

18 September 2015

AUDIT & STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **TUESDAY, 29 SEPTEMBER 2015** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **19:00**.



David Hagg
Chief Executive

Please Note: This meeting will be filmed for live or subsequent broadcast via the Council's internet site (www.stroud.gov.uk). By entering the Council Chamber you are consenting to being filmed. 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.

AGENDA

- 1 **APOLOGIES**
To receive apologies of absence.
- 2 **DECLARATIONS OF INTEREST**
To receive declarations of interest.
- 3 **MINUTES**
To approve and sign as a correct record the minutes of the meeting held on 7 July 2015.
- 4 **PUBLIC QUESTION TIME**
The Chair of the Committee will answer any questions from members of the public, submitted in accordance with the Council's procedures.

DEADLINE FOR RECEIPT OF QUESTIONS
Noon on Thursday 24 September 2015.

Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud, and sent by post, by fax (01453 754957), or by Email: democratic.services@stroud.gov.uk.

- 5 **WORK PROGRAMME 2015/16**
To consider and update accordingly, the work programme for 2015/16.
- 6 **ANNUAL GOVERNANCE STATEMENT 2014/15**
To seek Member approval for the changes made to the Annual Governance Statement 2014/15.
- 7 **REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2014/15**
To receive a report from KPMG to those charged with governance 2014/15.
- 8 **STATEMENT OF ACCOUNTS 2014/15**
To approve the Statement of Accounts 2014/15 and receive KPMG's audit opinion.
- 9 **TREASURY MANAGEMENT ACTIVITY 2015/16**
To provide an update on treasury management activity as at 30/06/2015.
- 10 **INTERNAL AUDIT PLAN MONITORING REPORT 2015/16**
To inform Members of the audits completed as part of the 2015/16 Internal Audit Plan.
- 11 **ANNUAL REPORT ON FRAUD ACTIVITY/COUNTER FRAUD - 2014/15**
To inform Members of issues relating to fraud and corruption.
- 12 **MEMBERS' QUESTIONS**
See Agenda Item 4 for deadline for submission.

Members of Audit & Standards Committee

Councillor Nigel Studdert-Kennedy (Chair)	Councillor Colin Fryer
Councillor Tom Williams (Vice Chair)	Councillor Keith Pearson
Councillor Martin Baxendale	Councillor Rhiannon Wigzell
Councillor Karon Cross	Councillor Penny Wride
Councillor Stephen Davies	

AUDIT AND STANDARDS COMMITTEE

7 July 2015

7.00 pm – 8.48 pm

Council Chamber, Ebley Mill, Stroud

Minutes

3

Membership:

Councillor Nigel Studdert-Kennedy (Chair)	P	Councillor Colin Fryer	P
Councillor Tom Williams (Vice Chair)	P	Councillor Keith Pearson	P
Councillor Martin Baxendale	P	Councillor Rhiannon Wigzell	P
Councillor Karon Cross	A	Councillor Penny Wride	P
Councillor Stephen Davies	A		

A = Absent P = Present

Officers in attendance

Accountancy Manager
 Internal Audit Manager
 Principal Accountant

Others in attendance

Darren Gilbert - KPMG

AC.001

APOLOGIES

Apologies for absence were received from Councillors Karon Cross and Stephen Davies.

AC.002

DECLARATIONS OF INTEREST

There were none.

AC.003

MINUTES

An amendment to minute AC.053 was requested to be made to reflect the correct title of Homelessness Reviews.

RESOLVED

That the Minutes of the meeting of the Audit and Standards Committee held on 7 April 2015 are approved, with the amendment stated above, as a correct record and signed by the Chair.

AC.004

PUBLIC QUESTION TIME

None received.

AC.005 **AUDIT AND STANDARDS WORK PROGRAMME FOR 2015/16**

Members added the following items to the Work Programme

29 September 2015.

- Update on Code of Conduct and Standards Panel
- Update on Homelessness/Notice of Possession Proceedings Reviews

26 November 2015

- Update on Car Park Audit

Members discussed the addition of a meeting on 27 October 2015 to the schedule of meetings.

Discussion took place on an item to be added to the work programme relating to local investments, particularly in Credit Unions. The Accountancy Manager explained that there was a Treasury Management Strategy in place, which made clear the criteria for investing locally through the treasury management route. This may need to be considered by the Community Services and Licensing Committee.

RESOLVED **To note the work programme, subject to the inclusion of the above in the 2015/16 work programme.**

AC.006 **KPMG – AUDIT FEE LETTER 2015/16**

The Committee considered the audit work and fee proposed for the 2014/15 financial year. This set out the responsibilities under the Local Audit and Accountability Act 2014.

Members asked questions relating to audit fees and KPMG carrying out in-depth work. KPMG confirmed that the fees funded a team for SDC as well as a wider team.

RESOLVED **To note the Letter**

AC.007 **KPMG – INTERIM AUDIT LETTER**

The Committee considered a letter from the external auditors setting out the audit plan and particular areas of interest to be focused on.

A meeting of Committee Members and external auditors would take place at 6.00 p.m. on 29 September 2015 prior to Audit and Standards Committee at 7.00 p.m.

RESOLVED **To note the Interim Audit Letter**

AC.008 **ANNUAL GOVERNANCE STATEMENT 2014/15**

The Accountancy Manager presented the report. The Annual Governance Statement reviews the system of internal control on an annual basis. The following comments were made:

- Para 12.1 – page 24 should include Scrutiny as a function of each committee.
- Para 4.4 – page 20 – performance management is very variable through each Committee. The Internal Audit Manager will amend wording of this paragraph for Members to approve. The amendment will be based on the discussions held at the recent Strategy and Resources Committee where the subject of Performance Management/Scrutiny was discussed.
- Para 8.2 – page 22 relating to Member Development, members requested the rewording of this paragraph to remove a sentence relating to poor attendance at training events and replacing it with a statement that they were engaged in Member development.

Subject to these amendments, it was:

RESOLVED **The Committee approves the Annual Governance Statement 2014/15 as set out in Appendix A.**

AC.009 **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2014/15**

The Principal Accountant presented the report. He explained that the Audit & Standards Committee has the role of scrutiny in Treasury Management, and this report sets out the outturn of the Treasury Management Strategy approved in February 2014.

Discussions took place on the 30 year business plan for the HRA and how that is performing. Questions were asked about the Right to Buy receipts. The Accountancy Manager would ask the HRA Accountant to give an explanation to Members on this.

RESOLVED **To approve the treasury management activity annual report for 2014/15 and the actual Prudential Indicators.**

AC.010 **INTERNAL AUDIT PLAN MONITORING REPORT**

The Internal Audit Manager presented the report of Audits completed within 2014/15 Audit Plan.

- (a) Creditors – processes have been put in place so this service was not, in future, relying on one person.
- (b) Payroll – recommendations have been made to the manager, in relation to salary overpayments.
- (c) ICT – Members and Officers have the same security checks if they are working at home on CITRIX.

The Internal Audit Manager stated that follow-up audits would be undertaken in October to ensure that agreed recommendations had been implemented. Any High

or Medium Priority recommendations that had been implemented by the agreed date would be reported to Committee in November or January.

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

AC.011 **REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT**

The Internal Audit Manager presented the report on the review as required under the Accounts and Audit (England) Regulations 2011.

RESOLVED **(a) Approve the review process**
(b) Note the outcome of the review of the effectiveness of Internal Audit.

AC.012 **INTERNAL AUDIT ANNUAL REPORT 2014/15**

The Internal Audit Manager presented the report which he is required to produce in accordance with the Public Sector Internal Audit Standards (PSIAS). He explained that the report included his opinion that a satisfactory 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. Following a question from a Member, the Internal Audit Manager stated that controls are the responsibility of management. If an audit identifies that management controls are not being complied with, or inadequate controls in place to mitigate against an identified risk, appropriate recommendations will be made to the manager. There is a process of escalation if high priority recommendations are not accepted.

RESOLVED **To endorse the assurance from the Internal Audit Manager that a satisfactory 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.**

The Chair of the Committee requested an update from the Internal Audit Manager on the audit report relating to the provision of Youth Services. The Internal Audit Manager stated the report should be issued to the members of the Committee by the end of July.

AC.013 **MEMBERS' QUESTIONS**

There were none.

The Chairman reminded members of the Introductory to Finance meeting on 23 July 2015 and encouraged members of the committee to attend.

The meeting closed at 8.48 pm.

STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

29 SEPTEMBER 2015

5

Report Title	WORK PROGRAMME FOR 2015/16
Purpose of Report	To establish the committee's work programme (see Appendix for 2015/16)
Decision(s)	To RESOLVE to the committee's work programme (subject to updating from time to time during the course of the year)
Consultation and Feedback	In line with the Guide for Committees (June 2015) the members of the committee have had the opportunity to consider items for inclusion informally in advance of the committee.
Report Author	Name: Sandra Cowley Title: Strategic Head (Finance & Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk

Background – Terms of Reference

1. Please see the terms of reference of the committee as set out in the Constitution at <http://stroud104/cmislive/Documents/PublicDocuments.aspx> on page 10.
2. The publication of the CIPFA document 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition), provided updated guidance on the role of audit committees and so a review of the 'Guide to the Audit & Standards Committee Work' was carried out in July 2014. A copy of the revised guide can be found at of the Review of Effectiveness of the Audit Committee, agenda item 11, appendix 1 in this link:
https://www.stroud.gov.uk/cmislive_public/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/190/Committee/2/Default.aspx
3. At its first meeting in June, the committee discussed and resolved its work programme for the year. Although the programme needs to include matters which have to be considered as a matter of law, the content of the programme should be driven by members of the committee. This report includes any updates since the last meeting. There is currently no business identified for the additional meeting requested in October.
4. The items included in the report with an asterisk are matters which the lead officer for the committee has confirmed are statutorily required to consider. Other items which in previous years the committee has routinely considered, but are not statutory and do not require a committee decision, may be relayed to members by information sheets.

2015/16 Work Programme for Audit & Standards Committee

Date of meeting	Matter to be considered	Lead Member and Officer)
7 July 2015	Audit Fee Letter 2015/16	KPMG
	Interim Audit Letter	KPMG
	Annual Governance Statement 2014/15*	Sandra Cowley
	Treasury Management Outturn 2014/15*	Graham Bailey
	Internal Audit Plan Monitoring 2014/15*	Terry Rodway
	Review of Effectiveness of Internal Audit*	Sandra Cowley
	Internal Audit Annual Report 2014/15*	Terry Rodway
29 Sept 2015	Annual Governance Statement 2014/15*	Sandra Cowley
	ISA260 Report to those Charged with Governance*	KPMG
	Statement of Accounts 2014/15*	Graham Bailey
	Treasury Management Activity 15/16*	Graham Bailey
	Internal Audit Plan Monitoring report*	Terry Rodway
	Annual Report on Fraud Activity/Counter Fraud*	Terry Rodway
27 Oct 2015	Currently no business identified	
26 Nov 2015	Annual Audit Letter	KPMG
	Update on Car Park Audit	Mike Hammond
	Treasury Management Half Year Review*	Graham Bailey
	Internal Audit Plan Monitoring 2015/16*	Terry Rodway
	Review of Procurement Action Plan	Sarah Turner
	Review of Anti-Fraud Policies*	Terry Rodway
	Review of Risk Register*	Sandra Cowley
21 Jan 2016	Annual Summary of Certification of Grant Claims and Returns 2014/15	KPMG
	Treasury Management Activity Q3 15/16*	Graham Bailey
	Treasury Management, Annual Investment and MRP Strategies 2016/17*	Graham Bailey
	Internal Audit Charter/Partnership update*	Terry Rodway
5 April 2015	Financial Statements 2015/16 Audit Plan*	KPMG
	Internal Audit Plan Monitoring 2015/16*	Terry Rodway
	Annual Internal Audit Plan 2016/17*	Terry Rodway
	Review of the Procurement Action Plan	Sarah Turner
	Annual Report Of the Audit & Standards Committee*	Cllr Studdert-Kennedy

Information sheets sent to committee members

Date sent & ref number	Topic	Responsible officer
11 Sept, No.1	NOPP and Homelessness Review Hearings	Craig Hallett

STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

29 SEPTEMBER 2015

6

Report Title	ANNUAL GOVERNANCE STATEMENT 2014/15
Purpose of Report	To seek Member approval for the changes made to the Annual Governance Statement 2014/15.
Decision(s)	The Committee approves the Annual Governance Statement 2014/15 as set out in Appendix A
Consultation and Feedback	The Council's Chief Executive, Monitoring Officer, S151 Officer, Internal Audit Manager and Corporate Team have been consulted on the AGS.
Financial Implications and Risk Assessment	<p>There are no financial implications arising from this report</p> <p>Sandra Cowley Strategic Head (Finance & Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk</p> <p>Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It is important to recognise that the purpose of the annual governance statement is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required.</p>
Legal Implications	<p>This statement was subject of consultation with the Monitoring Officer on 10.09.15 and subject to resolving matters highlighted in the report at committee, outlines the Council's overall governance position for 2014/15.</p> <p>Karen Trickey, Legal Services Manager Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk</p>
Report Author	Sandra Cowley Strategic Head (Finance & Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk
Options	N/A

Performance Management Follow Up	Ongoing control reviews are conducted throughout the year by management and internal audit.
Background Papers/ Appendices	A file of supporting documents has been placed in the Members' Lounge Appendix A – Annual Governance Statement 2014/15

Background

1. The Accounts and Audit Regulations 2011 require the Council to conduct a review, at least once each year, of the effectiveness of its system of internal control and to publish a statement on internal control each year with its financial statements. The Regulations also require that:
 - a) the findings of the review of the system of internal control be considered by a committee, or by members meeting as a whole; and
 - b) bodies should review the effectiveness of their system of internal audit once a year, and the findings of the review should be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control.

Annual Governance Statement 2014/15

2. The Committee considered the Annual Governance Statement at its meeting in June this year. As a result, some amendments have been made in line with the views of the Committee.
3. KPMG have also reviewed the Statement as part of the annual audit of the accounts and were of the view that, although the Council has made significant improvements around the governance arrangements for procurement, it should continue to be stated as a significant governance issue until such time as the new arrangements had bedded down and outcomes have improved. The statement has been amended to reflect this view.
4. The AGS must be signed by the Chief Executive and the Leader of the Council and must be reported externally with the published accounts. They have been consulted about the amendments referred to in this report and accept the changes.
5. Members are asked to approve the revised Annual Governance Statement as set out in Appendix A. Paragraphs 4.4, 12.1, 16.2 and 18.1 have been amended and are highlighted for ease of reference. A sentence has been deleted from paragraph 8.2.

ANNUAL GOVERNANCE STATEMENT 2014/15

1. Scope of responsibility

- 1.1 Stroud District Council is required to ensure 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 Local 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.

2.0 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 2015, and up to the date of approval of this statement.

3.0 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's Local Code of Governance 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 2013/14, a 'Committee' form of governance was adopted. Consequently since May 2013, the Strategy & Resources Committee has maintained the principal role in overseeing governance arrangements as the body responsible for resources and finance across the Council, with assistance from the other committees which have service specific functions and Audit & Standards which promotes service improvement via its audit responsibilities. In brief, the involvement of all committees in this way ensures that governance issues are continuously considered by the Council in its work.

4.0 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 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, and recycle more
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. A review of the Council's Corporate Delivery

Plan 2014-2018, was noted by the Strategy & Resources Committee in October 2014.

- 4.4 The Corporate Team (with the support of the committees so far as relevant to their particular work as outlined above) monitors 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. In addition, two members of each service committee should meet on a quarterly basis with senior management teams to review performance, and then for these members to report back to their appropriate committees on an exception basis. Due to an inconsistent approach to this review and reporting of performance, the Strategy & Resources Committee, at its meeting on 25 June 2015, agreed that there should be a standardised approach adopted across all committees for this performance monitoring process.

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 and its 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 had in place for several years a 'Member/Officer Protocol' which promotes an effective and professional working relationship between councillors and officers, providing guidance on their respective roles and expectations and on their relationship with each other.
- 5.3 The Council has a Scheme of Delegation detailing the delegation of responsibilities and functions from Council to the committees and senior officers.
- 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 Members' allowances for 2014/15 adopted are in accordance with the recommendations of the Independent Remuneration Panel's report received in 2014.
- 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 2014/15 was approved by Council in February 2014.
- ### **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 Localism Act 2011. The Code adopted in May 2014 following changes to the standards regime under the 2011 Act, was reviewed by the Audit and Standards Committee in 2015. The Council has also incorporated into its Constitution, other relevant codes and protocols such as a local code of conduct for planning, a member/officer protocol (to which reference is made above), a member/member relations protocol, and an 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. The Council's Constitution also includes the Council's Code of Conduct for Employees and its Whistle Blowing Policy for Local Government 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. The nature of committee form of governance adopted by the Council, as opposed to Executive arrangements, is by its very nature, self scrutinising. The Constitutional Working Group reviewed the effectiveness of the scrutiny arrangements during the year and reported it's finding to Council on 15 May 2015 with recommendations to improve the scrutiny function.
- 7.3 The Monitoring Officer maintains the up to date registration of Members' Interests, which Members are required to update within 28 days of any material change in circumstances. Declarations of Interest are a standard agenda item for each committee meeting. Members also complete registers of gifts and hospitality they receive in connection with their official business as councillors.
- The requirement for staff to declare interests is included in the Code of Conduct for Employees (see reference above).
- 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 the purpose of which is to provide a framework for the effective management of risks within the authority. The Policy was reviewed in June 2013 by the Audit & Standards Committee to take account of the proposed changes to

council's risk management arrangements. Strategy & Resources approved the revised policy in June 2013.

- 7.6 The Council has an Audit & Standards Committee. The core functions of an audit committee are set out in the CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities'. These are not detailed in the Constitution but agreed by the committee as guidance within which the committee will operate.
- 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 Strategic Head (Finance & Business Services) 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 As noted above, 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. As a result of comments made by staff in a recent staff survey, the whistle-blowing policy was reviewed in April 2015.

8.0 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. Following an informal review of the management responsibilities for this area in 2014, the induction programme in 2014 was redesigned with this in mind; Members' views sought on useful (and interesting) courses which help improve their effectiveness as a councillor; and Members have been

engaged in establishing a member development programme for 2014 to 2016.

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

- 9.1 As noted above, 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.

