

meeting papers

Audit and Standards Committee

Thursday, 26 September 2013
7.00 pm



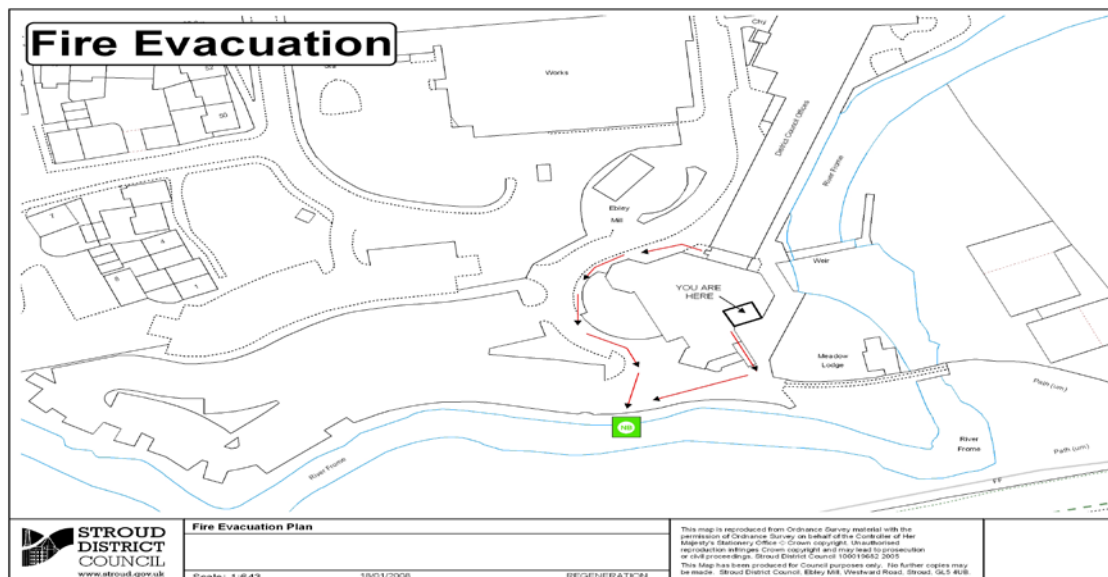
2002-2003
Crime Reduction in Rural Areas
2004-2005
Services for Older People
2007-2008
Emergency Planning



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For Agenda enquiries contact:	Sarah Weyman, Democratic Services and Elections Officer Tel: 01453 754355 Email sarah.veyman@stroud.gov.uk
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17 September 2013

AUDIT AND STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **Thursday, 26 September 2013** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **7.00 pm.**



David Hagg
Chief Executive

AGENDA



Please Note: This meeting will be filmed for live or subsequent broadcast via the Council's internet site (www.stroud.gov.uk). The whole of the meeting will be filmed except where there are confidential or exempt items, which may need to be considered in the absence of the press and public.

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If you have any queries regarding the above, please contact the officer named at the top of this agenda.

1. **APOLOGIES**

2. **DECLARATIONS OF INTEREST**
To receive declarations of interest.

3. **MINUTES**
To confirm and sign as a correct record the Minutes of the meeting held on 25 June 2013.
4. **PUBLIC QUESTION TIME**
The Chair of the Committee will answer questions from members of the public, which have been submitted in advance, in accordance with the Council's procedures. The deadline for receipt of questions is **NOON on Monday, 23 September 2013**. Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post, or by fax on 01453 754957 or by email: democratic.services@stroud.gov.uk.
5. **REPORT TO THOSE CHARGED WITH GOVERNANCE – ISA 260**
To note the report from the Council's External Auditors KPMG.
6. **STATEMENT OF ACCOUNTS 2012/13**
To approve the Statement of Accounts 2012/13 and receive KPMG's audit opinion, including the changes to the accounts arising from their audit since the accounts were signed off by the Head of Finance.
7. **ANNUAL TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2012/13**
To note the treasury management activity annual report for 2012/13 and approve the actual prudential indicators.
8. **1ST QUARTER TREASURY MANAGEMENT ACTIVITY 2013/14**
To approve the treasury management activity first quarter report for 2013/2014.
9. **INTERNAL AUDIT PLAN MONITORING REPORT 2013/14**
To receive details of the remaining audits completed in the first quarter of 2013/14 on the Internal Audit Plan and to resolve as set out in the report.
10. **PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)**
To note the changes required to implement the PSIAS and approve the proposed actions required to help demonstrate compliance.
11. **ANNUAL REPORT ON FRAUD AND CORRUPTION 2012-13**
To note the issues relating to fraud and corruption.
12. **AUDIT AND STANDARDS BUSINESS PLAN 2013/14**
To consider the Committee's Business Plan for 2013/14 and update accordingly.
13. **MEMBERS' QUESTIONS**
See Agenda Item 4 for deadline for submission

DATE OF NEXT MEETING

Tuesday, 5 November 2013

The Committee Membership for 2013/2014 Civic Year is as follows:

Councillor Molly Cato (Chair)

Councillor Chris Brine
Councillor Paul Carter
Councillor Paul Denney
Councillor Alan O'Connor

Councillor Nigel Studdert-Kennedy (Vice-Chair)

Councillor Keith Pearson
Councillor Roger Sanders
Councillor Rhiannon Wigzell

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AUDIT AND STANDARDS COMMITTEE**3****25 June 2013****7.00 pm – 9.30pm****Council Chamber, Ebley Mill, Stroud****Minutes****Membership:**

Councillor Molly Cato *	P	Councillor Nigel Studdert-Kennedy**	P
Councillor Chris Brine	P	Councillor Keith Pearson	P
Councillor Paul Carter	P	Councillor Roger Sanders	A
Councillor Paul Denney	P	Councillor Rhiannon Wigzell	P
Councillor Alan O'Connor	A		

* Chair

** Vice-Chair

P = Present

A = Absent

Officers in attendance

Head of Finance

Senior Accountancy Officer

Principal Accountant

Accountancy Manager

Internal Auditor

Interim Asset Manager

Lettings Officer

Democratic Services and Elections Officer

Others in attendance

Darren Gilbert, Director, KPMG (the Council's external auditors)

AC.001**APOLOGIES**

None received.

AC.002 **DECLARATIONS OF INTEREST****Personal and Prejudicial Interests**

There were none.

AC.003 **MINUTES**

RESOLVED **That the Minutes of the meeting of the Audit and Standards Committee held on 26 March 2013, are approved as a correct record and signed by the Chair.**

AC.004 **PUBLIC QUESTION TIME**

There were none.

AC.005 **EXTERNAL AUDIT FEES 2013/14**

Darren Gilbert, Director of KPMG outlined some of the headlines contained within the Annual Audit Fee 2013/14 letter. Members requested, where possible that as much work carried out by KPMG was retained in the UK.

The planned fee for 2012/13 would be retained at the reduced rate for 5 years.

RESOLVED **To accept the report.**

AC.006 **4 QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2012/13**

The Principal Accountant presented the report and explained the figures set out in tables 1 and 2.

In response to a Members' question the Principal Accountant who Prime Rate were and that they had been triple A rated and as such were good for short term investments.

RESOLVED **To approve the treasury management activity fourth quarter report for 2012/2013.**

AC.007 **INTERNAL AUDIT PLAN MONITORING REPORT**

The Committee were informed that 91% of the Internal Audit Plan had been carried out for 2012/13.

The Internal Auditor explained to Members how Audit assurance level opinions were arrived at for individual audits. Although the overall assurance level of the Authority was satisfactory, Members raised concerns regarding specific audits which had received limited assurance opinions.

The audit of the Housing contract (letting and management of the major voids (North)) reported a number of issues of concern. The Chair invited the Interim Asset Manager and Lettings Officer to address the Committee about this audit. The Committee were informed by him that during the period in which the Audit of the service had been carried out Tenant Services were also reviewing their service and applying Systems Thinking. It was confirmed that a follow-up audit would take place to test that the agreed audit recommendations had been implemented and the findings reported back to the Committee.

Invoicing problems had occurred with regard to recycling, these issues had also been resolved.

The audit of the Subscription Rooms identified that improvements to the bar stock controls were required.

RESOLVED **To accept the report and the assurance given on the adequacy of internal controls operating in the systems audited.**

AC.008 **INTERNAL AUDIT ANNUAL REPORT 2012/13**

The Internal Audit Annual Report for 2012/13 outlined the audits carried out during 2012/13, which tested compliance with the Council's policies and regulations, and reviewed the effectiveness of the organisation's control environment.

Members were appalled at the lack of response to the Audit opinion surveys sent to the service following an audit. It was suggested that the audit is not completed until the forms have been returned.

The Head of Finance explained that the format of the survey form had been raised before and that it was the intention to review the form and the process for completion and return.

Members indicated that they felt the Chief Executive should inform managers that return of Audit survey forms was compulsory.

RESOLVED **To accept the Internal Audit Annual Report 2012/13 with the assurances from the Internal Audit Manager that overall, a satisfactory level of control exists within the systems audited during 2012/13.**

AC.009 **REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT**

A self assessment had been carried out by the Internal Audit Manager and reported to the Section 151 Officer. The report had been submitted together with an evidence file. The self assessment identified a number of gaps, but these were not material and the overall conclusion was that the Internal Audit at Stroud District Council was effective.

Appendix b of the report set out areas where the Council were not fully compliant. Members sought clarification on how long documents were retained and were informed that the retention of the document was dependent on the type of audit being carried out.

RESOLVED To approve the review process and note the outcome of the review of the effectiveness of Internal Audit

AC.010 ANNUAL GOVERNANCE STATEMENT 2012/13

The Head of Finance presented the Annual Governance Statement for 2012/13. The Members were informed that it was a living document and as such could be subject to change. The Annual Governance Statement had been signed and approved by the Leader of the Council and the Chief Executive.

Subject to minor amendments Members of the Committee approved the document.

RESOLVED To approve the Annual Governance Statement 2012/13

AC.011 RISK MANAGEMENT POLICY

The Head of Finance introduced the report and outlined the changes made to the Policy and the processes for identifying, scoring, recording and managing risk. Members were happy to approve the Policy and did not feel that there should be a need for them to recommend this to the Strategy & Resources Committee for approval.

RESOLVED To approve the Risk Management Policy as set out in Appendix A.

AC.012 PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

CIPFA code of practice had been set in 2006; a new Public Sector Internal Audit Standards (PSIAS) came into effect April 2013. The Committee were informed that every five years the Internal Audit must be carried out by an external auditor.

RESOLVED To accept the report.

AC.013 AUDIT AND STANDARDS BUSINESS PLAN 2013/14

RESOLVED To note the Audit and Standards Committee Business Plan 2013/14 subject to the addition of the further reports stated above.

The meeting closed at 9.30 pm.

Chair



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Report to those charged with governance (ISA 260) 2012/13

Stroud District Council



Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This report summarises:

- the key issues identified during our audit of Stroud District Council's (the Authority's) financial statements for the year ended 31 March 2013; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

Financial statements

Our *External Audit Plan 2012/13* presented to you in March 2013 set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during April 2013 (interim audit) and July 2013 (year end audit). We carried out the following work:

Control Evaluation	<ul style="list-style-type: none"> ■ Evaluate and test selected controls over key financial systems ■ Review internal audit function ■ Review accounts production process ■ Review progress on critical accounting matters
Substantive Procedures	<ul style="list-style-type: none"> ■ Planning and performing substantive audit procedures. ■ Concluding on critical accounting matters. ■ Identifying audit adjustments. ■ Reviewing the Annual Governance Statement.
Completion	<ul style="list-style-type: none"> ■ Declaring our independence and objectivity. ■ Obtaining management representations. ■ Reporting matters of governance interest. ■ Forming our audit opinion.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas;
- reviewing the progress of the Canal Regeneration project, including the monitoring processes and contractual arrangements with other funders.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	<p>We are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made a small number of non-trivial adjustments, most of which were of a presentational nature.</p> <p>For completeness, we have included a list of all non-trivial audit differences in Appendix 1. The Council has agreed that all of these will be adjusted, with the exception of one adjustment proposed to reverse the early recognition of a provision for NNDR appeals, which is not considered material so does not cause an issue for our audit opinion.</p> <p>We have not raised any recommendations arising from our work this year.</p>
Accounts production and audit process	<p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.</p>
Control environment	<p>From our testing, nothing has come to light which suggests any weaknesses in the Authority's organisation and IT control environment.</p> <p>We are satisfied that internal audit complied with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work where this was relevant to our work.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.

We have identified no issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2013.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements.

Our audit identified a total of three audit differences, which we set out in Appendix 1. These relate to:

- 1) a reclassification of the bank overdraft to net against the cash balance (£1.4m);
- 2) the adjustment to valuation of a number of dwellings due for demolition at year-end (£0.3m); and
- 3) the release of a provision balance relating to NNDR pooling, which is not the Council's legal responsibility until the 2013/14 financial year (£0.4m).

It is our understanding that the first two adjustments will be adjusted in the final version of the financial statements. The third adjustment is not considered material so does not cause an issue for our audit opinion.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

The Authority has good processes in place for the production of the accounts and good quality supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the recommendations in our *ISA 260 Report 2011/12*.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority’s accounting practices and financial reporting. We also assessed the Authority’s process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements in place. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete signed set of draft accounts on 29 June 2013, within the statutory deadline.
Quality of supporting working papers	The supporting working papers provided were of a high quality and met the standards specified in our <i>Accounts Audit Protocol</i> .
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
Response to audit queries	Officers resolved all audit queries in a reasonable timeframe.

Prior year recommendations

As part of our audit we have specifically followed up the Authority’s progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented the recommendations in our *ISA 260 Report 2011/12*.

From our testing, nothing has come to light which suggests any weaknesses in the control environment.

We are satisfied that internal audit complied with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work where this was relevant to our work.

During April 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational and IT control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

The Authority also relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations relating to applications relevant to our audit.

From our testing, nothing has come to light which suggests any weaknesses in the control environment.

Review of Internal Audit

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on internal audit's work on the key financial systems.

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit & Standards Committee

and regular meetings during the course of the year, internal audit complied with the Code of Practice for Internal Audit in Local Government .

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

Internal audit have presented a paper to the June Audit & Standards Committee noting the impact of PSIAS on Stroud District Council.

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems that we have tested are sound.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Stroud District Council for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Stroud District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance, which is reproduced in Appendix 3. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements'.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2012/13 financial statements.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.



Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following page includes further details of our VFM risk assessment and our specific risk-based work.

Specific VFM risks

We have identified two specific VFM risks.

We are satisfied that the Council's current arrangements in relation to these risk areas is adequate.


Work completed


In line with the risk-based approach set out on the previous page, and in our Audit Plan we have:

- assessed the Council's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion and completed additional work. Two such areas were identified for the Council: the Canal regeneration project and the Woolaway redevelopment at Minchinhampton.

Key VFM risk	Risk description and link to VFM conclusion	Work performed
	<p>The scope of the Canal regeneration project has been revised to split Phase 1 of the project between Ocean to Brimscombe Port into five parts, with the initial strategy to cover a shortened restoration from Ocean to Bowbridge Bridge (Phase 1a), and restoration past this point to be delivered over a longer period.</p> <p>The Council remains committed to £3.9m of direct funding with further funding from other major contributors, notably the Heritage Lottery Fund (HLF). The revised scheme has been agreed by HLF which has agreed an additional £0.8m grant to bridge the remaining funding gap within the project.</p> <p>However, there remains a risk that should cost estimates not be accurate or appropriately monitored, there may be insufficient funding for the scheme.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>We have reviewed budgets, forecasts and monitoring arrangements for the project to ensure that VFM is being considered throughout the organisation.</p> <p>We also reviewed documentation to confirm agreement of the revised scheme (including additional £0.8m grant) with HLF.</p> <p>Our work concluded that steps have been taken to re-assess the projected costs to complete and there has been timely reporting to relevant committees, including amendments to the scope of the project.</p> <p>The project costs to be funded by the council remain in line with the original agreed budget, and management continue to monitor all costs against the revised budget.</p> <p>On this basis, we are satisfied that the Council's current arrangements in relation to this risk area is adequate.</p>

Key VFM risk	Risk description and link to VFM conclusion	Work performed
 <p>Woolaway redevelopment at Minch</p>	<p>The Council has an ongoing project to replace the 35 old “Woolaway” bungalows at Minchinhampton with new build houses.</p> <p>During 2012/13 it significantly progressed its plans to enter into an agreement with a developer, who will clear the land and construct an equivalent number of council houses in exchange for the transfer of approximately 50% of the land to the developer. The developer plans to construct an additional 31 houses on this land and receive the proceeds of the open market sale of these houses (with an element of the profits being paid to the Council if they exceed a set value).</p> <p>In order to progress the project, the Council has repurchased the six remaining privately owned properties at the site. The agreement has been signed with the developer, Lovell’s, on 2nd September 2013.</p> <p>This is a complex project, and there is a risk that any local authority entering into a project of this kind will not obtain value for money if it has not fully analysed the costs of the different elements e.g. the site clearance and construction of social housing units to be received from the developer compared to value of selling land on open market, the costs to the Council of repurchasing the Right-to-Buy units, and estimation of the value of any contingent revenue from the developer’s private housing sales.</p> <p>This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>The issue initially became apparent to us as part of our audit because the imminent site clearance impacted on the valuation of the dwellings at year-end.</p> <p>In order to assess this, we had to request that management obtain a professional valuation for the site which they could then compare to the current book value of the assets; the resultant valuation is approximately £1.5m for the proportion of the land to be sold. An audit difference has been corrected relating to the overall site valuation (see page 11).</p> <p>Other than the accounting treatment, this did raise the question as to why there was no recent valuation performed already on the site, considering the nature of the transaction, as the Council’s costs to clear the site and construct the 31 houses are effectively represented by a portion of the land value.</p> <p>We do note from our review of relevant reports to members that one of the drivers of the decision to use this land cross-subsidy arrangement was the lack of funding sources available for the project, as it pre-dates HRA self-financing.</p> <p>In relation to our 2012/13 audit, as the contract was signed in 2013/14, the transaction does not impact this year’s VFM conclusion so we have not performed detailed work on the area as part of the 2012/13 audit.</p> <p>We will consider when planning our 2013/14 audit work whether there is a need to undertake a more detailed review of this project, as well as potentially looking at other parts of the decision making process relating to council housing development schemes.</p>

Appendix 1: Audit differences

This appendix sets out the significant/ non-trivial audit differences.

It is our understanding that all of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Audit & Standards Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Stroud District Council's financial statements for the year ended 31 March 2013.

No.	Impact (£000)					Basis of audit difference
	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1			Cr Cash (1,417)	Dr Overdraft 1,417		Stroud District Council's overdraft account is an integral part of the Council's cash management structure, and regularly fluctuates between being in debit and credit. As a result, the Code dictates that it should be presented net of cash in the financial statements. An adjustment has therefore been raised to correctly present the overdraft on the face of the balance sheet.
2	Cr Impairment (303)	Dr Housing Revenue Account 303	Dr Council Dwellings 303		Cr Capital Adjustment Account (303)	During 2012/13, the Council acquired 7 dwellings at Minchinhampton and Leonard Stanley which are due to be demolished in order to clear the sites for new development. In addition, the Council owns 49 other dwellings at these two sites which will also be demolished. The Council originally fully impaired the purchased properties (including land value) and had not adjusted the value of the 49 other properties. Subsequently, management has obtained valuations of the two sites as at year-end and this adjustment is to bring the final values in the accounts in line with the valuer's figures.
	(303)	303	(1,114)	1,417	(303)	Total impact of adjustments

Appendix 1: Audit differences (continued)

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Stroud District Council's financial statements for the year ended 31 March 2013.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact (£000)			Basis of audit difference
			Assets	Liabilities	Reserves	
1	Cr Expenditure on Council Services (430)	Dr transfers to earmarked reserves 430		Dr Provisions 430	Cr Reserves (430)	When the new arrangements for the retention of business rates come into effect on 1 April 2013, local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over (to Central Government) in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the authorities, but would have been transferred to DCLG. A provision has been included within the accounts to provide for liabilities relating to 2012/13 and prior years. However, as per Local Authority Accounting Panel (LAAP) guidance, authorities should only recognise these liabilities on 1 April 2013, as until then no liability rests with the authority. An adjustment has therefore been proposed to reverse this provision from the accounts in the current year and recognise an earmarked reserve.
	(430)	430	-	430	(430)	Total impact of uncorrected audit differences

Appendix 2: Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 2: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Stroud District Council for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Stroud District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Other services

We have performed the following other services for the Council outside our the work performed under our role as auditor:

Service	Fee exc. VAT
Anti-bribery and corruption briefing	£8,338

Appendix 3: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Stroud District Council (“the Authority”), for the year ended 31 March 2013, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of the Authority as at 31 March 2013 and of its expenditure and income for the year then ended; and
- ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority’s expenditure and income for the year then ended; and
 - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 require adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Appendix 3: Draft management representation letter (continued)

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

8. The Authority has disclosed to you all information in relation to:

(a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

(b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

(a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,
- have been identified and properly accounted for; and

(b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit * Standards Committee on 26 September 2013.

Yours faithfully,

Molly Cato, Chair of the Audit & Standards Committee

Sandra Cowley, Head of Finance



cutting through complexity™

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STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

26 September 2013

6

Report Title	STATEMENT OF ACCOUNTS 2012/13
Purpose of Report	To approve the Statement of Accounts 2012/13 and receive KPMG's audit opinion, including the changes to the accounts arising from their audit since the accounts were signed off by the Head of Finance on 28 June 2013.
Decision(s)	Committee RESOLVES to: (a) approve the audited Statement of Accounts for the year ending 31 March 2013, and (b) that the Head of Finance & s151 Officer and Chairman of the Committee be authorised to sign a letter of representation on behalf of the Committee and Council to KPMG, to enable the audit opinion to be issued.
Consultation and Feedback	The accounts were available for public inspection on 29 July 2013.
Financial Implications and Risk Assessment	There are no financial implications arising from this report. Sandra Cowley, Head of Finance & Section 151 Officer Tel: 01453 754136 E-mail: sandra.cowley@stroud.gov.uk
Legal Implications	There are no significant legal implications arising from the decision recommended in this report. Peter Woodcock, Locum Legal Services Manager Email : peter.woodcock@stroud.gov.uk Tel' : 01453 754369
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Chair of Committee	Councillor Molly Scott Cato Tel: 01453 298184 E-mail: cllr.molly.scott.cato@stroud.gov.uk
Options	None.

Performance Management Follow Up	Actions arising from KPMG's ISA260 report.
Background Papers	<ul style="list-style-type: none"> • Accounts and Audit Regulations (England) 2011 • Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 'Code')
Appendices	A Statement of Accounts

Discussion

1. In accordance with requirements under the Accounts and Audit (England) Regulations 2011, the Head of Finance & s151 Officer is required by 30 June to sign and date the Statement of Accounts and certify that it presents a true and fair view of the financial position of the Council at the end of March 2013 and its income and expenditure.
2. The Statement of Accounts for 2012/13 was signed as approved by the Head of Finance & s151 Officer on 28 June 2013, in accordance with these requirements.
3. The Head of Finance & s151 Officer is required to re-certify the presentation of the Statement of Accounts before the Audit & Standards Committee approves it.
4. Regulation 8 requires that the Statement of Accounts should be signed and dated by the Chair presiding at the Audit & Standards Committee meeting at which approval is given. It also requires the Statement of Accounts to be published with the Independent auditor's report to the members of Stroud District Council. This report is in the Statement of Accounts Appendix A pages 90 – 92.
5. The Council's external auditors KPMG also present separately to this meeting their ISA260 report to those charged with governance 2012/13.
6. The Statement of Accounts is comprised of four main statements as required by IFRS which are:-
 - **Movement in Reserves Statement:**
This is split between usable & unusable reserves and shows the detail of movement in reserves, from the surplus / (deficit) on provision of services in the Comprehensive Income & Expenditure Statement, to the position on the Balance Sheet at 31 March.
 - **Comprehensive Income and Expenditure Statement:**
This combines the income and expenditure account and the former Statement of Recognised Gains and Losses which were previously shown as separate statements. The 'below the line' funding and

accounting entries for items such as depreciation, impairment, grants and pension adjustments are shown in note 7 to the accounts.

- **Balance Sheet:**
Shows the assets and liabilities of the Authority.
- **Cash Flow Statement:**
This shows the year on year change in cash and cash equivalents (i.e. on-demand deposits).

Further explanations of the above can be found in the Explanatory Foreword of the Statement of Accounts in Appendix A, on page 1.

7. Also attached to the Auditor's report is a draft letter of representation which this Committee needs to approve the signature of. This deals with the processes and procedures the Council adopts to ensure that it is in compliance with statutory requirements, laws and regulations and also that it has a sufficiently robust management system to prevent and detect fraud and irregularities.
8. A full revised version of the accounts is enclosed at Appendix A, and has also been deposited in the Members' Lounge for inspection, and a copy has been placed on the Hub.

Statement of Accounts 2012/13



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Explanatory Foreword

The purpose of this foreword and the summary of the financial year are to offer interested parties an easily understood guide to the most significant points reported in the accounts. They provide an explanation in overall terms of the Council's financial position and assist in the interpretation of the accounting statements. They also contain a commentary on the major influences affecting the Council's income and expenditure and cash flow, and information on the financial needs and resources.

The pages that follow are the Council's final accounts for 2012/13, incorporating the changes required by the Code of Practice on Local Council Accounting in the United Kingdom 2012/13 (the 'Code') based on International Financial Reporting Standards (IFRS). It includes:

Statement of responsibilities for the statement of accounts

This explains the responsibility of the Council and the Head of Finance for the production of these Accounts.

The accounting statements

The statements are grouped into **four main financial statements**:

- **Movement in reserves statement** – shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' and 'unusable reserves'. This statement includes the 'Surplus on the Provision of Services', which is detailed in the Comprehensive income and expenditure statement (CI&E), and for 2012-13 is £4.4m.
- **Comprehensive income and expenditure statement (CI&E)** – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice;
- **Balance sheet** – shows the assets and liabilities of the Council. The total Net Worth at 31 March 2013 is £168.9m.
- **Cash flow statement** – shows the changes in cash and cash equivalents of the Council during the reporting period.

The **four main financial statements** are supported by accounting policies that explain the basis of the figures in the accounts, together with further notes that illustrate the lines in the financial statements to assist readers in understanding the statement of accounts.

These are further supported by **supplementary financial statements** for:

- Housing revenue account (HRA) income and expenditure account - income and expenditure on HRA services included in the whole Council CI&E account;
- Collection fund – reflects the statutory requirement for billing authorities to maintain a separate collection fund, which shows the transactions of the billing Council in relation to non-domestic rates and the council tax, and illustrates the way these have been distributed to preceptors and the general fund.

