from revenue accounts, the proceeds from the sale of capital assets, capital grants and contributions from developers or others.   |
| <b>Capital Financing Requirement</b> | The capital financing requirement measures the authority's underlying need to borrow for capital purposes.  |
| <b>Capital Grants</b>                | Government grant towards capital expenditure on a specific service or project.  |
| <b>Cash &amp; Cash equivalents</b>   | Cash in hand plus deposits in banks or building societies, repayable on demand or within 24 hours, and deposits maturing within 3 months of the date taken out.   |
| <b>Cash Limit</b>                    | A method of expenditure control which restricts the amount available for spending for a particular purpose to a specified cash amount, regardless of the effects of inflation.  |

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| <b>Collection Fund</b>               | This is a statutory fund kept separate from the main accounts of the council. It records all income due from the council Tax, National Non Domestic Rates and Revenue Support Grant and shows the precept payments due to Gloucestershire County Council and the Gloucestershire Police Authority.   |
| <b>Contingent Asset</b>              | An asset which exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events, for example, a claim for compensation that an authority is pursuing through the due legal process, where the outcome will only be decided by the decision of the courts.  |
| <b>Contingent Liability</b>          | A liability which exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events, for example, the default by a borrower on a loan from a third party for which the authority has given a guarantee.   |
| <b>Creditors</b>                     | Amounts owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment was not made at the balance sheet date.   |
| <b>Current Assets</b>                | Assets which can be expected to be consumed or realised during the next accounting period.   |
| <b>Current Liabilities</b>           | Amounts which will become due or could be called upon during the next accounting period.   |
| <b>Debtors</b>                       | An amount due to an organisation within the accounting period not received at the balance sheet date.  |
| <b>Deferred Liabilities</b>          | This represents the liability for principal repayments on finance leases.  |
| <b>Depreciation</b>                  | The theoretical loss in value of an asset, owing to age, wear and tear, deterioration, or obsolescence.  |
| <b>Effective Interest Rate (EIR)</b> | The interest rate that can be applied to a loan to take account of all discounted cash flows during the life of the loan, to include any changes to actual interest rates and any premiums or discounts paid or received.  |
| <b>Employee Costs</b>                | These include salaries, wages and allied national insurance and superannuation costs payable by the Borough Council, together with training expenses and charges relating to the index-linking of pensions of former employees.  |
| <b>Final Accounts</b>                | Accounts prepared for an accounting period, usually in a summarised form. These accounts show the net surplus (profit) or deficit (loss) on individual services and a balance sheet is prepared for them. They are produced as a record of steward-ship and are available to interested parties. Local authorities are required to publish each year a Statement of Accounts (final accounts and balance sheet), as specified in the Accounts and Audit Regulations 1993 (as amended). |
| <b>Finance Lease</b>                 | A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.   |
| <b>Financial Year</b>                | The local authority financial year commences 1 <sup>st</sup> April and finishes 31 <sup>st</sup> March the following year.   |

|   |  |
|---|--|
| <b>Fixed Asset</b>  | Assets which can be expected to be of use or benefit to the Authority in providing its service for more than one accounting period.  |
| <b>Government Grants</b>                                    | Payments by central government towards local authority expenditure. They must be specific e.g. Housing Benefits, or general e.g. Revenue Support Grant.  |
| <b>Housing Investment Programme (HIP)</b>                   | Annual submission that housing authorities make to government which details their capital expenditure plans and the strategy proposed to meet local housing requirements.  |
| <b>Impairment</b>   | A loss in value of an asset as a result of damage or other event or as a result of a reduction in market value.  |
| <b>Interest</b>   | An amount received or paid for the use of a sum of money when it is invested or borrowed.  |
| <b>Inventories</b>  | Items of raw materials and stores an authority has procured to use on a continuing basis which it has not used.  |
| <b>Joint Venture</b>  | An entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding agreement.  |
| <b>Minimum Revenue Provision</b>                            | The minimum amount which must be charged to an authority's revenue accounts as a contribution towards the reduction in its overall borrowing requirement. The amount represents that which the authority considers to be prudent, taking into account the period over which the borrowing was taken, which is usually equivalent to the life of the asset. |
| <b>National Non Domestic Rates (NNDR)</b>                   | An NNDR poundage is set annually by central government and collected by Charging Authorities. The proceeds are redistributed by the government between Local Authorities in proportion to their adult population.  |
| <b>Operating Lease</b>                                      | A lease under which the ownership of the asset remains with the lessor; for practical purposes it is equivalent to contract hiring.  |
| <b>Precepts</b>   | The amount which a Precepting Authority (e.g. a County Council) requires from a Charging Authority to meet its expenditure requirements.   |
| <b>Receivables</b>  | An amount due to an organisation within the accounting period not received at the balance sheet date.  |
| <b>Renovation Grants</b>                                    | Statutory or discretionary payments that local authorities make to home-owners to provide basic amenities and enable them to bring dwellings up to modern standards. The maximum amounts payable are determined by government, which reimburses the authority for part of the cost it incurs in providing the grants.                                      |
| <b>Repairs &amp; Renewals Fund</b>                          | A fund which an authority can establish to meet the cost of repairing, maintaining, replacing and renewing its buildings, vehicles, plant and equipment.   |
| <b>Revenue Expenditure charged to capital under statute</b> | Expenditure which can by law be financed from capital resources (e.g. capital receipts) but which does not result in a fixed asset, e.g. renovation grants.  |

|                              |   |
|------------------------------|---|
| <b>Revenue Support Grant</b> | A grant paid by government to meet a proportion of the local authority expenditure necessary to provide a standard level of service throughout the country.   |
| <b>Subsidiary</b>            | An entity is a subsidiary of the reporting authority if the authority is able to exercise control over the operating and financial policies of the entity, and is able to gain benefits from the entity or is exposed to the risk of potential losses arising from this control.  |
| <b>Value for Money</b>       | An expression describing the benefit obtained (not just in financial terms) for a given input of cash. The phrase is widely used within public bodies, but there are many difficulties in its use because value, as such, is a subjective measure and there are rarely supporting objective measures. The council's external auditor, appointed by the Audit Commission, is required to consider value for money with the three objectives of economy of input, efficiency of operation and effectiveness of output in service provision. |
| <b>Work in Progress</b>      | The cost of work done on an uncompleted project at a specified date which has not been recharged to the appropriate account at that date.   |

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

We have audited the financial statements of Cheltenham Borough Council for the year ended 31 March 2012 on pages 21 to 109. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Resources and auditor**

As explained more fully in the Statement of the Director of Resources Responsibilities, set out on page 20, the Director of Resources is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2012 and of the Authority's and the Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

We have nothing to report in respect of the following matters where the Code of Audit Practice 2011 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 110 to 123 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or

- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

## **Conclusion on Cheltenham Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Basis of conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012. We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Cheltenham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

## **Certificate**

We certify that we have completed the audit of the financial statements of Cheltenham Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2011 for Local Government Bodies issued by the Audit Commission.

**Ian Pennington**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

100 Temple Street

Bristol

BS1 6AG

19 September 2012