10.0 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:

11.0 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 sets out the roles and responsibilities of the Council's committees and all principal arrangements under which it operates its

business. The Constitution is reviewed on an ongoing basis, the last major review of the decision making structure being in 2012/2013. Further ongoing reviews are undertaken by the Constitution Working Group, which following the implementation of the committee system, has resulted in further relatively minor amendments to the Constitution in 2014 and 2015.

12.0 Service Committees

- 12.1 Committees are tasked with undertaking all functions associated with their broad purpose and terms of reference. Their purpose is to deal with strategies, policies and performance monitoring, including scrutiny, and not the detail of service delivery. The terms of reference of committees need to be balanced with the delegations to officers. The expectation is that officers will be able to take decisions to further the objectives, policies and strategies set by committees.
- 12.2 A Constitutional Review Working Group was set up to review the effectiveness of the committee system following its first year of operation. As mentioned in 11.2 above, some amendments were made to the Constitution as a result.

13.0 Audit & Standards Committee

- 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 core functions of an audit committee are set out in the CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities'. These are not detailed in the constitution but agreed by the committee as guidance within which the committee will operate at their first meeting in the civic year.
- 13.3 During the year, the Audit & Standards Committee carried out a self assessment using the checklists provided in the CIPFA publication 'Audit Committees – Practical Guidance for Local Authorities and Police 2013 Edition'. As a result of the review the following areas of improvement were identified:
- In order to raise the profile of the Audit & Standards Committee, and the work that it undertakes, an annual report on the work of the Committee will be presented to Council. **NB** The first annual report was presented to Council in May 2015.
 - To help ensure that any new members of the Audit & Standards Committee have the appropriate knowledge to perform their role effectively, mandatory training on Risk Management; Treasury

Management; Statement of Accounts; and the Role of Internal Audit and External Audit, will be introduced. Although this has been identified as mandatory, it is not a requirement for a new Member to have attended the training before attending their first meeting of the Committee.

- In accordance with identified good practice, the Audit & Standards Committee will hold separate, periodic 'private' meetings with the Council's External Auditor.
- To support the development and embedding of good practice in risk management, the Audit & Standards Committee recommends that each Service Committee appoint a Member Risk Management Champion to replace the current single Member Risk Management Champion who is a member of the Strategy & Resources Committee.

14.0 Internal Audit

14.1 Internal Audit is a legislative requirement of the Accounts and Audit (England) Regulations 2011. This requires the authority to undertake an adequate and effective internal audit of accounting records and of the system of internal control.

14.2 Stroud District Council and Gloucester City Council have formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, and efficient internal audit function to the partner organisations.

14.3 The Accounts and Audit (England) Regulations 2011 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.

14.4 The review consisted mainly of a self-assessment against the Public Sector Internal Audit Standards (PSIAS), and the results were reviewed by the Council's Strategic Head of Finance and Business Services, and will also be reported to the Council's Audit & Standards Committee in July 2015. The overall conclusion from the review was that internal audit at SDC is effective. Although the self-assessment identified a number of 'gaps' in conformance with the PSIAS, these do not materially affect the reliance the Council can place on the Internal Audit manager's opinion on the adequacy of the control environment.

14.5 Internal Audit work is carried out to the standards outlined in the PSIAS. The PSIAS requires 'the Head of Internal Audit to provide a written report to those charged with governance timed to support the Annual Governance Statement'. The 2014-15 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. Whilst internal audit work undertaken during the

year did result in two audits with an unsatisfactory level of assurance (Car Parks and Cash & Bank) in my view, the weaknesses identified are not deemed to be regarded as significant governance issues’.

15.0 Peer Review Challenge

15.1 In November 2014, the Council invited the Local Government Association (LGA) Peer Challenge Team into the Council to provide an external ‘health-check’ of the organisation by considering the core components looked at by all corporate peer challenges:

- Understanding of the local context and priority setting: Does the council understand its local context and has it established a clear set of priorities?
- Financial planning and viability: Does the council have a financial plan in place to ensure long term viability and is there evidence that it is being implemented successfully?
- Political and managerial leadership: Does the council have effective political and managerial leadership and is it a constructive partnership?
- Governance and decision-making: Are effective governance and decision making arrangements in place to respond to key challenges and manage change, transformation and disinvestment?

15.2 The Council received a very positive report from the Peer Challenge Team which included some suggestions for improvement. The full details of the report have been published on the Council’s website.

16.0 External Review of Procurement Procedures

16.1 In January 2015, the Council commissioned an external review of its internal procurement processes in response to concerns raised and reported in the Annual Governance Statement. This essentially arose from a number of reports considered by the Audit & Standards Committee in which the Internal Audit Manager identified that internal audit work undertaken during the year in relation to the procurement of contracts has continually reported a number of instances of non-compliance with the council’s procurement rules.

16.2 The outcome of the review was reported to the Audit & Standards Committee in April along with an action plan detailing a series of actions which, when fully implemented, will improve the Council’s overall performance in relation to procurement. **Key actions include:**

- Developing Strategic and Governance Model for Procurement
- Developing a new Procurement Strategy
- Developing the Corporate Procurement Team
- Updating Contract and Procurement Procedure Rules and Financial Regulations
- Developing and delivering an effective training plan.

16.3 The action plan will be reviewed regularly by the newly formed Procurement Board and progress reported to the Audit & Standards Committee.

17.0 Other review/assurance mechanisms

17.1 **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.

17.2 In September 2014, the Council's External Auditor produced their 'report to those charged with governance' relating to the 2013/14 audit of the Council's financial statements. This report was presented to the meeting of the Audit & Standards Committee on 25 September 2014. In relation to, 'audit matters of governance interests that arise from the audit of the financial statements,' the report stated that there was just one matter to note. This related to the deficit on the NDR element of the Collection Fund and the report concluded that "the Authority is applying established processes to recover the deficit in future years".

17.3 **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 was reviewed and updated in June 2013.

17.4 The Audit & Standards Committee received a report on the Council's Risk Register in November 2013.

17.5 **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.

17.6 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.

17.7 **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.

17.8 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 Strategic Head of Finance & Business Services who is the Council's s.151 Officer:

- 17.9 '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 14) 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 & Standards Committee. The Internal Audit Manager 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: 25 June 2015

**Sandra Cowley, Strategic Head of Finance & Business Services
(S151 Officer)**

18.0 Significant governance issues

18.1 Whilst there has been significant improvements made to the governance of the Council's procurement activity following an external review of our processes and procedures in January 2015, (see paragraph 16 above) any contracts let prior to this time may have similar issues to those identified in a number of Internal Audit reports throughout the year. It is appropriate for procurement to be identified as a significant governance issue until such time as the new arrangements have bedded in and we have evidence of improved outcomes.

18.2 There are no other significant governance issues that need to be reported at this time. The Council will continually monitor the governance arrangements in place to ensure they are effective.

Signed



**Cllr Geoff Wheeler
Leader of the Council**



**David Hagg
Chief Executive**



cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Stroud District Council

17 September 2015

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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 issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.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.

We are committed to providing you with a high quality service. 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 engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can raise a formal complaint procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and
- our assessment of the Authority's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- our audit work at Stroud District Council ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2014/15*, presented to you in April 2015, 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 areas took place during April 2015 (interim audit) and July 2015 (year end audit).

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

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed the work to support our 2014/15 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 and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

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 for the Authority. The remainder of this report provides further details on each area.

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015.</p> <p>We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</p>
Audit adjustments	<p>There have been three audit adjustments to the balances presented in the pre-audit Statement of Accounts. The impact of these adjustments is to reduce the balance sheet by £234,000 with an increase of £146,000 in the surplus on the provision of services, and no impact on the general fund. These adjustments are detailed in Appendix 3. Management has also made two additional adjustments to the post-audit Statement of Accounts (one relating to fixed asset valuation and the other relating to business rate pooling), with the total impact of both audit and management adjustments being a reduction of £609,000 in the balance sheet, a reduction of £229,000 in surplus on the provision of services, and a reduction of £71,000 in the General Fund. This is set out in the table on page 5.</p> <p>There is one uncorrected audit difference with an aggregate balance sheet impact of £0.3million and no impact on surplus; more detail on these adjustments is provided on page 5 and at Appendix 3.</p> <p>In addition to the audit adjustments, we have suggested a number of presentational/consistency improvements which have been amended by management.</p>
Key financial statements audit risks	<p>We review risks to the financial statements on an ongoing basis. We identified two significant risks specific to the Authority during 2014/15 with respect to the financial statements as follows:</p> <ul style="list-style-type: none"> ▪ Housing Investment; and ▪ Renewable Energy Spend <p>Our audit procedures were designed to appropriately address each of the above areas in detail and our findings on each of the above are discussed later within this document. In line with the previous section, no adjusted differences were proposed in relation to the risks identified.</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 the majority of audit queries, although some improvements can be made in this area (see page 10).</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>

<p>Control environment</p>	<p>From our testing, nothing has come to light which suggests any significant weaknesses in the Authority's organisational control environment. We have made no recommendations relating to the Authority's control environment.</p> <p>We have reviewed the work of Internal Audit and have been able to place reliance on their testing where this was relevant to our work.</p>
<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete. The remaining outstanding items are:</p> <ul style="list-style-type: none"> • Finalising work on tie through of accounts to general ledger • Finalising work on tie through of final outturn to general ledger • Letter of assurance from Gloucestershire County Council Pension scheme auditors <p>We expect that all these items will be cleared before the Audit & Standards Committee and will provide a verbal update to confirm this.</p> <p>In addition, 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>
<p>VFM conclusion and risk areas</p>	<p>We identified the following VFM risks in our External audit plan 2014/15 issued in April 2015.</p> <ul style="list-style-type: none"> ▪ Achievement of the Savings Plan ▪ Contract Procurement <p>We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report.</p> <p>However, we anticipate issuing a qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (i.e. the "VFM conclusion"), as a result of the Council not following its own procurement policies by failing to operate an appropriate procurement exercise and by making inappropriate variations to existing contracts (see p14).</p> <p>Our opinion will include an "except for" paragraph stating that we are satisfied with the Council's arrangements except for the issue detailed above.</p>

We have not identified any issues in the course of the audit that are considered to be material.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements, following approval of the Statement of Accounts by the Audit & Standards Committee on 29 September 2015.

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.

The final materiality (see **Appendix 5** for more information on materiality) level for this year's audit was set at £1.7 million. Audit differences below £80,000 are not considered significant.

We did not identify any material misstatements. We identified four audit misstatements over our reporting threshold, three of which were adjusted by management. In addition management has made two additional adjustments. Adjustments relate mainly to amendments to valuations applied to certain properties within the Other Land & Buildings category.

The remaining uncorrected audit misstatement relates to the pension scheme March contribution and does not have a material effect on the financial statements; it also has no impact on the surplus for the year or the year-end balance sheet. All audit adjustments are detailed in **Appendix 3**.

The tables to the right detail the changes on the Authority's pre-audit Surplus and Balance Sheet as at 31 March 2015 as a result of both audit and management adjustments.

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 in the United Kingdom 2014/15* ('the Code'). We understand that the Authority will be addressing these where significant.

Movements on the General Fund and HRA 2014/15			
£'000	Pre-audit	Post-audit	Movement
Surplus on the provision of services	17,566	17,337	(229)
Adjustments between accounting basis & funding basis under Regulations	(13,035)	(12,877)	158
Transfers from earmarked reserves	(747)	(747)	-
Increase in General Fund and HRA	3,784	3,713	(71)

Balance Sheet as at 31 March 2015			
£m	Pre-audit	Post-audit	Movement
Property, plant and equipment	238,862	238,253	(609)
Other long term assets	3,788	3,788	-
Current assets	36,557	36,557	-
Current liabilities	(12,837)	(12,837)	-
Long term liabilities	(146,811)	(146,811)	-
Net worth	119,559	118,950	(609)
General Fund	8,717	8,646	(71)
Other usable reserves	15,607	15,607	-
Unusable reserves	95,235	94,697	(538)
Total reserves	119,559	118,950	(609)

Financial Statements (continued)

Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

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.


We have suggested that the Council amends the Annual Governance Statement in order to identify procurement as a significant governance issue; officers have agreed to include such a disclosure.

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

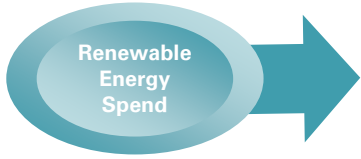
In our External Audit Plan 2014/15, presented to you in April 2015, we identified the significant risks affecting the Authority's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant audit risk	Issue	Findings
	<p>Housing Additions / Valuation</p> <p>The Council is undergoing a period of significant investment in its housing stock, with the New Build Programme and other projects resulting in an increased HRA capital spend.</p> <p>Within this spend, the Council has been granted HCA funding of £5.9m towards decent homes works. This relates to 902 items of work which needed to be completed by 31 March 2015 in order to claim the full amount. In recent budget monitoring reports, concerns have been raised about the ability to achieve this based on the amount of spend so far this year; as at 31 December 2014, actual spend amounted to £2.5m with the Council having received £4.4m of the HCA funding.</p> <p>With this increased level of spend and grant funding, there is an increased risk relating to the accuracy of capital additions and accruals, both in terms of valuation of the additions and cut-off of recognition for ongoing works. In addition, some of the projects have complexities around the accounting treatment.</p>	<p>Expenditure for the period was identified as £13.5m across Council Dwellings, Other Land & Buildings and Other property, plant and equipment; this included £6.3m of decent home funding eligible work.</p> <p>We performed substantive testing over the gross value of £13.5m and no issues were identified.</p> <p>We performed a detailed review of creditor balances, particularly those in relation to capital expenditure; no issues were noted.</p> <p>We also performed specific work over the valuation of housing assets (including dwellings, investment properties and other land & buildings which have undergone an internal valuation during the year and sites undergoing or due for redevelopment) and did not identify any significant issues, having worked closely with management during the year to confirm appropriate bases for these valuations.</p> <p>Management has performed a review of the classification of investment properties during the year and proposed to reclassify certain properties to operational asset categories. We discussed this review with management during the year and fed back comments and some challenges. Following this, investment properties with a net book value of £2m were transferred into Operational Land and Buildings. A substantive review of the reclassifications has been undertaken and no issues noted.</p>



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

Significant audit risk	Issue	Findings
	<p>Renewable Energy Spend</p> <p>An internal audit report issued around the time of our Audit Plan identified a number of concerns relating to the Council's expenditure on renewable energy work (primarily photovoltaic (PV) panels and ground source heat pumps). The issues raised with impact on the financial statements were:</p> <ul style="list-style-type: none"> -Costs for materials and management fees recorded on the contractor's invoices could not be verified to appropriate documents at the time of the audit; and -There was no documentary evidence of any checks performed on the contractor's invoices prior to payment. <p>We also identified some issues relating to the documentation & supporting evidence for the PV panels inventory balance during our 2013-14 audit.</p>	<p>We reviewed the internal audit report to gain a greater understanding of the issues surrounding the Renewable Energy Spend and to confirm that appropriate actions had been taken.</p> <p>Following the internal audit report, management performed a reconciliation of all contractor invoices and spend. During our final audit visit, we reviewed this reconciliation which fully reconciled the invoices to spend incurred, and we did not identify any issues in relation to this reconciliation.</p> <p>We also obtained the breakdown of PV inventory balances to confirm that appropriate documentation was maintained and a year-end count was performed.</p>

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ All areas 	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ None 	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2014/15</i> we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

Financial Statements (continued)

Accounts production and audit process

The Authority has a well established and sound accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was generally good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

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	<p>The Authority has good financial reporting arrangements in place.</p> <p>We consider that accounting practices are appropriate.</p> <p>We made a number of minor improvement suggestions to the pre-audit Statement of Accounts, especially relating to the reconciliation of the subjective analysis and the presentation of the MIRS figures (which had some inconsistencies throughout the document). These have been amended by management.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts within the statutory deadline.</p> <p>The Authority have made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.</p>
Quality of supporting working papers	<p>The quality of working papers provided was high and fully met the standards specified in our <i>Accounts Audit Protocol</i>.</p>

Element	Commentary
Response to audit queries	<p>Officers resolved the majority of audit queries within a reasonable timeframe, although we experienced a small number of delays due to the timing of annual leave and the Council's reliance on a few key officers for the accounts preparation process.</p> <p>The Council is considering its accounting preparation process for future years due to faster closing requirements which has effect from 2017/18 onwards. This will result in changes to both the accounting preparation process and audit process to achieve the new accounts preparation timetable, which is changing from the existing dates of 30 June and 30 September for the accounts being signed and certified by the Responsible Financial Officer and then approved and published, to 31 May and 31 July respectively.</p> <p>As part of this process, the Council may wish to consider how the responsibility for accounts preparation can be distributed amongst its team to aid with faster preparation.</p>

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 all of the recommendations in our *ISA 260 Report 2013/14*. Appendix 2 provides further details.

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 2015, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in **Appendix 4** 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 Strategic Head of Finance & Business Services for presentation to the Audit & Standards Committee. 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' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;

- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

We have just one matter to note, being that the Authority continues to report a deficit on the NNDR element of the Collection Fund in the second year of business rate pooling. The deficit has increased from £1.1m in 2013/14 to £2.7m in 2014/15 largely as a result of the increased business rates appeals ahead of the 31 March 2015 deadline for appeals to be backdated to 2005. This has led to an increase in the overall deficit on the Collection Fund from £0.2 million in 2013/14 to £1.8m in 2014/15.

The Authority has an obligation to make up the deficit but this is borne by the Collection Fund and distributed to preceptors in future years through the declaration of a surplus or deficit on the fund.

The Authority is applying established processes to recover the deficit in future years.

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, except for in relation to procurement arrangement.

Our opinion will include an “except for” paragraph detailing this.