Pension fund accounts are not included within these accounts because they are not part of the entity accounts of the Council.

A glossary of terms is included at the back of these accounts.

Statement of Responsibilities for the Statement of Accounts

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Head of Finance's responsibilities

The Head of Finance, the Council's Responsible Financial Officer, is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Council Accounting in the United Kingdom* (the 'Code').

In preparing this Statement of Accounts, the Head of Finance has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the local Council Code.

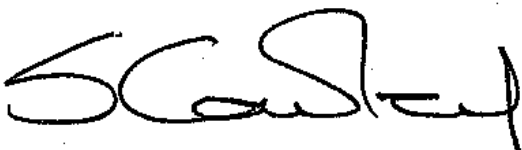
The Head of Finance has also:

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

The Head of Finance should sign and date the Statement of Accounts, stating that it presents a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2013. This statement is made on page10.

Signed:

Date:



S D Cowley CPFA
Head of Finance

12 September 2013

Summary of the Financial Year 2012/2013

1. There were three key projects that dominated the financial year and had an impact on the Council's accounts for 2012-13 and beyond. These are as follows:-

- (a) An enhanced Waste and Recycling service was rolled-out across the district in July 2012 and allowed residents to recycle a wider range of materials through a co-mingled kerbside collection service and at the district's bring sites.

The revised contract for the new service together with additional recycling credit income has contributed £0.175m to the council's improved outturn position in 2012/13. The 2013/14 budget has been adjusted by £0.245m for the full-year effect of these savings and reflected in the medium term financial plan (MTFP).

- (b) The Canal Restoration Project has seen significant progress during 2012/13 with £7.24m spent on a number of major projects including Capels Mill and the Ebley to Wallbridge structures. Although the scope of the canal project was reduced due to the lack of viable developer interest in Brimscombe Port, the Heritage Lottery Fund (HLF) awarded the project additional grant of £0.792m to enable the completion of the revised scheme.

- (c) 2012/13 has been the first year in which the HRA has operated under the new self-financing regulations. This has allowed the HRA to retain all the rental income from the council's properties – rather than effectively retaining a proportion of the income under the previous subsidy system. As a result, there is an increased capacity for the HRA to spend more on improvements to existing properties and to plan for a new build programme from 2013/14. HRA capital expenditure increased from £5.388m in 2011/12 to £8.955m in 2012/13, with revenue repairs and maintenance increasing from £2.672m to £2.818m over the same period.

There were also 2 key transactions that had a significant impact on the Council's accounts:

- i. Under the arrangements for the retention of business rates, local authorities assumed liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. A provision of £0.43m has been made in 2012/13. Stroud is also the lead member for the Gloucestershire Business Rates Pool, and the provision in part recognises some of the additional downside risk associated with pooling.
- ii. Local Authority Mortgage Scheme (LAMS) – as detailed in note 16 to the financial statements, the council is offering a financial guarantee to enable first time buyers within the district to obtain a mortgage. The council has invested £1.0m and Gloucestershire County Council £0.2m for 5 years to provide this financial guarantee.

2. General Fund

The Council spent a net total of £12.957m on General Fund revenue services in 2012/13. Allowing for the changes to provisions, interest received, movements to and from reserves and other items, the amount funded was £14.606m, resulting in a decrease in balances of £553k compared with the original forecast of £1.480m. Table 1 summarises the differences between the original budget and the actual outturn. Further details can be found on pages 11 to 13 of these accounts.

Table 1 : General Fund expenditure against original budget 2012/13

(figures in £'000)	original	actual	difference
main services			
central services to the public	1,605	1,617	12
corporate & democratic core	1,409	1,269	-140
cultural & related services	2,692	2,604	-88
environmental & regulatory services	5,159	4,899	-259
general fund housing	2,048	976	-1,072
highways & transport	-203	-175	28
non distributed costs & recharged services	162	-80	-243
planning & development services	1,925	1,848	-78
net cost of general fund services	14,797	12,957	-1,840
corporate income & expenditure	-63	442	505
external interest	-150	-410	-260
interest payable & similar charges	20	180	160
appropriations	915	1,437	522
total to be funded	15,519	14,606	-913
financed by:			
council tax	-8,132	-8,132	0
revenue support grant	-93	-93	0
other non-service government grants	-1,135	-1,148	-13
non domestic rate income	-4,577	-4,577	0
collection fund surplus	-103	-103	0
	-14,040	-14,053	-13
transfer to (-) / from balances	1,480	553	-926
amounts carried forward	-	114	114
net budget difference	1,480	667	-812

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

The Council continues to be pro-active in managing efficiency savings and budget savings in line with cuts in government funding and the economic conditions generally. Although income from fees and charges generally met the budgeted amount during the year, there were income pressures in some areas susceptible to

the economic downturn notably Building Control and Development Control, Industrial Units and Brunel Mall, resulting in corrective action being taken to reduce costs.

The most significant individual change between the original budget and actual net expenditure in the year was the change in accounting treatment for the LAMS scheme, whereby £1m of planned revenue expenditure was reclassified in its accounting treatment as a service investment. Other notable changes included a saving in staffing costs of £0.475m due to the non-filling of a number of posts that became vacant during the year, budgets of £0.296m brought forward from 2011/12, a combination of additional income and reduced costs from the enhanced waste and recycling service of £0.175m, improved council tax and housing benefit overpayment recovery performance which delivered a combined saving of £53k. The net result is a transfer from balances of £0.553m which is a difference of £0.926m compared with the original budget. Items totalling £0.114m due to be spent in 2012/13 have been carried forward to be spent in 2013/2014, resulting in a net saving against the original budget of £0.812m.

General Fund balances stood at £6.812m at 31 March 2013 compared with £3.233m when the budget was set in February 2012. The £3.579m difference comprises the higher balances carried forward from 2011/12 (£2.651m) as well as the improved 2012/13 position explained above.

A precept of £10.744m was levied on the Collection Fund (page 86), including a sum of £2.612m which was collected on behalf of and paid to town and parish councils, leaving £8.132m for use by this council.

3. Housing Revenue Account (HRA)

The Council is the district's major provider of rental accommodation with a stock of 5,133 dwellings at 31 March 2013. Further details of the stock movement are in note 1 on page 81.

Table 2: Housing Revenue Account outturn

(figures in £000)	original budget	revised budget	actual	difference (from revised)
service expenditure	9,803	9,740	9,328	-412
other operating costs	11,693	12,626	12,130	-495
total expenditure	21,496	22,366	21,459	-907
financed by:				
rents & other items	-22,207	-22,140	-22,180	-40
government subsidy	-23	-630	-362	268
other transactions				
transfer to (-) / from balances	-734	-404	-1,083	-679

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

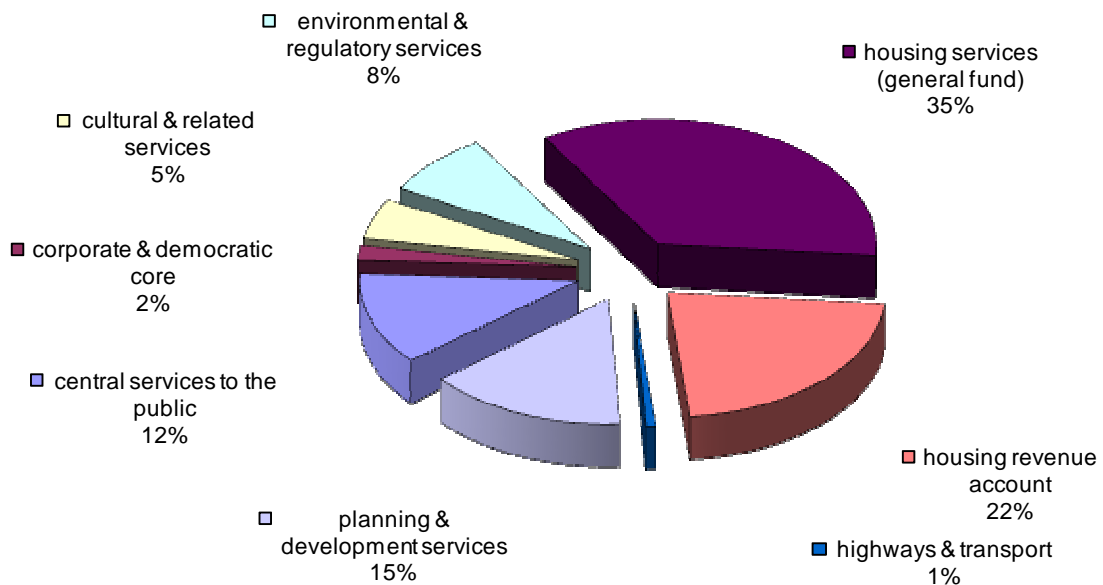
The 2012/2013 HRA outturn compared with budgets is summarised above. The reduction of £0.679m over the revised budget is made up from under spending and

slippage. It has been proposed that the balance be carried forward to 2013/2014 to be spent on projects of a revenue and capital nature.

What services the revenue expenditure was spent on

The Comprehensive Income and Expenditure Statement on page 13 details the net cost of services, gross expenditure is £78.3m. Gross expenditure on major services are shown in **Chart 1**.

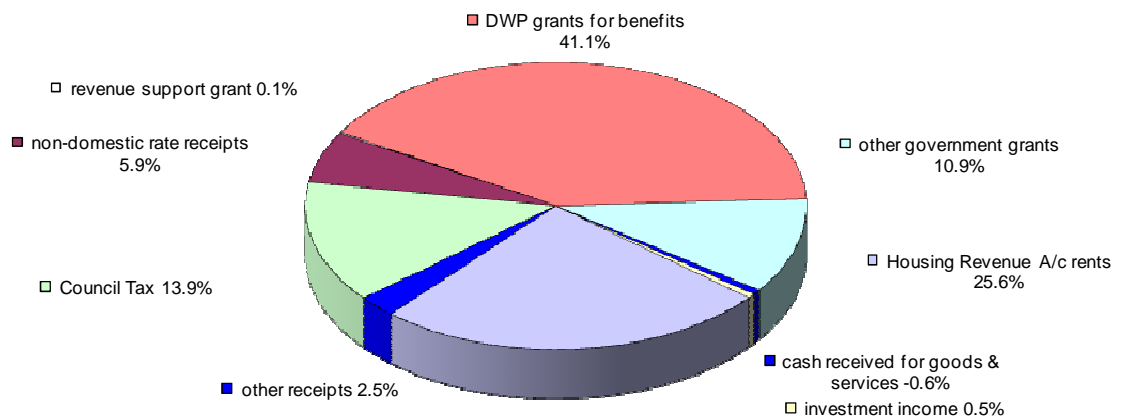
Chart 1: gross expenditure by service 2012/2013



4. Where the money came from

Chart 2 below shows the sources of the Council's revenue income, taken from the Comprehensive Income and Expenditure Statement on page 13, the gross income being adjusted for non-cash items to generate a total of £78.1m. The Council has no control over the income received from central government in the form of revenue support grant, non-domestic rates or many other grants. Income from investments is subject to money market and interest rate movements.

Chart 2: revenue income by source 2012/2013



5. Capital expenditure

The Council spent £17.52m on capital schemes (£11.49m in 2011/2012 excluding £91.72m HRA self-financing payment) compared with a latest approved budget of £18.58m, a net spend of 94.28%. On 27 June 2013 Strategy and Resources Committee approved the carry forward of £0.995m to 2013/2014, as detailed below.

Table 3: Capital slippage to 2013/14

	£'000
Housing Revenue Account	657
Provision of affordable housing	173
Stratford Park play area	87
Stratford Park Leisure Centre - roof and catch-up repairs	71
Private sector housing strategy	70
LA Social Housing	62
Energy efficiency – invest to save	47
Nailsworth bus station – health & safety	36
Church Street car park	30
Car parks signage	19
Thin client - replacement of desktop computers	5
Ebley Mill server room	-22
Canal	-240
Total slippage from 2012/13 to 2013/14	995

£9.43m (53.8%) of total capital expenditure related to housing schemes within the Housing Revenue Account and the General Fund, and £7.24m (41.3%) on the Canal scheme. The remaining £0.94m (5.4%) was spent on schemes including catch up repairs at Stratford Park Leisure Centre, enhancements to Dursley Pool, backlog building maintenance on the Council's property, new changing facilities at a joint use sports centre at Rednock School, purchase of land adjacent to Church Street car park and energy efficiency measures. Further details of capital expenditure are given in note 12 and note 37.

The Canal Project was subject to a comprehensive review during the course of the year as a result of a reduction in available budget due to the lack of viable developer interest in Brimscombe Port. As a result of this review, the Council approved in November 2012 a revised project scope and accepted additional grant of £0.792m from the HLF.

During 2012/13, £7.24m was spent on the project of which £6.55m was funded by HLF, £0.55m by the Council and £0.143m funded by other external bodies. The following progress was made during the year:

- Completion of the Ebley to Wallbridge structure contract (£2.1m)
- Substantial completion of the Swing bridge contract (£0.8m)
- Substantial completion of the Capels Mill project completed (£2.4m)

- Completion of a new flood wall at Gasworks bridge
- Restoration to the former Marling School rugby field
- Continuing works to the Thames and Severn Way

6. Capital resources

A mixture of external and internal sources financed this capital expenditure. External funding includes Government grants and external contributions, in particular Heritage Lottery Fund. Internal sums from the Council's own resources included rent from Council dwellings, sales of assets and the use of reserves. Details of capital funding are in note 37.

During the year 22 council houses were sold for a total of £1.661m of which £0.325m was pooled nationally.

7. Borrowing

The Council has £91.717m of Public Works Loans Board (PWLB) long-term debt following HRA self financing in March 2012. This is fixed interest rate debt with an annual interest rate ranging from 3.32% to 3.53% and maturity dates ranging from 2032 to 2061.

8. Council Tax Collection Fund

The Collection Fund accounts are included in these statements, starting on page 86. The Fund is administered for a number of local authorities that issue a precept and these include Gloucestershire County Council, Gloucestershire Police Authority, Stroud District Council and the parish and town councils in the Stroud District area. The District Council administers the fund on a basis similar to a trust.

During 2012-13 Gloucestershire authorities agreed to work together and form a Gloucestershire Business Rate Pool. This has commenced from April 2013 with Stroud District Council as the lead authority.

9. Accounting policies

Accounting policies required by the International Financial Reporting Standards (IFRS) are set out in these accounts starting on page 16.

10. Pensions liability

These accounts include the full financial impact of pensions accounting requirements ("IAS19"). This includes adjustments made to service costs in the Comprehensive Income and Expenditure Statement on page 13 and the inclusion of the pension liability on the Balance Sheet on page 14. Further explanatory details are now consolidated in note 41. The total net pension liability has increased to £38.6m at 31 March 2013 compared with £32.8m a year earlier, due to an increase in the present value of liabilities in the fund.

11. Corporate governance

Corporate governance is the system by which local authorities direct and control their functions and relate to their communities. It is important in maintaining credibility and enhancing public confidence in the Council.

A key element in effective corporate governance is the maintenance of a sound system of internal control. Further information is contained within the Annual Governance Statement on pages 93 to 103.

12. Chief Finance Officer Certification

The Statement of Accounts presents a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2013.

Signed:

Date:

A handwritten signature in black ink, appearing to read 'S D Cowley', is written over the 'Signed:' label.

**S D Cowley CPFA
Head of Finance**

12 September 2013

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account, for council tax setting and dwellings rent setting purposes. The Net Increase / 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.

Movement in Reserves Statement 2012-13								
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2012	7,364	6,233	2,098	504	449	16,649	153,160	169,809
Surplus or (deficit) on provision of services (accounting basis)	(612)	-	5,019	-	-	4,407	-	4,407
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	(5,251)	(5,251)
Total Comprehensive Income & Expenditure	(612)	-	5,019	-	-	4,407	(5,251)	(844)
Adjustments between accounting basis & funding basis under regulations 7	715	-	(3,936)	1,098	134	(1,989)	1,989	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	103	-	1,083	1,098	134	2,418	(3,262)	(844)
Transfers to / (from) Earmarked Reserves 8	(655)	655	-	-	-	-	-	-
Increase / (Decrease) in Year	(552)	655	1,083	1,098	134	2,418	(3,262)	(844)
Balance at 31 March 2013	6,812	6,888	3,181	1,602	583	19,067	149,898	168,965

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

Movement in Reserves Statement 2011-12								
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2011	4,379	5,790	1,938	1,901	567	14,575	251,953	266,528
Surplus or (deficit) on provision of services (accounting basis)	288	-	(93,931)	-	-	(93,643)	-	(93,643)
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	(3,077)	(3,077)
Total Comprehensive Income & Expenditure	288	-	(93,931)	-	-	(93,643)	(3,077)	(96,720)
Adjustments between accounting basis & funding basis under regulations	7 3,140	-	94,091	(1,397)	(118)	95,716	(95,716)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	3,428	-	160	(1,397)	(118)	2,073	(98,793)	(96,720)
Transfers to / (from) Earmarked Reserves	8 (443)	443	-	-	-	-	-	-
Increase / (Decrease) in Year	2,985	443	160	(1,397)	(118)	2,073	(98,793)	(96,720)
Balance at 31 March 2012	7,364	6,233	2,098	504	449	16,649	153,160	169,809

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

Comprehensive Income and Expenditure Statement

This statement shows the accounting 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; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Comprehensive Income and Expenditure Statement							
2011/2012				2012/2013			
gross expenditure	gross income	net expenditure		note	gross expenditure	gross income	net expenditure
figures in £'000s							
Expenditure on Council Services							
9,485	-8,015	1,470	central services to the public		9,368	-7,751	1,617
1,613	-251	1,362	corporate & democratic core		1,507	-238	1,269
4,311	-1,563	2,748	cultural & related services		4,150	-1,396	2,754
6,598	-1,662	4,936	environmental & regulatory services		6,448	-1,542	4,906
601	-778	-177	highways & transport		576	-742	-166
26,705	-24,491	2,214	housing revenue account		17,184	-22,368	-5,184
91,717	-	91,717	exceptional cost - hra self-financing		-	-	-
26,387	-25,249	1,138	housing general fund		27,485	-25,949	1,536
8,794	-1,989	6,805	planning & development services		11,607	-2,179	9,428
-80	-	-80	non distributed costs		-73	-	-73
176,131	-63,998	112,133	Surplus (-) / Deficit on Operations		78,252	-62,165	16,087
2,908	-93	2,815	Other Operating Expenditure	9	3,457	-509	2,948
1,502	-2,270	-768	Financing & Investment Income & Expenditure	10	1,377	-1,017	360
	-20,537	-20,537	Taxation & Non-Specific Grant Income	11		-23,802	-23,802
		93,643	Surplus (-) / Deficit on Provision of Services				-4,407
			Surplus(-) / Deficit on revaluation of Property, Plant & Equipment assets	25			-
			Actuarial gains(-) / losses on pension assets / liabilities	41			5,251
		3,077	Other Comprehensive Income & Expenditure				5,251
		96,720	Total Comprehensive Income & Expenditure				844

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:-

Balance Sheet			
31 March 2012		Notes	31 March 2013
£000			£000
Restated			
273,862	Property, Plant & Equipment	12	275,979
140	Heritage Assets	13, 45 - 46	140
4,253	Investment Property	14	4,702
238	Intangible Assets	15	184
-	Long Tem Investments	16	1,221
454	Long Term Debtors	16	403
278,947	Long Term Assets		282,629
570	Short Term Investments	16	2,697
43	Assets Held for Sale	21	-
3	Inventories	17	4
5,236	Short Term Debtors	19	8,443
15,803	Cash and Cash Equivalents	20	15,621
21,655	Current Assets		26,765
-5,526	Short Term Creditors	22	-8,805
-5,526	Current Liabilities		-8,805
-422	Long Term Creditors	22	-624
-285	Provisions	23	-682
-91,717	Long Term Borrowing	16	-91,717
-32,843	Other Long Term Liabilities	41	-38,601
-125,267	Long Term Liabilities		-131,624
169,809	Net Assets		168,965
16,649	Usable Reserves	24	19,067
153,160	Unusable Reserves	25	149,898
169,809	Total Reserves		168,965

Cash and cash equivalents as at 31 March 2012 are restated from £17.191m to £15.803m by incorporating an amount of £1.388m formerly described as bank overdraft. This reflects the net position with NatWest bank rather than separating out particular overdrawn accounts.

Usable reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt):

Unusable reserves are reserves that the Council may not use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents 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 the operations of the Council are funded by ways of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Cash Flow Statement			
31 March 2012 £000		Notes	31 March 2013 £000
93,643	Net surplus(-) or deficit on the provision of services		-4,407
-3,111	Adjust net surplus or deficit on the provision of services for non cash movements	26	-397
342	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		1,880
90,874	Net cash flows from Operating Activities		-2,924
41	Investing Activities	27	3,106
-90,917	Financing Activities	28	-
-2	Net increase(-) or decrease in cash and cash equivalents		182
15,801	Net cash and cash equivalents at the beginning of the reporting period		15,803
15,803	Net cash and cash equivalents at the end of the reporting period	20	15,621

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

(a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Council Accounting in the United Kingdom 2012/13* and the *Service Reporting Code of Practice 2012/13*, supported by International Financial Reporting Standards (IFRS).

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

The summary of significant accounting policies includes the following items where they have a significant effect on the amounts recognised in the financial statements:-

(b) Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- 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 but only if the value is material.
- 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 receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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 revenue and expenditure have 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 debts may not be settled, the balance of debtors is

written down and a charge made to revenue for the income that might not be collected.

(c) 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 from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

(d) 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 Council's financial performance.

(e) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change 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.

(f) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

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

(g) 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, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlement (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 wage and 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 decisions by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or the pensioner in the year, not the amount calculated according to the relevant accounting standards.

(h) Post Employment Benefits

Most employees of the Council are members of the Local Government Pension Scheme, administered by Gloucestershire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Gloucestershire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit 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 future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (4.8% in 2011-12) at the IAS19 valuation date.
- The assets of the Gloucestershire County Council pension fund attributable to the Council are included in the balance sheet at their fair value:
 - Quoted securities – current bid price.
 - Unquoted securities – professional estimate.
 - Unitised securities – current bid price.
 - Property – market value.
- The change in the net pensions liability is analysed into seven components:
 - Current service cost – the increase in liabilities as 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 on the Provision of Services 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 or credited to the Surplus or Deficit on the Provision 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 County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners 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 pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council 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.

(i) 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 existed at the end of 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.

(j) Financial Instruments

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 according to the loan agreement.

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 future 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. 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 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 Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the 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 relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

(k) Foreign Currency Translation

If the Council entered into a transaction denominated in a foreign currency, the transaction would be converted into sterling at the exchange rate applicable on the date the transaction was effective. If amounts in foreign currency were outstanding at the year-end, they would be reconverted at the spot exchange rate at 31 March. Resulting gains or losses would be recognised in the Financing and Investment

Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

(l) Government 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 Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments.
- 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 contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using grant or contribution are required to be consumed by the recipient as specified, or future economic benefits, or service potential, must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General 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.

(m) Heritage Assets

Heritage assets are defined as assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Assets owned by the Council that fit the definition of heritage assets are:

Nailsworth Fountain
Park Gardens Memorial
Sims Clock
Stroud from Rodborough Fort, painting c1850 by A N Smith
The Arch, Paganhill
Warwick Vase
Woodchester Mansion

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical

deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note (u) in this summary of significant accounting policies. Should a heritage asset be disposed of the proceeds would be accounted for in accordance with the Council'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.

(n) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised when it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resource available) and the Council 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 (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council 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 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.

(o) Interests in Companies and Other Entities

The Council is required to consider all its interests (including those in local authorities and similar bodies) and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. The canal project requires that significant sums of money are managed by the Council to deliver this major infrastructure scheme by 2015, which includes £12.7m of grant from the HLF. Many of the land aspects of this project are managed separately by the Stroud Valleys Canal Company. The Council has membership of the Company, but does not have access to benefits or exposure to the risk of a potential loss so there is no group relationship.

(p) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

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.

(q) 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 according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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. Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance.

(r) Leases

Leases are classified as finance leases when 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 building 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 Council as Lessee

Finance leases

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability.
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating leases

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

The Council as Lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received).
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments, (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 rental income.

(s) 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 *Service Reporting Code of Practice 2012/13 (SeRCOP)*. 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.

Recharges are made on the basis of time allocations with the exceptions of debtors and creditors (transaction numbers), payroll and personnel (employee numbers) and office overheads (floor areas).

(t) Property, Plant and Equipment

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

Recognition

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

The Council's capitalisation de minimis is £20,000, except for where the sum of the assets is significant, such as public conveniences and car parks. Additionally, items below the de minimis limit may be capitalised and included on the asset register if, for example, they are deemed portable and attractive.

General Fund assets are componentised if the cost of the component is more than 25% of the cost of the whole asset, and the cost of the component is more than £0.5m. This is subject to the over-riding requirement that not componentising would result in a material misstatement of depreciation.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.

- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

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

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

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at year-end, but as a minimum, every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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 gain).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (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:

- Dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – straight-line allocation of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- Infrastructure – straight-line allocation up to 30 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. 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.

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.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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 the 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 for disposal in excess of £10,000 are categorised as capital receipts. Under current pooling arrangements a fixed annual sum of receipts from housing disposals and 50% of receipts from housing land, is payable to Government, with the balance being retained by the authority. The balance of receipts is required to be credited to the 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 in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of the fixed 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 Reserves Statement.

(u) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. 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 in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and certainties.

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 less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

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

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

Contingent Assets

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

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

(v) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not

represent usable resources for the Council – these reserves are explained in the relevant policies.

(w) Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service 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 then reverses out the amounts charged so there is no impact on the level of council tax.

(x) Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2. Accounting Standards Issued, not Adopted

The 2013/14 Code of Practice includes the adoption of amendments to the following Accounting Standards:

IAS 1 – Presentation of Financial Statements (other comprehensive income)
IFRS 7 – Financial Instrument Disclosures (offsetting financial assets and liabilities)
IAS 12 – Income Taxes
IFRS 13 – Fair Value Measurement
IAS 19 – Employment Benefits

The amendment to IFRS 7, IAS 12 and IFRS 13 are likely to have no material impact on the Council's accounts. Whilst the amendment to IAS 1 will require a change in the presentation of the Comprehensive Income and Expenditure Statement, it will have no impact on any of the reported amounts.