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.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

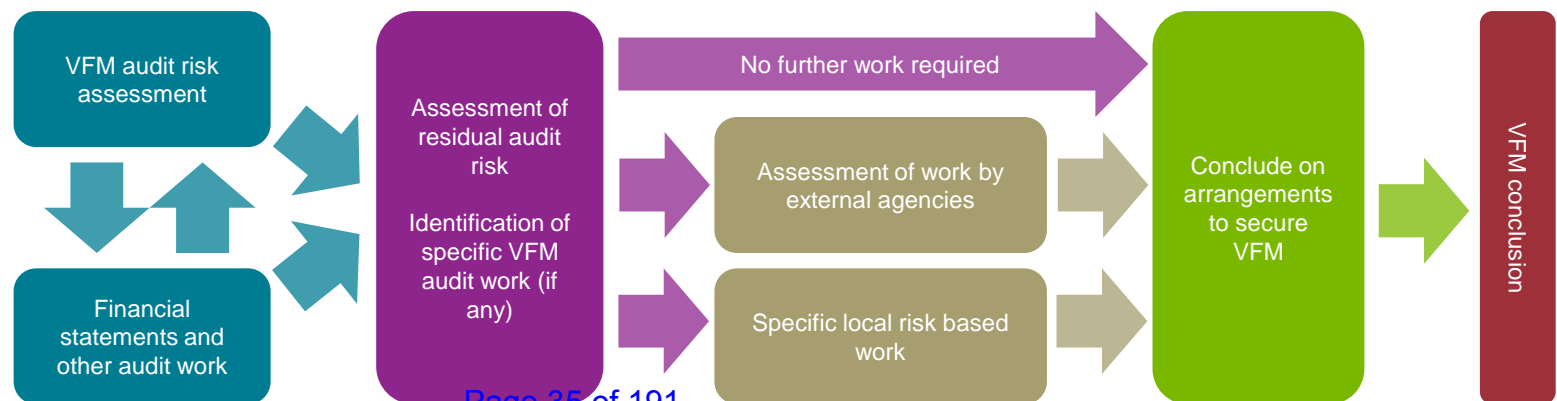
The following pages include further details of our VFM risk assessment and our specific risk-based work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources with the exception of the matter below which will be reported within in the basis of a qualified conclusion.

- In considering Stroud District Council's arrangements for challenging how it secures economy, efficiency and effectiveness, we identified instances where the Council has not followed its own procurement policies by failing to operate an appropriate procurement exercise and by making inappropriate variations to existing contracts.

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



We have identified two specific VFM risks.

In respect of the savings plan, following some risk assessment work, we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

However we have performed additional work in relation to contract procurement.

Work completed

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


- assessed the Authority'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;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; 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.


We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Authority is required to make savings of £196,000 in 2014/15; the current forecast shows additional savings of over £200,000 and a forecasted underspend of £341,000 against the original budget.</p> <p>The Authority currently estimates that £437,000 in savings will need to be achieved during 2015/16. Proposals for these savings were agreed by Council within the approved budget on 29 January 2015. Further significant savings will be required in 2016/17 and 2017/18 to principally address future reductions to local authority funding alongside service cost and demand pressures.</p> <p>The Council also has an ongoing Canal restoration project which is approaching conclusion; this is likely to have an overspend of approximately £0.4m which will need to be funded by the Council.</p>	<p>We undertook a review of the Medium Term Financial Plan ensuring that the funding assumptions appeared reasonable, other significant year-on-year changes appeared realistic and that it included all relevant costs.</p> <p>We are comfortable that the MTFP appeared to have been developed methodically and scrutinised/reviewed sufficiently. It can be remodelled to reflect movements in assumptions, although no specific sensitivity analysis is included.</p> <p>As part of this work, we obtained an update on the final progress of the Canal project and confirmed appropriate arrangements are in place to fund the final overspend.</p> <p>Based on the above we did not consider the achievement of the savings plan to be a significant VFM risk for this year, so did not carry out additional work on this risk.</p>

We have identified two specific VFM risks.

In respect of the savings plan, following some risk assessment work, we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.


However we have performed additional work in relation to contract procurement.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>Recent Internal Audit and external consultant reports have identified issues relating to procurement and contracting arrangements, particularly in relation to housing spend.</p> <p>There is a risk the Council is not achieving value for money in its contracts or breaching procurement legislation due to possible failures to follow procurement policy or issues within the Council's procurement policy itself.</p> <p>This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>Our work performed consisted of:</p> <ol style="list-style-type: none"> 1) Review of relevant internal audit reports & procurement consultancy reports to establish the specific issues involved 2) Review of progress against the action plans established as a result of the reports above 3) Where considered necessary, sample testing on significant contracts procured and increased spend during the year to confirm that appropriate procurement steps were taken and assess whether the issues identified by internal audit are endemic or more isolated. <p>Review of reports</p> <p>The initial Internal Audit review that identified the residual audit risk related to renewable energy spend. Within this report, identified issues included:</p> <ul style="list-style-type: none"> • A potential breach of EU procurement legislation. • Poor documentation of advice obtained as part of the decision-making process • Lack of audit trail & evidence of control activities <p>Following this, a procurement consultant was commissioned by the Authority during the year to produce a report critiquing the Authority's procurement policies & procedures in addition to performing a skills gap analysis of procurement staff and producing recommendations on best practice. The report identified the need for significant improvement to the Council's procurement arrangements.</p> <p>(continued overleaf)</p>

We have identified two specific VFM risks.

In respect of the savings plan, following some risk assessment work, we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.


However we have performed additional work in relation to contract procurement.

Key VFM risk	Assessment (continued)
	<p>Review of action plan</p> <p>In response to issues identified, the Authority produced an action plan to address the points highlighted above. Key actions include:</p> <ul style="list-style-type: none"> • Developing a strategic and governance model for procurement • Developing a new procurement strategy • Developing the corporate procurement team • Updating the Contract and Procurement Procedure Rules and Financial regulations • Developing an effective training plan • Updating the procurement plan and toolkit on the intranet <p>We have reviewed progress against this action plan and confirmed the Council is on track to implement all the recommendations although not all are as yet in place.</p> <p>Sample testing</p> <p>Within this testing, we identified issues in relation to three four contracts:</p> <ol style="list-style-type: none"> 1) One contract was found to have a number of issues around compliance with procurement policies, such as a lack of documentation and uncertainty over the appropriateness of the tender process; 2) In addition, another contract with the same supplier was inappropriately divided into sections <£50,000 so as not to trigger the procurement policy thresholds. 3) The awarding of another contract was found to be a technical breach of procurement policy as one of the tenderers was inappropriately excluded for failure to meet evaluation criteria (which was subsequently found to lack sufficient clarity and detail). 4) A final contract was found not to have been advertised correctly given the value of the contract. <p>(continued overleaf)</p>

We have identified two specific VFM risks.

In respect of the savings plan, following some risk assessment work, we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

However we have performed additional work in relation to contract procurement.

Key VFM risk	Assessment (continued)
	<p>We have discussed these issues with relevant officers across the Council (finance, legal, internal audit, procurement) as well as consulted internally within KPMG. We do note that the issues have been identified by the Council and steps are being taken to address these with the implementation of the action plan as well as a more centralised procurement overview. However, based on the extent of non-compliance in relation to 2014/15, and the fact that the action plan was not yet implemented during the 2014/15 audit year, we have concluded that it is appropriate to qualify our VFM conclusion with an except for paragraph as detailed below:</p> <p>In considering Stroud District Council's arrangements for challenging how it secures economy, efficiency and effectiveness, we identified instances where the Council has not followed its own procurement policies by failing to operate an appropriate procurement exercise and by making inappropriate variations to existing contracts.</p> <p>We have also considered the need to make a statutory recommendation under Schedule 7 of the Local Audit and Accountability Act 2014.</p> <p>Given that:</p> <ul style="list-style-type: none"> • Recommendations have already been made in issued audit reports and the commissioned consultant report; and • during 2014/15 and since the year-end, the Council has put in place procedures and actions to resolve the issues noted in relation to 2014/15, and we have assessed progress against the action plan, <p>we do not consider that it is necessary to make a statutory recommendation at this time. We will continue to monitor the implementation of the action plan, and reassess this view during our 2015/16 audit while also continuing to review procurement in relation to our VFM conclusion. We therefore anticipate this again being identified as a significant VFM audit risk in our 2015/16 audit next year.</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	<p>Borrowing in Advance of Need</p> <p>The Council borrowed £1m of PWLB at a fixed rate of 3.55% on 21 November 2014 in advance of need within the capital programme.</p> <p>CIPFA Treasury Management guidance states that the Council needs a clear policy on Borrowing in advance of need (BIAON), and needs to be able to demonstrate that such decisions are being made with appropriate value for money considerations and not just in order to invest the money speculatively (i.e. they must form part of an expenditure programme).</p> <p>We noted that there was that while there is a policy on BIAON within the Treasury Management strategy, this would benefit from greater detail and clarity over how it would be applied, as it does not define timeframes for allowable BIAON. Management has subsequently updated the internal Treasury Management Manual used by officers to include a more detailed policy setting out this definition and the cases when BIAON may be utilised including the approval process.</p> <p>In our view, the detailed policy should be included in the Treasury Management Strategy approved by members, for two reasons; firstly to make sure that members endorse the strategy and the powers delegated to officers, and secondly to provide protection to officers making decisions under the policy that this has been endorsed by members.</p> <p>The Council should also consider including a mechanism in the policy to report back to members when decisions under the policy have been made, similarly to the investment policy relating to exceeding counterparty limits.</p> <p>Recommendation</p> <p>Make the changes to the Treasury Management Strategy that we have identified above.</p>	<p>I am of the view that our current Treasury Management Strategy and Procedures adequately cover our policy for borrowing in advance of need however, if KPMG are of the view that to include the more detailed procedures in the Strategy itself will improve the transparency of the policy, I will include it when the Strategy is revised in January 2016.</p> <p>Sandra Cowley Strategic Head (Finance & Business Services) Due date: Audit & Standards Committee – January 2016 Full Council – February 2016</p>

Appendix 1: Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	3	<p>Lack of sensitivity analysis within MTFS</p> <p>We have noted that the Council's Medium Term Financial Strategy (MTFS) did not include any detailed sensitivity analysis.</p> <p>It is best practice to include a level of sensitivity analysis within the MTFS document reported to members; for example, this could include an assessment of scenarios based on fluctuations in assumptions such as Revenue Support Grant funding, pay and non-pay inflation and pressures on services.</p> <p>Recommendation</p> <p>Build a level of sensitivity analysis into the MTFS to provide members with more detail on the level of optimism within the assumptions in the strategy and the impact of changes in these on the Council's financial position.</p>	<p>Getting the balance right in terms of the amount of financial information presented to members is difficult. Our current MTFP makes various assumptions all of which are explained and the risks associated with the assumptions made. There will be many background working papers which include the sensitivity analysis, but we have chosen not to include this level of detail to keep the financial information as uncluttered as possible</p> <p>We will review this in light of the recommendation made in the Budget Strategy report to Strategy and Resources Committee in October 2015.</p> <p>Sandra Cowley Strategic Head (Finance & Business Services)</p>

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2013/14.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2013/14 and reiterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	2
In progress	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 25 Aug 2015
1	3	<p>Capitalised Revenue Costs</p> <p>We identified potentially £19,500 of capitalised spend that appears to be revenue in nature, the bulk of which (over £17,000) relates to compensation paid to tenants on the renewables energy programme. Although not material and funded by sufficient revenue funding in 2013-14, the issue increases a risk of financing revenue expenditure with capital funding which could result in <i>ultra-vires</i> expenditure in the future.</p> <p>Recommendation</p> <p>Ensure that transactions are only recognised as capital where appropriate.</p> <p>Consider whether further guidance or training is required for budget holders regarding the capitalisation of expenditure.</p>	<p>Responsible Officer: David Stanley</p> <p>Date: 28 February 2015</p>	<p>No issues were identified in relation to capitalized revenue costs during 2014/15.</p>

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2013/14.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 25 Aug 2015
2	3	<p>Inventory Count</p> <p>The Council was holding a significant amount of inventory (£1.5m) at year-end compared to previous years because it bought a number of solar panels and accompanying equipment in advance. As a result of the higher balance, we had to perform more detailed work than in previous years over inventory, and while we were eventually able to obtain sufficient evidence over the reasonableness of the balance, we found there was a lack of formal evidence relating to the year-end inventory count such as count sheets, count procedures or review of the count results.</p> <p>Recommendation</p> <p>If the Council continues to hold material inventory balances, ensure procedures are more formalised through appropriate controls and audit trails, and also liaise with us regarding inventory count attendance which may be required if there is a material inventory balance.</p>	<p>Responsible Officer: David Stanley</p> <p>Date: 28 February 2015</p>	<p>Itemized stock records now maintained. Year end stock count performed and documented.</p>

The Authority has implemented all of the recommendations in our ISA 260 Report 2013/14.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 25 Aug 2015
3	2	<p>Clarity of decision making for Minchinhampton development</p> <p>In carrying out our VFM work around housing developments, we identified that options appraisals relating to the Minchinhampton could have been more detailed, both in terms of considering the option of going into a standard contractor arrangement rather than the exchange contract that was entered into, and also by obtaining an independent valuation of the land by an independent valuer in order to consider if the developer exchange proposals provided value for money compared to selling the land on an open market.</p> <p>Recommendation</p> <p>Ensure that sufficiently detailed options appraisals are performed and reported to Members to allow full clarity of decision making and value for money, especially when entering into complex schemes where there are multiple options (e.g. land exchange).</p>	<p>Responsible Officer: Carl Brazier</p> <p>Date: 31 December 2014</p>	<p>HRA-related housing developments have been monitored at a strategic level by the New Homes and Regeneration Steering Group. These meetings which were held monthly were attended by officers and members and their purpose was to receive updates on existing projects and to consider and appraise proposals for new schemes. A number of other Task and Finish Groups were established and considered options on housing provision in the General Fund, site-specific provision (Littlecombe and Brimscombe), and around the council's Sheltered Housing assets.</p> <p>To provide greater clarity to the decision making process across the organisation, these Task and Finish groups have been merged into a single Housing and Development Group (HDG). This group has a wider scope in that it will consider both General Fund and HRA Housing projects, including the long-term redevelopment of the council's Sheltered Housing. It was agreed by members of the previous groups that the wider HDG would provide clear recommendations about investment priorities and provide clarity on how the council's resources should be utilised.</p> <p>An initial meeting of HDG will take place in September 2015 and will set out and agree the terms of reference, including the decision making criteria and financial appraisal methodology that will be applied to projects to ensure value for money is considered when appraising options and projects.</p> <p>Responsible Officers: Sandra Cowley and Allison Richards</p> <p>Date: 31 December 2015</p>

No significant audit differences have been identified.

The cumulative impact of uncorrected audit differences is £0.3 million on the balance sheet with no impact on surplus.

This is below our materiality level of £1.7 million.

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 your 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.

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 2015.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact			Basis of audit difference
			Assets	Liabilities	Reserves	
1			Cr Pension Assets £(277,000)	Dr Creditors £277,000	-	This relates to March 2015 pension contributions which had not been paid to the pension administrator (Gloucestershire County Council) prior to year end. <i>International Accounting Standard (IAS) 19 Employee Benefits</i> specifically stipulates that unpaid contributions cannot be considered as part of the plan assets as they are a non-transferable asset until they are paid over. The impact of this misstatement is only on the balance sheet as the Council has an equivalent creditor balance to the pension scheme.
	£nil	£nil	Cr £(277,000)	Dr £277,000	£nil	Total impact of uncorrected audit differences

Appendix 3: Audit differences (continued)

No significant audit differences have been identified.

The cumulative impact of uncorrected audit differences is £0.3 million on the balance sheet with no impact on surplus.

This is below our materiality level of £1.7 million.

Corrected audit differences

The following table sets out the audit differences identified by our audit of Stroud District Council's financial statements for the year ended 31 March 2015. These have been adjusted in the final version of the final statements.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact			Basis of audit difference
			Assets	Liabilities	Reserves	
1	Dr Financing & investment income & expenditure £654,000 Cr Non distributed costs £(654,000)					This relates to a reallocation within the CIES of the net interest on the net defined benefit liability which had been incorrectly classified as non distributed costs.
2	Dr Revaluation gain £40,000	Dr Capital Adjustment Account £40,000 Cr General Fund £(40,000)	Cr Property, Plant & Equipment £(420,000)		Dr Revaluation Reserve £380,000	This relates to the Long Street car park which was erroneously revalued this year within the accounts but actually sits within the Littlecombe development which is currently in deficit and therefore has a value of £1. Therefore the adjustment proposes to write the Long Street asset down to £nil.
3	Cr Revaluation gain £(186,000)	Dr General Fund £186,000 Cr Capital Adjustment Account £(186,000)	Dr Property, Plant & Equipment £186,000			This relates to a transposition error arising on the processing of the Church Street revaluation. The adjustment has been proposed to bring the valuation up to the correct value.
	Cr £146,000	£nil	Cr £(234,000)	£nil	Dr £380,000	Total impact of corrected adjustments

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd 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 Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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 & Standards 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 Engagement Lead 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.

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. To facilitate this, a hard copy of the Manual is provided to everyone annually. 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 2015, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

For 2014/15 our materiality is £1.7 million for the Authority's accounts.

We have reported all audit differences over £85,000 million for the Authority's accounts to the Audit & Standards Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in April 2015.

Materiality for the Authority's accounts was set at £1.7m which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit & Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £80,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Standards Committee to assist it in fulfilling its governance responsibilities.

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

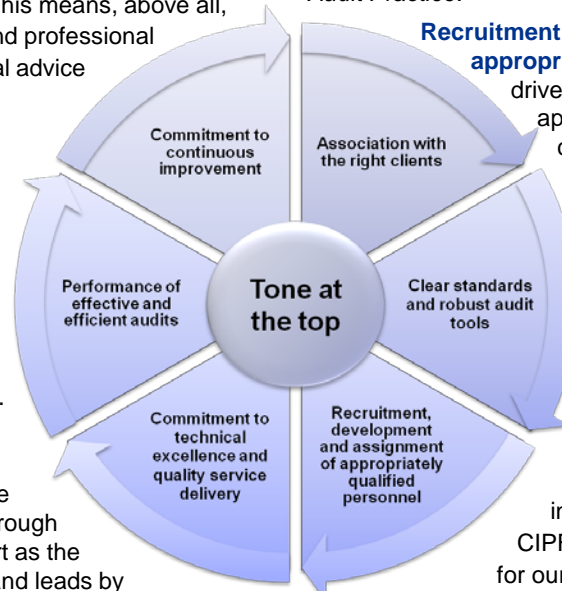
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Darren Gilbert as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

The latest Annual Regulatory Compliance and Quality Report (*issued June 2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.



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STROUD DISTRICT COUNCIL

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KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

29 September 2015

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 2015, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2015 and of the Authority’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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 2015 and of the Authority's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/15.