The main changes to IAS 19 – Employee Benefits relate to Defined Benefit Schemes, and are:-

- The expected return on assets will be calculated at the discount rate, instead of an expected return rate; and
- The interest on the service cost will be included in the service cost itself in the CI&E, and
- Some labelling changes will be made to the charge in the CI&E, e.g. 'Service Cost' will comprise both 'Current Service Cost' plus 'Past Service Cost'

The effect of this change on the Comprehensive Income and Expenditure Statement will be an increase to pension costs of £362,000. These changes will be adopted

retrospectively for the prior year in accordance with IAS 8, and will be included in the statement of accounts for the period ending 31 March 2014.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Business rates appeals provision – Under the Business Rates Retention Scheme, the council assumed liability for their respective share of business rate appeals on 1 April 2013. According to the Valuation Office Agency's (VOA) records, around 260 business rate appeals were still outstanding as at 31 March 2013. Although a provision has been made in the accounts, there remains a high degree of uncertainty concerning the likely outcome of these appeals and their corresponding impact on the council's finances in 2013/14.
- The canal project means that significant sums of money are managed by the Council to deliver this major infrastructure scheme by 2015, which includes £12m of heritage lottery funding. The land aspects of this project are managed separately by the Stroud Valleys Canal Company. The Council does not have access to benefits or exposure to the risk of a potential loss so there is no group relationship.
- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

4. Assumptions made about the Future and other Major Sources of Estimation Uncertainty

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

As well as the items described in note 3, the items in the Council's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase for every year that

	economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries, Hymans Robertson LLP, is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £9.199m. However, the assumptions interact in complex ways. During 2012/13, the Council's actuaries advised that the net pension liability had decreased by £4.719m as a result of estimates being corrected as a result of experience and increased by £10.023m attributable to updating of assumptions.
Arrears	At 31 March 2013 the Council had a short term debtor balance of £9.289m and a bad debt provision of £846k or 9.1% of the debt. In the current economic climate it is not certain that the provision will be sufficient. If collection rates were to deteriorate, an additional bad debt provision would have to be made.	If collection rates were to deteriorate, an additional bad debt provision would have to be made. See notes 16, 19 and 44 for further details of debt outstanding.

5. Material Items of Income and Expense

The nature and amount of material items not separately disclosed on the face of the CI&E Statement are as follows:-

- Changes to pension fund liabilities (see note 41).
- Over £7.24m was spent on the canal regeneration scheme (see page 8, summary of Financial Year).

6. Events after the Balance Sheet Date

When the Business Rates Retention Scheme came into effect on 1 April 2013, local authorities assumed the liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. This includes amounts paid to Central Government in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by local authorities, but would have been transferred to Department of Communities and Local Government.

The council received notification from the Valuation Office Agency (VOA) of two significant successful backdated appeals in May 2013 totalling £447,000. Whilst a proportion of this refund will be shared with central government, it may have an impact on the overall level of retained business rates income for 2013/14.

The council is also the lead member of the Gloucestershire Business Rates Pool, whereby local authorities are able to come together, on a voluntary basis to pool their business rates, giving them scope to generate additional growth through collaborative effort, and to smooth the impact of volatility in rates income across a wider economic area. Whilst the business rates pool presents an opportunity for the council to generate and share in the additional business rates growth across the pool area, there is a risk to the council if business rates income fluctuates across pool members. This is because the safety net is calculated at the pool level, and a reduction in business rates income that would have qualified for a safety net payment outside of the business rates pool, will no longer do so, because, overall the pool is above its safety net threshold.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

Adjustments between Accounting Basis & Funding Basis under Regulations 2012-13						
2012-13	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	-1,012	-8,652				9,664
Revaluation losses on Property, Plant and Equipment		3,613				-3,613
Movements in the market value of Investment Properties	449					-449
Amortisation of intangible assets	-54					54
Capital grants and contributions applied	7,113					-7,113
Revenue expenditure funded from capital under statute	-8,242					8,242
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	645	-1,797				1,152
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
HRA Item 8 interest credit	197	-197				-
HRA share of corporate and democratic core	-237	237				-
Statutory provision for the financing of capital investment						-
Capital expenditure charged against the General Fund and HRA balances	1,012	3,486				-4,498
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions applied credited to the Comprehensive Income and Expenditure Statement	7,247				-7,247	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-7,113				7,113	-
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	219	1,826	-2,045			-
Use of the Capital Receipts Reserve to finance new capital expenditure			603			-603
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals		-29	29			-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-321		321			-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			-6			6
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Reserve credited to the HRA		5,304		-5,304		-
Use of the Major Repairs Reserve to finance new capital expenditure				5,304		-5,304
Adjustment primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	-2,397	-314				2,711
Employer's pensions contributions and direct payments to pensioners payable in the year	1,754	450				-2,204
Adjustment primarily involving the Collection Fund Adjustment Account:						
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	23					-23
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2	8				-10
Total Adjustments	-715	3,936	-1,098	0	-134	1,989

Adjustments between Accounting Basis & Funding Basis under Regulations 2011-12						
2011-12	Usable Reserves					Movement in Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	-937	-5,388				6,325
Revaluation losses on Property, Plant and Equipment	-528	-2,647				3,175
Movements in the market value of Investment Properties						
Amortisation of intangible assets	-52					52
Capital grants and contributions applied						-
Movement in the Donated Assets Account						-
Revenue expenditure funded from capital under statute	-5,523					5,523
HRA self-financing		-91,717				91,717
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	-249					249
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
HRA Item 8 interest credit	120	-120				-
HRA share of corporate and democratic core	-242	242				-
Statutory provision for the financing of capital investment						-
Capital expenditure charged against the General Fund and HRA balances	480	1,827				-2,307
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions applied credited to the Comprehensive Income and Expenditure Statement	3,832				-3,832	-
Application of grants to capital financing transferred to the Capital Adjustment Account					3,950	-3,950
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	675		-675			-
Use of the Capital Receipts Reserve to finance new capital expenditure			1,674			-1,674
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-7		7			-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-393		393			-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			-2			2
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		3,561		-3,561		-
Use of the Major Repairs Reserve to finance new capital expenditure				3,561		-3,561
Adjustment primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	-2,002	-310				2,312
Employer's pensions contributions and direct payments to pensioners payable in the year	1,685	452				-2,137
Adjustment primarily involving the Collection Fund Adjustment Account:						
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	-5					5
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6	9				-15
Total Adjustments	-3,140	-94,091	1,397	0	118	-95,716

8. Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure 2012/13.

Transfers to / from Earmarked Reserves 2012-13

	Balance 1st April 2011	Tsfers From 2011-12	Tsfers To 2011-12	Balance 31st March 2012	Tsfers From 2012-13	Tsfers To 2012-13	Balance 31st March 2013
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
business rates safety net	-	-	-	-	-	162	162
capital	1,735	-9	50	1,776	-798	820	1,798
climate change	264	-139	-	125	-	-	125
closed circuit television	61	-13	8	56	-	2	58
concessionary fares	200	-200	-	-	-	-	-
economic development	186	-100	431	517	-350	46	213
efficiency savings / invest to save	200	-60	-	140	-6	-	134
homelessness prevention	-	-	-	-	-	51	51
housing	244	-	-	244	-	-	244
information communication technology	276	-86	65	255	-42	103	316
legal counsel	121	-20	60	161	-28	30	163
littlecombe	-	-	100	100	-	172	272
new homes bonus	-	-	-	-	-	350	350
pension fund	691	-779	765	677	-779	515	413
planning appeal costs	190	-	225	415	-	25	440
planning strategy	242	-33	-	209	-41	-	168
private sector housing loans scheme	50	-	-	50	-50	-	-
property maintenance	609	-62	70	617	-213	70	474
retrofit guarantee	-	-	-	-	-	75	75
risk management / insurance	120	-15	-	105	-19	-	86
S106 maintenance reserve	15	-	194	209	13	-	222
Stratford Park leisure centre "sinking fund"	286	-309	70	47	-	74	121
unapplied revenue grants	-	-	30	30	-30	97	97
unapplied revenue contributions	-	-	-	-	-	172	172
warm and well grants	60	-	-	60	-42	-	18
waste management reserve	-	-	150	150	-	150	300
work force planning	240	-	50	290	-	125	415
total earmarked reserves - General Fund	5,790	-1,825	2,268	6,233	-2,385	3,039	6,887
HRA:							
major repairs reserve	-	-5,388	5,388	-	-5,304	5,304	-

9. Other Operating Expenditure

Other Operating Expenditure		
2011/12		2012/13
£000		£000
2,518	Parish Council Precepts	2,612
91	Levies	94
-	Business rate pooling provision	430
299	Payments to the Government Housing Capital Receipts	321
-93	Gains (-) / losses on the disposal of non-current assets	-509
<u>2,815</u>	Total	<u>2,948</u>

10. Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure		
2011/12		2012/13
£000		£000
128	Interest payable and similar charges	180
847	Pensions interest cost and expected return on pensions assets	1,197
-2,007	Repayment of Icelandic investments	-158
-263	Interest receivable and similar income	-410
527	Income and expenditure in relation to investment properties and changes in their fair value	-449
<u>-768</u>	Total	<u>360</u>

11. Taxation and Non Specific Grant Income

Taxation and Non Specific Grant Income		
2011/12		2012/13
£000		£000
-10,713	Council tax income	-10,872
-4,190	Non domestic rates	-4,577
-1,847	Non-ringfenced government grants	-1,240
-3,787	Capital grants and contributions	-7,113
<u>-20,537</u>	Total	<u>-23,802</u>

12. Property, Plant and Equipment

Property, Plant and Equipment						
Movements in 2012-13	council dwellings	other land & buildings	vehicles, plant furniture & equipment	infra-structure assets	community assets	total property, plant & equipment
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2012	306,177	35,578	2,671	428	62	344,916
Additions	7,639	1,515	123			9,277
Revaluation increases/decreases(-) recognised in the Surplus / Deficit on the Provision of Services	3,613					3,613
Derecognition - disposals	-1,110					-1,110
Transfers	-2,310	2,310				-
At 31 March 2013	314,009	39,403	2,794	428	62	356,696
Accumulated Depreciation & Impairment						
At 1 April 2012	-64,195	-5,611	-1,182	-59	-8	-71,055
Depreciation charge	-5,304	-767	-226	-19		-6,316
Depreciation written out to the Surplus / Deficit on the Provision of Services	5,304					5,304
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-7,639	-1,013				-8,652
At 31 March 2013	-71,834	-7,391	-1,408	-78	-8	-80,719
Net Book Value						
At 31 March 2013	242,175	32,012	1,386	350	54	275,979
at 31 March 2012	241,982	29,967	1,489	369	54	273,862

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

Property, Plant and Equipment						
Movements in 2011-12	council dwellings	other land & buildings	vehicles, plant furniture & equipment	infra-structure assets	community assets	total property, plant & equipment
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2011	303,728	32,856	2,124	423	62	339,193
Additions	5,388		547	5		5,940
Revaluation increases/decreases (-) recognised in the Revaluation Reserve		2,722				2,722
Revaluation increases/decreases(-) recognised in the Surplus / Deficit on the Provision of Services	-2,647					-2,647
Derecognition - disposals	-249					-249
Derecognition - other						-
Assets reclassified to(-) / from Held for Sale	-43					-43
At 31 March 2012	306,177	35,578	2,671	428	62	344,916
Accumulated Depreciation & Impairment						
At 1 April 2011	-58,807	-4,851	-1,024	-40	-8	-64,730
Depreciation charge	-5,369	-760	-158	-19		-6,306
Depreciation written out to the Surplus / Deficit on the Provision of Services	5,369					5,369
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-5,388					-5,388
At 31 March 2012	-64,195	-5,611	-1,182	-59	-8	-71,055
Net Book Value						
At 31 March 2012	241,982	29,967	1,489	369	54	273,862
at 31 March 2011	244,921	28,005	1,100	383	54	274,463

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

Depreciation

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

- Council Dwellings: 33 years.
- Other Land and Buildings: 20 to 50 years.
- Vehicles, Plant, Furniture and Equipment: 5 to 10 years.
- Infrastructure: 20 to 30 years.

Capital Commitments

With several major contracts on the Canal project reaching their conclusion towards the end of 2012/13 and the beginning of 2013/14, the major commitments (contracts in excess of £300k) at 31st March 2013 are far reduced from 2011/2012. The most significant commitment is with Alun Griffiths Ltd for the Capels Mill Contract at approximately £0.6m spend in 2013/2014.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The basis of the valuations of property assets is shown in the Statement of Accounting Policies.

Revaluations	council dwellings	other land & buildings	vehicles, plant furniture & equipment	infra-structure	community assets
	£000	£000	£000	£000	£000
Carried at historical cost			2,671	428	62
Valued at fair value as at:					
31 March 2013	244,485	3,174			
31 March 2012	241,982	2,742			
31 March 2011	244,921	5,431			
31 March 2010	236,188	24,483			
31 March 2009	279,147	1,887			

13. Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council.

Heritage Assets				
Movements in 2012-13	Heritage Properties	Painting	Warwick Vase	Total Heritage Assets
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2011	20	80	40	140
Additions				-
Disposals				-
Revaluations				-
At 31 March 2012	20	80	40	140
Cost or valuation				
At 1 April 2012	20	80	40	140
Additions				-
Disposals				-
Revaluations				-
At 31 March 2013	20	80	40	140

The Council's painting 'Stroud from Rodborough Fort' and the Warwick Vase are reported in the balance sheet at insurance valuation which is based on market values. Heritage properties are included at historic cost.

14. Investment Properties

Investment Properties - Fair Value		
	2012/13	2011/12
	£000	£000
Balance at start of the year	4,253	4,618
Additions:		
Purchases		10
Disposals:		
Net gains / losses from fair value adjustments	449	-527
Transfers:		
to / from Held for Sale		152
to / from Property, Plant & Equipment		
Other changes:		
	4,702	4,253

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

15. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased licenses only, as the Council has no internally generated software.

All software is given a finite life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are 10 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £54k charged to revenue in 2012/13 was charged directly to the appropriate service, with the amortised cost then forming part of support services recharging across all service heading in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

Intangible Assets	Purchased Software	
	2012-13	2011-12
	£000	£000
Balance at start of year:		
- Gross carrying amounts	478	459
- Accumulated amortisation	-240	-188
Net carrying amount at start of year	238	271
Purchases		19
Amortisation for the period	-54	-52
Net carrying amount at end of year	184	238
Comprising:		
- Gross carrying amounts	478	478
- Accumulated amortisation	-294	-240
	184	238

16. Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Categories of Financial Instruments	Long Term		Current	
	31 March	31 March	31 March	31 March
	2013	2012	2013	2012
	£000	£000	£000	£000
Investments				
Loans and receivables	1,221	-	2,697	570
Total Investments	1,221	-	2,697	570
Debtors				
Loans and receivables	403	454	8,443	5,236
Total Debtors	403	454	8,443	5,236
Borrowings				
Financial liabilities at amortised cost	-91,717	-91,717	-	-
Total Borrowings	-91,717	-91,717	-	-
Creditors				
Financial liabilities at amortised cost	-35	-	-	-
Financial liabilities carried at contract	-589	-422	-8,805	-5,526
Total Creditors	-624	-422	-8,805	-5,526

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining terms of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2013 of 0.93% to 4.02% for loans from PWLB and 0.25% to 1.53% for other loans receivable and payable based on new lending rates for equivalent loans at that date.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Fair Values - liabilities				
	31/03/2013		31/03/2012	
	carrying amount	fair value	carrying amount	fair value
	£000	£000	£000	£000
Financial liabilities	91,717	84,859	91,717	77,252
Long-term creditors	624	542	422	300
Short-term creditors	8,805	8,805	5,526	5,526

The fair value of financial liabilities is shown as lower than the carrying amount because the interest rate was higher at Balance Sheet date than when the fixed rate PWLB loans were borrowed. The Council also benefitted from preferential borrowing rates available for HRA Self Financing. The fair value of long-term creditors is lower than the carrying amount due to the time value of money.

Fair Values - receivables				
	31/03/2013		31/03/2012	
	carrying amount	fair value	carrying amount	fair value
	£000	£000	£000	£000
Loans & receivables	11,140	11,140	5,806	5,806
Long-term debtors	403	307	454	323
Long-term investments	1,221	1,338	-	-

The fair value of long-term debtors is lower than the carrying amount due to the time value of money. Short term debtors and creditors are carried at cost as this is a fair approximation of their value. Long-term investments' fair value is higher than the carrying amount because investment rates were lower at the balance sheet date.

Local Authority Mortgage Scheme – the Council is offering a financial guarantee to enable first time buyers to obtain a mortgage. The total value of the guarantee is £1.2m. The Council is required to invest £1m and the county council £200k for 5 years at a market rate of 3.8%. Premium interest of 0.7% is payable in return for the financial guarantee. Premium interest has been set aside to pay for any liability realised as a result of the financial guarantee.

17. Inventories

Inventories	2012-13 £000	2011-12 £000
Balance outstanding at start of year	3	4
Purchases	29	22
Recognised as an expense in the year	-26	-21
Written off balances	-2	-2
Balance outstanding at end of year	4	3

18. Construction Contracts

In 2012/13 the authority has entered into a partnership with a developer to replace the 'Woolaways' properties at Minchinhampton. These 66 properties were built in the 1950's of non traditional materials and such are now at the end of their useful life. They will be demolished and replaced by 33 new council owned properties built to the latest modern standards of design and materials.

19. Debtors

Debtors	31 March 2013 £000	31 March 2012 £000
Central government bodies	4,770	2,149
Other local authorities	10	126
NHS bodies	-	-
Public corporations & trading funds	-	-
Other entities & individuals	3,663	2,961
Total	8,443	5,236

20. Cash and Cash Equivalents

Cash & Cash Equivalents	31 March 2013 £000	31 March 2012 £000
Cash held by the Authority	4	4
Bank current accounts	-1,307	-1,213
Short-term deposits with banks	16,924	17,012
Total Cash & Cash Equivalents	15,621	15,803

21. Assets Held for Sale

Assets Held for Sale	31 March 2013	31 March 2012
	£000	£000
Balance outstanding at start of year	43	152
Assets newly classified as held for sale:		
Property, Plant & Equipment	-	43
Assets declassified as held for sale:		
Property, Plant & Equipment	-	-152
Assets sold	-43	
Balance outstanding at end of year	-	43

22. Creditors

Creditors	Current		Non Current	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	£000	£000	£000	£000
Central government bodies	570	375	-	-
Other local authorities	1,045	889	200	-
NHS bodies	-	-	-	-
Public corporations & trading funds	-	-	379	422
Other entities & individuals	7,190	4,262	45	-
Total	8,805	5,526	624	422

23. Provisions

Provisions	Glitnir Escrow Account	Land Charges	NNDR Pooling	Total
	£000	£000	£000	£000
Balance at 1 April 2012	285	-	-	285
Additional provisions made in 2012-13	-	125	430	555
Amounts used in 2012-13	-	-	-	-
Unused amounts reversed in 2012-13	-158	-	-	-158
Balance at 31 March 2013	127	125	430	682

Due to Icelandic currency controls an Icelandic Kroner element of Glitnir investments is retained in Iceland earning an interest rate of 4.2%. At 31 March 2013 an amount equivalent to £637k is held in Icelandic Kroner in an Escrow account. Whilst the council expects to receive repayment of the remaining balance in full, as prudent financial management an amount of £127k (20% reduced from 50% in 11-12) is set aside to cover against risks associated with foreign exchange fluctuations and Icelandic capital controls.

Following the introduction of business rate pooling the Council is taking on a risk relating to business rate valuation appeals which can be back-dated for up to five years. It is considered prudent to make provision for the risk that the level and type of appeal will mean a liability for the Council.

A provision has been made in respect of legal challenge associated with fees charged in the past for land charge search information which may have been unlawful.

24. Usable Reserves

31 March 2012	Usable Reserves	31 March 2013
£000		£000
7,364	General Fund	6,812
6,233	Earmarked General Fund Reserves	6,888
2,098	Housing Revenue Account	3,181
504	Capital Receipts Reserve	1,602
449	Capital Grants Unapplied	583
16,649	Total Usable Reserves	19,067

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

25. Unusable Reserves

31 March 2012	Unusable Reserves	31 March 2013
£000		£000
9,356	Revaluation Reserve	9,073
176,654	Capital Adjustment Account	179,407
-	Financial Instruments Adjustment Account	-
15	Deferred Capital Receipts Reserve	9
-32,843	Pensions Reserve	-38,601
122	Collection Fund Adjustment Account	144
-144	Accumulating Absences Adjustment Account	-134
153,160	Total Unusable Reserves	149,898

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are either:

- Revalued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation.
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31 March 2012 £000	Revaluation Reserve	31 March 2013 £000
6,634	Balance at 1 April	9,356
2,722	Upward revaluation of assets	-
-	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-
2,722	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-
-	Difference between fair value depreciation & historical cost depreciation	-283
-	Accumulated gains on assets sold or scrapped	-
-	Amount written off to the Capital Adjustment Account	-283
9,356	Balance at 31 March	9,073

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

31 March 2012	Capital Adjustment Account	31 March 2013
£000		£000
272,203	Balance at 1 April	176,654
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:	
-6,324	Charges for depreciation & impairment of non-current assets	-9,664
-2,647	Revaluation (losses)/gains on PPE	3,613
-52	Amortisation of intangible assets	-54
-5,523	Revenue expenditure funded from capital under statute	-8,241
-91,717	HRA self-financing expenditure	-
-249	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	-1,152
-106,512		-15,498
-	Adjusting amounts written out of the Revaluation Reserve	283
-106,512	Net written out amount of the cost of non-current assets consumed in the year	-15,215
	Capital financing applied in the year:	
1,674	Use of the Capital Receipts Reserve to finance new capital expenditure	438
3,561	Use of the Major Repairs Reserve to finance new capital expenditure	5,304
433	Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	266
3,515	Application of grants to capital financing from the Capital Grants Unapplied Account	6,847
2,307	Capital expenditure charged against the General Fund & HRA balances	4,664
11,490		17,519
-527	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	449
10,963		17,968
176,654	Balance at 31 March	179,407

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2012 £000	Pensions Reserve	31 March 2013 £000
-26,869	Balance at 1 April	-32,843
-5,799	Actuarial gains or losses on pensions assets & liabilities	-5,251
-2,312	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	-2,711
2,137	Employer's pensions contributions & direct payments to pensioners payable in the year	2,204
-32,843	Balance at 31 March	-38,601

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

31 March 2012 £000	Deferred Capital Receipts Reserve	31 March 2013 £000
17	Balance at 1 April	15
	Transfer of deferred sale proceeds credited as part of - the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	-
-2	Transfer to the Capital Receipts Reserve upon receipt of cash	-6
<u>15</u>	Balance at 31 March	<u>9</u>

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31 March 2012 £000	Collection Fund Adjustment Account	31 March 2013 £000
127	Balance at 1 April	122
-5	Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	22
<u>122</u>	Balance at 31 March	<u>144</u>

Accumulating Absences Adjustment Account

The Accumulating Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31 March 2012 £000	Accumulating Absences Adjustment Account	31 March 2013 £000
-159	Balance at 1 April	-144
159	Settlement or cancellation of accrual made at the end of the preceding year	144
-144	Amounts accrued at the end of the current year	-134
15	Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	10
-144	Balance at 31 March	-134

26. Cash Flow Statement – Operating Activities

31 March 2012 £000	Cash Flow Statement - Non Cash Items Included in (Surplus) / Deficit on Provision of Services	31 March 2013 £000
-937	Depreciation charges	-1,012
-52	Amortisation charges	-51
-2,690	Impairment	2,600
1,417	Increase (-) / decrease in creditors	-3,481
301	Increase / decrease (-) in debtors	3,207
59	Increase / decrease (-) in long term debtors	-54
-285	Increase (-) / decrease in provisions	-397
1	Increase / decrease (-) in inventories	1
-175	Non cash charges for retirement benefits	-508
-249	Carry amount of non current assets sold	-1,153
-527	Investment properties' revaluation	449
26	Other non cash items	2
-3,111	Non cash items in Net (Surplus) / Deficit	-397

27. Cash Flow Statement – Investing Activities

31 March 2012 £000	Cash Flow Statement - Investing Activities	31 March 2013 £000
552	Purchase of property, plant & equipment, investment property & intangible assets	1,638
10,570	Purchase of short-term & long-term investments	11,348
-342	Proceeds from the sale of property, plant & equipment, investment property & intangible assets	-1,880
-10,739	Proceeds from short-term & long-term investments	-8,000
41	Net cash flows from investing activities	3,106

28. Cash Flow Statement – Financing Activities

31 March 2012 £000	Cash Flow Statement - Financing Activities	31 March 2013 £000
-91,717	Cash receipts of short-term borrowing	-
800	Other receipts from financing activities	-
-	Other payments for financing activities	-
-90,917	Net cash flows from financing activities	-

29. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the SeRCOP. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across service areas. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year.
- Expenditure on some support service is budgeted for centrally and not charged to services.