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 IAS 10 *Events after the reporting period* requires 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 confirms the following:
 - i) 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.
 - ii) 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 Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, 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.

8. 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.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. 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. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
11. The Authority confirms that:
 - a) The financial statements disclose all of the uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
 - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
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 defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits*.

The Authority further confirms that:

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

- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit and Standards Committee on 29 September 2015.

Yours faithfully,

Councillor Nigel Studdert-Kennedy
Chair of the Audit and Standards Committee

Sandra Cowley
Chief Financial Officer



Chief Executive: David Hagg



Appendix A to the Board Representation Letter of Stroud District Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Movement in Reserves Statement for the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding

circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity’s assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue, and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or

- iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

**Appendix B to the Board Representation Letter of Stroud District Council:
Uncorrected misstatements**

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact			Basis of audit difference
			Assets	Liabilities	Reserves	
1			Cr Pension Assets £(277,000)	Dr Creditors £277,000	-	This relates to March 2015 pension contributions which had not been paid to the pension administrator (Gloucestershire County Council) prior to year end. <i>International Accounting Standard (IAS) 19 Employee Benefits</i> specifically stipulates that unpaid contributions cannot be considered as part of the plan assets as they are a non-transferable asset until they are paid over. The impact of this misstatement is only on the balance sheet as the Council has an equivalent creditor balance to the pension scheme.
	£nil	£nil	Cr £(277,000)	Dr £277,000	£nil	Total impact of uncorrected audit differences

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

29 SEPTEMBER 2015

8

Report Title	STATEMENT OF ACCOUNTS 2014/15
Purpose of Report	To approve the Statement of Accounts 2014/15 and receive KPMG's audit opinion, including the changes to the accounts since the unaudited accounts were signed off by the Strategic Head (Finance and Business Services) and Section 151 Officer on 26 June 2015.
Decision(s)	Committee RESOLVES: (a) to approve the audited Statement of Accounts for the year ending 31 March 2015, and (b) that the Head of Finance and s151 Officer together with the 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	KPMG
Financial Implications and Risk Assessment	There are no financial implications arising directly from this report. David Stanley, Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
Legal Implications	The report is provided to meet legislative requirements. (I14.9.15) Karen Trickey, Legal Services Manager Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: graham.bailey@stroud.gov.uk
Options	None.
Performance Management Follow Up	Actions arising from KPMG's ISA 260 report.

Background Papers/ Appendices	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 2014/15 (the 'Code') Appendix A – Statement of Accounts
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Discussion

1. In accordance with requirements under the Accounts and Audit (England) Regulations 2011, the Strategic Head (Finance and Business Services) and Section 151 Officer is required to sign and date the Statement of Accounts by 30 June and certify that it presents a true and fair view of the financial position of the Council at the end of March 2015 and its income and expenditure.
2. The Statement of Accounts for 2014/15 was signed as approved by the Strategic Head (Finance and Business Services) and Section 151 Officer on 26 June 2015, in accordance with these requirements. The unaudited Statement of Accounts 2014/15 was made available on the Council's website from 29 June 2015.
3. A number of changes have been made to the unaudited Statement of Accounts 2014/15. These changes are mainly to the narrative content, general presentation for the benefit of readers and to the internal consistency and correctness of the figures in notes to the accounts. Also, as a result of the audit, changes to the valuation of Property, Plant & Equipment assets to a net value of £0.609m, and the General Fund Balance part of Usable Reserves has been reduced by £0.071m to correct the amount set aside to fund the Council's share of a deficit on the Business Rates Pool. A summary of the balance sheet changes is set out in the table below.

Balance Sheet Changes 2014/15

	Unaudited £000	Audited £000	Change £000
Property, Plant & Equipment	238,862	238,253	-609
Other assets & liabilities	-119,303	-119,303	-
Net Assets	<u>119,559</u>	<u>118,950</u>	<u>-609</u>
Usable Reserves	24,324	24,253	-71
Unusable Reserves	95,235	94,697	-538
Total Reserves	<u>119,559</u>	<u>118,950</u>	<u>-609</u>

4. Regulation 8 requires that the Statement of Accounts should be signed and dated by the Chair presiding at the Audit and Standards Committee meeting at which approval is given. That regulation 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.
5. The Council's external auditors KPMG also present separately to this meeting their 'Report to those charged with governance (ISA 260) 2014/15', which summarises their finding arising from their audit of the Statement of Accounts.
6. The Statement of Accounts is comprised of four main statements as required by International Financial Reporting Standards which are:-

- **Movement in Reserves Statement**

This is split between usable and unusable reserves and shows the detail of movement in reserves, from the surplus / (deficit) on provision of services in the Comprehensive Income and Expenditure Statement (CIES), to the position on the Balance Sheet at 31 March 2015.

- **Comprehensive Income and Expenditure Statement**

The CIES consolidates all the financial gains and losses experienced during the year. The CIES has two sections:

- a) Surplus or Deficit on the Provision of Services – which shows the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income.

- b) Other Comprehensive Income and Expenditure – which shows any other changes to net worth, and examples include movements in the fair value of assets or actuarial gains or losses on pension assets and liabilities.

- **Balance Sheet**

The Balance Sheet summarises the Council's financial position at 31 March 2015. The top half shows accrued assets and liabilities. The bottom half is comprised of reserves, split between usable and unusable reserves, which represent the net worth of the Council.

- **Cash Flow Statement**

This shows the year on year change in cash and cash equivalents, which are cash on call, and investments with a maturity of three months or less. 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 will be signed subject to Audit and Standards Committee approval. This letter deals with the processes and procedures the Council adopts to ensure that it is in compliance with statutory requirements, laws and regulations and also confirms there is 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. Once the accounts are approved a copy will be made available on the Council's internet site <http://www.stroud.gov.uk/opendata/finance.asp>.

Statement of Accounts 2014/2015



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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 2014/15, incorporating the changes required by the Code of Practice on Local Council Accounting in the United Kingdom 2014/15 (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 Strategic Head (Finance and Business Services) 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 2014-15 is £17.34m.
- **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 2015 is £118.95m.
- **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 Strategic Head (Finance and Business Services).
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Strategic Head (Finance and Business Services)'s responsibilities

The Strategic Head (Finance and Business Services), 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 Strategic Head (Finance and Business Services) 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 Strategic Head (Finance and Business Services) 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 Strategic Head (Finance and Business Services) 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 2015. This statement is made on page 11.

Signed:

Date:

S D Cowley CPFA
Strategic Head (Finance and Business Services)

29 September 2015

Summary of the Financial Year 2014/2015

1. There were a number of funding changes and key projects that dominated the financial year and had an impact on the Council's accounts for 2014/15 and beyond. These are as follows:

Business Rates Retention Scheme (BRRS)

2014/15 was the second year of the Business Rates Retention Scheme (BRRS), which allows local authorities to keep up to half of business rate growth providing a financial incentive to councils to grow their local economies, although it does result in more risk and uncertainty. The effect of BRRS is that a significant part of the council's budget is dependent on the amount of business rates collected in the district.

The Business Rates Retention Scheme is very complex, with a series of calculations required to determine the amount of income that is retained by the council. The final amount of funding Stroud retained and credited to the Comprehensive Income and Expenditure Statement was £2.125m. A number of factors influenced the level of business rates income collected:

- The total amount of Non-Domestic rating income from the rates retention scheme for the year was £23.156m, of which Stroud share was £9.262m. This compared to the forecast amount from the 2014/15 NNDR1 of £10.009m.
- Total refunds for appeals and other reasons were £1.073m
- The extension of Small Business Rates Relief in the Autumn Statement 2013 and the announcement of new discretionary reliefs reduced the amount of business rates income collected, although councils were compensated through Section 31 Grant. The total amount payable to Stroud for the year was £0.770m
- The tariff payment was £7.495m, with the levy payment to the government on growth above the business rates baseline was £0.111m
- Calculation of a net total of £2.426m is shown in table 1

Table 1: Business Rates Retention Scheme	2014/15 Outturn (£'000)
SDC's Local Share	9,262
less: Tariff payment to Government	-7,495
less: Levy payment to Government	-111
Retained Business Rates	1,656
add: Section 31 grant payable	770
Total funding from business rates	2,426
less: SDC's share of GBRP deficit	-301
Business rates credited to CI&ES	2,125

2014/15 was also the second year of the Gloucestershire Business Rates Pool (GBRP) with all six Gloucestershire district councils and the County Council involved.

Stroud is the lead authority for the pool. Under pooling, local authorities are able to come together voluntarily to pool their business rates, bringing both potential benefits but with some additional risk. Under a business rates pool there is a single tariff or top-up figure, which is the sum of all the tariffs and top-ups of the individual authorities within the pool. There is also a single levy rate for the pool and eligibility for safety-net payments is calculated at the pool-wide level. The main benefit of the pool is that the single levy rate is lower than the individual levy rates, thereby retaining a greater element of business rate growth within the county.

Based on the NNDR3 returns, the GBRP is reporting a significant deficit of £2.348m, due to an issue with rateable value (RV) of the Virgin Media site in Tewkesbury and an unprecedented level of backdated business rate appeals. Gloucestershire has seen significant growth in business rates during 2014/15, but the level of appeals experienced and the provisions that have had to be made have more than wiped out the growth. The extraordinary level of appeals represents an issue that could not have been foreseen when the decision was taken to pool business rates in Gloucestershire and is an issue that has been taken up nationally with the Government and the LGA.

Tewkesbury has seen a significant reduction in their business rates income following Virgin Media's successful appeal against their rateable value (RV). The result of the appeal was a refund of £11m and a reduction far greater than had been anticipated by Tewkesbury or the Gloucestershire Pool. As a result of the revaluations, successful appeals and newly lodged appeals, the safety payment required from the Gloucestershire Pool is £3.9m.

The combined effect of these issues has resulted in a deficit on the pool of £2.348m. In accordance with the Governance arrangements of the pool, each pool member needs to fund their share of the deficit in order to put the pool back in a balanced position. Stroud's share of the deficit was £0.301m, as shown in the table above reducing the amount of business rates income credited to the CI&ES to £2.125m.

Capital Projects

- (a) The Canal Restoration Project has seen further progress during 2014/15 with £1.214m spent on a number of major projects including Wallbridge channel and lock bypass, brickwork completed at Bowbridge lock, dredging between Lodgemore and Bowbridge. Just over £18m has been spent on the phase 1A of the Canal Restoration project which has largely been funded from the Heritage Lottery Fund (£12.3m) and other external partners (£2.2m). Stroud District Council's contribution to the project is £3.7m. The project has seen the canal from Stonehouse to Bowbridge restored including the refurbishment and replacement of lock gates, bridges and other structures and the clearing of the canal channel providing a navigable stretch of water.

- (b) The HRA continued with the third year of a five year catch-up repair programme with £5.9m of Decent Homes Funding secured from the Homes and Communities Agency (HCA) to assist in meeting this work. The council was able to meet the decency standard in the required 902 properties by the 31 March 2015 deadline.
- (c) 2014/15 saw the first new council homes from the ambitious New Build and Development programme handed over to tenants. Major redevelopment schemes in Leonard Stanley, Minchinhampton and Stroud have commenced, although delivery has been slower than originally anticipated due to contract negotiation taking more time than expected and delays on-site with essential utility works. At Minchinhampton, the authority has worked in partnership with the developer to replace 'Woolaways' properties. These properties, built in the 1950's of non traditional materials were at the end of their useful life. These were demolished in 2013/14 and the first phase of properties (7) have already been completed and are occupied by council tenants. Work is continuing on site, with the remaining 28 units due for completion in 2015/16.

There were also 3 key transactions that had a significant impact on the Council's accounts:

- i. A significant change to the council's share of the NNDR Appeals provision was made through the collection fund resulting in a net increase in the provision of £0.781m. This adjustment recognises the council's share of the liability from NNDR appeals under BRRS. During the course of 2014/15, £0.607m of the provision was used to fund appeals settled in the year, with an addition of £1.472m required to provide adequate funding in future years.
- ii. There was a £0.759m reduction in stock in relation to the Renewable Energy capital scheme, representing the net value of purchases (£0.149m) and the value of stock used in the year (£0.908m). The council had purchased a large number of Photovoltaic (PV) and renewable energy components at favourable terms in advance of a change to EU import tariffs. It is anticipated that the remaining stock will be installed on council-owned housing stock in the first half of 2015/16.
- iii. During 2014/15 the Council's Housing stock was revalued, which resulted in an increase of £13.295m in the balance sheet value of the housing stock. Further details of the stock movement are in note 1 on page 82.

2. General Fund

The Council spent a net total of £14.952m on General Fund revenue services in 2014/15. Allowing for the changes to provisions, interest received, movements to and from reserves and other items, the amount funded was £13.554m, resulting in an increase in balances of £0.731m compared with the original forecast of a decrease in balances of £0.017m. Table 2 summarises the differences between the

original budget and the actual outturn. Further details can be found on pages 55 to 58 of these accounts.

Table 2 : General Fund expenditure against original budget 2014-15

(figures in £'000)	original	actual	difference
main services			
central services to the public	1,503	1,374	-129
corporate & democratic core	1,243	1,159	-85
cultural & related services	2,792	2,929	137
environmental & regulatory services	5,344	4,847	-497
general fund housing	1,374	1,336	-38
highways & transport	-186	-241	-55
non distributed costs & recharged services	1,414	1,395	-19
planning & development services	2,017	2,154	137
net cost of general fund services	15,501	14,952	-548
corporate income & expenditure	-1,403	-1,966	-564
external interest	-250	-279	-29
interest payable & similar charges	25	100	75
appropriations	935	747	-187
total to be funded	14,807	13,554	-1,254
financed by:			
council tax	-7,640	-7,640	-
revenue support grant	-2,555	-2,555	-
other non-service government grants	-1,812	-1,831	-19
non domestic rate income	-2,719	-2,125	594
collection fund surplus	-63	-134	-71
	-14,790	-14,286	505
transfer to (-) / from balances	17	-731	-749
amounts carried forward	-	278	278
net budget difference	17	-453	-470

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 reductions in government funding and the economic conditions generally. Income from fees and charges generally met the budgeted amount during the year, with income in Development Control, Dursley Pool and Sports Centre and the council's Car Parks performing well.

The most significant individual change between the original budget and actual net expenditure in the year was the accounting treatment for the Business Rates Retention scheme and the reversal of the provision made against General Fund balances for backdated business rates appeals. The combined effect resulted in £0.453m of the General Fund variation. Other notable changes included a saving in

staffing costs of £0.175m due to the non-filling of a number of posts that became vacant during the year, budgets of £0.174m brought forward from 2013/14, and a dilapidation charge of £0.188m following the planned surrender of the lease on phase 1 of the industrial units in Stonehouse.

The net result is a transfer to balances of £0.731m which is a difference of £0.749m compared with the original budget. Items totalling £0.278m due to be spent in 2014/15 have been carried forward to be spent in 2015/16, resulting in a net saving against the original budget of £0.453m.

General Fund balances stood at £8.646m at 31 March 2015 compared with £6.416m when the budget was set in February 2014. The £2.230m difference comprises the higher balances carried forward from 2013/14 (£1.482m) as well as the improved 2014/15 position explained above.

A precept of £10.353m was levied on the Collection Fund (page 87), including a sum of £2.713m which was collected on behalf of and paid to town and parish councils, leaving £7.640m 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 5,091 dwellings at 31 March 2015.

Table 3: Housing Revenue Account outturn

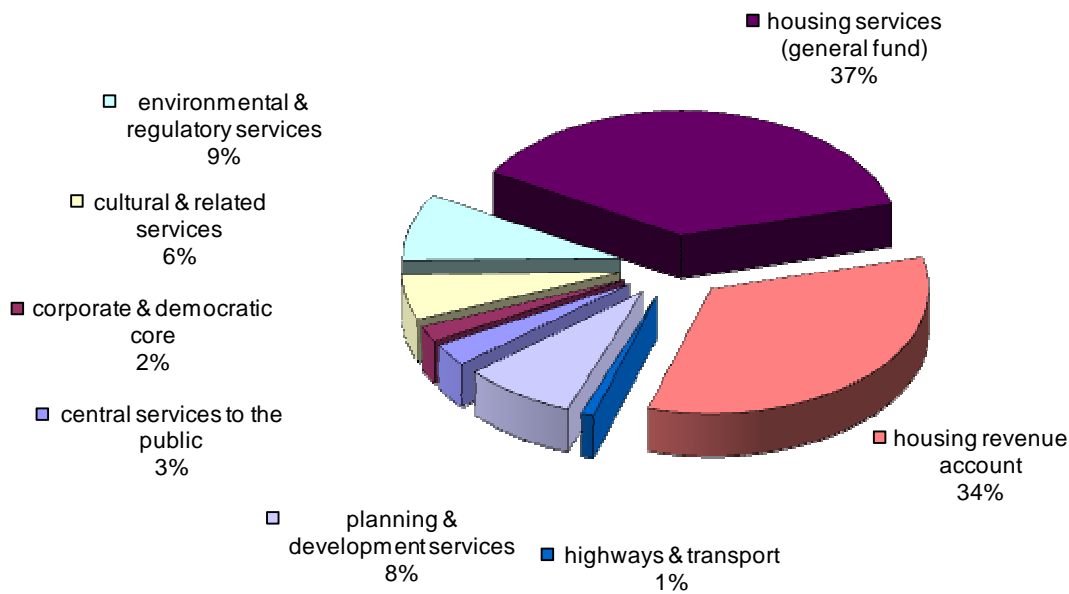
(figures in £000)	original budget	revised budget	actual	difference (from revised)
service expenditure	11,022	11,181	11,221	40
other operating costs	25,165	17,023	16,075	-948
total expenditure	36,187	28,204	27,296	-908
financed by:				
rents & other items	-23,314	-23,314	-22,856	458
other transactions	-12,375	-7,362	-6,876	486
transfer to (-) / from balances	498	-2,472	-2,436	36

The 2014/2015 HRA outturn compared with budgets is summarised above. The increase of £0.036m over the revised budget is made up from under spending and reduced income.

4. What services the revenue expenditure was spent on

The Comprehensive Income and Expenditure Statement on page 14 details the gross expenditure of £80.7m, when adjusted for non-cash items such as revaluations and depreciation the total amount is £76.1m. Adjusted gross expenditure on major services is shown in **Chart 1**.

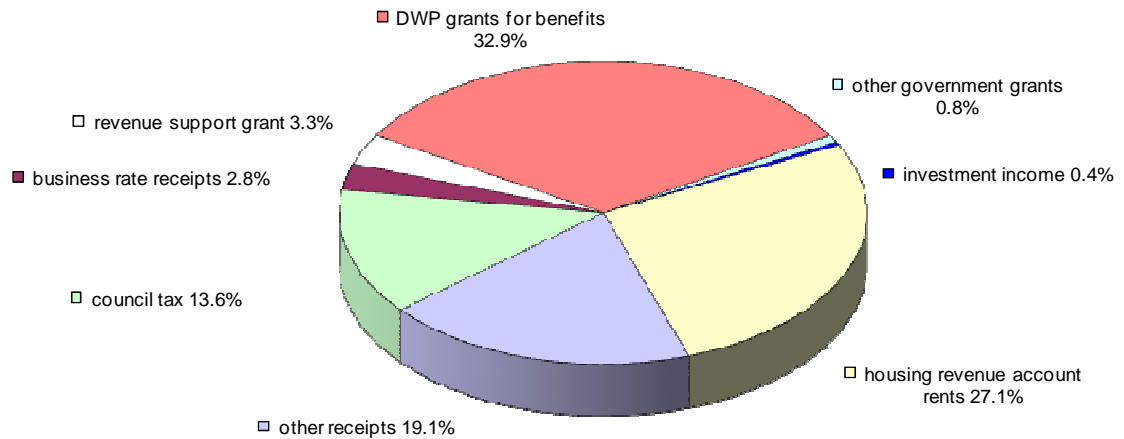
Chart 1: gross expenditure by service 2014/2015



5. Where the money came from

Chart 2 below shows the sources of the Council's revenue income of £97.1m, which adjusted for non-cash items is £77.2m. The Council has no control over the income received from central government in the form of revenue support grant, or many other grants. Income from investments is subject to money market and interest rate movements.

Chart 2: revenue income by source 2014/2015



6. Capital expenditure

The Council spent £15.10m on capital schemes (£18.65m 2013/2014) compared with a latest approved budget of £15.83m, a net spend of 95.39%. On 25 June 2015 Strategy and Resources Committee approved the carry forward of £1.288m to 2015/16, as detailed below.

Table 4: capital slippage to 2015/16

	£'000
Housing Revenue Account	1,423
Dursley Pool Fitness Extension	86
Private sector housing strategy	57
Building Maintenance	13
Multi-Storey Car Park, Merrywalks Stroud	9
Financial Systems	9
Ebley Mill New Block Lift	4
Walled garden - Museum in the Park	4
Carbon Management Programme - Heat and Power	-3
Canal	-314
Total slippage from 2014/15 to 2015/16	1,288

£13.12m (86.9%) of total capital expenditure related to housing schemes within the Housing Revenue Account and the General Fund, and £1.21m (8.1%) on the Canal scheme. The remaining £0.77m (5.1%) was spent on schemes including Stratford Park Play Area, the Walled Garden project at the Museum in the Park, Church Street car park and backlog building maintenance on the Council's property. Further details of capital expenditure are given in note 12 and note 36.

During 2014/15, £1.21m (2013/14 £1.43m) was spent on the canal project of which £0.87m was funded by HLF, £80k by Veolia and £0.263m funded by Cotswold Canals Trust. The following progress was made during the year:

- Dredging between Lodgemore and Wallbridge (£81k)
- Wallbridge Channel and Lock bypass (£0.5m)
- Repairs to flood damage at Dudbridge (£18k)

7. Capital resources

A mixture of external and internal sources financed this capital expenditure. External funding includes Government grants and external contributions, in particular Decent Homes Grant of £5.9m. 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 36.

During the year 27 council houses were sold for a total of £2.096m of which £0.410m was pooled nationally. The balance was used for housing investment in the district.

8. Borrowing

The Council has £95.717m of long-term debt. A major part of this is £91.717m PWLB fixed interest rate debt with an annual interest rate ranging from 3.32% to 3.53% and maturity dates ranging from 2032 to 2061 relating to HRA Self Financing. During 2014/15 £1m PWLB 50-year fixed rate borrowing at 3.55% to part fund the capital financing requirement.

9. Collection Fund

The Collection Fund accounts are included in these statements, starting on page 87. The Fund is administered for a number of local authorities that issue a precept and these include Gloucestershire County Council, Gloucestershire Police and Crime Commissioner, 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. The Pool has operated since 2013/14 with Stroud District Council as the lead authority.

10. Accounting policies

Accounting policies required by the International Financial Reporting Standards (IFRS) are set out in these accounts starting on page 17.

11. 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 14 and the inclusion of the pension liability on the Balance Sheet on page 15. Further explanatory details are now consolidated in note 40. The total net pension liability has increased to £49.7m at 31 March 2015 compared with £40.9m a year earlier, due mainly to an increase in the present value of liabilities in the fund.

12. 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.

13. 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 2015.

Signed:

Date:

S D Cowley CPFA**29 September 2015****Strategic Head (Finance and Business Services)**

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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 2014-15								
	(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 2014	7,915	7,988	1,905	46	407	18,262	88,536	106,798
Surplus or (deficit) on provision of services (accounting basis)	6,308		11,029			17,337	-	17,337
Other Comprehensive Income & Expenditure			-			-	(5,185)	(5,185)
Total Comprehensive Income & Expenditure	6,308	-	11,029	-	-	17,337	(5,185)	12,152
Adjustments between accounting basis & funding basis under regulations 7	(4,830)		(8,047)	1,461	70	(11,346)	11,346	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	1,478	-	2,982	1,461	70	5,991	6,161	12,152
Transfers to / (from) Earmarked Reserves 8	(747)	747	-	-	-	-	-	-
Increase / (Decrease) in Year	731	747	2,982	1,461	70	5,991	6,161	12,152
Balance at 31 March 2015	8,646	8,735	4,887	1,507	477	24,253	94,697	118,950

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

Movement in Reserves Statement 2013-14								
	(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 2013	6,812	6,888	3,181	1,602	583	19,067	149,898	168,965
Surplus or (deficit) on provision of services (accounting basis)	10	-	(63,771)	-	-	(63,761)	-	(63,761)
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	1,594	1,594
Total Comprehensive Income & Expenditure	10	-	(63,771)	-	-	(63,761)	1,594	(62,167)
Adjustments between accounting basis & funding basis under regulations 7	2,193	-	62,495	(1,556)	(176)	62,956	(62,956)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	2,203	-	(1,276)	(1,556)	(176)	(805)	(61,362)	(62,167)
Transfers to / (from) Earmarked Reserves 8	(1,100)	1,100	-	-	-	-	-	-
Increase / (Decrease) in Year	1,103	1,100	(1,276)	(1,556)	(176)	(805)	(61,362)	(62,167)
Balance at 31 March 2014	7,915	7,988	1,905	46	407	18,262	88,536	106,798

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

2013/2014			2014/2015				
gross expenditure	gross income	net expenditure	figures in £'000s	note	gross expenditure	gross income	net expenditure
Expenditure on Council Services							
2,626	-1,189	1,437	central services to the public		2,231	-886	1,345
1,523	-333	1,190	corporate & democratic core		1,497	-343	1,154
4,538	-1,457	3,081	cultural & related services		4,442	-1,514	2,928
6,536	-1,540	4,996	environmental & regulatory services		6,514	-1,691	4,823
620	-738	-118	highways & transport		664	-1,048	-384
30,894	-22,303	8,591	housing revenue account		25,720	-22,855	2,865
55,184	-	55,184	council dwelling revaluation (material item- page 82)		-	-13,295	-13,295
27,550	-25,940	1,610	housing general fund		28,140	-26,451	1,689
5,953	-2,551	3,402	planning & development services		6,208	-2,719	3,489
97	-	97	non distributed costs		-	-16	-16
135,521	-56,051	79,470	Surplus (-) / Deficit on Operations		75,416	-70,818	4,598
3,373	-738	2,635	Other Operating Expenditure	9	3,425	-888	2,537
2,072	-334	1,738	Financing & Investment Income & Expenditure	10	1,903	-899	1,004
-	-20,082	-20,082	Taxation & Non-Specific Grant Income	11	-	-25,476	-25,476
		63,761	Surplus (-) / Deficit on Provision of Services				-17,337
		-2,622	Surplus(-) / Deficit on revaluation of Property, Plant & Equipment assets	24			-2,513
		1,028	Actuarial remeasurement gains(-) / losses on pension assets / liabilities	40			7,698
		-1,594	Other Comprehensive Income & Expenditure				5,185
		62,167	Total Comprehensive Income & Expenditure				-12,152

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 2014		Notes	31 March 2015
£000			£000
221,122	Property, Plant & Equipment	12	238,253
140	Heritage Assets	13, 44 - 45	140
3,944	Investment Property	14	1,908
160	Intangible Assets	15	130
1,215	Long Term Investments	16	1,208
440	Long Term Debtors	16	402
227,021	Long Term Assets		242,041
4,755	Short Term Investments	16	6,077
-	Assets Held for Sale	20	550
1,505	Inventories	17	746
8,272	Short Term Debtors	18	12,558
12,174	Cash and Cash Equivalents	19	16,626
26,706	Current Assets		36,557
-10,130	Short Term Creditors	21	-12,837
-10,130	Current Liabilities		-12,837
-590	Long Term Creditors	21	-549
-590	Provisions	22	-859
-94,717	Long Term Borrowing	16	-95,717
-40,902	Other Long Term Liabilities	40	-49,686
-136,799	Long Term Liabilities		-146,811
106,798	Net Assets		118,950
18,262	Usable Reserves	23	24,253
88,536	Unusable Reserves	24	94,697
106,798	Total Reserves		118,950

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 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.

31 March 2014 £000		Notes	31 March 2015 £000
63,761	Net surplus(-) or deficit on the provision of services		-17,337
-72,300	Adjust net surplus or deficit on the provision of services for non cash movements	25	-3,583
1,661	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		2,076
-6,878	Net cash flows from Operating Activities		-18,844
13,325	Investing Activities	26	15,392
-3,000	Financing Activities	27	-1,000
3,447	Net increase(-) or decrease in cash and cash equivalents		-4,452
15,621	Net cash and cash equivalents at the beginning of the reporting period		12,174
<u>12,174</u>	Net cash and cash equivalents at the end of the reporting period	19	<u>16,626</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

(a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. 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 2014/15* and the *Service Reporting Code of Practice 2014/15*, 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 3.2% (4.3% in 2013-14) 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 the following components:
 - Service Cost comprising:
 - 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 scheme amendment or curtailment 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.
 - Net interest on the net defined liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
 - Remeasurements comprising:
 - Return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
 - 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 transfers 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. This 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, 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 (t) 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 the end of 2015, which includes £12.7m of grant from the Heritage Lottery Fund. 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 2014/15 (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.

Capitalisation of Salaries

The Council will capitalise salaries where employees work full time on a project, in cases such as the Canal project. Also, in the case of computer software installations the cost of software consultants' time will be included as the overall cost of a capital scheme.

(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 2015/16 Code of Practice includes the adoption of amendments to the following Accounting Standards:

IFRS 13 – Fair Value Measurement

IFRIC 21 – Levies

Annual Improvement to IFRSs (2011 – 2013 Cycle) including:

IFRS 1: Meaning of effective IFRSs;

IFRS 3: Scope exceptions for joint ventures;

IFRS 13: Scope of paragraph 52 (portfolio exception); and

IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property

The amendments are not expected to have a material impact on the Council's accounts.

3. Critical Judgements in Applying Accounting Policies

Other than critical assumptions covered in Note 4, in applying the accounting policies set out in note 1, the Council has had to make certain judgements about complex transactions. The critical judgements made in the Statement of Accounts are:

- 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.
- A review was carried out of the classification of Investment Properties assets which should comprise assets held purely for capital appreciation or rental income. The outcome of the review was reclassification of £1.681m of Investment Properties as Other Land and Buildings assets.

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 2015 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 spending on repairs and maintenance may vary in the future, which would reduce the useful lives assigned to assets.	A reduction of 1 year in useful asset lives would result in an additional £0.210m depreciation charge (£0.127m council dwellings and £0.083m).
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	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 £12.039m. However, the assumptions interact

	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.	in complex ways. During 2014/15, the Council's actuaries advised that the net pension liability had increased by £7.698m (£1.028m 13/14) as a result of remeasurements by the actuary.
Arrears	At 31 March 2015 the Council had a short term debtor balance of £13.428m and a bad debt provision of £887k or 6.5% of the debt. 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, 18 and 43 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:-

- Increase in net pension fund liabilities of £8.8m (see note 40).
- HRA capital programme which includes new build properties was £12.8m (2013/14 £16.1m). For more detail see Note 4 of the HRA financial statements on page 83.

6. Events after the Balance Sheet Date

There are no material events after the balance sheet date to disclose.

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 2014-15						
2014-15	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	-1,147	-10,802				11,950
Revaluation gains / (losses) on Property, Plant and Equipment	-519	12,735				-12,216
Movements in the market value of Investment Properties	595	-8				-587
Amortisation of intangible assets	-30					30
Capital grants and contributions applied	6,576					-6,576
Revenue expenditure funded from capital under statute	-1,631					1,631
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	-17	-1,172				1,189
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
HRA Item 8 interest credit						-
HRA share of corporate and democratic core						-
Statutory provision for the financing of capital investment						-
Capital expenditure charged against the General Fund and HRA balances	373	1,359				-1,732
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions applied credited to the Comprehensive Income and Expenditure Statement	1,971				-1,971	-
Application of grants to capital financing transferred to the Capital Adjustment Account					1,902	-1,902
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	661	2,057	-2,718			-
Use of the Capital Receipts Reserve to finance new capital expenditure			812			-812
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-34		34			-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-410		410			-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash						-
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Reserve credited to the HRA		4,077		-4,077		-
Use of the Major Repairs Reserve to finance new capital expenditure				4,077		-4,077
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 40)	992	687				-1,679
Employer's pensions contributions and direct payments to pensioners payable in the year	-1,873	-893				2,766
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	-658					658
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	-20	7				13
Total Adjustments	4,830	8,047	-1,462	-	-69	11,346

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

Adjustments between Accounting Basis & Funding Basis under Regulations 2013-14						
2013-14	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	-1,014	-11,439				12,453
Revaluation gains / (losses) on Property, Plant and Equipment	-46	-59,924				59,970
Movements in the market value of Investment Properties	100	-858				758
Amortisation of intangible assets	-54					54
Capital grants and contributions applied	2,913					-2,913
Revenue expenditure funded from capital under statute	-2,321					2,321
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement		-1,353				1,353
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
HRA Item 8 interest credit						-
HRA share of corporate and democratic core						-
Statutory provision for the financing of capital investment						-
Capital expenditure charged against the General Fund and HRA balances	550	4,023				-4,573
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions applied credited to the Comprehensive Income and Expenditure Statement	2,932				-2,932	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-3,108				3,108	-
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	37	1,661	-1,698			-
Use of the Capital Receipts Reserve to finance new capital expenditure			2,854			-2,854
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-33		33			-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-376		376			-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			-9			9
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Reserve credited to the HRA		5,308		-5,308		-
Use of the Major Repairs Reserve to finance new capital expenditure				5,308		-5,308
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)	-1,370	97				1,273
Employer's pensions contributions and direct payments to pensioners payable in the year						-
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	-426					426
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	21	-9				-12
Total Adjustments	-2,193	-62,495	1,556	0	176	-62,956

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

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 2014/15.

Transfers to / from Earmarked Reserves 2014-15

	Balance 1st April 2013	Tsfers From 2013-14	Tsfers To 2013-14	Balance 31st March 2014	Tsfers From 2014-15	Tsfers To 2014-15	Balance 31st March 2015
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
business rates safety net	162	-	-	162	-	-	162
business rate pool SEDF reserve	-	-	8	8	-8	-	-
business rate pool reserve	-	-	27	27	-27	-	-
capital	1,798	-287	375	1,886	-239	605	2,252
climate change	125	-	500	625	-	-	625
closed circuit television	58	-	10	68	-	15	83
district council elections reserve	-	-	35	35	-	-	35
economic development	213	-13	220	420	-585	165	-
efficiency savings / invest to save	134	-	45	179	-	-	179
homelessness prevention	51	-	-	51	-	71	122
housing	244	-209	-	35	-35	-	-
information communication technology	316	-32	100	384	-	50	434
jobs and growth reserve	-	-	-	-	-	1,558	1,558
legal counsel	163	-54	30	139	-48	30	121
littlecombe	272	-	77	349	-	73	422
merrywalks car park reserve	-	-	-	-	-	93	93
neighbourhood planning grant reserve	-	-	-	-	-	20	20
new homes bonus	350	-	-	350	-350	-	-
opportunity land purchase	-	-	250	250	-	-	250
pension fund	413	-413	-	-	-	-	-
planning appeal costs	440	-135	25	330	-	25	355
planning strategy	168	-77	-	91	-91	-	-
property maintenance	474	-116	70	428	-110	70	388
retrofit guarantee	75	-	-	75	-	-	75
risk management / insurance	86	-35	19	70	-	-	70
S106 maintenance reserve	222	-18	-	204	-	-	204
strategic employment reserve	-	-17	700	683	-683	-	-
Stratford Park leisure centre "sinking fund"	121	-87	66	100	-	40	140
unapplied revenue grants	97	-97	39	39	-	-	39
unapplied revenue contributions	172	-90	-	82	-	-	82
warm and well grants	18	-	50	68	-	-	68
waste management reserve	300	-	150	450	-	110	560
work force planning	415	-15	-	400	-	-	400
total earmarked reserves - General Fund	6,887	-1,695	2,796	7,988	-2,176	2,925	8,737
HRA:							
major repairs reserve	-	-5,308	5,308	-	-4,095	4,095	-

9. Other Operating Expenditure**Other Operating Expenditure**

2013/14 £000		2014/15 £000
2,589	Parish Council Precepts	2,713
241	Parish Local Council Tax Support Grant	206
94	Levies	96
-430	Business rate pooling provision	-
25	Sundry debt provision	-
48	Municipal Mutual	-
376	Payments to the Government Housing Capital Receipts Pool	410
-308	Gains (-) / losses on the disposal of non-current assets	-888
2,635	Total	2,537