The income and expenditure of the Council's principal service areas recorded in the budget reports for the year is as follows:

Amounts Reported for Resource Allocation Decisions

Service Income and Expenditure 2012/13	Corporate and Democratic Core £'000	Cultural and Related Services £'000	Central Services to the Public £'000	Environmental and Regulatory Services £'000	Housing General Fund £'000	Highways and Transport £'000	Non Distributed Costs £'000	Planning Services £'000	Recharged Services £'000	Housing Revenue Account £'000	Total £'000
Fees & Charges	-239	-1,287	-400	-1,198	-757	-742	-	-1,767	-75	-22,180	-28,645
Govt Grants	-	-	-7,171	-25	-25,190	-	-	-10	-	-	-32,397
Total Income	-239	-1,287	-7,572	-1,223	-25,947	-742	-	-1,777	-75	-22,180	-61,042
Employee	149	1,341	1,196	1,308	763	117	-74	1,690	3,198	3,178	12,865
Non-Pay	573	2,057	7,648	4,229	25,910	343	-	1,261	1,200	13,188	56,410
Support Services	785	603	542	905	252	106	1	1,228	1,233	1,298	6,953
Less: Recharge Income	-	-109	-198	-318	-2	-	-	-555	-5,563	-	-6,745
Total Expenditure	1,507	3,891	9,188	6,123	26,923	567	-73	3,624	68	17,664	69,483
Net Cost of Services	1,269	2,604	1,617	4,899	976	-175	-73	1,848	-7	-4,516	8,441

Service Income and Expenditure 2011/12	Corporate and Democratic Core £'000	Cultural and Related Services £'000	Central Services to the Public £'000	Environmental and Regulatory Services £'000	Housing General Fund £'000	Highways and Transport £'000	Non Distributed Costs £'000	Planning Services £'000	Recharged Services £'000	Housing Revenue Account £'000	Total £'000
Fees & Charges	-251	-1,451	-595	-1,341	-974	-778	-	-1,587	-42	-21,024	-28,043
Govt Grants	-	-	-7,269	-39	-24,275	-	-	-17	-	-3,561	-35,161
Total Income	-251	-1,451	-7,864	-1,380	-25,249	-778	-	-1,604	-42	-24,585	-63,204
Employee	177	1,324	1,214	1,342	732	127	-91	1,620	3,195	2,861	12,501
Non-Pay	602	2,270	7,673	4,357	25,033	314	-19	1,054	1,321	112,892	155,497
Support Services	835	633	597	899	259	161	2	1,153	1,183	388	6,110
Less: Recharge Income	-	-111	-151	-282	-	-	-	-495	-5,628	-	-6,667
Total Expenditure	1,614	4,116	9,333	6,316	26,024	602	-108	3,332	71	116,141	167,441
Net Cost of Services	1,363	2,665	1,469	4,936	775	-176	-108	1,728	29	91,556	104,237

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of service income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis	Service Analysis £'000	Amounts in the Net Comprehensive expenditure of services and support services not included in the Analysis £'000	Amounts included in the Analysis not included in the Comprehensive Income & Expenditure Statement £'000	Amounts included in the Analysis not included in the Comprehensive Income & Expenditure Statement £'000	Cost of Services in Comprehensive Income and Expenditure Statement £'000	Corporate Amounts £'000	Total £'000
2012/13							
Employee Costs	12,865				12,865		12,865
Other Service Expenditure	56,618		72	-237	56,453	430	56,883
Pension Interest Cost					-	1,197	1,197
Reversal of Major Repairs Allowance credited to the HRA					-		-
Net expenditure in relation to investment properties and changes in their fair value					-	-449	-449
Revenue expenditure funded from capital under statute			8,242		8,242		8,242
Capital Expenditure Funded by the HRA					-		-
Depreciation, Amortisation and Impairment				-265	-265		-265
Gain or Loss on Disposal of Non-Current Assets					-	-509	-509
Parish Council Precepts					-	2,706	2,706
Payments to Housing Capital Receipts Pool					-	321	321
Interest Payable and Similar Charges					-	180	180
Total Expenditure	69,483	-	8,314	-502	77,295	3,876	81,171
Fees & Other Income	-28,645		-165		-28,810		-28,810
Govt Grants	-32,397				-32,397	-12,930	-45,327
Gain/Loss on Disposal of Fixed Assets					-	-	-
Interest & Investment Income					-	-568	-568
Taxation & Non-Specific Grant Income					-	-10,872	-10,872
Other					-		-
Total Income	-61,042	-	-165	-	-61,207	-24,370	-85,577
Net Expenditure	8,441	-	8,149	-502	16,087	-20,494	-4,407

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

Reconciliation to Subjective Analysis	Amounts in the Net Comprehensive expenditure of services and support services not included in the Analysis			Amounts included in the Analysis not included in the Comprehensive Income & Expenditure Statement		Cost of Services in Comprehensive Income and Expenditure Statement		Corporate Amounts	Total
	Service Analysis	the Analysis	the Analysis	Expenditure Statement	Expenditure Statement	Expenditure Statement	Expenditure Statement		
2011/12	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employee Costs	12,501		157			12,658			12,658
Other Service Expenditure	154,940		988			155,928	-		155,928
Pension Interest Cost			847			847	847		1,694
Reversal of Major Repairs Allowance credited to the HRA						-			-
Net expenditure in relation to investment properties and changes in their fair value						-	527		527
Revenue expenditure funded from capital under statute			5,523			5,523			5,523
Capital Expenditure Funded by the HRA & GF			-2,307			-2,307			-2,307
Depreciation, Amortisation and Impairment						-			-
Surplus or Deficit on Revaluation			2,690			2,690	-93		2,597
Parish Council Precepts						-	2,609		2,609
Payments to Housing Capital Receipts Pool						-	299		299
Interest Payable and Similar Charges						-	128		128
Total Expenditure	167,441	-	7,898	-	-	175,339	4,317	-	179,656
Fees & Other Income	-28,043					-28,043			-28,043
Govt Grants	-35,161					-35,161	-9,824		-44,985
Gain/Loss on Disposal of Fixed Assets						-	-		-
Interest & Investment Income						-	-2,270		-2,270
Taxation & Non-Specific Grant Income						-	-10,713		-10,713
Other						-			-
Total Income	-63,204	-	-	-	-	-63,204	-22,807	-	-86,011
Net Expenditure	104,237	-	7,898	-	-	112,135	-18,490	-	93,645

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

30. Acquired or Discontinued Operations and Transferred Services

There were no discontinued or acquired operations during 2012/13 or 2011/12.

31. Trading Operations

The Council has no formal trading operations.

32. Members' Allowances

The Council paid the following amounts to members of the council during the year:

Members' Allowances	2012-13	2011-12
	£000	£000
Allowances	366	367
Expenses	11	12
Total	377	379

33. Senior Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

Senior Officers' Remuneration	Year	Salary, Fees & Allowances	Pension Contribution	Total
		£	£	£
Chief Executive	12-13	110,569	20,201	130,770
	11-12	110,569	19,224	129,793
Strategic Head (Customer Services)	12-13	66,783	12,422	79,205
	11-12	66,783	11,821	78,604
Strategic Head (Development Services)	12-13	66,783	12,422	79,205
	11-12	66,783	11,821	78,604
Strategic Head (Community Services)	12-13	-	-	-
	11-12	55,595	8,865	64,460
Strategic Head (Tenant Services)	12-13	55,653	10,351	66,004
	11-12	-	-	-
Head of Finance	12-13	62,977	11,714	74,691
	11-12	60,724	10,748	71,472
Canal Project Manager	12-13	66,783	12,422	79,205
	11-12	16,337	2,892	19,229
Head of Corporate Resources	12-13	59,836	11,129	70,965
	11-12	55,724	9,863	65,587
Head of Communications	12-13	37,907	6,507	44,414
	11-12	55,724	9,863	65,587

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2012/2013 Number of employees	2011/2012 Number of employees
£50,000 - 54,999	4	4
£55,000 - 59,999	-	-
£60,000 - 64,999	-	-
£65,000 - 69,999	-	-

The number of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

Exit Package cost band £000	Compulsory redundancies		Other agreed departures		Total exit packages		Total cost of exit packages	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
0 - 20	-	1	-	2	-	3	-	£26,985
20 - 40	1	-	-	2	1	2	£27,265	£52,500
40 - 60	-	-	-	-	-	-	-	-
60 - 80	-	-	-	-	-	-	-	-

34. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections, and to non-audit services provided by the Council's external auditors:

External Audit Costs	2012-13	2011-12
	£000	£000
external audit services carried out by the appointed auditor for the year	68	114
certification of grant claims and returns by the appointed auditor	13	28
other services provided during the year by the appointed auditor	9	-
Gross fees paid	90	142
less Audit Commission rebate	-	-9
Total	90	133

35. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

Grant Income, contributions & donations	2012-13 £000	2011-12 £000
Credited to Taxation & Non Specific Grant		
DCLG Non Domestic Rates	4,577	4,190
DCLG Revenue Support Grant	93	1,295
DCLG Council Tax Freeze	405	202
DCLG - New Homes Bonus Scheme	730	409
DCLG - Community Right to Challenge	8	-
DCLG - Community Right to Bid	5	-
Capital Grants & Contributions:-		
Heritage Lottery Fund - Canal Scheme	6,547	2,507
DCLG Disabled Facilities Grants	325	294
Guinness Homebuy Scheme Redemption	31	-
Energy Savings Trust	-	44
Other Capital Grants & Contributions	344	1,007
Total	13,065	9,948
Credited to Services		
DWP Housing Benefit Grant	24,698	23,774
DWP Council Tax Benefit Grant	6,707	6,771
DWP Discretionary Housing Payments / In & Out of	80	37
DWP Housing Benefit Administration Grant	606	673
DWP Housing Benefit Reform Funding	37	-
DCLG Housing Subsidies and Grant (HRA)	-	3,561
DCLG Business Rate Collection	3	161
DCLG Homelessness Grant and Mortgage Rescue	71	71
DCLG Market Town Projects	10	-
HCA Home Improvement	-	5
HO Building Safer Communities Grant	26	27
LAA Related Schemes	-	5
GCC Recycling Credits	472	430
STW Flood Prevention Projects	4	72
Other grants	-	36
Total	32,714	35,623

The Council has received no grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver during 2012/13 or 2011/12.

36. Related Parties

The Council is required to disclose material transactions with related parties. Related parties are 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.

Central Government

Central government has significant influence over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants, and prescribes the terms of many transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 29 on reporting for resource allocation decisions.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2012/13 and 2011/12 is shown in note 32. Members have not disclosed any material transactions with related parties in either year. The Register of Members' Interest is open to public inspection at Ebley Mill during office hours, on application.

Officers/Other Public Bodies

Senior Officers have not disclosed any material transactions with related parties and the Council has no material pooled budget arrangements with other public bodies.

Entities Controlled or Significantly Influenced by the Council

The Council is a Member of the Stroud Valleys Canal Company (SVCC) and is entitled to nominate a Director to the Board of Directors for SVCC. During 2012/2013, the Council chose not to put forward a Director to the Board of SVCC. The company was formed in 2009 to hold land associated with the Canal Restoration Project lead by the Council. All transactions associated with the Canal Restoration Project are within the Council's accounts. All payments to SVCC during 2012/2013 relate to the Agreement between the respective parties dated 16th March 2012.

Also there are three councillors with senior roles in the Citizens Advice Bureau which receives an annual grant of £0.125m.

37. Capital Expenditure and Capital 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

Capital Expenditure & Financing	2012-13	2011-12
	£000	£000
<i>Opening Capital Financing Requirement</i>	92,549	832
Capital Investment		
Property, Plant & Equipment	9,277	5,940
Intangible Assets	4	19
Revenue Expenditure Funded from Capital under Statute	8,238	5,523
HRA Self-Financing	-	91,717
Sources of Finance		
Capital receipts	-438	-1,674
Government grants & other contributions	-7,113	-7,511
Sums set aside from revenue	-1,151	-450
Direct revenue contributions	-8,817	-1,847
<i>Closing Capital Financing Requirement</i>	92,549	92,549
<i>Explanation of movement in year</i>		
Increase in underlying need to borrow (unsupported by government financial assistance)	-	91,717
<i>Increase / (decrease) in Capital Financing</i>	-	91,717

38. Leases

Council as Lessee

- Finance Leases**

The Council has no assets acquired by finance lease on its Balance Sheet.

- Operating Leases**

The Council leases in property under operating leases for economic development purposes to provide suitable affordable accommodation for local businesses – see also the note under 'Council as Lessor'.

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

Future minimum lease payments	31 March	31 March
	2013	2012
	£000	£000
Not later than one year	329	329
Later than one year & not later than five years	1,020	1,182
Later than five years	231	398
Total	1,580	1,909

The expenditure charged to the Planning and Development Services line in the Comprehensive Income and Expenditure Statement in relation to these leases was:

CI&E expenditure in year	2012-13 £000	2011-12 £000
Minimum lease payments	329	329

Council as Lessor

- **Finance Leases**

The Council has no finance leases as a lessor.

- **Operating Leases**

The Council leases out property under operating leases for economic development purposes to provide suitable affordable accommodation for local businesses – see also the note under 'Council as Lessee.

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

Authority as Lessor	31 March 2013 £000	31 March 2012 £000
Not later than one year	374	374
Later than one year & not later than five years	1,143	1,337
Later than five years	213	393
Total	1,730	2,104

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012-13 nil contingent rents were receivable by the Council (2011-12 Nil).

39. Impairment Losses

During 2012/13 the Council has recognised impairment gains of £2.766m (£3.217m loss in 2011/12). This is analysed below:-

2011/12			Impairment Losses	2012/13		
Impairment charges to Surplus / Deficit (-)	Impairment charges to Revaluation Reserve	Total		Impairment charges to Surplus / Deficit (-)	Impairment charges to Revaluation Reserve	Total
£000	£000	£000		£000	£000	£000
2,690	-	2,690	Council Dwellings	-2,600	-	-2,600
-	-	-	Other Land & Buildings	-	283	283
-	-	-	Vehicles, Plant & Equipment	-	-	-
-	-	-	Infrastructure	-	-	-
-	-	-	Community Assets	-	-	-
-	-	-	PPE under Construction	-	-	-
527	-	527	Investment Properties	-449	-	-449
-	-	-	Intangible Assets	-	-	-
<u>3,217</u>	<u>-</u>	<u>3,217</u>		<u>-3,049</u>	<u>283</u>	<u>-2,766</u>

40. Termination Benefits

The Council terminated the contract of 1 employee in 2012/13, incurring a liability £12,470 (1 employee £27,265 in 2011/12) – see note 33 for the number of exit packages and total cost per band. Payment was in respect of an employee in Cultural Services.

41. Defined Benefit Pension Scheme

Participation in Pension Scheme

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

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

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by the 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 to the pension fund in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme	
	2012-13 £000	2011-12 £000
Transactions Relating to Post-employment Benefits		
Comprehensive Income & Expenditure Statement		
<i>Cost of Services</i>		
current service cost	1,508	1,453
past service costs / (credit)	-	-
settlements and curtailments	6	12
<i>Financing and Investment Income & Expenditure</i>		
interest cost	4,042	4,260
expected return on scheme assets	(2,845)	(3,413)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	2,711	2,312
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement		
actuarial gains and losses	5,251	5,799
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	7,962	8,111
Movement in Reserves Statement		
reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(5,758)	(5,974)
Actual amount charged against the General Fund Balance for pensions in the year:		
employer contributions payable to the scheme	2,204	2,137

The cumulative actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 is a loss of £26.651m.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

Funded Liabilities**Local Government
Pension Scheme**

	2012-13	2011-12
	£000	£000
Opening balance at 1 April	85,007	78,157
Current service cost	1,508	1,453
Interest cost	4,042	4,260
Contributions by scheme participants	543	563
Actuarial gains & losses	9,900	4,015
Benefits paid	(3,676)	(3,453)
Past service costs	-	-
Entity combinations	-	-
Curtailments	6	12
Closing balance 31 March	97,330	85,007

The present value of unfunded benefits is £955k (£899k 2011/2012).

Reconciliation of fair value of the scheme (plan) assets:

Scheme Assets**Local Government
Pension Scheme**

	2012-13	2011-12
	£000	£000
Opening balance at 1 April	52,164	51,288
Expected rate of return	2,845	3,413
Actuarial gains & losses	4,596	(1,837)
Employer contributions	2,204	2,137
Contributions in respect of unfunded benefits	53	53
Contributions by scheme participants	543	563
Benefits paid	(3,676)	(3,453)
Closing balance 31 March	58,729	52,164

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £7.441m (2011/12: £1.576m).

Scheme History	2008-09	2009-10	2010-11	2011-12	2012-13
	£000	£000	£000	£000	£000
Local Government Pension Scheme	(62,874)	(101,501)	(78,157)	(85,007)	(97,330)
Discretionary Benefits	-	-	-	-	-
Fair value of assets in the Local Government Pension Scheme	34,595	48,051	51,288	52,164	58,729
Surplus / (deficit) in the scheme:					
Local Government Pension Scheme	(28,279)	(53,450)	(26,869)	(32,843)	(38,601)
Discretionary Benefits	-	-	-	-	-
Total	(28,279)	(53,450)	(26,869)	(32,843)	(38,601)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £97.330m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £38.601m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2014 is £2.367m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £nil.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Council being based on the latest full valuation of the scheme as at 31 March 2010. The principal assumptions used by the actuary have been:

Assumptions

	2012-13	2011-12
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.2%	6.2%
Bonds	3.9%	3.9%
Property	4.4%	4.4%
Cash	3.5%	3.5%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.7	21.7
Women	23.6	23.6
Longevity at 65 for future pensioners:		
Men	23.5	23.5
Women	25.8	25.8
Rate of inflation	2.8%	2.5%
Rate of increase in salaries	4.6%	4.3%
Rate of increase in pensions	2.8%	2.5%
Rate of discounting scheme liabilities	4.5%	4.8%
Take-up option to convert annual pension into retirement lump sum - pre-2008 service	50.0%	50.0%
Take-up option to convert annual pension into retirement lump sum - post 2008 service	75.0%	75.0%

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

Categories	31 March 2013 %	31 March 2012 %
Equity investments	75	71
Debt instruments	17	21
Property	6	6
Cash	2	2
	100	100

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

History of Experience Gains & Losses

	2008-09	2009-10	2010-11	2011-12	2012-13
	%	%	%	%	%
Differences between the expected and actual return on assets	-37.55%	24.51%	0.94%	-3.50%	7.84%
Experience gains and losses on liabilities	-0.04%	-0.01%	9.26%	-1.40%	0.13%

42. Contingent Liabilities

There are no material contingent liabilities to report as at 31 March 2013.

43. Contingent Assets

There are no contingent assets to report as at 31 March 2013.

44. Nature and Extent of Risks Arising from Financial Instruments

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

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Re-financing risk** – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- **Market risk** – the possibility that financial loss might arise for the Council as a result interest rates movements.

Overall procedures for managing risk

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

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within financial regulations / standing orders / constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - the Council's overall borrowing;
 - maximum and minimum exposures to fixed and variable rates;
 - maximum and minimum exposures to the maturity structure of its debt;
 - maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved before the start of the year to which they relate. These items are reported with the annual treasury management strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year and quarterly updates.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 23/02/2012 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2012/13 is £110m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary is £104m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 100% based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt.

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Sector Treasury Services, the council's treasury management advisers. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution or group.

The credit criteria in respect of financial assets held by the Council are as detailed below:

- A financial institution must be included as a creditworthy counterparty on Sector Treasury Services weekly listing.
- There is a group limit of £12m or 50% of total investments, whichever is the greater, for groups of banks covered by the UK Government Guarantee scheme. UK banks not covered by the Government Guarantee have a limit of £6m. Outside of the UK the Council will only make deposits in AAA-rated countries and has set an investment limit of £6m per country. Investments can be for a maximum 3 year duration.
- As an overriding control no more than 50% of investments can be with a single institution, subject to a minimum deposit of £1m.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, but formal individual credit limits are not set.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £19.5m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that, whilst rare, it can happen that such entities can fail to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no new evidence at 31 March 2013 that this risk was likely to crystallise.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

Potential Maximum Exposure to Credit Risk	Amount at 31 March 2013	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2013	Estimated maximum exposure to default &	Estimated maximum exposure at 31 March 2012
	£000	%	%	£000	£000
	A	B	C	(A*C)	
Bonds	-	-	-	-	-
Customers	8,443	4.5%	5.5%	464	288
				<u>464</u>	<u>288</u>

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for customers, such that £7.221m of the £8.443m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

Age of debts

	31 March 2013	31 March 2012
	£000	£000
Less than three months	86	74
Three to six months	12	56
Six months to one year	7,060	4,277
More than one year	63	25
	<u>7,221</u>	<u>4,432</u>

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is readily available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and Public Works Loans Board. There is no significant risk that it will be unable to meet its commitments under financial instruments. The Council has ten PWLB loans that mature in more than five years.

Maturity - liabilities

	31 March 2013	31 March 2012
	£000	£000
Less than one year	8,805	5,526
Between one and two years	-	-
Between two and five years	200	-
More than five years	92,141	91,717
	<u>101,146</u>	<u>97,243</u>

All trade and other payables are due to be paid in less than one year.

Re-financing Risk

This risk relates to both the maturing of longer term financial liabilities and longer term financial assets. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the treasury team address the operational risks within the approved parameters. This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:-

Maturity Analysis

	Approved Minimum Limits	Approved Maximum Limits	31 March 2013	31 March 2012
	%	%	£000	£000
Less than 1 year	-	100	-	-
Between 1 and 2 years	-	100	-	-
Between 2 and 5 years	-	100	-	-
Between 5 and 10 years	-	100	-	-
More than 10 years	-	100	91,717	91,717
Total			91,717	91,717

Market Risk

Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise.
- Borrowings at fixed rates – the fair value of borrowings will fall.
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise.
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 100% of its 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. Risk of loss may be ameliorated if a proportion of government grant payable on financing costs moves with prevailing interest rates or the Council's cost of borrowing, and provides compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to revise the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

1% Interest Higher	£000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	12
Increase in government grant receivable for financing costs	-
Impact on Surplus or Deficit on the Provision of Services	12
Share of overall impact debited to HRA	6
Decrease in fair value of fixed rate investment assets	49
Impact on Other Comprehensive Income & Expenditure	49
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure)	13,811

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council does not invest in equity shares. If it did, these would be classified as 'available for sale' and all movements in price would impact on gains and losses recognised in Other Comprehensive Income and Expenditure.

Foreign Exchange Risk in Relation to Icelandic Deposits

The Council has foreign exchange exposure resulting from an element of the settlement received from Glitnir. This is being held in Icelandic Kroner in an escrow account due to currency controls. A provision guarding against currency fluctuations has been set up, see note 23.

45. Heritage Assets: Five-Year Summary of Transactions

There were no prior year transactions involving the purchase, donation, disposal or impairment during the five financial years from 2008/09 to 2012/13.

46. Heritage Assets: Further Information

Nailsworth Fountain - a drinking fountain erected in 1862 in memory of a local solicitor William Smith. He worked throughout his life to improve the supply of drinking water in Nailsworth. In 1938 it was moved to a new location in Old Market, and in 1963 moved again a few yards for road widening.

Park Gardens Memorial - a memorial to the war dead of Stroud district.

Sims Clock - a building at the junction of Russell Street, George Street, Kendrick Street and London Road in Stroud. The building comprises a raised dais on which is situated a Clock Tower. It is referred to locally as The Four Clocks.

Stroud from near Rodborough Fort - circa 1848 painted by Alfred Newland Smith (1812 – 1876) depicting an extensive panoramic landscape with two groups of people in the foreground – a genteel group in fashionable clothing, and women carrying wheat sheaves; with the town of Stroud and the wider countryside stretching out beyond, depicting views of a viaduct, Stroud railway station, St. Lawrence's Church, the Great Western Railway, Holy Trinity Church and the Old Workhouse.

The Arch, Paganhill - a memorial to commemorate the abolition of slavery erected in 1834. It was built as a gateway at the end of the drive to Farmhill Park by staunch abolitionist Henry Wyatt, who owned Farmhill Park. It is inscribed 'Erected to commemorate the abolition of slavery in the British Colonies the first of August AD MDCCCXXXIV'.

Warwick Vase - a Grade II listed structure, which up until 2003 sat in the Orangery in Stratford Park. It was vandalised in 2003 and moved to a secure location. The listing description includes 'Urn in Stratford Park. Late c18th, sculpted stone, after antique. Very elaborate.' The vase is a copy of the original Warwick Vase unearthed in Italy around 1780 by the then Lord of Warwick. The piece was copied many times.

Woodchester Mansion - is a Grade I listed house in the Victorian Gothic style. It is absolutely unique because it is unfinished. Work started on the mansion in the mid 1850's. The architect was a young local man called Benjamin Bucknall. It is situated at the western end of Woodchester Park, with the village of Woodchester to the eastern end.

Supplementary Financial Statements

The HRA Income and Expenditure statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

Housing Revenue Account Income and Expenditure Account

2011/2012 £000	notes	2012/2013 £000 £000	
income			
-18,819	dwelling rents	6	-20,011
-410	non-dwelling rents	8	-420
-1,470	charges for services and facilities		-1,533
-3,561	HRA subsidy receivable (including MRA)	9	-
-166	Transfers from General Fund		-170
-40	contribution towards expenditure		-46
-24,466	total income		-22,180
expenditure			
2,672	repairs and maintenance		2,818
3,441	supervision and management		3,847
2,024	special services		2,157
10,350	negative HRA subsidy payable to central government	9	25
91,717	HRA Self Financing payment		-
8,035	depreciation & impairment of non-current assets		5,039
67	debt management costs		3,175
91	increased provision for bad or doubtful debt	11	99
118,397	total expenditure		17,161
93,931	net cost of HRA services as included in the whole authority Comprehensive Income & Expenditure Statement		-5,019
242	HRA share of corporate and democratic core		237
94,173	net cost of HRA services		-4,781
HRA share of operating income & expenditure included in the whole authority Comprehensive Income & Expenditure Statement:			
-29	gain (-) or loss on sale of HRA non-current assets	15	-645
	interest payable & similar charges		
-120	HRA interest & investment income		-197
	pensions interest cost & expected return on pensions assets		
94,024	surplus(-) / deficit for the year on HRA services		-5,623

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

Movement on the Housing Revenue Account Statement

2011/2012 £000		2012/2013 £000
-1,938	balance on the HRA as at the end of the previous reporting period	-2,098
94,024	surplus(-) / deficit for the year on the HRA Income & Expenditure Statement	-5,623
-94,184	adjustments between accounting basis & funding basis under regulations	4,540
-160	net increase (-) or decrease before transfers to or from reserves	-1,083
-	transfers to or from reserves	-
-160	increase (-) or decrease in year on HRA	-1,083
-2,098	balance on the HRA as at the end of the current reporting period	-3,181

This statement reconciles the outturn on the HRA Income and Expenditure Account 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.

Note to the Movement on the Housing Revenue Account Statement

2011 / 2012 £000		2012 / 2013 £000
9	difference between any other item of income & expenditure determined in accordance with the Code & those determined in accordance with statutory HRA requirements (if any)	8
29	gain or loss (-) on sale of HRA non-current assets	645
142	HRA share of contributions to or from the Pensions Reserve	136
1,827	capital expenditure funded by the HRA	3,486
-1,808	transfer to / from (-) Major Repairs Reserve	5,304
-91,717	HRA self-financing payment to Capital Adjustment Account	-
-2,666	transfer to / from (-) the Capital Adjustment Account	-5,039
-94,184	net additional amount required to be credited (-) or debited to the HRA balance for the year	4,540

Notes to the Housing Revenue Account (HRA)

1. Housing stock

The Council was responsible for managing an average of 5,169 dwellings during the year. 22 dwellings were sold under the right-to-buy legislation, compared with 5 sales in the previous year. Some 8 former HRA dwellings were repurchased for their land plots, and 49 dwellings were held vacant pending demolition as part of refurbishment projects. The value of the additions and other disposals is shown as part of the 'Movement in HRA fixed assets' table as 'development sites'. The table below summarises movements in stock during the year.

Movement in housing stock								
2011/2012				(number by type of dwellings)	2012/2013			
1 Apr	right-to-buy sales	other disposals	31 Mar		1 Apr	right-to-buy sales	other disposals	31 Mar
1,295			1,295	bungalows	1,295	-1		1,294
1,525	-2	-3	1,520	flats	1,520	-2		1,518
2,365	-3		2,362	houses	2,362	-19	-49	2,294
29		-4	25	maisonettes	25			25
2			2	shared ownership (half)	2			2
5,216	-5	-7	5,204	total housing stock	5,204	-22	-49	5,133

The total balance sheet value of the land, houses and other property within the HRA, including sheltered dwellings, is shown below:

Movement in HRA fixed assets							
(figures in £'000s)	Balance 1 Apr 12	additions in year	disposals	revaluation	depreciation & impairment	transfers	Balance 31 Mar 13
operational assets							
- council dwellings	241,982	7,639	-1,110	3,613	-7,639	-2,310	242,175
- community assets	23	-	-	-	-	-	23
- development sites	-	1,316	-	-	-1,013	2,310	2,613
- other land and buildings	2,722	-	-	-	-	-	2,722
- vehicles, plant & equipment	15	-	-	-	-	-	15
assets held for sale							
- council dwellings	43	-	-43	-	-	-	-
non-operational assets							
- investment property	2,562	-	-	351	-	-	2,913
total net fixed assets	247,347	8,955	-1,153	3,964	-8,652	-	250,461

2. Vacant possession value of dwellings

The open market vacant possession of dwellings including land within the HRA at 31 March 2013, at 1 April 2012 prices is £550m. This is for the 5,131 properties, excluding the 2 shared ownership dwellings. The value of dwellings net of the social element factor (44%) is £242m. The difference of £308m between the vacant possession value and balance sheet value of dwellings within the HRA shows the economic cost of providing council housing at less than open market rents.