10. Financing and Investment Income and Expenditure**Financing and Investment Income and Expenditure**

2013/14 £000		2014/15 £000
41	Interest payable and similar charges	77
1273	Net interest on the net defined benefit liability	1,741
-	Repayment of Icelandic investments	85
-315	Interest receivable and similar income	-279
-19	Feed in tariff income	-33
758	Income and expenditure in relation to investment properties and changes in their fair value	-587
1,738	Total	1,004

11. Taxation and Non Specific Grant Income**Taxation and Non Specific Grant Income**

2013/14 £000		2014/15 £000
-10,244	Council tax income	-10,487
-2,312	Non domestic rates	-2,125
-4,613	Non-ringfenced government grants	-4,386
-2,913	Capital grants and contributions	-8,478
-20,082	Total	-25,476

12. Property, Plant and Equipment

Property, Plant and Equipment						
Movements in 2014-15	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 2014	271,172	39,810	2,820	428	62	314,292
Additions	10,802	2,515	151	-	-	13,468
Revaluation increases/decreases (-) recognised in the Revaluation Reserve	706	1,807	-	-	-	2,513
Revaluation increases/decreases(-) recognised in the Surplus / Deficit on the Provision of Services	12,589	-774	-	-	-	11,815
Derecognition - disposals	-1,172	-	-	-	-	-1,172
Derecognition - other	-	-375	-	-	-	-375
Transfers	695	1,361	-	-	-	2,056
At 31 March 2015	294,792	44,344	2,971	428	62	342,597
Accumulated Depreciation & Impairment						
At 1 April 2014	-85,235	-6,199	-1,633	-97	-8	-93,172
Depreciation charge	-4,077	-914	-214	-19	-	-5,224
Depreciation written out to the Surplus / Deficit on the Provision of Services	4,077	-	-	-	-	4,077
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-10,802	776	-	-	-	-10,026
At 31 March 2015	-96,037	-6,337	-1,847	-116	-8	-104,345
Net Book Value						
At 31 March 2015	198,755	38,007	1,124	312	54	238,253
At 31 March 2014	185,937	33,611	1,187	331	54	221,122

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

Property, Plant and Equipment						
Movements in 2013-14	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 2013	314,009	39,403	2,794	428	62	356,696
Additions	14,522	1,749	26			16,297
Revaluation increases/decreases (-) recognised in the Revaluation Reserve	2,622					2,622
Revaluation increases/decreases(-) recognised in the Surplus / Deficit on the Provision of Services	-57,806	-2,164				-59,970
Derecognition - disposals	-1,353					-1,353
Transfers	-822	822				-
At 31 March 2014	271,172	39,810	2,820	428	62	314,292
Accumulated Depreciation & Impairment						
At 1 April 2013	-71,834	-7,391	-1,408	-78	-8	-80,719
Depreciation charge	-5,308	-770	-225	-19		-6,322
Depreciation written out to the Surplus / Deficit on the Provision of Services	5,308					5,308
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-13,401	1,962				-11,439
At 31 March 2014	-85,235	-6,199	-1,633	-97	-8	-93,172
Net Book Value						
At 31 March 2014	185,937	33,611	1,187	331	54	221,122
at 31 March 2013	242,175	32,012	1,386	350	54	275,979

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

There are a number of capital schemes with contractual commitments greater than £300,000. All of these are HRA new build schemes as set out below:

	£'000
• Fishers Road, Berkeley	426
• The Corriett, Cam	433
• Southbank, Woodchester	587
• Hillside, Coaley	466
• Target Close and Mason Road	1,683
• Littlecombe	1,631

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, and are materially correct. Valuations of car parks, public conveniences, investment properties and council houses were carried out by internal valuers. 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			2,820	428	62
Valued at fair value as at:					
31 March 2015	198,755	5,553			
31 March 2014	185,937	28,812			
31 March 2013	244,485	3,174			
31 March 2012	241,982	2,742			
31 March 2011	244,920	5,431			

13. Heritage Assets

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

Heritage Assets				
	Heritage Properties	Painting	Warwick Vase	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2013	20	80	40	140
Additions				-
Disposals				-
Revaluations				-
At 31 March 2014	20	80	40	140
Cost or valuation				
At 1 April 2014	20	80	40	140
Additions				-
Disposals				-
Revaluations				-
At 31 March 2015	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		
	2014/15	2013/14
	£000	£000
Balance at start of the year	3,944	4,702
Additions:	-	-
Disposals:	-17	-
Revaluations:		
Net gains / losses (-) from fair value adjustments	587	-758
Transfers:		
to (-) / from Held for Sale	-550	-
to (-) / from Property, Plant & Equipment	-2,056	-
Other changes:	-	-
	1,908	3,944

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 £30k charged to revenue in 2014/15 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	
	2014-15 £000	2013-14 £000
Balance at start of year:		
- Gross carrying amounts	572	542
- Accumulated amortisation	-412	-358
Net carrying amount at start of year	160	184
Purchases	0	30
Amortisation for the period	-30	-54
Net carrying amount at end of year	130	160

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
	2015	2014	2015	2014
	£000	£000	£000	£000
Investments				
Loans and receivables	1,208	1,215	6,077	4,755
Total Investments	1,208	1,215	6,077	4,755
Debtors				
Loans and receivables	402	440	12,558	8,272
Total Debtors	402	440	12,558	8,272
Borrowings				
Financial liabilities at amortised cost	-95,717	-94,717	-	-
Total Borrowings	-95,717	-94,717	-	-
Creditors				
Financial liabilities at amortised cost	-30	-33	-	-
Financial liabilities carried at contract	-519	-557	-12,837	-10,130
Total Creditors	-549	-590	-12,837	-10,130

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 2015 of 1.11% to 3.08% for loans from PWLB and 0.25% to 1.79% 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				
	31/03/2015		31/03/2014	
	carrying amount	fair value	carrying amount	fair value
	£000	£000	£000	£000
Financial liabilities	95,717	103,582	94,717	81,837
Long-term creditors	549	501	590	504
Short-term creditors	12,838	12,838	10,130	10,130

The fair value of financial liabilities is shown as higher than the carrying amount because the interest rate was lower at Balance Sheet date than when the fixed rate PWLB loans commenced. This is despite the fact that the Council 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				
	31/03/2015		31/03/2014	
	carrying amount	fair value	carrying amount	fair value
	£000	£000	£000	£000
Loans & receivables	18,635	18,635	13,027	13,027
Long-term debtors	402	306	440	335
Long-term investments	1,208	1,233	1,215	1,258

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	Bar Stock		HRA PV and Renewable Heating Component Stock		TOTAL	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
	£000	£000	£000	£000	£000	£000
Balance outstanding at start of year	5	4	1,500	-	1,505	4
Purchases	39	24	149	1,500	188	1,524
Recognised as an expense in the year	-37	-21	-908	-	-945	-21
Written off balances	-2	-2	-	-	-2	-2
Balance outstanding at end of year	5	5	741	1,500	746	1,505

18. Debtors

Debtors	31 March	31 March
	2015	2014
	£000	£000
Central government bodies	3,438	3,591
Other local authorities	4,006	1,491
NHS bodies	-	-
Public corporations & trading funds	-	-
Other entities & individuals	5,114	3,190
Total	12,558	8,272

19. Cash and Cash Equivalents

Cash & Cash Equivalents	31	31
	March	March
	2015	2014
	£000	£000
Cash held by the Authority	4	5
Bank current accounts	-984	-1,783
Short-term deposits with banks	17,606	13,952
Total Cash & Cash Equivalents	16,626	12,174

20. Assets Held for Sale

Assets Held for Sale	31	31
	March	March
	2015	2014
	£000	£000
Balance outstanding at start of year	-	-
Assets newly classified as held for sale:		
Investment Property	550	-
Assets declassified as held for sale:		
Assets sold	-	-
Balance outstanding at end of year	550	-

21. Creditors

Creditors	Current		Non Current	
	31 March	31 March	31 March	31 March
	2015	2014	2015	2014
	£000	£000	£000	£000
Central government bodies	1,414	1,787	-	-
Other local authorities	5,386	1,820	200	200
Public corporations & trading funds	-	-	309	346
Other entities & individuals	6,037	6,523	40	44
Total	12,837	10,130	549	590

22. Provisions

Provisions	Glitnir	Land	Municipal	NNDR	Total
	Escrow	Charges	Mutual		
	Account				
	£000	£000	£000	£000	£000
Balance at 1 April 2014	127	125	25	313	590
Additional provisions made in 2014-15	-	-	-	346	346
Amounts used in 2014-15	-77	-	-	-	-77
Unused amounts reversed in 2014-15	-	-	-	-	-
Balance at 31 March 2015	50	125	25	659	859

Due to Icelandic currency controls an Icelandic Kroner element of Glitnir investments is retained in Iceland earning an interest rate of 3.65%. At 31 March 2015 an amount equivalent to £331k is held in Icelandic Kroner in an Escrow account.

In February 2015 the Council participated in a currency auction arranged by the Icelandic Central Bank. The result was £229k received by the Council, and an auction loss of £77k charged to the provision. The remaining provision will be used to defray any further loss in repatriating the Icelandic Kroner balances into £ Sterling.

As a result of a legislative change intended to limit the effect of backdating of appeals against the 2010 rating list, a significant number of business rates appeals were lodged prior to the end of the financial year. Whilst a number of outstanding appeals were settled in 2013/14 and funded from the provision, it is considered prudent to make provision for the revised number of outstanding appeals. This has resulted in an increase of £346k in the total level of provision held.

A provision remains in place in respect of legal challenge associated with fees charged in the past for land charge search information which may have been unlawful, and in respect of liability associated with Municipal Mutual Insurance.

23. Usable Reserves

31 March 2014	Usable Reserves	31 March 2015
£000		£000
7,915	General Fund	8,646
7,988	Earmarked General Fund Reserves	8,735
1,905	Housing Revenue Account	4,887
46	Capital Receipts Reserve	1,507
407	Capital Grants Unapplied	477
18,262	Total Usable Reserves	24,253

24. Unusable Reserves

31 March 2014	Unusable Reserves	31 March 2015
£000		£000
11,412	Revaluation Reserve	13,562
118,429	Capital Adjustment Account	131,895
-	Deferred Capital Receipts Reserve	-
-40,902	Pensions Reserve	-49,687
-281	Collection Fund Adjustment Account	-939
-122	Accumulating Absences Adjustment Account	-135
88,536	Total Unusable Reserves	94,697

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

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 2014 £000	Revaluation Reserve	31 March 2015 £000
9,073	Balance at 1 April	11,412
2,622	Upward revaluation of assets	2,603
-	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-90
2,622	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	2,513
-283	Difference between fair value depreciation & historical cost depreciation	-362
-	Accumulated gains on assets sold or scrapped	-1
-283	Amount written off to the Capital Adjustment Account	-363
11,412	Balance at 31 March	13,562

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 2014	Capital Adjustment Account	31 March 2015
£000		£000
179,407	Balance at 1 April	118,429
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:	
-12,453	Charges for depreciation & impairment of non-current assets	-11,950
-59,970	Revaluation (losses)/gains on PPE	12,216
-54	Amortisation of intangible assets	-30
-2,321	Revenue expenditure funded from capital under statute	-1,631
-1,353	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	-1,188
-76,151		-2,583
283	Adjusting amounts written out of the Revaluation Reserve	363
-75,868	Net written out amount of the cost of non-current assets consumed in the year	-2,220
	Capital financing applied in the year:	
2,854	Use of the Capital Receipts Reserve to finance new capital expenditure	812
5,308	Use of the Major Repairs Reserve to finance new capital expenditure	4,077
183	Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	6,576
2,730	Application of grants to capital financing from the Capital Grants Unapplied Account	1,902
4,573	Capital expenditure charged against the General Fund & HRA balances	1,732
15,648		15,099
-758	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	587
14,890		15,686
118,429	Balance at 31 March	131,895

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 2014 £000	Pensions Reserve	31 March 2015 £000
-38,601	Balance at 1 April	-40,902
-3,959	Actuarial gains or losses on pensions assets & liabilities	-15,170
-812	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	3,619
2,470	Employer's pensions contributions & direct payments to pensioners payable in the year	2,766
-40,902	Balance at 31 March	-49,687

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 2014 £000	Deferred Capital Receipts Reserve	31 March 2015 £000
9	Balance at 1 April	-
	Transfer of deferred sale proceeds credited as part of	
	- the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	-
-9	Transfer to the Capital Receipts Reserve upon receipt of cash	
<u>-</u>	Balance at 31 March	<u>-</u>

Collection Fund Adjustment Account

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

31 March 2014 £000	Collection Fund Adjustment Account	31 March 2015 £000
144	Balance at 1 April	-281
	Amount by which council tax income credited to the	
	Comprehensive Income & Expenditure Statement is different	
-5	from council tax income calculated for the year in	18
	accordance with statutory requirements	
-420	Business Rate Pooling	-676
<u>-281</u>	Balance at 31 March	<u>-939</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 2014 £000	Accumulating Absences Adjustment Account	31 March 2015 £000
-134	Balance at 1 April	-122
134	Settlement or cancellation of accrual made at the end of the preceding year	122
-122	Amounts accrued at the end of the current year	-135
12	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	-13
-122	Balance at 31 March	-135

25. Cash Flow Statement – Operating Activities

31 March 2014 £000	Cash Flow Statement - Non Cash Items Included in Surplus(-) / Deficit on Provision of Services	31 March 2015 £000
-1,014	Depreciation charges	-1,147
-54	Amortisation charges	-30
-68,787	Impairments and revaluations	1,414
-1,291	Increase (-) / decrease in creditors	-2,667
-171	Increase / decrease (-) in debtors	4,286
37	Increase / decrease (-) in long term debtors	-38
92	Increase (-) / decrease in provisions	-269
1,501	Increase / decrease (-) in inventories	-759
-1,273	Non cash charges for retirement benefits	-1,087
-1,353	Carry amount of non current assets sold	-1,188
-758	Investment properties' revaluation	587
771	Other non cash items	-2,685
-72,300	Non cash items in Net Surplus(-) / Deficit	-3,583

26. Cash Flow Statement – Investing Activities

31 March 2014 £000	Cash Flow Statement - Investing Activities	31 March 2015 £000
16,297	Purchase of property, plant & equipment, investment property & intangible assets	13,468
10,000	Purchase of short-term & long-term investments	14,000
-1,661	Proceeds from the sale of property, plant & equipment, investment property & intangible assets	-2,076
-11,311	Proceeds from short-term & long-term investments	-10,000
13,325	Net cash flows from investing activities	15,392

27. Cash Flow Statement – Financing Activities

31 March 2014 £000	Cash Flow Statement - Financing Activities	31 March 2015 £000
-3,000	Cash receipts of short-term & long-term borrowing	-1,000
-	Other receipts from financing activities	-
-	Other payments for financing activities	-
-3,000	Net cash flows from financing activities	-1,000

28. 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 Strategy and Resources Committee 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 2014/15	Corporate and Democratic Core	Cultural and Related Services	Central Services to the Public	Environmental and Regulatory Services	Housing General Fund	Highways and Transport	Non Distributed Costs	Planning Services	Recharged Services	Housing Revenue Account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & Charges	-343	-1,514	-615	-1,311	-1,022	-903	-44	-2,239	-115	-23,780	-31,884
Govt Grants	-	-	-12	-10	-25,427	-	-	-35	-	-6,577	-32,061
Total Income	-343	-1,514	-627	-1,321	-26,449	-903	-44	-2,274	-115	-30,357	-63,945
Employee	124	1,411	898	1,375	1,027	132	1,292	1,764	3,795	3,844	15,663
Non-Pay	510	2,452	920	4,120	26,341	368	36	1,731	1,441	22,038	59,957
Support Services	868	579	453	1,047	467	163	1	1,378	1,535		6,491
Less: Recharge Income	-	0	-261	-374	-3	-	-	-446	-6,605		-7,689
Total Expenditure	1,501	4,443	2,011	6,168	27,833	663	1,329	4,428	166	25,882	74,423
Net Cost of Services	1,159	2,929	1,384	4,847	1,384	-240	1,285	2,154	51	-4,475	10,478

Service Income and Expenditure 2013/14	Corporate and Democratic Core	Cultural and Related Services	Central Services to the Public	Environmental and Regulatory Services	Housing General Fund	Highways and Transport	Non Distributed Costs	Planning Services	Recharged Services	Housing Revenue Account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & Charges	-333	-1,365	-867	-1,155	-722	-739	-9	-2,119	-126	-25,085	-32,519
Govt Grants			-128	-25	-25,041			-15			-25,209
Total Income	-333	-1,365	-995	-1,180	-25,763	-739	-9	-2,134	-126	-25,085	-57,728
Employee	136	1,395	1,079	1,373	962	101	85	1,657	3,578	3,587	13,953
Non-Pay	521	2,220	1,085	4,185	25,700	356	10	1,514	1,462	21,271	58,322
Support Services	870	664	480	985	353	143	1	1,266	1,457	1,503	7,721
Less: Recharge Income		-92	-194	-360	-2			-418	-6,347		-7,413
Total Expenditure	1,527	4,186	2,449	6,182	27,014	600	95	4,020	149	26,361	72,583
Net Cost of Services	1,194	2,821	1,454	5,002	1,252	-139	87	1,886	23	1,276	14,856

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	Net expenditure of services and support services not included in the Analysis £'000	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis £'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
2014/15							
Employee Costs	15,663				15,663		15,663
Other Service Expenditure	58,760		595		59,355		59,355
Pension Interest Cost					-	1,741	1,741
Reversal of Major Repairs Allowance credited to the HRA					-		-
Net expenditure in relation to investment properties and changes in their fair value					-	-587	-587
Revenue expenditure funded from capital under statute			1,631		1,631		1,631
Revaluation losses on Property, Plant and Equipment			-12,591		-12,591	85	-12,506
Depreciation, Amortisation and Impairment			1,177		1,177		1,177
Gain or Loss on Disposal of Non-Current Assets					-	-888	-888
Parish Council Precepts					-	2,713	2,713
Parish Local Council Tax Support Grant					-	206	206
Drainage Board Levy					-	96	96
Payments to Housing Capital Receipts Pool					-	410	410
Interest Payable and Similar Charges					-	77	77
Total Expenditure	74,423	-	-9,188	-	65,235	3,853	69,088
Fees & Other Income	-31,885				-31,885		-31,885
Govt Grants	-32,060		3,308		-28,752	-1,511	-30,263
Gain/Loss on Disposal of Fixed Assets					-	-279	-279
Interest & Investment Income					-	-33	-33
Taxation & Non-Specific Grant Income					-	-23,965	-23,965
Other					-		-
Total Income	-63,945	-	3,308	-	-60,637	-25,788	-86,425
Net Expenditure	10,478	-	-5,880	-	4,598	-21,935	-17,337

Reconciliation to Subjective Analysis	Amounts included							Total £'000
	Service Analysis £'000	Net expenditure of services and support services not included in the Analysis £'000	Comprehensive Income and Expenditure Statement not reported to management in the Analysis £'000	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	£'000	
2013/14								
Employee Costs	13,953				13,953			13,953
Other Service Expenditure	58,630		1,255		59,885	-357		59,528
Pension Interest Cost					-	1,273		1,273
Reversal of Major Repairs Allowance credited to the HRA					-			-
Net expenditure in relation to investment properties and changes in their fair value					-	758		758
Revenue expenditure funded from capital under statute			2,321		2,321			2,321
Revaluation losses on Property, Plant and Equipment			59,970		59,970			59,970
Depreciation, Amortisation and Impairment			1,068		1,068			1,068
Gain or Loss on Disposal of Non-Current Assets					-	-308		-308
Parish Council Precepts					-	2,589		2,589
Parish Local Council Tax Support Grant					-	241		241
Drainage Board Levy					-	94		94
Payments to Housing Capital Receipts Pool					-	376		376
Interest Payable and Similar Charges					-	41		41
Total Expenditure	72,583	-	64,614		-	137,197	4,707	141,905
Fees & Other Income	-32,519					-32,519		-32,519
Govt Grants	-25,209					-25,209	-7,526	-32,735
Interest & Investment Income						-	-315	-315
Taxation & Non-Specific Grant Income						-	-12,556	-12,556
Other						-	-19	-19
Total Income	-57,728	-	-		-	-57,728	-20,416	-78,144
Net Expenditure	14,856	-	64,614		-	79,469	-15,709	63,761

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

29. Acquired or Discontinued Operations and Transferred Services

There were no discontinued or acquired operations during 2014/15 or 2013/14.

30. Trading Operations

The Council has no formal trading operations.

31. Members' Allowances

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

Members' Allowances	2014-15	2013-14
	£000	£000
Allowances	320	329
Expenses	6	8
Total	326	337

32. 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	14-15	110,569	25,740	136,309
	13-14	110,569	25,197	135,766
Strategic Head (Corporate Services)	14-15	67,822	16,074	83,896
	13-14	71,442	16,575	88,017
Strategic Head (Finance & Business Services)	14-15	67,822	16,074	83,896
	13-14	69,583	16,143	85,726
Strategic Head (Customer Services)	14-15	67,822	16,074	83,896
	13-14	67,451	15,649	83,100
Strategic Head (Development Services)	14-15	67,822	16,074	83,896
	13-14	67,451	15,649	83,100
Strategic Head (Tenant Services)	14-15	53,183	12,604	65,787
	13-14	67,451	15,649	83,100
Legal Services Manager and Monitoring Officer	14-15	60,251	14,279	74,530
	13-14	26,774	6,212	32,986

Each of the Strategic Heads is paid at the same Stroud 10 grade. The 13-14 payments shown here to the posts of the Strategic Head (Corporate Services) and Strategic Head (Finance & Business Services) include backdated payments paid in April 2014 and relate to the previous financial year.

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	2014/2015 Number of employees	2013/2014 Number of employees
£50,000 - 54,999	3	6
£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		Other agreed		Total exit		Total cost of exit	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
0 - 20	6	14	-	1	6	15	£8,631	£131,576
20 - 40	-	-	-	-	-	-	-	-
40 - 60	-	-	-	-	-	-	-	-
60 - 80	-	-	-	-	-	-	-	-

33. 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	2014-15	2013-14
	£000	£000
external audit services carried out by the appointed auditor for the year	68	68
certification of grant claims and returns by the appointed auditor	14	14
other services provided during the year by the appointed auditor	-	-
Total	82	82

34. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

Grant Income, contributions & donations	2014-15 £000	2013-14 £000
Credited to Taxation & Non Specific Grant Income		
DCLG Non Domestic Rates	2,125	2,312
DCLG Revenue Support Grant	2,555	3,244
DCLG Council Tax Freeze	83	81
DCLG - New Homes Bonus Scheme	1,618	1,134
DCLG - New Burdens	89	70
DCLG - Council Tax Transition	-	27
Other government grants	41	57
Capital Grants & Contributions:-		
Heritage Lottery Fund - Canal Scheme	874	1,218
DCLG Disabled Facilities Grants	257	247
Energy Savings Trust	-	880
Decent Homes Funding	5,900	-
Homes and Communities Agency Grant	677	-
Other Capital Grants & Contributions	770	568
Total	14,989	9,838
Credited to Services		
DWP Housing Benefit Grant	25,418	24,478
DWP Discretionary Housing Payments / In & Out of Work	42	116
DWP Housing Benefit Administration Grant	542	552
DWP Housing Benefit Reform Funding	14	24
DCLG Severe Weather	9	-
DCLG Repair & Renew	1	-
GCC Recycling Credits	549	536
Other grants	43	87
Total	26,618	25,793

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 2014/15 or 2013/14.

35. Related Parties

The Council is required to disclose material transactions with related parties. Related parties are bodies or individuals who 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 28 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 2014/15 and 2013/14 is shown in note 31. Members have not disclosed any material transactions with related parties in either year. The Register of Members' Interest is on the Council's website, or 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 the period 2014/2015, 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 led by the Council and to maintain the canal post-restoration. All transactions associated with the Canal Restoration Project are within the Council's accounts. All payments to SVCC during 2014/2015 relate to the Agreement between the respective parties dated 16th March 2012.

Also there are three councillors with senior roles as the Council's representatives in the Citizens Advice Bureau, which receives an annual grant of £0.125m.

36. 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	2014-15 £000	2013-14 £000
<i>Opening Capital Financing Requirement</i>	95,549	92,549
Capital Investment		
Property, Plant & Equipment	13,468	16,297
Intangible Assets	-	30
Revenue Expenditure Funded from Capital under Statute	1,631	2,321
Sources of Finance		
Capital receipts	-812	-2,854
Government grants & other contributions	-8,478	-2,913
Sums set aside from revenue	-350	-542
Direct revenue contributions	-5,459	-9,339
<i>Closing Capital Financing Requirement</i>	95,549	95,549
<i>Explanation of movement in year</i>		
Increase in underlying need to borrow (unsupported by government financial assistance)	-	3,000
<i>Increase / (decrease) in Capital Financing Requirement</i>	-	3,000

37. 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 2015 £000	31 March 2014 £000
Not later than one year	195	329
Later than one year & not later than five years	530	775
Later than five years	63	147
Total	788	1,251

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	2014-15 £000	2013-14 £000
Minimum lease payments	329	329
Dilapidations - phase 1 lease expiry	189	-
	518	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 2015 £000	31 March 2014 £000
Not later than one year	216	374
Later than one year & not later than five years	537	840
Later than five years	71	142
Total	824	1,356

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 2014-15 nil contingent rents were receivable by the Council (2013-14 Nil).

38. Impairment Losses

During 2014/15 the Council has recognised impairment losses of £0.919m (£55.741m loss in 2013/14). This is analysed below:-

2013/14			Impairment Losses	2014/15		
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
57,322	-2,622	54,700	Council Dwellings	-	-	-
-	283	283	Other Land & Buildings	466	453	919
-	-	-	Vehicles, Plant & Equipment	-	-	-
-	-	-	Infrastructure	-	-	-
-	-	-	Community Assets	-	-	-
-	-	-	PPE under Construction	-	-	-
758	-	758	Investment Properties	-	-	-
-	-	-	Intangible Assets	-	-	-
<u>58,080</u>	<u>-2,339</u>	<u>55,741</u>		<u>466</u>	<u>453</u>	<u>919</u>

39. Termination Benefits

The Council terminated the contract of 15 employees in 2014/15, incurring a liability of £131,576 (6 employee £8,631 in 2013/14) – see note 32 for the number of exit packages and total cost per band.

40. 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 was a funded defined benefit final salary scheme until 31 March 2014, and is a defined benefit career average scheme from 1 April 2014. 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:

Transactions Relating to Post-employment Benefits	Local Government Pension Scheme	
	2014-15	2013-14
	£000	£000
Comprehensive Income & Expenditure Statement		
<i>Cost of Services</i>		
current service cost	2,070	2,009
past service costs (including curtailments)	42	9
<i>Financing and Investment Income & Expenditure</i>		
net interest expense	1,741	1,725
<i>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</i>	3,853	3,743
<i>Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement</i>		
return on plan assets (excluding the amount included in the net interest expense)	(6,583)	(2,865)
actuarial gains and losses on changes in demographic assumptions	-	1,935
actuarial gains and losses arising on changes in financial assumptions	15,228	2,078
other experience	(947)	(120)
<i>Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement</i>	11,551	4,771
<i>Movement in Reserves Statement</i>		
reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(8,785)	(2,301)
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>		
employer contributions payable to the scheme	2,766	2,470

Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

Pensions Assets and Liabilities Recognised in the Balance Sheet	2014-15 £000	2013-14 £000
Present value of the defined benefit obligation	(121,911)	(104,431)
Fair value of plan assets	<u>72,224</u>	<u>63,529</u>
Net liability arising from the defined benefit obligation	<u>(49,687)</u>	<u>(40,902)</u>

The present value of unfunded benefits is £1.081m (£984k 2013/2014).

Reconciliation of the Movements in the Fair Value of Scheme Assets

Reconciliation of the Movements in the Fair Value of Scheme Assets	2014-15 £000	2013-14 £000
Opening fair value of scheme assets	63,529	58,729
Interest income	2,719	2,626
Remeasurement gain/loss:		
- the return on plan assets, excluding the amount included in the net interest expense	6,583	2,865
Contributions from employer	2,766	2,470
Contributions from employees into the scheme	611	570
Benefits paid	<u>(3,984)</u>	<u>(3,731)</u>
Closing fair value of scheme assets	<u>72,224</u>	<u>63,529</u>

The actual return on scheme assets in the year was £9.302m (2013/14: £5.491m).

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Reconciliation of the Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	2014-15 £000	2013-14 £000
Opening balance at 1 April	104,431	97,330
Current service cost	2,070	2,009
Interest cost	4,460	4,351
Contributions from scheme participants	611	570
Remeasurement (gains) and losses		
- actuarial gains/losses arising from changes in demographic assumptions	-	1,935
- actuarial gains/losses arising from changes in financial assumptions	15,228	2,078
- other	(947)	(120)
Past service cost (including curtailments)	42	9
Benefits paid	(3,984)	(3,731)
Closing balance at 31 March	121,911	104,431

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £121.911m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £49.687m. 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 2016 is £2.978m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2016 are £60k.

Local Government Pension Scheme assets comprised

Asset Category	Period ended 31 March 2015				Period ended 31 March 2014			
	Quoted prices in active markets £'000	Quoted prices in not active markets £'000	Total £'000	% of Total Assets	Quoted prices in active markets £'000	Quoted prices in not active markets £'000	Total £'000	% of Total Assets
Equity Securities:								
Consumer	3,880	-	3,880	5%	3,646	-	3,646	6%
Manufacturing	1,725	-	1,725	2%	1,526	-	1,526	2%
Energy and Utilities	1,834	-	1,834	3%	2,091	-	2,091	3%
Financial Institutions	3,433	-	3,433	5%	3,173	-	3,173	5%
Health and Care	688	-	688	1%	710	-	710	1%
Information Technology	-	-	-	0%	99	-	99	0%
Other	1,734	-	1,734	2%	2,357	-	2,357	4%
Debt Securities:								
Corporate bonds (investment grade)	3,671	-	3,671	5%	3,041	-	3,041	5%
Corporate bonds (non-investment grade)	277	-	277	0%	203	-	203	0%
UK Government	6,807	-	6,807	9%	5,701	-	5,701	9%
Other	1,184	-	1,184	2%	461	-	461	1%
Private Equity:								
All	-	216	216	0%	-	213	213	0%
Real Estate:								
UK Property	3,586	1,241	4,827	7%	2,880	662	3,542	6%
Overseas Property	-	372	372	1%	-	221	221	0%
Investment Funds and Unit Trusts:								
Equities	2,388	31,549	33,937	47%	2,040	27,674	29,714	47%
Bonds	3,135	192	3,327	5%	2,740	64	2,804	4%
Hedge Funds	-	-	-	0%	-	-	-	0%
Commodities	-	-	-	0%	-	-	-	0%
Infrastructure	-	-	-	0%	-	-	-	0%
Other	-	3,309	3,309	5%	-	2,949	2,949	5%
Derivatives:								
Inflation	-	-	-	0%	-	-	-	0%
Interest Rate	-	-	-	0%	-	-	-	0%
Foreign Exchange	-	-	-	0%	11	-	11	0%
Other	-4	-	-4	0%	-3	-	-3	0%
Cash and Cash Equivalents:								
All	1,006	-	1,006	1%	1,071	-	1,071	2%
Totals	35,344	36,879	72,224	100%	31,747	31,783	63,529	100%

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

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 LLP, an independent firm of actuaries, estimates for the Council being based on the latest full valuation of the scheme as at 31 March 2013. The principal assumptions used by the actuary have been:

Assumptions	2014-15	2013-14
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.5	22.5
Women	24.6	24.6
Longevity at 65 for future pensioners:		
Men	24.4	24.4
Women	27.0	27.0
Rate of inflation	2.4%	2.8%
Rate of increase in salaries	3.8%	4.1%
Rate of increase in pensions	2.4%	2.8%
Discount rate	3.2%	4.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below is based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Change in assumptions at 31 March 2015	Estimated % increase to Employer Liability	Estimated monetary amount £000
0.5% decrease in Real Discount Rate	10%	12,039
1 year increase in member life expectancy	3%	3,657
0.5% increase in the Salary Increase Rate	3%	3,756
0.5% increase in the Pension Increase Rate	7%	8,038

Funding Strategy Statement

The Gloucestershire County Council Pension Fund has a Funding Strategy Statement prepared in collaboration with the Fund's actuary, Hymans Robertson LLP, after consultation with the Fund's employers and investment adviser.

An element of the Funding Strategy is an investment strategy that is set for the long term, and subject to periodic review. Normally a full review of the investment strategy is carried out after each actuarial valuation, and is reviewed annually to ensure it remains appropriate to the Fund's liability profile.

A balance needs to be maintained between risk and reward, and this has been considered by the use of Asset Liability Modelling. This is a set of calculation techniques applied by the Fund's actuary, to model a range of potential future solvency levels and contribution rates.

Modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rates meets the need for stability of contributions without jeopardising the Administering Authority's aim of prudent stewardship of the fund.

Impact on the Authority's Cash Flows

An objective of the Administering Authority is keeping employers' contributions at as constant a rate as possible. Funding levels are set for a 3-year period. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions to local government officers and other public servants. Gloucestershire County Council has implemented LGPS 2014 in fulfilment of this requirement.

Stroud District Council anticipates employer contributions of £2.978m to the scheme in 2015/16.

The weighted average duration of the defined benefit obligation for scheme members is 17.5 years at 31 March 2015 (17.5 years 31 March 2014).

41. Contingent Liabilities

There are no material contingent liabilities to report as at 31 March 2015.

42. Contingent Assets

The Council has lodged a claim for overpaid postage VAT of up to £0.5m as at 31 March 2015.

43. 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 27/02/2014 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2014/15 is £110m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary is £106m. 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 annually.

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 Capita Asset 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 Capita Asset 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 during 2014/15 to credit risk in relation to its investments in banks and building societies of £36.3m 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 2015 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 2015	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2015	Estimated maximum exposure to default & uncollectability at 31 March 2015	Estimated maximum exposure at 31 March 2014
	£000	%	%	£000	£000
	A	B	C	(A*C)	
Bonds	-	-	-	-	-
Customers	12,558	4.5%	4.5%	565	455
				<u>565</u>	<u>455</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 £11.746m of the £12.558m 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 2015	31 March 2014
	£000	£000
Less than three months	33	39
Three to six months	11,524	88
Six months to one year	32	7,039
More than one year	157	73
	<u>11,746</u>	<u>7,239</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 thirteen PWLB loans that mature in more than five years.

Maturity - liabilities

	31 March 2015	31 March 2014
	£000	£000
Less than one year	12,838	10,130
Between one and two years		-
Between two and five years	3,549	3,590
More than five years	92,717	91,717
	<u>109,104</u>	<u>105,437</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 2015	31 March 2014
	%	%	£000	£000
Less than 1 year	-	100	-	-
Between 1 and 2 years	-	100	-	-
Between 2 and 5 years	-	100	3,000	3,000
Between 5 and 10 years	-	100	-	-
More than 10 years	-	100	92,717	91,717
Total			<u>95,717</u>	<u>94,717</u>

Market Risk

This is the risk that the Council will be adversely affected by market movements in the value of its investments.

The Council is protected from this risk through holding no tradeable investments, and if such investments were held it would be policy to hold them until maturity and so nullify market risk in that way.

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 2015, 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	-
Increase in government grant receivable for financing costs	-
Impact on Surplus or Deficit on the Provision of Services	-
Share of overall impact debited to HRA	-
Decrease in fair value of fixed rate investment assets	20
Impact on Other Comprehensive Income & Expenditure	20
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)	17,714

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 losses incurred in converting Icelandic Kroner into £ Sterling, see note 22.

44. Heritage Assets: Five-Year Summary of Transactions

There were no transactions involving the purchase, donation, disposal or impairment during the five financial years from 2010/11 to 2014/15.