3. Major repairs reserve (MRR)

An analysis of the gross movements on the MRR is shown below. Note that the Council does not operate a housing repairs account. Following the introduction of self-financing, for a transitional period of five years commencing this year the amount set aside into the MRR should be an amount at least equal to a Notional Major Repairs Allowance (NMRA) amount. Depreciation of £5.3m is in excess of the NMRA amount and has been used to finance capital repairs expenditure during the year.

Major repairs reserve		
2011/2012	(figures in £'000s)	2012/2013
-	balance 1 April	-
-5,369	transferred in	-5,304
1,808	transferred out to Housing Revenue Account	-
3,561	financing of Capital expenditure	5,304
-	balance 31 March	-

4. Capital expenditure

A summary of total capital expenditure on land, houses and other property within the HRA is shown below:

Funding HRA capital expenditure						
Spend 2011/ 2012	financing 2011/2012		capital schemes (All figures in £000's)	Spend 2012/ 2013	financing 2012/2013	
	major repairs allow'ce	revenue funding			major repairs allow'ce	revenue funding
998	998	-	kitchen & bathroom replacement	1,908	-	1,908
1,649	1,512	137	void work	1,657	-	1,657
196	196	-	disabled adaptations	235	-	235
97	97	-	electrical works	91	-	91
11	11	-	roofing	6	-	6
248	248	-	door & window renewal	455	-	455
498	498	-	central heating / fuel switch / sustainable energy	2,416	-	2,416
1,690	-	1,690	other capital works	2,188	-	2,188
5,388	3,561	1,828	total capital expenditure	8,955	-	8,955

Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures.

The major repairs allowance (MRA) is a sum included within the HRA subsidy calculation, specifically to finance major repair works (see note 3). Revenue funding is from rent that has been charged to finance capital improvements. As HRA subsidy has ceased no capital expenditure is financed by MRA in 2012/2013.

5. Capital receipts

A summary of total capital receipts from the disposals of houses and other property within the HRA is shown below:

HRA in year capital receipts		
2011/ 2012	(figures in £'000s)	2012/ 2013
639	council house sales	1,661
-7	less: cost of sales	-29
2	repaid mortgage advances	2
0	land sales	165
17	discount repaid on former council house sales	19
651	total capital receipts	1,818
-299	less: pooled receipts paid to Government	-325
352	total usable capital receipts	1,493

6. Rent income

This is the total dwelling rent collectable for the year after allowed for empty property. At 31 March 2013 there were 171 vacant properties for rent, representing 3.3% of the total (on 31 March 2012 the figures were 131 and 2.5% on a 48 week basis). The average weekly rent in 2012/2013 was £82.51, an increase of £5.35, or 6.87% over the previous year. This change is a composite figure that includes stock improvements, inflation and the effect of sales.

7. Rent arrears

During the year the amount of rent arrears, which include £109k in respect of former tenants, has decreased by £20k (4%). See also note 11.

Analysis of rent arrears		
2011/ 2012	(figures in £'000s)	2012/ 2013
53	court costs	48
298	current rent arrears	300
126	former tenant arrears	109
477	gross arrears at 31 March	457

8. Non-dwelling rents

Non-dwelling income is primarily from garage and shop rents.

9. Housing subsidy

The Government received a subsidy from the HRA based upon the Government's assessment of what the Council should be collecting and spending. From the 1st April 2012 subsidy is no longer payable, but is replaced by the freedom for the authority to retain the rent income it levies.

Therefore the table below indicates there is no subsidy due for 2012/13 except an adjustment to 2011/12, but shows the comparatives for the year 2011/2012.

HRA Subsidy		
2011/ 2012	(figures in £'000s)	2012/ 2013
11,700	allowance for management, maintenance & major repairs	-
41	charges for capital	-
-72	rental constraint allowance	-
-	interest on receipts	-
-	prior year adjustment	-25
-18,458	rent	-
-6,789	net payment to Government	-25
reconciliation from gross payment to Government		
-10,350	gross contribution to Government	-25
3,561	less: Major Repairs Allowance - Government Grant	-
-6,789	net payment to Government	-25

10. Pensions accounting

Under IAS 19 accounting rules, services must bear the full cost of pension liabilities. This also applies to HRA services. However, charges to or from the HRA are subject to a statutory determination and no regulation allows this IAS 19 charge to be made. Therefore it is necessary to credit the HRA with these additional pension costs so that no further charge falls on the rents.

11. Bad debt provision

The cumulative provision for uncollected debts was £0.299m at 31 March 2013 (£0.316m at 31 March 2012).

12. Depreciation & Impairment

The HRA incurs capital charges in respect of depreciation in accordance with the *Item 8 Credit and Item 8 Debit (General) Determination* for 2012/2013.

The depreciation charge is based upon a 33 year life of the operational dwellings, less an allowance for residual land value.

The depreciation charge for operational assets is £5.304m for dwellings, (£5.369m in 2011/2012). The impairment charge for dwellings is £7.639m (£5.388m in 2011/2012).

13. Impairment of fixed assets

Where assets are not revalued in the financial year, the Council is required to carry out an impairment review of the asset values to judge whether they have changed materially in the period. There has been no change in circumstance that requires a reduction in value in any HRA asset.

14. Capital expenditure funded by revenue under statute

There has been no capital expenditure funded by revenue under statute (e.g. grants) attributable to the HRA during the year.

15. Gain (-) / Loss on sale of HRA fixed assets

This includes the costs of the team administering the Right to Buy sales of HRA properties to the tenants (see note 1). The costs are charged against the capital receipt that they generate and are reversed in the Statement of Movement on the HRA Balance.

Collection Fund

2011/2012 £000	<i>notes</i>	2012/2013 £000	£000
income			
-60,385	income from council tax	18	-61,111
	transfers from General Fund		
-6,697	- council tax benefits		-6,548
-22,746	- income collectable from business ratepayers	20	-23,921
-89,828	total income		-91,580
expenditure			
	precepts and demands		
47,131	- Gloucestershire County Council		47,439
8,630	- Gloucestershire Police Authority		8,687
8,079	- Stroud District Council		8,132
2,518	- parish and town councils		2,612
			-
66,358			66,870
	business rates		
22,589	- payment to national pool		23,763
157	- cost of collection		158
22,746			23,921
	bad and doubtful debts / appeals		
-	- provision for bad debts	21	-
	- write offs		-
	transfers to the General Fund		
1	- transitional relief (council tax)		2
	contributions towards previous year's estimated surplus / deficit (-)		
	- council tax		647
768			647
89,873	total expenditure		91,440
movement on fund balance			
-806	balance at beginning of the year		-761
45	deficit / surplus (-) for the year		-140
-761	balance at end of the year		-901

Notes to the Collection Fund

16. General

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing Council in relation the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

17. Council tax base

The Council's tax base represents the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted by a prescribed ratio to give an equivalent number of "band D" dwellings. The band D equivalent is adjusted by 1.5% to cover appeals, changes in discounts and bad debts that arise. The tax base for 2012/13 was calculated as follows: -

Council tax base			
band	estimated number of properties after effect of discounts	ratio	band D equivalent dwellings
DIS A	16.50	5/9	9.17
A	5,722.00	6/9	3,814.67
B	10,282.95	7/9	7,997.85
C	10,324.50	8/9	9,177.33
D	6,970.15	9/9	6,970.15
E	5,706.80	11/9	6,974.98
F	3,464.05	13/9	5,003.63
G	2,285.20	15/9	3,808.67
H	204.05	18/9	408.10
	44,976.20		44,164.54
	less: adjustment for collection rate (1.5%)		-662.47
			43,502.07

18. Council tax income

The council tax base can be reconciled to the income from council tax as follows:

Income from council tax		£'000	£'000
total council tax base (see note 17)	43,502.07		
multiplied by average band D tax rate (see note 19)	x £1,537.16		
total property income			-66,870
less: council tax benefits		6,548	
add: transitional relief		-2	
add: other adjustments		-787	
			5,759
income from council tax			-61,111

19. Council tax rates**Council tax rates by precepting body and band**

precepting body	band								
	disr A £	A £	B £	C £	D £	E £	F £	G £	H £
district council	103.85	124.62	145.39	166.16	186.93	228.47	270.01	311.55	373.86
county council	605.83	727.00	848.17	969.33	1,090.50	1,332.83	1,575.17	1,817.50	2,181.00
police authority	110.94	133.13	155.31	177.50	199.69	244.07	288.44	332.82	399.38
average parish	33.36	40.03	46.70	53.37	60.04	73.38	86.72	100.07	120.08
total	853.98	1,024.78	1,195.57	1,366.36	1,537.16	1,878.75	2,220.34	2,561.94	3,074.32

(Note: band 'disr A' is for band A properties that receive relief)

20. Income from business ratepayers

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area that are based on local rateable values multiplied by a nationally determined uniform rate. The total amount, less certain relief and other deductions, is paid to a central pool (the 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 of resident population.

The total overall sum due from business rate payers was £29.7m, based on the total non-domestic rateable value of £66.19m at 31 March 2012 multiplied by the national non-domestic multiplier for the year of 45.8p. The actual amount collected was £23.9m and the difference between this and the overall sum was accounted for by loss allowances, void charges, mandatory and discretionary rate relief, write-offs and bad debt provisions.

21. Council tax provision for bad debts and appeals

A provision was made during 2012/13 amounting to £nil (2011/2012 £nil). This was calculated using CIPFA Guidelines. The total amount of the provision at 31 March 2013 is £298k and represents 21% of the £1.423m debt outstanding - (£319k, 23% and £1.389m at 31 March 2012).

Independent auditor's report to the members of Stroud District Council

We have audited the financial statements of Stroud District Council for the year ended 31 March 2013 on pages 11 to 89. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. This report is made solely to the members of 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 Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; 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 as at 31 March 2013 and of the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; 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.

We have nothing to report in respect of these matters

Conclusion on Stroud District 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.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Stroud District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Stroud District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Darren Gilbert
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
BS1 6AG

26 September 2013

ANNUAL GOVERNANCE STATEMENT 2012/13

1. Scope of responsibility

- 1.1 Stroud District 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. Stroud District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Stroud District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Stroud District Council has approved and adopted a code of governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how Stroud District Council has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

2. The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Stroud District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Stroud District Council for the year ended 31st March 2013, and up to the date of approval of this Statement.

3. The governance framework

- 3.1 Governance is about how the Council ensures it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 3.2 The Council has adopted a Local Code of Governance that is based around a number of key principles. These principles are identified below, together with a commentary on the current level of organisational compliance.

3.3 During 2012/13, the Council agreed to move from a Cabinet/Executive style administration and re-introduce a committee system. References to the Executive and Scrutiny in this statement reflect the arrangements in place for 2012/13. In 2013/14, the Strategy & Resources Committee will deal with Governance issues previously undertaken by the Executive.

4. Focus on the purpose of the authority and on outcomes for the community and creation and implementation of a vision for the local area

4.1 In establishing the competing priorities of local people, the Council has highlighted that it has a strong leadership role, hence, the Council's vision, is to be seen as:-

'Leading a community that is making Stroud district a better place to live, work and visit for everyone'

The Council's Corporate Delivery Plan seeks to demonstrate how this vision will be achieved around the Council's key priorities, which are:-

1. Economy – Help local people and businesses recover from the recession, grow the local economy and increase employment
2. Affordable Housing – Provide affordable and decent and social housing
3. Climate Change – Help the community minimize its carbon footprint, adapt to climate change, recycle more and send as little waste to landfill as possible
4. Resources - Provide value for money to our taxpayers and high quality services to our customers.
5. Health and Well-Being – Promote the health and well-being of our communities and work with others to deliver the public health agenda.

4.2 The Council's Corporate Delivery Plan is based on the outcomes that the residents of Stroud have stated are important. The Plan is published on the Council's website www.stroud.gov.uk

4.3 Each year the Council reviews progress in delivering the Plan and a new version is published. The Council's Corporate Delivery Plan 2012-2016, was approved by the Council's Executive in July 2012.

4.4 The Executive and Corporate Team monitor progress of the Corporate Delivery Plan (CDP). Each priority has a lead officer responsible for delivery. The Council uses interactive software to update the CDP quarterly. Scrutiny members review the CDP quarterly and report to Performance Overview and Scrutiny Committee.

4.5 The Council publishes an Annual Report, the latest version being the 2011/12 report. This details the work undertaken, and achievement against performance targets, in relation to the agreed Council priorities.

5. Members and officers work together to achieve a common purpose with clearly defined functions and roles

- 5.1 Members are responsible to the electorate and serve as long as their term of office lasts. Officers are responsible to the authority and carry out the Council's work under the direction of the Council, Executive and Committees.
- 5.2 The relationship between Councillors and officers is essential to the successful working of the Council. This relationship within the authority is characterised by mutual respect and trust. The Council has adopted a 'Member/Officer Protocol' to help councillors and officers perform effectively by giving guidance on their respective roles and expectations and on their relationship with each other.
- 5.3 The Council has adopted a Scheme of Delegation detailing the delegation of responsibilities and functions to the Executive, Committees, and, officers. There is also a mechanism for delegating decisions to Executive Members within their respective portfolios.
- 5.4 Under the Local Authorities (Members Allowances) (England) Regulations 2003, local authorities are required to have in place a scheme which sets out payments of allowances to councillors. The District Council formally adopts its allowances scheme for the forthcoming year at Annual Council. Prior to the Council agreeing its scheme of allowances, it has to consider the recommendations of an independent remuneration panel. The Scheme was reviewed by the independent remuneration panel in July 2010 and again in April 2013. The 2013 review provided the necessary changes to the scheme of allowances to reflect the move to the committee system with effect from 16 May 2013.
- 5.5 Under Section 38 of the Localism Act 2011, the Council must approve and publish a senior pay policy statement before the start of the financial year to which it applies. The Council is expected to keep the statement under review and publish a new version each year. The Senior Pay Policy Statement for 2012/13 was approved by Council in February 2012. The Council has also decided how this statement should be reviewed and agreed in future, through the Strategy & Resources Committee.

6. Promote values for the authority and demonstrate the values of good governance through the upholding of high standards of conduct and behaviour.

- 6.1 The Council has adopted codes of conduct for Members and Officers. The code of conduct for Members is in accordance with the National Code of Local Government Conduct. In November 2012, Council approved amendments to the Council's Code of Conduct for Members to include a clause in the Code of Conduct which says that Members should comply with the Council's other codes and protocols. The relevant codes and protocols are the local code of conduct for planning, the member/officer protocol, the member/member relations protocol, and the attendance at other authorities meetings protocol.
- 6.2 Staff are also expected to maintain high standards of behaviour at all times. Their terms and conditions of employment and related matters are set out in the Employee Handbook, which incorporates an officer Code of Conduct based on a national model. The Council's Constitution also contains a number of protocols in respect of Member/Officer and Member/Member relations, and a whistle-blowing policy for employees

7. Take informed and transparent decisions, which are subject to effective scrutiny and managing risk.

7.1 The agendas and minutes of meetings of the Council are published, and meetings are open to the public. Meetings are broadcast and recorded by a webcam so that they can be viewed by a wide audience.

7.2 There is a statutory requirement for the Council to have an overview and scrutiny function when operating under an Executive system. During 2012/13 the Council had two overview and scrutiny committees, namely:

- Strategic Overview and Scrutiny Committee, and
- Performance Overview and Scrutiny Committee

The Overview and Scrutiny Annual Report 2012/13 was presented to a meeting of The Council on 25th April 2013. Under the new committee system arrangements, the scrutiny function will take place within the various committees including the Audit & Standards Committee.

7.3 The Monitoring Officer maintains the up to date registration of Members Interests and also ensures that Members are regularly reminded to update their record. Declarations of Interest are a standard agenda item for each main committee meeting.

The requirement for staff to declare interests is included in the Officers Code of Conduct – Council Constitution.

7.4 Risk Management is essentially about good management practice and effective decision making. It can be defined as:

‘A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating monitoring and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities’.

7.5 The Authority recognises that all aspects of business risk must be managed. The Council has a Risk Management Policy & Strategy, the purpose of which is to provide a framework for the effective management of risks within the authority. The Policy was reviewed in March 2013 to take account of the proposed changes to council’s risk management arrangements. Approval of the revised policy will be sought from the June 2013 Audit & Standards Committee and subsequently from the Strategy & Resources Committee.

7.6 The Council has established an Audit Committee. The Terms of Reference for the Audit Committee cover the core functions of an audit committee as identified in the CIPFA guidance ‘Audit Committees – Practical Guidance for Local Authorities’. In September 2012, and as a result of changes introduced in the Localism Act 2011 relating to the Standards Committee, the Council approved the Audit Committee taking responsibility for policy and procedures relating to standards which were previously the remit of the Council’s Standards Committee. It also approved to rename the Audit Committee the Audit & Standards Committee.

7.7 The Council has a Monitoring Officer who, under the Local Government and Housing Act 1989, is responsible for ensuring the legality of Council decisions. The Council has also appointed its Head of Finance as Section 151 Officer. These statutory officers are required to secure compliance with relevant primary and subordinate legislation for ensuring the lawfulness of both decision making and

expenditure respectively. Their functions are recognised in the Constitution and they either report directly to, or have access to, the Chief Executive who as Head of Paid Service is the other statutory officer whom the Council is required to appoint.

- 7.8 The Council has a complaints procedure that enables dissatisfied members of the public to raise concerns with officers at management level, including the Chief Executive. Corporate Team reviews performance on complaints, including the limited number resulting in investigations by the Local Government Ombudsman.
- 7.9 The Council's Constitution also contains a whistle-blowing policy (largely based on a model produced by CIPFA) which enables members of staff to raise concerns on a confidential basis pursuant to the Public Interest Disclosure Act 1998, about the way in which the Council conducts its business. A revised version of the Whistleblowing Policy was approved by Council in May 2012.

8. Develop the capacity and capability of members and officers to be effective.

- 8.1 The Council has the Investor in People (IIP) award. Investors in People aims to help organisations improve performance through a planned approach to the setting and communication of business goals and developing people to meet these goals so that they are motivated to do the work which the organisation needs them to do. The Council was the first authority in the region to be awarded the IIP Health and Well Being Award.
- 8.2 Access to Member Development is a key element of the Local Code of Governance. There is an extensive new member induction process in place with a detailed training programme and existing members are also invited to attend the various training events. However, member participation in training events is generally poor and is an area that needs improvement.

9. Engage with local people and other stakeholders to ensure robust public accountability.

- 9.1 The agendas and minutes of meetings of the Council are published, and meetings are open to the public. Meetings are broadcast and recorded by a webcam so that they can be viewed by a wide audience. A large amount of information is available on the Council's website.
- 9.2 The views of the public are sought through surveys, and consultation meetings are held with the business community. There are many other channels of communication with stakeholders and public, examples of which are the Housing Tenants Forum and the Local Strategic Partnership.
- 9.3 The Policy Team has produced a Partnership Governance Framework and Policy which was revised in May 2012. This sets out clear guidance for officers and Members when undertaking any partnership working. A standard template has been devised to ensure that formal partnership agreements are in place and to assist services in carrying out a review of their partnership arrangements. A partnership register has been compiled.

10. Review of effectiveness

- 10.1 Stroud District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior management team within the authority who have responsibility for the development and maintenance of the governance environment, the annual report by the Internal Audit Manager, and also by comments made by the external auditors and other review agencies and inspectorates.
- 10.2 The process that has been applied in maintaining and reviewing the effectiveness of the governance framework are as follows:

11. The Council

- 11.1 The Council's governance framework, primarily based on its Constitution, is seen to be dynamic, evolving and regularly reviewable to ensure that it reflects the aspirations both of the Council and the public to whom it is accountable. The basis of the Constitution is reviewed on an annual basis. The roles of various components of the overall governance framework prescribed by statute or set out in the Constitution are interpreted in a pragmatic way to assist in best achieving the Council's principal objectives as contained in its Corporate Delivery Plan.
- 11.2 The Constitution encompassed the roles and responsibilities of the Council's Executive, its overview, scrutiny and regulatory functions, coupled with delegation arrangement and various protocols. The Constitution is reviewed regularly and was the subject of substantial reviews in 2007 and 2011. From 16 May 2013 it provides the framework for the committee system of governance. The process for making substantial changes to the Constitution is internal consultation by the Monitoring Officer who makes recommendations to the Council. Additionally, the Monitoring Officer is empowered to make minor changes at any time.
- 11.3 A review of the Constitution in May 2012 provided for the re-naming of the Chief Executive Terms and Conditions Panel to the Senior Pay Policy Committee and included a change to the Terms of Reference for this Panel to include the approval of the Senior Pay Policy Statement. A number of other changes were made however these were mainly minor in nature and were made to improve the clarity of the changes to the Constitution.
- 11.4 At the Annual General Meeting on the 24 May 2012, the Leader of the Council announced the new administration's intention to move from an Executive arrangement for decision-making to a committee system. The aim of which was to engage more Members in meaningful dialogue about policy in a public forum, and in making decisions on what the Council does and how it spends its money.
- 11.5 At the Council meeting held on 22 November 2012, Council resolved to move from its current Leader and Executive model of governance to a Committee System to be implemented from the annual Council meeting in May 2013.

12. The Executive (from May 2012)

- 12.1 From May 2012, the Cabinet was renamed the Executive under a new co-operative administration. Portfolio holders were replaced with Policy Leads. All 'executive' key decisions taken by the Executive, individual Executive Policy Leads and Officers are circulated to all councillors and may be subject to a call-in process for examination by the relevant Scrutiny Committee.

- 12.2 The Council had in place, during 2012-13, two overview and scrutiny committees which supported and scrutinised the work of the Executive i.e. Strategic Overview & Scrutiny Committee, and Performance Overview & Scrutiny Committee.
- 12.3 During 2012/13, the new administration developed proposals for a committee structure based on the provisions of the Localism Act 2011 through a cross party member working group involving senior members. The implementation of the working group's proposals brought about the change to a committee structure with the Executive ceasing to exist at the AGM in May 2013.

13. The Audit Committee (renamed Audit & Standards Committee from September 2012)

- 13.1 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors.
- 13.2 The Terms of Reference for the Audit Committee cover the core functions of an audit committee as identified in the CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities'.
- 13.3 In September 2012, and as a result of changes introduced in the Localism Act 2011 relating to the Standards Committee, the Council approved the Audit Committee taking responsibility for policy and procedures relating to standards which were previously the remit of the Council's Standards Committee. It also approved to rename the Audit Committee the Audit and Standards Committee.

14. The Standards Committee

- 14.1 The Standards Committee consisted of 8 members, including 4 independent Members and 2 representatives of the District's parish and town councils. Both the Chair and Vice Chair of the Committee were independent Members. In September 2012, and as a result of the Localism Act 2011, the Council approved to:-
- To cease to have a Standards Committee.
 - To approve the Audit Committee taking responsibility for policy and procedures relating to standards which were previously the remit of the Council's Standards Committee.
 - To rename the Audit Committee the Audit & Standards Committee
 - To establish a Standards Panel to consider allegations off breaches of the Code of Conduct for Members with a membership of two of the Council's independent persons (with one as Chair), Chair of the District Council and a local councillor. Each member of the Panel shall complete a Declarations of Interests form.
 - To approve a slightly revised procedure for the investigation and determination of alleged breaches of the Code of Conduct for Members.

15. Internal Audit

- 15.1 Internal Audit operates under the Accounts and Audit (England) Regulations 2011, which requires an adequate and effective internal audit of accounting records and of the system of internal control. The Regulations also require the Authority to conduct, at least once a year, a review of the effectiveness of its internal audit, and that the findings of this review should be included in the Annual Governance Statement.
- 15.2 The review consisted mainly of a self-assessment against the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, and the results were reviewed by the Council's Head of Finance, and were also reported to the Council's Audit Committee in June 2013. The overall conclusion from the review was that internal audit at SDC is effective. Although the self-assessment identified a number of 'gaps' in compliance with the CIPFA Code of Practice, these do not materially effect the reliance the Council can place on the Internal Audit manager's opinion on the adequacy of the control environment.
- 15.3 Internal Audit work is carried out to the standards outlined in the CIPFA 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006' (the Code). The Code requires 'the Head of Internal Audit to provide a written report to those charged with governance timed to support the Annual Governance Statement'. The 2012-13 report by the Internal Audit manager concluded:-
- 'My overall opinion is that an adequate level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.'
- 15.4 The 1 April 2013 saw the introduction of the new UK Public Sector Internal Audit Standards (PSIAS) that apply across the whole of the public sector. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adopted for the public sector. These new standards are intended to promote further improvement in the professionalism, quality, consistency, and, effectiveness of internal audit across the public sector.
- 15.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) have produced a Local Government Application Note to provide guidance to local authorities on how to apply the new standards. Although there would not appear to be many significant changes between the PSIAS and the previous CIPFA Code, a detailed review of the new Standards is being undertaken to identify all changes.
- 15.6 Stroud District Council (SDC) and Gloucester City Council (GCC), have formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The provision of the Internal Audit service is by a team consisting of 6 staff, 3 based at SDC, and 3 based at GCC. In addition, the team is managed by the Head of Partnership, who acts as the Internal Audit Manager for SDC. The main benefits to the two Councils of the proposed shared service are improved capacity by bringing together staff resources from both partners, increased resilience by standardising processes across partner sites and creating a pool of skilled staff who can support both partners and improved quality of service delivery.

16. Other review/assurance mechanisms

- 16.1 **Chairman's Governance Inquiry** – As a result of a number of concerns raised by both Members and Officers into a proposed Chairman's inquiry into a Member's concerns relating to Council Governance, at a meeting of the Council on 26 April 2012, it was agreed that Council formally empowers the Chairman and his successors in office to conduct any inquiry into any matter relating to Council Governance, including matters already approved by the Audit Committee.
- 16.2 The findings from the Chairman's Inquiry carried out during the year were reported to Council in September 2012 who resolved to note the report and accept all the recommendations contained therein.
- 16.3 **External Audit** - is part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. The scope of External Audit work covers not only the audit of financial statements but also aspects of corporate governance.
- 16.4 In September 2012, the Council's External Auditor produced their 'report to those charged with governance' relating to the 2011/12 audit of the Council's financial statements. This report was presented to the meeting of the Audit Committee on 27 September 2012. In relation to, 'audit matters of governance interests that arise from the audit of the financial statements,' the report concluded that 'there are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Council's 2011/12 financial statements'.
- 16.5 **Risk Management** - is the process by which risks are identified, evaluated, recorded and controlled and is a key element of the governance framework. The Risk Management Policy & Strategy was reviewed in March 2012.
- 16.6 The Corporate Risk Management Group (CRMG), met regularly throughout 2012-13 and worked actively with Heads of Service to ensure that all risks identified are recorded correctly on the Council's performance management system. All Executive and Scrutiny Committee Members have access to the system and can review the Corporate Risk Register at any time.
- 16.7 The chair of the CRMG reported quarterly to Council's Corporate Team with an update on the work of the group and the Corporate Risk Register. An annual report is also presented to the Audit & Standards Committee with the latest report being presented to the March 2013 meeting.
- 16.8 A review of the Risk Management Policy and Strategy and the work of the Corporate Risk Management Group have been undertaken during the year and some external advice sought. The outcome of this process highlighted that whilst the current arrangements have served a purpose over the last three years, some changes could be made to improve the focus of risk management and make the process more efficient.
- 16.9 The Audit & Standards Committee will be asked to review the updated Risk Management Policy at its meeting in June 2013 and to recommend its approval to Strategy & Resources Committee.
- 16.10 **EMAS** - The Council has been registered under the Eco-Management and Audit Scheme (EMAS) since 1999. EMAS, which is only awarded after an external and independent assessment, is designed to recognise and reward organisations that

go beyond minimum legal compliance and continually review their environmental performance.

16.11 The Council recognises that it has an impact on the environment through the services it provides and that it has powers and responsibilities to encourage and enforce where necessary. To ensure the Council carries out and keeps up to date with environmental legislation, it subscribes to a web based legal register applicable to local authorities. The Council also has an annual environmental legal compliance audit which is carried out by an external auditor to ensure that the Council's own activities comply with legislation.

16.12 **Assurance Statements** - A further source of assurance has been obtained from the introduction of Assurance Statements. These Statements have been issued to all Heads of Service, and they have been requested to complete, and to identify any significant internal control issues within their portfolio. There were no significant governance issues identified.

17. **Compliance with the CIPFA Statement on the Role of the Chief Financial Officer**

17.1 To comply with the CIPFA Code of Practice on Local Authority Accounting, a specific statement is required to be reported in the Annual Governance Statement on whether the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The following statement has been prepared by the council's Head of Finance and s.151 Officer:

17.2 'This statement is given in respect of the Statement of Accounts for Stroud District Council. I acknowledge my responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the council. In particular, the system includes:

- Comprehensive budget systems
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- Setting targets to measure financial and other performance
- The preparation of regular financial reports which indicate actual expenditure against the forecasts;
- Clearly defined capital expenditure guidelines, and
- Formal project management disciplines.

The arrangements for internal audit are as set out in the Annual Governance Statement (paragraph 15) and I am satisfied that they operate to a defined standard. A review of the effectiveness of internal audit has been undertaken and reported to the Audit Committee. The Head of Internal Audit has also provided an

independent opinion in his annual report stating that he is satisfied the council has an adequate control environment in place.

My review of the effectiveness of the system of internal financial control is informed by:

- The work of managers within the council
- The work of internal auditors as described above, and
- The external auditors in their annual audit letter and other reports

I can confirm that the council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).



Signed:

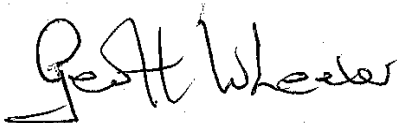
Dated: 13th June 2013

Sandra Cowley, Head of Finance (S151 Officer)

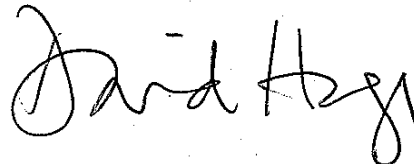
18. Significant governance issues

- 18.1 As this statement indicates, the coming year will involve significant changes to our governance arrangements. These will be monitored throughout the year to ensure the new committee system continues to promote good governance. A task and finish group will be established to review the constitutional arrangements in the first year of operation.

Signed



**Cllr Geoff Wheeler
Leader of the Council**



David Hagg

Glossary

The following are expressions and terms used in these accounts that are not explained elsewhere. Words referred to in *italics* are contained in the glossary.

accounting policies	the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements;
actual	the financial transactions that have occurred in the year;
actuary	a person professionally trained in the technical aspects of pensions, insurance and related fields. The actuary estimates how much money must be contributed to an insurance or pension fund in order to provide future benefits;
appropriation	a transfer to or from a revenue or capital reserve;
balances	the amount remaining at the end of the year after income and expenditure has occurred. May refer to the amount available to meet expenditure in future years;
budget	a statement defining the Council's policy over a specified period in terms of finance;
capital charges	where a service owns a fixed asset to provide those services [operational assets] or holds an asset for future development or investment [non-operational assets] it bears a cost of its use. This represents depreciation (where appropriate). Maintenance of the asset is a <i>revenue</i> cost;
capital expenditure	spending on assets that have a long-term use such as purchase or improvement of land, buildings and equipment. Where the asset is not owned by the Council the expenditure is <i>revenue expenditure funded by capital under statute</i> , long-term debtor or <i>intangible asset</i> ;
capital receipts	income from the sale of capital assets such as land and Council houses. Part may be required to be set aside to repay loans; the other part can only be used to finance new <i>capital expenditure</i> ;
change in accounting estimate	is an adjustment of the carrying amount of an asset or a liability or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors;
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is the professional body of accountants and auditors working in local government and public services. Membership of the Institute is by way of examination and entitles members to use the letters CPFA (Chartered Public Finance Accountant) after their names. The Institute provides financial and statistical information services and advises central government and other bodies on local government and public finance matters. It also published accounting requirements and accounting standards, including those relating to the production of statement of

	accounts;
Collection Fund	Stroud District Council collects council tax and business rates on behalf of a number of public bodies – Gloucestershire County Council, Gloucestershire Police Council and town and parish councils. This account is separate to the Council's normal funds, belonging collectively to these bodies;
corporate and democratic core (CDC)	comprises two divisions of service: democratic representation and management (DRM) and corporate management (CM). If anything does not fall within the definitions given for either DRM or CM, then it cannot be within CDC. DRM concerns corporate policy making and all other member-based activities. CM concerns those activities and costs that relate to the general running of the Council. These provide the infrastructure that allows services to be provided, whether by the Council or not, and the information required for public accountability. Activities relating to the provision of services, even indirectly, are overheads on those services, not CM;
curtailment	a curtailment for a defined benefit pension scheme is an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of the defined benefit for some or all of their future service. Curtailments include: a) termination of employees' services earlier than expected, for example as a result of discontinuing a segment of business. b) termination or amendment of the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will only qualify for reduced benefits.
revenue expenditure funded by capital under statute	expenditure which does not result in, or remain matched with, assets controlled by the Council, such as housing improvement grants. They do not appear on the Council's balance sheet;
depreciation	charges reflecting the decline in the value (not cost) of assets as a result of their usage or ageing;
estimate	often used instead of the word <i>budget</i> , and is a forecast of income and expenditure for the year
forecast	an <i>estimate</i> of income and expenditure in a financial year;
General Fund	the account that records and finances Council <i>revenue</i> expenditure, other than <i>HRA</i> ;
Housing Revenue Account (HRA)	a separate statutory account dealing with the <i>revenue</i> income and expenditure arising from the provision of Council-owned and managed dwellings;
housing subsidy	paid by or to the government to reflect the government's assessment of how much the Council should be spending on its housing stock. Ceased on 31 March 2012 with the introduction of HRA self-financing.
IAS 19	International Accounting Standard 19 <i>Employee Benefits</i> is the

	accounting requirement as regards pensions that local authorities must fully recognise in the publication of their statement of accounts;
intangible asset	expenditure on assets that gives access to a future economic benefit that is controlled by the Council such as software licences;
impairment	values of individual assets and categories of assets that are reviewed for evidence of reductions in value;
investment assets	interest in land and/or buildings which is held for its investment potential, any rental being negotiated at arm's length;
material	omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessment of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or combination of both, could be the determining factor.
major repairs allowance	a cash payment received by the <i>HRA</i> as part of housing subsidy for the upkeep of fixed assets such as rented dwellings. Ceased on 31 March 2012 with the ending of housing subsidy.
medium term financial plan (MTFP)	the Council's rolling 5-year estimate of all effects on the <i>General Fund</i> , including inflation, government grants, service changes, base rate changes and the <i>tax base</i> ;
net cost	the cost of continuing operations after deducting specific grants and income from fees and charges;
non distributed costs	elements that are excluded from recharge to the total cost of a service but limited to: past service costs, settlement costs, curtailments, unused share of IT facilities and cost of shares of other long-term unused but unrealisable assets
overspend	where <i>actual</i> expenditure is more than the <i>budget</i> ;
precept	a levy made by the police, county council, district council or parish/ town councils on the <i>Collection Fund</i> to provide the required income from council taxpayers and business ratepayers on their behalf;
prospective application	of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are: <ul style="list-style-type: none"> a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed, and b) recognising the effect of change in the accounting estimate in the current and future periods affected by the change
Public Works Loan Board (PWLB)	an institution that borrows money on behalf of the government and lends it to public bodies that meet its borrowing criteria;
retrospective application	is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

retrospective restatement	is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.
revenue	this word is used in two different contexts, 1) sources of income, and 2) expenditure that is not of a <i>capital</i> nature such as general running costs including salaries and capital financing costs;
revenue support grant (RSG)	a grant paid by central government to local authorities to support general <i>revenue</i> expenditure and not for specific services;
right-to-buy (RTB)	legislation allows tenants of local Council dwellings to buy their property, at a discount, after a qualifying period as local Council tenants. The net income from the sale is a <i>capital receipt</i> ;
roundings	figures in the statement of accounts are generally presented in thousands and are rounded using the convention $2.5 = 3$ and $2.4 = 2$. Applied with consistency this can lead to obvious and simple arithmetic errors, for example $2.4 + 2.4 = 4.8$ becomes $2 + 2 = 5$. Where possible the arithmetic integrity of the figures is maintained by making simple adjustments. Sometimes however, the interrelation of figures within the Statement of Accounts does not permit of simple adjustment. In this Statement of Accounts the following sentence is appended where a table contains figures that do not strictly add up, 'Table contains roundings (see Glossary) which can affect the arithmetic accuracy of the figures';
settlement	<p>an irrevocable action that relieves the employer (or defined benefit scheme) of the primary responsibility for the pension obligation and eliminates risks relating to the obligation and the assets used to effect the settlement. Settlements include:</p> <ul style="list-style-type: none">a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits; andc) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.
surplus assets	property awaiting redeployment or disposal, not used in the delivery of Council services;
tax base	used to measure the taxable value of properties in a council's area based upon numbers of properties in each tax band;
transitional arrangement	where the government is making changes that may adversely affect a local Council it may phase in the changes using transitional arrangements, often on a sliding scale over a few years;
underspend	where <i>actual</i> expenditure is less than the <i>budget</i> .

Feedback form – your views

We would like to know what you think about this Statement of Accounts in order to make future statements more usable for readers. They are made available on the Council's website at www.stroud.gov.uk/accounts

Please note that the majority of information in the Accounts is prescribed by regulations that the Council is obliged to follow.

Please take a few minutes to answer the questions below, cut along the dotted line, and send the form to:

Financial Services, Stroud District Council, Ebley Mill, Ebley Wharf, Stroud GL5 4UB

Alternatively, comments can be made to:

Sandra Cowley, Head of Finance

Tel: 01453 754136. Fax 01453 754936. Email: statementofacc@stroud.gov.uk

You can give your name and address if you wish.

Do you think the Statement of Accounts is easy to read? Yes No

Do you think it is informative? Yes No

How could we improve the Statement of Accounts?

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Do you have any further comments on the services provided by Stroud District Council or the information in these Accounts?

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Your name

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Your address

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Telephone

Email

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Thank you

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

26 September 2013

7

Report Title	ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2012/2013
Purpose of Report	To advise on the treasury management activities in 2012/2013, in accordance with the Council's Treasury Policy Statement. To report on actual 2012/2013 Prudential Indicators in accordance with the requirements of the Prudential Code.
Decision(s)	The Audit & Standards Committee: notes the treasury management activity annual report for 2012/2013, and approves the actual Prudential Indicators.
Consultation and Feedback	Sector Treasury Services Limited.
Financial Implications & Risk Assessment	There are no financial implications arising from this report. The Council has operated within the approved Treasury Management Strategy for the year which is designed to ensure the Council's exposure to risk is limited. Sandra Cowley, Head of Finance Tel: 01453 754136, Fax: 01453 754936, E-mail: sandra.cowley@stroud.gov.uk
Legal Implications	There are no significant legal implications arising from the decision recommended in this report. Peter Woodcock, Locum Legal Services Manager Email : peter.woodcock@stroud.gov.uk Tel' : 01453 754369
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133, Fax: 01453 754936, E-mail: graham.bailey@stroud.gov.uk
Chair of Committee	Councillor Molly Scott Cato Tel : 01453 298184 E-mail : cllr.molly.scott.cato@stroud.gov.uk
Options	None
Performance Management Follow Up	The Committee will receive regular reports on treasury activity throughout the year.

Background Papers	<ul style="list-style-type: none"> □ Council Report 21 February 2013 Agenda Item 8, Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2013/14 □ Council Report 23 February 2012 Agenda Item 7, Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Statement 2012-13
Appendices	<ul style="list-style-type: none"> A – Temporary investments 2012/2013 B – Actual Prudential Indicators 2012/2013 C – Explanation of Prudential Indicators D – The economy and interest rates 2012/2013 E – Borrowing rates in 2012/2013

Discussion

1. The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2001 was adopted by this Council on 21 March 2002, and the revised 2009 code was adopted on 21 January 2010. This Council fully complies with its requirements.
2. The primary requirements of the Code are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a midyear review report and an annual review report of the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Audit & Standards Committee.
3. Treasury management in this context is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Treasury Activity

4. A summary of treasury management activity for 2012/2013 is shown below:

Treasury Activity 2012-13				
	April 2012	Increase	Decrease	March 2013
	£000	£000	£000	£000
Debt				
Borrowing:				
Long-term	91,717	-	-	91,717
Short-term	-	-	-	-
Total debt	91,717	-	-	91,717
Investments				
Externally managed	-	-	-	-
Internally managed - Long term	-	-	-	-
Internally managed - Short term	16,373	1,945	-	18,318
Total investments	16,373	1,945	-	18,318
Net investments	-75,344	1,945	-	-73,399

Investment Strategy

5. Investment strategy for 2012/2013 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government 'Guidance on Local Government Investment' issued in March 2004, and our own investment policy which set out permitted specified and non-specified investments. In addition, the Council received and followed weekly investment advice from Sector detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Sector, economic briefings and monitoring the financial press.
6. Investment strategy, set out in the report to Council in February 2012, stated that investments would be made primarily with 'reference to cash flow requirements and the outlook for short-term interest rates'. It also stated 'the Council will keep investments short-dated and primarily within the UK'. As a consequence of a sharp decline in the number of acceptable counterparties, counterparty limits were increased. This allowed the Council to keep investments with higher quality counterparties at a time of financial market uncertainty. Actual experience proved that the Council continued to utilise relatively high short-term rates for call accounts, but money market fund rates in particular fell sharply. The Council increased the number of investments made up to 1 year with government supported banks in order to benefit from higher rates.

7. However, towards the end of the financial year rates offered for call accounts and one year fixed investments were falling sharply. It is expected that this continue and so will lead to sharply reduced interest receipts in 2013/14.
8. The expectation for interest rates within the strategy for 2012/13 was for Bank Rate to remain at 0.5%, and this is what occurred. The Council achieved a return of 1.41% through favourable Call Account rates and more longer term investments up to one year.
9. **Appendix A** has a summary of investments during the year.

Borrowing Outturn for 2012/13

10. On 28 March 2012 the Council has borrowed £91.717m, comprised of 10 separate loans, from the Public Works Loans Board (PWLB) in order to bring an end to the Housing Subsidy system as part of the introduction of HRA Self-Financing. This is fixed interest rate debt with an annual interest rate ranging from 3.32% to 3.53%, and with maturity dates ranging from 2032 to 2061.

Lender	Principal	Type	Interest Rate	Years to Maturity	Maturity Date
PWLB	£6m	Fixed Interest Rate	3.32%	19 years	31/03/2032
PWLB	£10m	Fixed Interest Rate	3.45%	24 years	31/03/2037
PWLB	£7m	Fixed Interest Rate	3.51%	29 years	31/03/2042
PWLB	£7m	Fixed Interest Rate	3.51%	29 years	31/03/2042
PWLB	£7m	Fixed Interest Rate	3.53%	34 years	31/03/2047
PWLB	£7m	Fixed Interest Rate	3.53%	34 years	31/03/2047
PWLB	£7m	Fixed Interest Rate	3.52%	39 years	31/03/2052
PWLB	£7m	Fixed Interest Rate	3.52%	39 years	31/03/2052
PWLB	£7m	Fixed Interest Rate	3.51%	44 years	31/03/2057
PWLB	£7m	Fixed Interest Rate	3.51%	44 years	31/03/2057
PWLB	£10m	Fixed Interest Rate	3.48%	48 years	31/03/2061
PWLB	£9.717m	Fixed Interest Rate	3.48%	48 years	31/03/2061

The Economy and Interest Rates

11. An analysis of UK economic performance and interest rates during 2012/2013 is in **Appendix D**.

Performance Measurement

12. **Appendix A** has details of the investments made during the year. All of these were 'approved investments' with counterparties included on the Council's lending list, and within permitted limits as regards time and amount, except where interest payments caused limits to be breached marginally for short periods. The average level of investments held was £24.837 million and the average return on these investments was 1.41%, compared with the average un compounded 7-day LIBID rate of .39% which is a generally accepted benchmark rate (the 3 month un compounded LIBID rate is given as well for comparative purposes). The interest earned was £349,281.

	Average Investment	Rate of Return	Benchmark Return 7 day LIBID un compounded	For comparison 3 month LIBID un compounded
Internally Managed	£24,837,220	1.41%	0.39%	0.56%
Externally Managed	N/A	N/A	N/A	N/A

13. Stroud is a member of a Sector Investment Benchmarking group. The group is comprised of Worcestershire County Council, North Warwickshire Borough Council, Wyre Forest District Council, Warwick District Council, Warwickshire County Council, Cherwell District Council and Oxford City Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2012/13 Stroud has again compared very favourably with the benchmark group in terms of return achieved, whilst maintaining a low risk portfolio.
14. The above figures exclude interest earned on the £1m invested in the Local Authority Mortgage Scheme and £576k retained by Glitnir bank in an Escrow account. If these investments earning 3.8% and 4.2% respectively are taken into account then the rate of return increases to 1.55% on an average investment balance of £26.350m. Total interest earned including these non-standard investments was £410,402.

Prudential Indicators and Compliance with Borrowing Limits

15. The Council is required by the Prudential Code to report actual prudential indicators after the yearend. These are shown in **Appendix B**.
16. The Council had PWLB loans totalling £91.717m during 2012/2013. This amount of borrowing was well within both the authorised and operational borrowing limits of £110m and £104m respectively.

Borrowing limits 2012/2013	Approved Limit	Actual
Authorised limit for external debt (£'million) (Includes deferred liabilities)	£110m	£91.717m
Operational boundary for external debt (£'million)	£104m	£91.717m

Icelandic Currency Deposits

17. An amount equivalent to £637k is held by Glitnir Bank in an Icelandic Kroner Escrow account. This amount is retained due to Icelandic government currency controls that prevent repayment to the Council. Under the terms of those currency controls an interest rate of 4.2% is payable. There is no indication when the currency controls will be relaxed.
18. Whilst the Council expects to be repaid in full, a provision of £127k is set aside as cover against potential risks associated with foreign exchange fluctuations and currency controls.

Member Training

19. Member training on treasury management issues took place on 18 October 2012 and 17 January 2013. Further training for Members has been scheduled for 17 October 2013 and 15 January 2014.

Temporary Investments - Summary Activity 2012/2013				
Borrower	Type	Average Principal Invested £	Interest £	Average Rate
RBS Group				
NatWest Treasury Reserve	Call	6,197,846	55,780.61	0.90%
RBS Deposit	Call	3,113,475	24,907.80	0.80%
NatWest	Fixed	1,444,014	17,328.17	1.20%
RBS Group Total		10,755,335	98,016.58	
Lloyds Group				
Bank of Scotland	Fixed	2,749,610	68,597.26	2.49%
Lloyds TSB	Fixed	5,211,115	127,427.40	2.45%
Bank of Scotland Bonus Deposit	Call	3,829,224	38,292.24	1.00%
Lloyds Group Total		11,789,949	234,316.90	
A & L Money Market Account	Call	93,946	751.57	0.80%
Handelsbanken - 35 day notice	Notice	1,027,397	8,732.88	0.85%
BNP Paribas	MMF	139,352	967.10	0.69%
Ignis	MMF	83,822	415.17	0.50%
RBS MMF	MMF	32,933	110.26	0.33%
Prime Rate MMF	MMF	914,485	5,970.67	0.65%
Clydesdale	Fixed	2	0.02	0.85%
Grand Total		£24,837,220	£349,281.15	1.41%

Types of investment

Call - account with current day access to funds invested. Interest rates are fixed.

Notice - account with withdrawal subject to minimum specified notice. Interest rates are fixed.

MMF - Money Market Funds are AAA-rated same day access accounts. Interest rates can change daily.

Fixed - fixed term investments at fixed interest rates.

PRUDENTIAL INDICATOR	2011/12	2012/13	2012/13
	£'000	£'000	£'000
	actual	original	actual
	outturn	indicator	outturn
Capital Expenditure			
Non- HRA	6,105	5,778	8,564
HRA	97,105	8,466	8,955
TOTAL	£103,210	£14,244	£17,519
Ratio of financing costs to net revenue stream			
Non- HRA	-0.95%	-1.02%	-1.21%
HRA	-0.64%	-0.11%	14.58%
Net borrowing requirement			
brought forward 1 April	-	-	-
carried forward 31 March	91,717	-	-
in year borrowing requirement	£91,717	-	-
In-year Capital Financing Requirement			
Non- HRA	-	-	-
HRA	91,717	-	-
TOTAL	£91,717	-	-
Capital Financing Requirement as at 31 March			
Non- HRA	7,569	7,569	7,569
HRA	84,980	85,449	84,980
TOTAL	£92,549	£93,018	£92,549
HRA borrowing limit	£96,186	£96,186	£96,186
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	£0.13	£0.01	£0.34
Increase in average housing rent per week	£0.03	£0.17	£0.33

PRUDENTIAL INDICATOR	2011/12	2012/13	2012/13
TREASURY MANAGEMENT	£'000	£'000	£'000
	actual	original	actual
	outturn	indicator	outturn
Authorised limit for external debt			
borrowing	91,717	110,000	91,717
other long term liabilities	-	-	-
TOTAL	91,717	110,000	91,717
Operational boundary for external debt			
borrowing	91,717	104,000	91,717
other long term liabilities	-	-	-
TOTAL	91,717	104,000	91,717
Upper limit for fixed interest rate exposure			
Net principal re. Fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
Net principal re. Fixed rate borrowing / investments	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	-	6,000	-

Explanation of prudential indicators

Central Government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permitted local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Capital expenditure – compares the 2012/13 original capital estimates with the actual outturn. Actual 2011/12 outturn is shown for comparison.

Ratio of financing costs to net revenue stream – this indicator shows the effect of HRA self-financing, with the cost of servicing debt accounting for 14.58% of rental income. Interest on reserves and balances still makes a positive contribution to General Fund finances.

Net borrowing requirement – this demonstrates borrowing need to fund capital spending.

In year capital financing requirement – this shows that in 2012/2013 capital spend was fully financed by the Council's capital resources such as grants, capital receipts and revenue contributions. The comparative 2011/2012 figure shows the HRA self-financing borrowing that occurred in that year.

Capital financing requirement (CFR) as at 31 March – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £92.549m provides the Council with the opportunity to borrow if appropriate. The Council has £91.717m in long term borrowing.

Incremental impact of capital investment decisions – increase in Council Tax (Band D) per annum – this indicator shows that the funding of the Non-HRA capital programme over and above the original estimate in 2011/2012 meant the equivalent of 34p per annum on band D council tax arising through interest foregone arising from the additional capital resources spent.

Incremental impact of capital investment decisions – increase in average housing rent per week – The higher than estimated spending on the HRA capital programme cost an estimated 33p per week of the average housing rent in reduced investment interest.

Authorised limit for external debt – this is the “affordable borrowing limit” for external temporary borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows. The Council does not have the power to borrow above this level. The Authorised Limit was set at £110m in February 2012.

Operational boundary for external debt – this is set as the more likely amount required for day to day cashflow purposes. It is acceptable to be above or below this level as long as the Authorised Limit is not breached. The Operational Boundary was set at £104m in February 2012.

Upper limit for fixed and variable interest rate exposure – these limits allow the Council flexibility in its investment and borrowing options.

Upper limit for total principal sums invested for over 364 days – the amount it is considered can prudently be invested for a period in excess of a year. Although the Council can invest for longer than a year no such investments were made in 2012/2013 in accordance with Sector’s advice.

The Economy and Interest Rates 2012/13

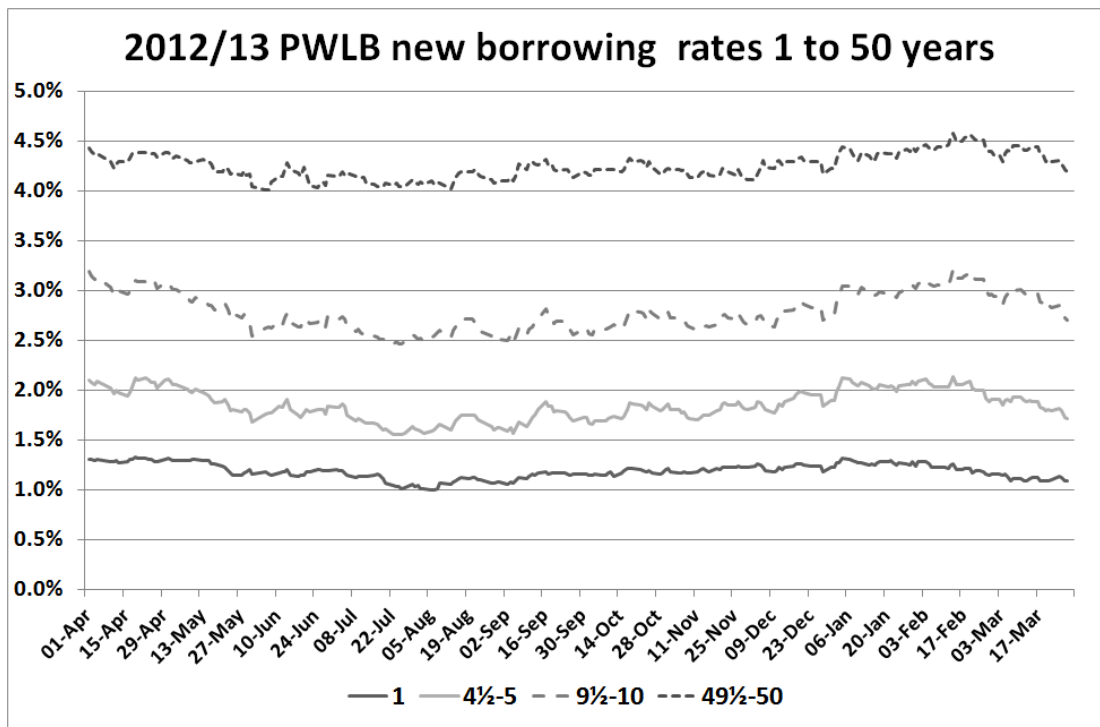
The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would start gently rising from quarter 4 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March. Key to retaining the AAA rating from Fitch and S&P will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 2016. The EU sovereign debt crisis was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically very low levels.

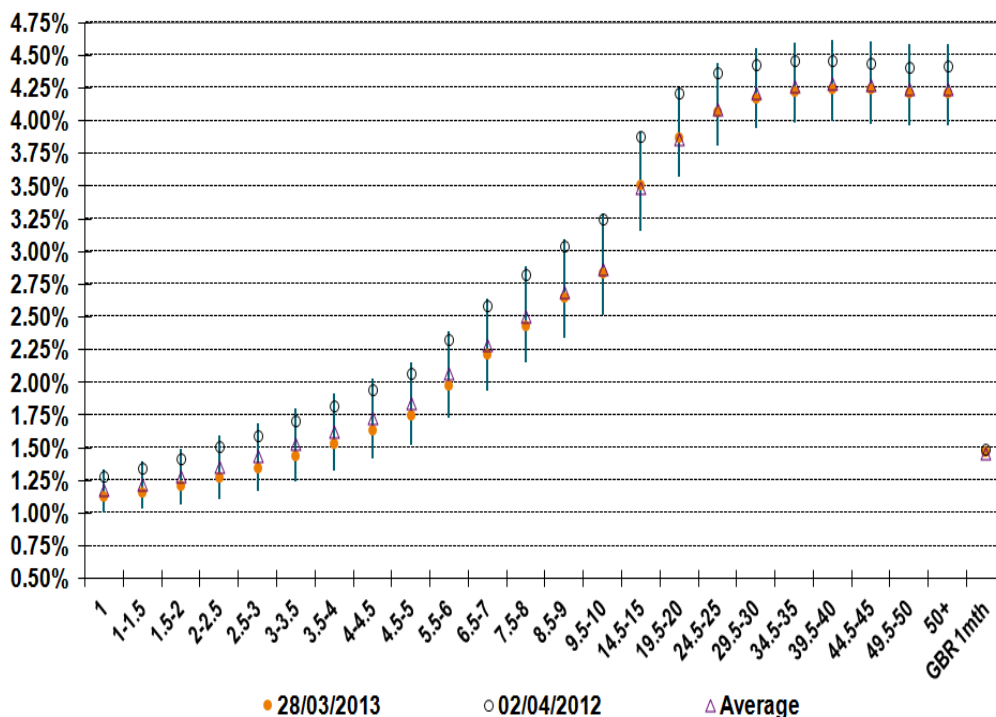
Deposit rates. The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

Borrowing Rates in 2012-13

The graphs and table for PWLB maturity rates below show, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.



PWLB rate variations in 2012-13



PWLB borrowing rates 2012/13 for 1 to 50 years									
	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
2/4/12	1.290%	1.350%	1.600%	1.820%	2.070%	3.250%	4.370%	4.410%	1.490%
28/3/13	1.130%	1.160%	1.350%	1.540%	1.750%	2.840%	4.070%	4.220%	1.470%
High	1.330%	1.400%	1.690%	1.910%	2.150%	3.290%	4.440%	4.590%	1.500%
Low	1.000%	1.030%	1.170%	1.320%	1.520%	2.520%	3.810%	3.960%	1.440%
Average	1.185%	1.229%	1.440%	1.631%	1.847%	2.871%	4.094%	4.250%	1.467%
Spread	0.330%	0.370%	0.520%	0.590%	0.630%	0.770%	0.630%	0.630%	0.060%
High date	20/4/12	20/4/12	20/4/12	20/4/12	20/4/12	20/2/13	20/2/13	20/2/13	18/4/12
Low date	2/8/12	2/8/12	23/7/12	23/7/12	23/7/12	23/7/12	18/7/12	1/6/12	24/10/12

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

26 September 2013

8

Report Title	1ST QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2013/14
Purpose of Report	To provide an update on treasury management activity as at 30/06/2013.
Decision(s)	The Audit and Standards Committee APPROVES the treasury management activity first quarter report for 2013/2014.
Consultation and Feedback	Sector Treasury Services Limited.
Financial Implications & Risk Assessment	Interest of £68k in the first quarter means that it is likely the budgeted figure of £275k will be achieved. Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Legal Implications	There are no significant legal implications arising from the decision recommended in this report. Peter Woodcock, Locum Legal Services Manager Email : peter.woodcock@stroud.gov.uk Tel' : 01453 754369
Report Author	Maxine Bell, Snr Accounting Officer Tel: 01453 754134 E-mail: maxine.bell@stroud.gov.uk
Chair of Committee	Councillor Molly Scott Cato Tel: 01453 298184 E-mail: cllr.molly.scott.cato@stroud.gov.uk
Options	None
Performance Management Follow Up	Further quarterly reports and a full 2013/14 annual report
Background Papers	<ul style="list-style-type: none"> o Council Report 21 February 2013, Agenda Item 8, Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2013/14
Appendices	A – Economic Update B – Prudential Indicators as at 30 June 2013 C – Explanation of prudential indicators

Background

1. Treasury management is defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
2. This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the first quarter of the financial year, (and to report on prudential indicators and compliance with treasury limits). A quarterly report is regarded as good practice, but is not essential under the Code of Practice for Treasury Management (the Code).

Discussion

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in November 2009, and it was adopted by this Council on 21 January 2010. This first quarter report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
 - An economic update – Appendix A
 - A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
 - A review of the Council's investment portfolio for 2013/14
 - A review of the Council's borrowing strategy for 2013/14
 - A review of compliance with Treasury and Prudential Limits for 2013/14
 - Other Treasury issues

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2013/14 was approved by Council on 21 February 2013. The Council's Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:
 - Security of Capital
 - Liquidity
 - Yield
5. The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, three months or less, with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, which includes a sovereign credit rating and Credit Default Swap (CDS) overlay. The Council is prepared to invest for up to a year with UK Government supported banks.
6. A breakdown of the Council's investment portfolio as at 30 June 2013 is shown in Table 2 of this report. Investments and borrowing during the year have been in line with the Strategy, and there have been no deviations from the strategy.

7. Sector's latest economic analysis is set out in Appendix A. Current advice from Sector is to invest for no more than 3 months, up to a year with UK government supported banks, or up to five years with government or local government.

Investment Portfolio 2013/14

8. In accordance with the Code, it is the Council's priority to ensure security and liquidity of investments, and once satisfied with security and liquidity, to obtain a good level of return. The investment portfolio yield for the first quarter is shown in the table below:

TABLE 1: Average Interest Rate Compared With Benchmark Rates

Period	Investment Interest Earned	Average Investment	Average Interest Rate	Benchmark 7 day LIBID	Benchmark 3 month LIBID
01/04/13 - 30/06/13	£67,808	£23.6m	1.16%	0.36%	0.38%

9. An amount of Icelandic Krona equivalent to £634k is held in an Escrow account due to currency controls in Iceland earning 4.2%. This interest amount is excluded from the figures shown in the above table. Also the Local Area Mortgage Scheme investment of £1m at 3.8% with Lloyds is excluded. If this interest is included the interest earned is £77.5k at an average interest rate of 1.21%.
10. Table 2 below shows the investments and borrowing position at the end of June 2013.
11. The approved limits as set out in the Treasury Management Strategy report to Council 21st February 2013 within the Annual Investment Strategy were not breached during the first 3 months of 2013/14. Funds were available for investment on a temporary basis. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and canal project. The authority holds £6m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

	Jun 13 £'000
Ignis	0
Prime Rate	425
RBS MMF	0
Money Market Funds Total	425
Bank of Scotland	4,000
Lloyds	4,000
Lloyds Banking Group Total	8,000
NatWest	12,489
Royal Bank of Scotland	7
RBS Banking Group Total	12,496
Barclays Bank	5,994
TOTAL INVESTMENTS	26,915
TOTAL PWLB BORROWING	91,717

External Borrowing

12. The Council's Capital Financing Requirements (CFR) for 2013/14 is £94.949m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (External Borrowing) or from internal balances on a temporary basis (Internal Borrowing). The Council has borrowing of £91.717m as at 30 June 2013. Further HRA borrowing of 2.4m is planned during the year.

Compliance with Treasury and Prudential Limits

13. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Treasury and Prudential Indicators are outlined in the approved TMSS.
14. During the period to 30 June 2013 the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix B.

Sector's economic background for the quarter ended 30 June 2013 & interest rate forecast

- During the quarter ended 30th June: -
 - Indicators suggested that the economy accelerated;
 - Stronger household spending, both on and off the high street;
 - Inflation remained stubbornly above the MPC's 2% target;
 - The MPC remained in a state of limbo ahead of Mark Carney's arrival;
 - 10-year gilt yields rose above 2.5% and the FTSE 100 fell below 6,100;
 - The Federal Reserve discussed tapering the pace of asset purchases under Quantitative Easing 3 (QE3).
- After avoiding recession in the first quarter with a 0.3% quarterly expansion, it looks likely that the economy grew even more strongly in Q2. On the basis of past form, the CIPS/Markit business surveys for April and May point to 0.5% quarterly growth in the second quarter of 2013. Official output data echoed the message from the business surveys. The 3m/3m change in industrial production reached 0.9% in April, the strongest pace since July 2010. Similarly, the service sector expanded by 0.8% on the same basis. And while output in the volatile construction sector in April was 1% lower than a year ago, it was the smallest annual fall since the end of 2011, raising the prospect that the sector supported the recovery in Q2.
- There have been signs of renewed vigour in household spending in the second quarter. May's 2.1% monthly rise in retail sales overturned April's 1.1% fall. This tallied with information from the Bank of England agents, who reported a further pick-up in retail sales values in May. Non-high street spending looks to have been robust too, with new car registrations up by 20% in the year to May.
- The pick-up in economic growth appears to have supported the labour market, with employment rising by 24,000 in the three months to April. Admittedly, this was a lot slower than the 113,000 quarterly gains in employment seen on average over the past twelve months. But the rise in employment was still strong enough to reduce the level of unemployment further. The ILO measure fell by 5,000 in the three months to April while the timelier claimant count measure reported an 8,600 fall in May. Meanwhile, pay growth rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the additional rate of income tax. Excluding bonuses, earnings rose by just 1.3% y/y, well below the rate of inflation at 2.7% in May.
- Meanwhile, the Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more

business funding. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with the quoted interest rate on a 2-year fixed rate mortgage at a 90% loan-to-value ratio now 4.6%, around 130 basis-points lower in May than when the FLS was introduced in August 2012.

- Alongside the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks, as measured by the BBA, rose from 33,000 to 36,100 in May. Excluding a stamp-duty holiday related spike in January 2012, this was the highest level for over three years. The rise in demand has helped to push up house prices, with both the Halifax and Nationwide measures reporting a 0.4% monthly gain in May. On an annual basis, measured prices were up by 3.7% and 1.1% respectively.
- Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 looked to be broadly in line with last year's figures, highlighting the government's difficulty in reducing borrowing while economic growth is relatively lacklustre.
- Meanwhile, the 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan. Total expenditure was still forecast to be broadly flat in real terms in 2015/16 and the £50bn planned capital expenditure announced for that fiscal year was identical to the amount already outlined in March's Budget.
- On the monetary policy front, June's MPC meeting, the last chaired by the outgoing Governor Mervyn King, showed that the Committee remained in limbo ahead of the arrival of his replacement, Mark Carney. The Committee voted 6-3 to keep the level of asset purchases unchanged at £375bn, with the majority judging that the current stimulus and Funding for Lending Scheme would be sufficient to support growth in the context of price stability.
- Having fallen from 2.8% to 2.4% in April, CPI inflation rose to 2.7% in May. May's rise mostly reflected price changes due to the earlier timing of Easter, which depressed inflation in April. Even so, inflation is still likely to have risen further in June due to base effects, with last year's fuel price falls providing an unfavourable annual comparison. That said, underlying price pressures do seem to be easing, with wages and producer prices both growing at subdued rates. Indeed, if anything, the inflation outlook brightened over the second quarter, with the price of oil falling from \$108pb to \$103pb while sterling appreciated by around 1.5% on a trade-weighted basis.
- Having continued to rally over April and May, financial markets sold off in June following a Federal Reserve statement that suggested the central bank may 'taper' its asset purchases earlier than anticipated. The resulting rise in US

Treasury yields was replicated in the UK, with 10 year gilt yields rising to 2.5% from 1.8% at the start of the quarter. Equities were hit too, with the FTSE 100 falling from 6,411 at the start of the quarter to below 6,100 before ending the quarter a bit higher at 6,240.

- In the US, the statement from the Fed took the limelight. The Fed's comments sparked a sharp sell-off in the Treasury market, with 10-year Treasury yields hitting 2.54%. The Fed move was a response to the improving economic outlook in the US. Indeed, payroll figures showed that the US added 175,000 new jobs in May, helping to pull the unemployment rate down to 7.6%, from 8.2% a year ago. In the housing market, house prices rose by 12% in the year to April, which helped to bring more households out of negative equity.
- Meanwhile, tensions in the Euro zone eased over the second quarter, but there remained a number of triggers for a potential flare-up. For example, the Democratic Left party left the Greek governing coalition in June, causing 10 year Greek government bond yields to surge to 11.5% from around 8% a month ago. And while the economic survey data improved consistently over the first half of the year, the composite Euro zone PMI is still pointing to a further contraction in output in Q2. If this materialises, it would be the seventh quarter of Euro zone recession, the longest on record.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e., equities, and safer bonds. Key areas of uncertainty include:

- The potential for a significant increase in negative reactions of populaces in Euro zone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable.
- Problems in other Euro zone heavily indebted countries could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate growth in western economies, especially the Euro zone and Japan.
- The potential for weak growth or recession in the UK's main trading partners - the EU and US.
- The impact of the UK Government's austerity plan in dampening confidence and growth.
- Geopolitical risks e.g. Syria, Iran, North Korea

However, there is particular potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates, as follows: -

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- A renewed increase in investor confidence that robust world economic growth is firmly expected, together with a reduction or end of QE operations in the US, causing a flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on an improvement in financial stresses in the Euro zone.
- In the longer term - a reversal of QE; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and recovery of economic growth.

The overall balance of risks to economic recovery in the UK is now evenly weighted. Sector believes that the longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, the prospect of further QE has diminished but measures other than QE may be more favoured by Governor Carney if additional support is viewed as being required.

Given the generally weak outlook for economic growth, Sector sees the prospects for any increase in Bank Rate before 2015 as limited. Indeed, the first increase could be even further delayed if the tentative signs of growth failed to be maintained.

Prudential Indicators as at June 2013

Prudential Indicator	2013/14 Indicator £'000	Actual as at 30 June 2013 £'000
Capital Financing Requirement (CFR)	94,949	92,549
Gross Borrowing	94,117	91,717
Authorised Limit for external debt	110,000	91,717
Operational Boundary for external debt	104,000	91,717
Limit of fixed interest rates based on net debt	100%	100%
Limit of variable interest rates based on net debt	100%	0%
Principal sums invested > 364 days	6,000	0
Maturity structure of borrowing limits		
Under 12 months	100%	0%
12 months to 2 years	100%	0%
2 years to 5 years	100%	0%
5 years to 10 years	100%	0%
10 years and above	100%	100%

Explanation of prudential indicators

Central Government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permitted local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Gross borrowing – compares estimated gross borrowing in February 2013 strategy with actual gross borrowing as at 30 June 2013.

Capital financing requirement (CFR) – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £94.949m provides the Council with the opportunity to borrow if appropriate. There is £2.4m of HRA borrowing planned for 2013/14.

Authorised limit for external debt - this is the maximum limit for gross external indebtedness. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows. This limit has not been breached in the period 1 April 2013 to 30 June 2013.

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cashflow. This limit has not been breached in the period 1 April 2013 to 30 June 2013.

Upper limit for fixed and variable interest rate exposure – these limits allow the Council flexibility in its investment and borrowing options. Current investments are either fixed rate term investments or on call. Borrowing is at a fixed rate.

Upper limit for total principal sums invested for over 364 days – the amount it is considered can prudently be invested for period in excess of a year. Current policy is to keep investments less than one year with Government supported banks and less than 3 months with any other banks with appropriate credit ratings, therefore there are no long term investments as at 30 June 2013, apart from the 1m invested for 5 years as part of the Local Area Mortgage Scheme.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

26 September 2013

9

Report Title	INTERNAL AUDIT PLAN MONITORING REPORT
Purpose of Report	To inform Members of the audits completed as part of the 2013/14 Internal Audit Plan.
Decision(s)	The Committee RESOLVES to accept the report and the assurance given on the adequacy of internal controls operating in the systems audited.
Consultation and Feedback	Internal Audit findings are discussed with service managers, and management responses to audit recommendations are included in each assignment report.
Financial Implications and risk assessment	There are no financial implications arising from this report. It is important that planned audits are carried out so that assurance can be given about the adequacy of the Council's control environment. If too few audits are undertaken, this limits the extent of assurance that can be given. Sandra Cowley, Head of Finance Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk
Legal Implications	There are no significant legal implications arising directly from the decision recommended in this report. The Accounts and Audit Regulations 2011, require public bodies to maintain an adequate and effective system of internal audit of their accounting records and of their system of internal control. Peter Woodcock, Locum Legal Services Manager, Tel: 01453 754369 Email: peter.woodcock@stroud.gov.uk
Report Author	Terry Rodway, Internal Audit Manager Tel: 01453 754111 Email: terry.rodway@stroud.gov.uk
Options	Not applicable
Performance Management Follow Up	This is the first report relating to the 2013-14 Plan. The Committee will receive regular monitoring reports on achievement against the 2013-14 Plan.

Background Papers	Public Sector Internal Audit Standards Internal Audit Annual Plan 2013/14
Appendices	Appendix A – List of Audits completed as part of the 2013/14 Plan.

1.0 BACKGROUND

1.1 At the Audit and Standards Committee meeting held on 26th March 2013, Members approved the Internal Audit Annual Plan 2013 -14. In accordance with the Public Sector Internal Audit Standards (the Standards), this report details the outcomes of internal work.

2.0 PROGRESS

2.1 This is the first report on compliance against the 2013/14 Plan and includes details of the audits completed during the period April 2013 to August 2013. The performance information is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the period covered by this report is 78% (7 out of 9 planned audits completed), against a target of 90%. This figure does not include 1 audit that was substantially complete as at the 31st August 2013.

2.2 The main reason for non achievement of the target figure of 90% is the work undertaken on special investigations – see paragraph 5.0 below.

2.3 Details of the audits completed during the period are given in **Appendix A**. The Audit Opinion reached on each audit has been provided which should provide Members with a view on the adequacy of the controls operating within each area audited.

2.4 It has previously been agreed that Members would be notified of any agreed Rank 1 'High Priority' and Rank 2 'Medium Priority' audit recommendations that had not been implemented by the agreed date. There were none identified during the period covered by this report.

3.0 FINAL ACCOUNT AUDIT

3.1 The Council's Financial Regulations (D3.18 (iv)) state that "where the final value of a contract exceeds £100,000, Internal Audit shall be notified at practical completion stage, and they shall undertake such checks on the contract as they consider necessary before a final account is agreed with the contractor."

3.2 A 'Final Account' audit has been undertaken on the Gas Central Heating Replacement and Fuel Switch Installations contract, dated December 2011.

3.3 The audit identified the following:-

- The Certificate of Practical Completion, which indicates a completion date of 1st December 2012, was not produced until the 13th June 2013, and as at 8th August 2013, had not been issued to the Contractor.

- The Final Account sum was approximately £229,000, against an original contract value of £450,000. The main reason for the difference is the cost of heating works to properties which were deleted from the contract, but then were 'awarded' to the contractor outside of the contract.
- Documentary evidence was not readily available to substantiate additional costs of approximately £1000 for 1 property.
- Documentary evidence was not readily available to support the decision not to apply liquidated damages to those properties that were not completed by the contract specified date.
- Reliance was placed on the contractor to inspect the properties and determine the type of heating required. The appropriate Contract Administrator Instruction was then issued to the contractor after they had advised that the works had been completed and invoiced.

4.0 National Fraud Initiative

4.1 On a cyclical basis the Audit Commission undertakes a data-matching exercise known as the National Fraud Initiative (NFI). Data from a wide range of public sector organisations is matched, with the primary intention of discovering cases of fraud. Organisations from which data is collected for matching purposes include:

- Local authorities
- NHS bodies
- Police authorities
- Central Government departments and agencies

4.2 Data types used in the matching exercise include:

- Housing Benefit
- Payroll
- Creditor payments
- Housing rents
- Licensing
- Insurance claims

4.3 The latest NFI exercise produced a total of 45 reports for SDC. 26 of these related solely to Housing Benefit matches, 18 related solely to non-Housing Benefit matches, and one related to both areas. The Audit Commission identified 10 "Key" reports to which, they state, Authorities should give priority. Within each report, Key or otherwise, the Audit Commission recommended a number of matches for investigation; these were where data matches were of a 'high quality' e.g. matching date of birth; matching NINO.

4.4 In total there were 2044 individual data matches, and of these 262 were recommended for investigation. Of the 262 matches recommended for investigation:-

- 98 related to Housing Benefit – examples of matches included claimants who are also on the payroll of different organisations; claimants in receipt of benefits from more than one authority; and claimants who may be ineligible for Housing Benefit as they are in receipt of a student loan. These matches are being investigated by the Housing Benefit Fraud Team. As at the date of writing this report one case of fraud has been identified totalling £9,155. This related to a non declaration of a pension.
- 3 related to Housing Tenancies – the matches included individuals who appeared to be resident at two different addresses. The cases were investigated by Internal Audit and no evidence of fraud identified.
- 17 related to Payroll – the matches included individuals paid by SDC via the payroll and the creditors system, and, individuals paid by two organisations. All cases were investigated by Internal Audit and no evidence of fraud identified. .
- 142 related to Creditors – the matches included possible duplicate payments to the same creditor for the same goods/services, and, possible VAT overpayments. The investigation of the cases did not identify any instances of duplicate payments, and confirmed that all the VAT payments were correct.
- 1 related to Insurance claims – the match identified a potential serial claimant within the same authority. Details of this case were sent to the Council's insurers who have confirmed that there is no evidence of fraud.
- 1 related to UK residence status – the match included a check on behalf of the Home Office to ensure that specified persons have the right to reside in the UK. The UK Borders Agency confirmed that the person in question was entitled to live in the UK.

5.0 SPECIAL INVESTIGATIONS

- 5.1 During the period covered by this report, members of the Internal Audit team have been involved in a number of special investigations.
- 5.2 Two cases related to possible money laundering cases (Council Tax refund and Right to Buy application) have been satisfactorily resolved.
- 5.3 Two cases, one relating to alleged falsification of flexi-time records, and, one relating to the financial management of the scheme funds (within a Sheltered Housing scheme) are still being investigated. The outcome of these investigations will be reported to a future meeting of this Committee.

6.0 CONCLUSIONS

- 6.1 The role of Internal Audit is to examine, evaluate, and report on the adequacy of internal controls. The audit work that has been completed has either identified that controls are operating as intended, or, where weaknesses have been identified, made recommendations to improve the level of control.

List of the audits completed 2013/14 Audit Plan - April 2013 to August 2013

Audit	Comments	Level of Assurance
Council Tax – Opening Debit	<p><u>Audit Objective</u> The objective of the audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Reconciliation of the number of properties in the District as per data held on the Council Tax computer system, to the number of properties as per the Valuation Office List. • The Council Tax Base has been correctly calculated. • Charges have been accurately transferred to the billing system. <p><u>Audit Opinion</u> All testing was satisfactory and no recommendations were required from the work carried out. On the basis of the work carried out during this audit, the audit opinion is that there is a Good level of assurance over this area.</p>	Good
NNDR – Opening Debit	<p><u>Audit Objective</u> The objective of the audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • The NNDR system rateable value for all premises agreed to the Schedule received from the Valuation Office at the appropriate date. • The correct Multipliers had been used in the calculations and reconciliation. • The data used in the reconciliation in respect of transitional relief, void charges and allowances, small business rate relief and supplements etc matched the figures from the computer system financial control report summary, and the relevant detailed computer reports. <p><u>Audit Opinion</u> All testing was satisfactory and no recommendations were required from the work carried out. On the basis of the work carried out during this audit, the audit opinion is that there is a Good level of assurance over this area.</p>	Good
Capital Accounting	<p><u>Audit Objective</u> The objectives at this audit were to ensure that the following key controls were in place and operating effectively:-:</p> <ul style="list-style-type: none"> • Five year rolling programme of revaluation for 	Good/ Satisfactory

	<p>fixed assets</p> <ul style="list-style-type: none"> • Annual impairment review of tangible and intangible fixed assets • Review of capital expenditure against the capital programme • Periodic reconciliation of the fixed asset register to the general ledger • Periodic physical verification of tangible fixed assets • Controls in relation to accuracy of depreciation, e.g. reconciliation of movement in depreciation from prior year to movement in fixed asset balance. <p>We also followed up implementation of recommendations arising from the previous audit report.</p> <p><u>Audit Opinion</u> On the basis of the audit work we carried out, our opinion is that a Good level of assurance may be taken generally, and a Satisfactory level of assurance may be taken as regards the specific issue of reconciliation of the asset register to the general ledger.</p> <p>The reconciliation of the fixed asset register to the general ledger occurred only at the end of 2012/2013. There was no in-year reconciliation in 2012/2013.</p>	
Flexi-Time	<p><u>Audit Objective</u> The objectives at this audit were to ensure that the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • examine the Stroud District Council Scheme as detailed in the SDC Employee Handbook to determine whether the Scheme is up to date and fit for purpose • verify compliance with the Scheme by staff <p><u>Audit Opinion</u> On the basis of the audit work we carried out, our opinion is that a Satisfactory level of assurance may be taken.</p> <p>Two Rank 2, 'Medium Priority' recommendations have been made, and agreed. These related to Heads of Service being instructed that only the 'standard' flexi timesheet should be used'; and, that Heads of Service should be reminded of the Scheme requirements relating to the checking of timesheets, the amount of credit time that may be carried forward, and, flexi leave arrangements.</p>	Satisfactory

Dursley Pool & Sports Centre	<p><u>Audit Objective</u></p> <p>The objectives for this audit were to verify that the following were in place and operating:</p> <ul style="list-style-type: none"> • All income is properly accounted for, is stored in a secure area prior to being banked, and is promptly banked; • There is adequate separation of duties for the ordering, receipt and payment of goods and services; • Sales stock is effectively accounted for and stored securely; • An inventory of equipment is maintained in accordance with Financial Regulations; • Non salaried staff at correctly paid for hours worked; • Sundry debtor invoice are raised promptly and accurately and appropriate recovery action taken for outstanding debts; • The petty cash and till floats are maintained at the authorised level and that all petty cash transactions are authorised in accordance with the “Guidelines for claiming and checking petty cash”. <p>The audit also incorporated a review of the progress being made to implement the recommendations raised in the previous Dursley Pool & Sports Centre Internal Audit review.</p> <p><u>Audit Opinion</u></p> <p>Five Medium and seven Low Priority recommendations have been made to improve the control environment and processes. The findings relating to the Medium Priority recommendations are as follows:</p> <ul style="list-style-type: none"> • Price discrepancies for sales stock items were found between the Sales Stock spreadsheet, till register, Dursley Pool website and supplier invoices ; • A regular reconciliation of the Fees and Charges general ledger account (i.e. banked income), to the appropriate general ledger income account is not performed. As at 31st March 13 unidentified differences of £1,149.68 (Dursley Pool) and £123.66 (Sports Centre) were reflected in the account ; • Sales stock counts were not being performed by staff independent of daily stock handling or ordering, as per the Council’s Financial Regulations and insurance policy conditions. In addition there were found to be differences relating to the stock purchased on the Sales 	Satisfactory
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	<p>Stock spreadsheet against supplier invoices ;</p> <ul style="list-style-type: none"> • Discrepancies were identified in the equipment Inventory i.e. items purchased not on the Inventory and items removed from the schedule that where still held ; • The Payroll Claims for the months of November 2012 and February 2013 selected by Internal Audit for review were found to be incorrectly completed. The hours claimed by staff on their timesheets had been incorrectly calculated for some by the Duty Manager resulting in under and over claims. For 1 member of staff the timesheet was misplaced resulting in them still being owed 33.5 hours; <p>The assessment of the operations and controls over the management of Dursley Pool & Sports Centre has been performed and the audit opinion is that overall there is a Satisfactory level of assurance over this area.</p>	
Museum in the Park	<p><u>Audit Objective</u> The objectives for this audit were to verify that the following were in place and operating:</p> <ul style="list-style-type: none"> • All income is properly accounted for, is stored in a secure area prior to banking and is promptly banked; • There is adequate separation of duties for the ordering, receipt and payment of goods and services; • Sales stock is effectively accounted for and stored securely; • An inventory of equipment is maintained in accordance with Financial Regulations; • The Museum collection of artefacts is securely held, accounted for and adequately insured; • Non salaried staff working at Museum are correctly paid for hours worked; • Sundry debtor invoices are raised promptly and accurately and appropriate recovery action taken for outstanding debts; • The petty cash and till floats are maintained at the authorised level and that all petty cash transactions are authorised in accordance with the “Guidelines for claiming and checking petty cash”. <p><u>Audit Opinion</u> One High, 5 Medium and 8 Low Priority recommendations have been made to improve the control environment and processes. The findings</p>	Satisfactory/ Limited

	<p>relating to the High and Medium Priority recommendations are as follows:</p> <p>High</p> <ul style="list-style-type: none"> • The merchant's copy of the debit and credit card receipts retained by the Authority were not in the format recommended by the appropriate industry standards. <p>Medium</p> <ul style="list-style-type: none"> • A regular reconciliation of the Fees and Charges general ledger account (i.e. banked income), to the appropriate general ledger income account is not performed; • Cash differences from the cafe and shop takings are not recorded on the Cash Analysis spreadsheet and therefore processed to the appropriate general ledger account. Therefore management may not be fully aware of the level of difference and whether there are any training issues or inappropriate activity. In addition there was no evidence that the Museum Development Manager performed regular independent cash counts or review of the Cash Analysis spreadsheet; • Instances of non compliance with Financial Regulations were identified, e.g. independent sales stock counts and artefacts checks, write off of sales stock and equipment by the Head of Cultural Services; • Written confirmation for 2013 was not obtained from the appropriate organisations that that they still hold the artefacts loaned to them, and that they continue to meet all the requirements specified in the terms of the loan.; • There is no documentary evidence to confirm the current status of the security review findings for the Museum in the Park premises reported in December 2012. <p>A Limited assurance level is provided over the configuration of the debit and credit card system and storage of debit and credit card receipt slips.</p> <p>The assessment of the operations and controls maintained by the Museum in the Park has been performed and the audit opinion is that overall there is a Satisfactory level of assurance over this area.</p>	
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The report includes an 'opinion' on the adequacy of controls in the area that has been audited, classified in accordance with the following definitions:-

CONTROL LEVEL	DEFINITION
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority)
Satisfactory	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority)
Limited	Some lapses in framework of controls – provides limited assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations
Unsatisfactory	Significant breakdown in framework of controls – provides unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

Internal Audit recommendations are graded as follows:-

RANK		DEFINITION	IMPLEMENTATION
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit identified key control.	Immediate action required – should be pursued immediately.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.	Should be pursued in the short term, ideally within the next 6 months.
3	Low Priority	Current procedure is not best practice and could lead to minor inefficiencies.	Action should be taken over the next 6 to 12 months.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

26 September 2013

10

Report Title	PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)
Purpose of Report	To inform Members of changes to the Internal Audit standards.
Decision(s)	The Audit & Standards Committee is asked to:- (a) Note the identified changes required in implementing the PSIAS; (b) Approve the proposed actions required to help demonstrate compliance with the PSIAS.
Consultation and Feedback	None
Financial Implications and Risk assessment	There are no significant financial implications arising from this report however, the requirement to undertake an external assessment of the effectiveness of internal audit every 5 years will be an additional cost to the service. The possibility of one external review for the partnership instead of separate reviews at both Gloucester City and Stroud will be looked into. Sandra Cowley, Head of Finance Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk
Legal Implications	There are no significant legal implications arising directly from the recommendation in this report. Compliance with the regulations and guidance referred to will provide assurance that the Council's financial affairs are conducted lawfully. Peter Woodcock, Legal Service Manager Tel: 01453 75369 Email: peter.woodcock@stroud.gov.uk
Report Author	Terry Rodway, Internal Audit Manager Tel: 01453 754111 Email: terry.rodway@stroud.gov.uk
Options	N/A
Performance Management Follow Up	An annual review of compliance against the PSIAS will be undertaken and the results reported to the Audit & Standards Committee.

Background Papers	Public Sector Internal Audit Standards. CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.
Appendices	Appendix A – Internal Audit Charter

1. Background

- 1.1 At the previous meeting of the Audit & Standards Committee, Members received a report on the new Public Sector Internal Audit Standards. The report indicated that a review was being undertaken and that any changes identified from implementing the new Standards would be presented to the September 2013 meeting of this Committee.
- 1.2 The review has now been completed. The identified gaps between the previous CIPFA Standards and the new PSIAS have been detailed below, together with details of the proposed action.

2.0 Internal Audit Charter

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require that the purpose authority and responsibility of the internal audit activity must be formally defined in an internal audit charter. The Internal Audit Manager must periodically review the charter and present it to senior management and the board for approval. For the purposes of the Standards, and the proposed revised Charter, 'senior management' has been defined as 'Corporate Team', and the 'board' has been defined as the 'Audit and Standards Committee'.
- 2.2 The existing Internal Audit Charter, which was approved by the Audit Committee in January 2010, has been reviewed and updated to include the requirements of the PSIAS. The revised Internal Audit Charter is included in Appendix A.

Proposed Action:- The revised Internal Audit Charter be approved – see Appendix A.

3.0 Organisational Independence

- 3.1 Organisations must ensure that the Internal Audit Manager's independence is protected so that conflicts of interest, real or perceived, are avoided. The following examples can be used to help assess the organisational independence of the internal audit activity:-
- 3.1.1 The Audit and Standards Committee approves the internal audit budget and resource plan.

Proposed Action:- Within Local Government in the UK it is unusual for the Audit and Standards Committee to approve the budget for internal audit. However, the Audit & Standards Committee will be notified of the impact of resource limitations and significant interim changes

3.1.2 The Audit and Standards Committee approves decisions relating to the appointment and removal of the Internal Audit Manager.

Proposed Action:- The public sector definition of the PSIAS recognises that in the UK public sector this would be unusual and indeed would be inconsistent with the recruitment/dismissal of other officers at a similar level within the council.

3.1.3 The Chief Executive countersigns/contributes feedback to the performance appraisal of the Internal Audit Manager.

Proposed Action:- Acceptance of this action would be inconsistent with the performance appraisal system of officers at a similar level within the council. However, arrangements are being made for the Internal Audit Manager to have regular meetings with the Chief Executive and the Head of Finance to discuss 'current' issues.

3.1.4 Feedback is sought from the chair of the audit committee for the Head of Internal Audit's performance appraisal.

Proposed Action:- Again, acceptance of this action would be inconsistent with the performance appraisal system of officers at a similar level within the council. However, the Internal Audit Manager, and the Head of Finance both attend briefing sessions with the Chair and Vice Chair of the Audit & Standards Committee.

3.1.5 Audit & Governance Committee approval must be obtained for any significant additional consulting services that have not already been included in the agreed annual audit plan. This approval by the Audit & Governance Committee must be sought and given before the engagement is accepted.

Proposed Action:- Where any activity is likely to have a significant effect on the agreed Internal Audit Plan, a revised Plan will be submitted for approval by the Audit & Standards Committee.

3.1.6 As per the Council's Financial Regulations, the Audit Manager has the responsibility to maintain and keep up to date the Council's Anti-Fraud and Corruption Policy. This has been taken to include the Council's Fraud Response Plan, Anti-Bribery Policy, and the Anti-Money Laundering Policy, all of which have direct links to the Anti-Fraud and Corruption Policy.

Proposed Action:- Maintain current position. Arrangements will be made with a third party to provide independent assurance on the adequacy of these policies.

4.0 External Assessment

4.1 As part of the Quality Assessment, the PSIAS includes a requirement for an external assessment to be carried out at least once every five years which may be satisfied by either arranging for a 'full' external assessment, or by undertaking a self-assessment with 'independent' validation.

4.1.1 The Internal Audit Manager must discuss the format of the external assessments with the Audit and Standards Committee and therefore the Internal Audit Manager will have to consider the pros and cons for each type of external assessment before presenting the outcome of such a deliberation to the Audit & Governance Committee.

Proposed Action:- A report will be produced at the appropriate time for consideration by the Audit & Standards Committee.

4.1.2 In ascertaining whether the external assessor is appropriately qualified, it is key that the two areas of competence as set out in the PSIAS are met i.e. professional practice of internal auditing and the external assessment process.

Proposed Action:- An assessment will be carried out at the appropriate time, and a report will be produced for consideration by the Audit & Standards Committee.

4.1.3 The Internal Audit Manager must set out and discuss with Corporate Team and the Audit and Governance Committee the qualifications and independence of the external assessor/demonstrate their competence.

Proposed Action:- An assessment will be carried out at the appropriate time, and a report will be produced for consideration by Corporate Team and the Audit & Standards Committee.

4.1.4 The local authority must find an appropriate sponsor. This is intended to further safeguard the independence of the external assessment process.

Proposed Action:- The nominated sponsor to be agreed by the Head of Finance in consultation with the Chair of Audit & Standards Committee.

INTERNAL AUDIT CHARTER

1.0 Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the purpose, authority and responsibility for the internal audit activity must be formally defined in an internal audit charter.
- 1.2 The PSIAS require that the charter should define the terms 'board' and 'senior management' for the purposes of internal audit activity. With regard to Stroud District Council (SDC), the Audit & Standards Committee will perform the role of the 'board', and in relation to 'senior management' this will be the Corporate Team.

2.0 Definition

- 2.1 Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of SDC.
- 2.2 It assists SDC in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

3.0 Role

- 3.1 Regulation 6 of the Accounts & Audit Regulations (England) 2011 requires SDC to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. The Head of Finance has been designated as the Proper Officer in relation to this requirement.

4.0 Professionalism

- 4.1 The internal activity will govern itself by adherence to the "proper practices" in relation to internal control for the purposes of the Accounts & Audit Regulations 2011. The Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note (for the UK PSIAS) constitute proper practices to satisfy the requirements of the Accounts and Audit Regulations. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- 4.2 In addition, the internal audit activity will adhere to SDC's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

5.0 Authority

5.1 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel, including those of partner organisations, pertinent to carrying out any engagement. All SDC employees, and staff of partner organisations, are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to senior management and Members.

6.0 Organisation

6.1 The Internal Audit Manager will report functionally to the Audit & Standards Committee and administratively to the Head of Finance.

7.0 Independence and objectivity

7.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

7.2 The Internal Audit Manager has direct access and freedom to report in his own name and without fear or favour to all officers and members, in particular those charged with governance.

7.3 Internal auditors will have no direct operational responsibility or authority over any of the activities audited, except for the responsibility to maintain and keep up to date the Council's Anti-Fraud & Corruption policy. This is a requirement of the Council's Financial Regulations Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgement.

7.4 In order to demonstrate independence in this area, arrangements will be made with a 3rd party to provide independent assurance on the adequacy of, and compliance with, these policies.

7.5 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant facts and circumstances and not be unduly influenced by their own interests or by others forming judgements.

7.6 Internal auditors must act objectively and be perceived as doing so therefore. all internal auditors are required to sign an annual Declaration of Interest form. However, this objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. Internal Audit staff will not be assigned to work

areas where they have had operational or other involvement within a previous twelve month period.

- 7.7 The Internal Audit Manager will confirm to the Audit & Standards Committee, at least annually, the organisational independence of the internal audit activity.

8.0 Responsibility

- 8.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:-

- Consistency of operations or programmes with established objectives and goals and effective performance.
- Economic, effectiveness and efficiency of operations and employment of resources.
- Compliance with significant policies, plans, procedures, laws and regulations.
- Reliability and integrity of management and financial information processes including the means to identify, measure, classify, and report such information.
- Safeguarding of assets from losses of all kinds, including those arising from fraud, irregularity or corruption.

- 8.2 Where key systems are being provided to SDC by other organisations, the Internal Audit Manager will agree with the appropriate Client Monitoring Officer, and the Head of Finance, whether Internal Audit conduct the work to derive the required assurance on the adequacy of the control environment, or rely on the opinion of other auditors.

9.0 Internal Audit Plan

- 9.1 At least annually, the Internal Audit Manager will submit an Internal Audit Plan, including risk assessment criteria, to Corporate Team for review, and to the Audit & Standards Committee for review and approval. The Internal Audit Plan will include the resource requirements for the next financial year. The Internal Audit Manager will communicate the impact of resource limitations and significant interim changes to Corporate Team and the Audit & Standards Committee.

- 9.2 The Internal Audit Plan will be developed based on a prioritisation of the audit universe using a risk-based methodology. In order to identify the auditable systems and establish areas of risk or specific importance within the authority, the Internal Audit Manager will adopt an approach involving discussion and review of the current position. Information will be gathered by meeting with Corporate Team members and Heads of Service. The Internal Audit Manager will also discuss the requirements of the External

Auditors to ensure those areas upon which they would seek to place reliance on internal audit work are included within the draft plan.

- 9.3 The resultant draft Annual Audit Plan derived from the above process will be submitted for approval at the relevant March meeting of the Audit & Standards Committee.
- 9.4 Any significant deviation from the approved Internal Audit Plan will be reported through the periodic activity reporting process.

10.0 Reporting and monitoring

- 10.1 All internal audit assignments will result in a formal report. The primary purpose of the audit report is to provide an independent and objective opinion to the organisation on the framework of governance, risk management, and internal control, in operation, and to stimulate improvement.
- 10.2 Any key issues arising during the course of the audit review will be promptly brought to management’s attention during the course of the review to enable remedial action to be taken prior to being formally published in the audit report.
- 10.3 At the conclusion of the audit, a draft report will be sent to the appropriate manager for agreement of the factual content of the report. The report will include a ‘level’ of opinion on the adequacy of controls in the area that has been audited, classified in accordance with the following definitions:-

CONTROL LEVEL	DEFINITION
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority)
Satisfactory	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority)
Limited	Some lapses in framework of controls – provides limited level of assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations
Unsatisfactory	Significant breakdown in framework of controls – provides an unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

10.4 The draft internal audit report is an internal document which is used as a discussion document for agreeing the factual content of the report. Circulation of the draft report must be restricted only to those individuals named on the report circulation list.

10.5 The report will include a Recommendation Sheet which the appropriate manager will be required to complete and return. The completed Sheet must show the actions that have been taken/planned to be taken, in relation to each recommendation, and the agreed implementation date. If any recommendation is not accepted by the manager, this must also be stated.

10.6 Audit recommendations will be prioritised as follows:-

RANK		DEFINITION
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy, major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit identified key control.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.
3	Low Priority	Current procedure is not best practice and could lead to minor in-efficiencies.

10.7 Following discussion of the draft report, a clear, concise and constructive 'Final' report, following a standard format, will be produced, outlining:-

- The overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance
- Audit recommendations, along with management response and implementation date
- An executive summary of the key findings and conclusions

10.8 The 'Final' report will be sent to the appropriate manager, with a copy being sent to the appropriate Corporate Team member. In addition, a requirement of the Joint Working Protocol with the Council's External Auditor, is that a copy of audit reports with a 'Limited' or 'Unsatisfactory' opinion is sent to the External Auditor at the time of issue, where the report is relevant to the work of the External Auditor.

10.9 Internal Audit should normally obtain the consent of management, and vice versa, before 'final' reports are issued to third parties.

10.10 Agreed recommendations are subject to a follow up review, normally three months after the agreed implementation date, in order to ascertain that the recommendations have been implemented. Any identified Rank 1 (High Priority) and Rank 2 (Medium Priority) recommendations that have not been implemented within the agreed timescale, will be reported to the Audit & Standards Committee.

11.0 Fraud Related Work

11.1 Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work.

11.2 The Internal Audit Manager has made arrangements via SDC's Financial Regulations to be informed of all suspected or detected fraud, corruption or improprieties so that he can consider the adequacy of relevant controls, and evaluate the implication of fraud and corruption for his annual opinion on the internal control environment.

12.0 Ad Hoc/Consultancy Work

12.1 A small element of Contingency will be included in the Internal Audit Annual Plan. This is to cater for any assignments which could not have been reasonably foreseen e.g. fraud investigations.

12.2 Where Internal Audit staff have been consulted, and have given advice and recommendations on planned significant changes to internal controls, this is given without prejudice to the right of Internal Audit to review and make further recommendations on the relevant policies, procedures, controls and operations, at a later date.

13.0 Periodic assessment

13.1 The Internal Audit Manager is responsible for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan. The results of this self-assessment will be reported to Corporate Team and the Audit & Standards Committee.

13.2 In addition, the Internal Audit Manager will report to Corporate Management Team and the Audit & Standards Committee on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

13.3 An annual review of internal audit, sufficient to meet the requirements of the Accounts & Audit (England) Regulations 2011 will be undertaken and

the results reported to Corporate Management Team and the Audit & Standards Committee. The review will consist of a self-assessment against the PSIAS.

13.4 In compliance with the PSIAS, the external assessment must be carried out at least once every five years by a qualified, independent assessor. The timing, scope and appointment of the assessor will be agreed by the Head of Finance in consultation with the Chair of Audit & Standards Committee.

14.0 Review of Internal Audit Charter

14.1 The PSIAS state that the Internal Audit Manager must periodically review the Charter and present it to senior management and the board for approval. The Charter will be reviewed annually by the Internal Audit Manager and any significant changes brought to the attention of Corporate Team and Audit & Standards Committee. The 'full' Charter will be referred to Corporate Team and Audit & Standards Committee for formal approval every three years.

August 2013

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

26 September 2013

11

Report Title	ANNUAL REPORT ON FRAUD & CORRUPTION - 2012-13
Purpose of Report	To inform Members of issues relating to fraud and corruption.
Decision(s)	The Audit & Standards Committee is asked to note the report.
Consultation and Feedback	None
Financial Implications and Risk assessment	There are no financial implications arising directly from the report. The report identifies a number of instances where fraud has been detected and action has been taken to recover monies from fraudulent activities. Fraud investigation work is key to mitigating the risk of losses from fraudulent activity. Sandra Cowley, Head of Finance Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk
Legal Implications	There are no legal implications arising from this report. Peter Woodcock, Legal Service Manager Tel: 01453 75369 Email: peter.woodcock@stroud.gov.uk
Report Author	Terry Rodway, Internal Audit Manager Tel: 01453 754111 Email: terry.rodway@stroud.gov.uk
Options	N/A
Performance Management Follow Up	Not Applicable
Background Papers/ Appendices	None

1.0 Background

1.1 The Terms of Reference for the Audit & Standards Committee include a focus on the arrangements for preventing and detecting fraud and corruption.

1.2 At the January 2012 meeting of the Audit Committee, Members approved a suite of anti-fraud and corruption policies. This report provides Members with details of fraud work undertaken during the financial year 2012/13.

2.0 Benefit Fraud

2.1 The Council's stance on benefit fraud is that it is unacceptable and the Benefit Fraud team work hard to protect the public purse by identifying claims which have been made incorrectly or fraudulently. There is a fraud hot line and 'Report It' function on the Council's website. These generate a large number of potential leads for the team to investigate. Allegations are also provided by Housing Benefit Team members and from other colleagues within the Council. Data matching exercises also provide the team with cases to investigate.

2.2 During 2012/13, the Benefit Fraud team investigated 263 allegations of fraud. As a result of these investigations, 20 cases of fraud totalling £171,229 were prosecuted which resulted in a guilty outcome; an application for an Administration Penalty (a fine equivalent to 50% of the amount overpaid) was made in 13 cases; and formal cautions were issued in 48 cases of fraud.

2.3 Formal Cautions and Administration Penalties are sanctions offered as an alternative to prosecution. Cautions are similar to Formal Police Cautions and would be offered, if at the 'interview under caution' the suspect (normally the benefit claimant) fully admitted the alleged offence/s, and the overpayment of benefit does not exceed the threshold whereby the case would normally be considered for prosecution (£2000). The result is recorded with the Department for Work and Pensions and if benefits remain in payment, or are awarded in the future, a reduction in benefits for a set period would apply. As stated in para 3.2 above, 48 Cautions were issued during 2012/13 relating to overpayments totalling £64,674.

2.4 An Administration Penalty would be offered if the suspect did not fully admit the alleged offence at the 'interview under caution' and the strength of evidence was such that the case could be considered for prosecution. In addition to the overpayment of benefits, an imposition of a financial penalty would apply which is currently 50% of the total overpayment of benefits or £350.00, whichever is the greater, up to a maximum penalty of £2,000.00. From the date of accepting an Administration Penalty a 14 day "cooling off" period is given during which the agreement may be withdrawn by the claimant. Again, the case could then be considered for prosecution. As stated in para 3.2 above, there were 13 Administration Penalty cases in 2012/13 relating to overpayments totalling £17,191, with the total value of the financial penalty for these cases being £5,157.

2.5 The fraud team identified 4 cases where the amount of benefit overpaid exceeded £10,000. The main causes of these overpayments were the failure to declare savings and the failure to declare employment. All of these overpayments have either been fully recovered or are in the process of being recovered.

3.0 Internal Fraud

- 3.1 Following receipt of an allegation of falsification of flexi-time records by an employee, Internal Audit were requested by Human Resources to undertake an investigation. The results of the investigation indicated that there were discrepancies between the employee's flexi-time records compared to the electronic access records.
- 3.2 The employee was subject to action in accordance with the Council's Disciplinary Procedure and was subsequently dismissed.

4.0 Corruption

- 4.1 During the year, Internal Audit were asked to investigate three allegations of corruption made against officers. One related to an alleged breach of a planning consent; one related to an alleged manipulation of housing data; and the third related to an alleged collusion with a developer in relation to damage to a private property.
- 4.2 All three investigations concluded that the allegations could not be substantiated.

5.0 Fraud Alerts

- 5.1 The Internal Audit team receive regular fraud bulletins/alerts from NAFN (National Anti-fraud Network). These alerts/bulletins are designed to disseminate information concerning fraud trends and to offer advice and guidance. Information received previously included details of attempts to fraudulently change supplier bank account details; details of companies who have sent unsolicited invoices; and, details of emails scams. Upon receipt, the Internal Audit team pass details to the appropriate service unit for information and action where appropriate.

Audit & Standards Committee Business Plan 2013/14

26 September 2013

1. KPMG - Report to those charged with Governance – ISA 260
2. Statement of Accounts 2012/13
3. Treasury Management Activity and Actual Prudential Indicators 2012/13
4. Treasury Management Activity, 2013/14 Qtr 1 review
5. Internal Audit Plan Monitoring Report 2013/14
6. Internal Audit Charter/Strategy
7. Annual Report on Fraud Activity 2012/13

5 November 2013

1. KPMG – Annual Audit Letter 2012/13
2. Canal Project – Actions Plan of Lessons Learnt review
3. Scrutiny Review of Excelsis Performance Management System
4. Treasury Management Activity 2013/14 Half Year Review
5. Review of Effectiveness of the Audit Committee
6. Risk Management Strategy Update
7. Review of Code of Conduct

28 January 2014

1. KPMG - Annual Summary of Certification of Grant Claims & Returns 2012/13
2. Internal Audit Plan Monitoring Report 2013/14
3. Treasury Management Activity, 13/14 Q3 review
4. Treasury Management Strategy Statement, Annual Investments Strategy and MRP Strategy 2014/15
5. Review of the Functioning of the Standards Panel

25 March 2014

1. KPMG - Financial Statements 2013/14 Audit Plan
2. Annual Internal Audit Plan 2014/15
3. Internal Audit Plan Monitoring Report 2013/14
4. Annual Review of Risk Management Strategy
5. Annual Report on Fraud Activity
6. Review of the Effectiveness of the Audit Committee
7. Business Plan 2014/15