45. 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

2013/2014		<i>notes</i>	2014/2015	
£000			£000	£000
	income			
-20,199	dwelling rents	6	-20,948	
-386	non-dwelling rents	8	-382	
-1,510	charges for services and facilities		-1,316	
-170	transfers from General Fund		-170	
-38	contribution towards expenditure		-39	
-22,303	total income			-22,855
	expenditure			
3,759	repairs and maintenance		3,794	
4,578	supervision and management		5,047	
2,239	special services		2,141	
72,222	depreciation, impairment and revaluation	11	-1,926	
3,191	debt management costs		3,257	
89	increased provision for bad or doubtful debt	10	112	
86,078	total expenditure			12,425
63,775	net cost of HRA services as included in the whole authority Comprehensive Income & Expenditure Statement			-10,430
327	HRA share of corporate and democratic core			324
64,102	net cost of HRA services			-10,106
	HRA share of operating income & expenditure included in the whole authority Comprehensive Income & Expenditure Statement:			
-308	gain (-) or loss on sale of HRA non-current assets	13		-884
	interest payable & similar charges			
-23	HRA interest & investment income			-39
	pensions interest cost & expected return on pensions assets			
63,771	surplus(-) / deficit for the year on HRA services			-11,029

Movement on the Housing Revenue Account Statement

2013/2014 £000		2014/2015 £000
-3,181	balance on the HRA as at the end of the previous reporting period	-1,905
63,771	surplus(-) / deficit for the year on the HRA Income & Expenditure Statement	-11,029
-62,495	adjustments between accounting basis & funding basis under regulations	8,047
1,276	net increase (-) or decrease before transfers to or from reserves	-2,982
-	transfers to or from reserves	-
1,276	increase (-) or decrease in year on HRA	-2,982
-1,905	balance on the HRA as at the end of the current reporting period	-4,887

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

2013/2014 £000		2014/2015 £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)	7
308	gain or loss (-) on sale of HRA non-current assets	884
97	HRA share of contributions to or from the Pensions Reserve	-206
4,023	capital expenditure funded by the HRA	1,359
-	sums directed by the secretary of State to be debited or credited to the HRA that are not expenditure or income in accordance with the Code	-
5,308	transfer to / from (-) Major Repairs Reserve	4,077
-72,222	transfer to / from (-) the Capital Adjustment Account	1,926
-62,495	net additional amount required to be credited (-) or debited to the HRA balance for the year	8,047

Notes to the Housing Revenue Account (HRA)

1. Housing stock

The Council was responsible for managing an average of 5,099 dwellings during the year. 27 dwellings were sold under the right-to-buy legislation, compared with 25 sales in the previous year. There were 7 dwellings added through completions at the Minchinhampton development site, 4 added through the acquisition of shared ownership dwellings at Littlecombe and former warden accommodation conversions created another 3 dwellings. Also, 4 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										
2013/14					(number by type of dwellings)	2014/15				
1 Apr	right-to-buy sales	other disposals	additions	31 Mar		1 Apr	right-to-buy sales	other disposals	additions	31 Mar
1,297	-1			1,296	bungalows	1,296	-1			1,295
1,514	-2		24	1,536	flats	1,536	-3		3	1,536
2,294	-22	-23		2,249	houses	2,249	-22	-4	7	2,230
25				25	maisonettes	25	-			25
2				2	shared ownership (half)	2	-1		4	5
5,132	-25	-23	24	5,108	total housing stock	5,108	-27	-4	14	5,091

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 14	additions in year	disposals	revaluation	depreciation & impairment	transfers	Balance 31 Mar 15
operational assets							
- council dwellings	185,937	10,802	-1,172	17,372	-14,879	695	198,755
- community assets	23	-	-	-	-	-	23
- development sites	2,870	2,016	-	-	-	-695	4,191
- other land and buildings	2,722	-	-	523	-	1,077	4,322
- vehicles, plant & equipment	-	-	-	-	-	-	-
assets held for sale							
- council dwellings	-	-	-	-	-	-	-
non-operational assets							
- investment property	2,055	-	-	-8	-	-1,077	970
total net fixed assets	193,607	12,818	-1,172	17,887	-14,879	-	208,261

In 2014/15 the Council Dwelling stock were revalued and increased in value by £17.372m (revaluation £13.295m and £4,077 depreciation reversal; £22.790m 2013/14). In 2013/14 a reduction in the social housing valuation factor from 44% to 31% meant a reduction in valuation of £77.974m, and so a net reduction in the valuation of the stock of £55.184m. This has been shown separately in the Comprehensive Income and Expenditure Statement as a material item.

2. Vacant possession value of dwellings

The open market vacant possession of dwellings including land within the HRA at 31 March 2015, at March 2015 prices is £641m. The value of dwellings net of the social element factor (31%) is £199m. The difference of £442m 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 in 2012/13 the amount set aside into the MRR should be an amount at least equal to a Notional Major Repairs Allowance (NMRA) amount. Capital repairs expenditure is in excess of the £4.1m NMRA which is a proxy for depreciation.

Major repairs reserve		
2013/2014	(figures in £'000s)	2014/2015
-	balance 1 April	-
-5,308	transferred in	-4,077
-	transferred out to Housing Revenue Account	-
5,308	financing of Capital expenditure	4,077
-	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 2013/ 2014	financing 2013/2014				capital schemes (All figures in £000's)	Spend 2014/ 2015	financing 2014/2015		
	capital receipts	capital grants	borrowing	revenue funding			capital receipts	capital grants	revenue funding
2,429	-	-	-	2,429	kitchen & bathroom replacement	2,241	-	612	1,629
1,882	-	-	-	1,882	void work	1,827	-	1,827	-
296	-	-	-	296	disabled adaptations	270	-	-	270
126	-	-	-	126	electrical works	247	-	-	247
282	-	-	-	282	roofing	431	-	-	431
417	-	-	-	417	door & window renewal	591	-	-	591
7,357	-	1,120	3,000	3,237	central heating / fuel switch / sustainable energy	4,138	-	4,138	-
573	-	-	-	573	other capital works	1,057	-	-	1,057
2,732	2,643	-	-	89	new build	2,016	806	-	1,210
16,094	2,643	1,120	3,000	9,331	total capital expenditure	12,818	806	6,577	5,435

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		
2013/ 2014	(figures in £'000s)	2014/ 2015
1,661	council house sales	2,096
-33	less: cost of sales	-34
1	repaid mortgage advances	-
1,629	total capital receipts	2,062
-376	less: pooled receipts paid to Government	-410
1,253	total usable capital receipts	1,652

6. Rent income

This is the total dwelling rent collectable for the year after allowed for empty property. At 31 March 2015 there were 89 vacant properties for rent, representing 1.7% of the total (on 31 March 2014 the figures were 144 and 2.8% on a 48 week basis). The average weekly rent in 2014/2015 was £87.49, an increase of £2.66, or 3.2% 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 £125k in respect of former tenants, has increased by £10k (1.9%). See also note 10.

Analysis of rent arrears		
2013/ 2014	(figures in £'000s)	2014/ 2015
51	court costs	48
328	current rent arrears	340
124	former tenant arrears	125
503	gross arrears at 31 March	513

8. Non-dwelling rents

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

9. 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.

10. Bad debt provision

The cumulative provision for uncollected debts was £0.363m at 31 March 2015 (£0.325m at 31 March 2014).

11. Depreciation, Impairment and Revaluation

The HRA incurs capital charges in respect of depreciation in accordance with the *Item 8 Credit and Item 8 Debit (General) Determination* for 2014/2015.

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 dwellings is £4.077m (£5.308m in 2013/2014). During a five-year transition period commencing in 2012/13 there is an equivalent transfer to the Major Repairs Reserve, which is used to fund part of the cost of long-term upkeep of the dwellings. Following the transition period it will be a requirement to charge depreciation to the income and expenditure account with no subsequent reversal through the Movement in Reserves Statement. The intention of these accounting arrangements is to ensure that sufficient is spent to ensure the long-term upkeep of the properties. The Council currently spends well in excess of this minimum figure.

The impairment charge for dwellings is £10.802m (£13.401m in 2013/2014). There is also an impairment of the value of development sites of £nil (£2.138m in 2013/14).

In addition to this impairment charge, the credit of £1.926m to the HRA income and expenditure statement includes upwards revaluations of properties of £12.588m (£13.295m less £0.707m charged to the revaluation reserve) and £0.515m, and a net nil depreciation. There is also a derecognition of the £0.375m book value of land at Chapel St, Cam which was purchased from the General Fund and is now part of the development sites.

Depreciation, Impairment & Revaluation		
2013/2014	(figures in £'000s)	2014/2015
56,042	Revaluation	-13,810
641	Revaluation - revaluation reserve	707
-5,308	Depreciation write-back	-4,077
15,539	Impairment	10,802
5,308	Depreciation	4,077
-	Derecognition	375
72,222	balance 31 March	-1,926

12. 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.

13. 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

2013/14			income	2014/15			
business rates £000	council tax £000	total £000		notes	business rates £000	council tax £000	total £000
-	-62,956	-62,956	council tax receivable	16		-64,400	-64,400
-24,335	-	-24,335	business rates receivable	18	-24,700		-24,700
expenditure							
apportionment of previous year surplus							
			Central Government		-88		-88
-	143	143	Stroud District Council		-71	134	63
-	630	630	Gloucestershire County Council		-18	582	564
-	115	115	Gloucestershire Police and Crime Commissioner		-	109	109
precepts / shares							
12,089	-	12,089	Central Government		12,511		12,511
9,671	7,512	17,183	Stroud District Council	19	10,009	7,640	17,649
2,418	43,825	46,243	Gloucestershire County Council		2,502	44,571	47,073
-	8,185	8,185	Gloucestershire Police and Crime Commissioner			8,490	8,490
-	2,589	2,589	Parish and Town Councils			2,713	2,713
charges to collection fund							
28	-	28	less write offs of uncollectable amounts				-
59	-	59	less : increase (-) / decrease in bad debt provision	20	384	52	436
783	-	783	less : increase (-) / decrease in provision for appeals		864		864
158	-	158	less : cost of collection		157		157
181	2	183	less: transitional protection payments		138	2	140
1	-	1	less : disregarded amounts				-
1,053	45	1,098	surplus(-) / deficit for the year		1,688	-107	1,581
-	-901	-901	balance at start of the year		1,053	-856	197
1,053	-856	197	balance at end of the year		2,741	-963	1,778

Notes to the Collection Fund

14. 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.

15. 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 2014/15 was calculated as follows: -

Council tax base			
band	estimated number of properties after effect of discounts	ratio	band D equivalent dwellings
DIS A	16.25	5/9	9.03
A	4,088.05	6/9	2,725.37
B	8,831.09	7/9	6,868.63
C	9,794.51	8/9	8,706.23
D	6,830.13	9/9	6,830.13
E	5,778.20	11/9	7,062.24
F	3,496.70	13/9	5,050.79
G	2,282.94	15/9	3,804.90
H	218.50	18/9	437.00
	41,336.37		41,494.31
less:	adjustment for collection rate (1.5%)		-622.41
council tax base			40,871.90

16. Council tax income

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

Income from council tax			
		£'000	£'000
		2014-15	2013-14
total council tax base (see note 15)	40,871.90		40,187.91
multiplied by average band D tax rate	£1,551.53		£1,545.52
total property income		-63,414	-62,111
<i>add:</i> transitional relief		-2	-2
<i>add:</i> other adjustments		-984	-843
income from council tax		-64,400	-62,956

17. 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	113.16	135.79	158.42	181.05	207.73	248.94	294.20	339.47	407.36
average parish	35.78	42.94	50.10	57.25	66.37	78.72	93.04	107.35	128.82
total	858.62	1,030.35	1,202.08	1,373.79	1,551.53	1,888.96	2,232.42	2,575.87	3,091.04

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

18. Income from business ratepayers

The Council collects National Non-Domestic Rates (NNDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government. In previous financial years the total amount due, less certain reliefs and allowances, was paid to a central pool (the NNDR pool) managed by Central Government, which, in turn, paid back to Local Authorities their share of the pool based on a standard amount per head of the local adult population.

As highlighted in the Summary of the Financial Year, the administration of NNDR changed following the introduction of a business rates retention scheme in 2013/14. Instead of paying NNDR to the central pool, local authorities retain a proportion of the total collectable rates due. In the case of Stroud, the local share is 40%. The remainder is distributed to preceptors and in the case of Stroud these are Central Government (50%) and Gloucestershire County Council (10%).

The net business rates shares payable for 2014/15 were estimated before the start of the financial year as £25.022m (£10.009m to Stroud, £12.511m to Central

Government, and £2.502m to Gloucestershire County Council). In addition, a share of the estimated collection fund deficit from 2013/14 of £0.178m has been allocated in the same proportions. These sums have been paid in 2014/15 and charged to the collection fund in year.

The total non-domestic rating income in 2014/15 was £23.156m (£23.125m in 2013/14). For 2014/15, the total non-domestic rateable value at the year-end is £66.9m (£65.5m in 2013/14). The national multipliers for 2014/15 were 47.1p for qualifying Small Businesses, and the standard multiplier being 48.2p for all other businesses (46.2p and 47.1p respectively in 2013/14).

19. Business rate net share

The income credited to the CI&E statement for business rates is £2.125m (13-14 £2.312m). This is comprised as follows:

Net share from business rates				
	£'000	£'000	£'000	£'000
	2014-15	2014-15	2013-14	2013-14
SDC gross precept	10,009		9,671	
<i>add:</i> 40% of deficit for 2013/14 (£1.053m x 40%)	421			
<i>less:</i> 40% of est. Deficit for 2014/15	-71			
<i>less:</i> 40% of deficit for 2014/15 (£2.742m x 40%)	-1,097		-421	
		9,262		9,250
<i>less:</i> tariff payment to Government		-7,495		-7,352
levy		-111		-117
pool surplus / deficit (-)		-301		38
<i>add:</i> Section 31 grant		770		493
net precept from business rates		2,125		2,312

20. Council tax and Business rate provision for bad debts

A Council Tax provision was made during 2013/14 amounting to £52k (2013/2014 £nil). This was calculated using CIPFA Guidelines. The total amount of the provision at 31 March 2015 is £299k and represents 20% of the £1.507m debt outstanding (£334k, 22% and £1.512m at 31 March 2014).

Business Rate provision for bad debts was £474k and represents 63.4% of the £748k amount outstanding (£324k, 36% and £890k at 31 March 2014).

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 2015 on pages 12 to 90. 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 2014/15.

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 Strategic Head (Finance and Business Services) and auditor

As explained more fully in the Statement of the Strategic Head (Finance and Business Services)'s Responsibilities, the Strategic Head (Finance and Business Services) 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 Strategic Head (Finance and Business Services); 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2015 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 Practice on Local Authority Accounting in the United Kingdom 2014/15.

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 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 October 2014, 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 2015.

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.

Basis for qualified conclusion

In considering Stroud District Council's arrangements for challenging how it secures economy, efficiency and effectiveness, we identified instances where the Council has not followed its own procurement policies by failing to operate an appropriate procurement exercise and by making inappropriate variations to existing contracts.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported in the basis for qualified conclusion paragraph above, 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 2015.

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
CF10 4AX
29 September 2015

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 that 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. Capital receipts 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 and Crime Commissioner and town and parish councils. Also, the Council is lead authority of the Gloucestershire Business Rates Pool. The Collection Fund 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;
Council services	The Council's budget is presented in accordance with the Service Reporting Code of Practice for Local Authorities (SeRCOP) which defines the following service headings: Central Services to the Public - includes Local Tax Collection, Electoral Services, Emergency Planning and Local Land Charges. Corporate & Democratic Core – as defined above. Cultural & Related Services - includes the Subscription Rooms, the Museum, Leisure Services & Sports Development, Green Spaces, Tourism and Arts Development. Environmental & Regulatory Services - includes all aspects of Environmental Health, Refuse Collection & Recycling, Street Cleaning, Community Safety, Land Drainage and Cemeteries. Housing General Fund – includes Private Sector Housing Renewal, Homelessness Prevention, Housing Benefit Payments and Administration, Housing Advances & Welfare services. Highways & Transport Services – includes Car Parking and Transport Initiatives. Non-Distributed Costs – includes Early Retirement Liabilities and Past Service Pension contributions Planning Services – Includes Building Control, Development Control, Planning Strategy, Environmental Initiatives and Regeneration, Economic & Community Development.

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: <ul style="list-style-type: none"> 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.
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;
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. However, a notional figure is still used in lieu of depreciation.
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 and crime commissioner, 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 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;
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	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: <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;
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, Strategic Head (Finance and Business Services)

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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.....
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Your name

.....

Your address.....

.....

Telephone.....Email

Thank you

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

29 SEPTEMBER 2015

9

Report Title	1ST QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2015/16
Purpose of Report	To provide an update on treasury management activity as at 30/06/2015.
Decision(s)	The Audit and Standards Committee APPROVES the treasury management activity first quarter report for 2015/2016.
Consultation and Feedback	Capita Asset Services Limited
Financial Implications and Risk Assessment	Interest of £65.6k in the first quarter means that it is likely the budgeted figure of £180k will be achieved. Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Legal Implications	This report is provided for information and as such there are no significant legal implications. (Ref: I.11.9.15) Karen Trickey, Legal Services Manager Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	Maxine Bell, Snr Accounting Officer Tel: 01453 754134 E-mail: maxine.bell@stroud.gov.uk
Chair of Committee	Note: This is only to be completed for reports that are going to meetings of the full Council. Councillor Chair of [Committee Name] Tel: Email: @stroud.gov.uk
Options	None
Performance Management Follow Up	Further quarterly reports and a full 2015/16 annual report
Background Papers/ Appendices	<ul style="list-style-type: none"> o Council Report 26 February 2015, Agenda Item 8a, Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2015/16 <p>Appendix A – Economic Update</p>

	Appendix B – Prudential Indicators as at 30 June 2015 Appendix C – Explanation of prudential indicators
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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 2015/16
 - A review of the Council’s borrowing strategy for 2015/16
 - A review of compliance with Treasury and Prudential Limits for 2015/16.

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2015/16 was approved by Council on 26 February 2015. 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, less than 1 year, with highly credit rated financial institutions, using Capita’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 366 days with UK Government supported banks.

6. A breakdown of the Council's investment portfolio as at 30 June 2015 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. Capita's latest economic analysis is set out in Appendix A. Current advice from Capita is to invest for no more than a year with UK banks, or up to a maximum of five years with government or local government provided they are sufficiently highly rated on Capita's weekly list.

Investment Portfolio 2015/16

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
01/04/15 - 30/06/15	£53,298	£29.640m	0.72%	0.36%	0.45%

9. An amount of Icelandic Krona equivalent to £331k is held in an Escrow account due to currency controls in Iceland earning 3.65%. 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 £65.6k at an average interest rate of 0.8602%.
10. Table 2 below shows the investments and borrowing position at the end of June 2015.
11. The approved limits as set out in the Treasury Management Strategy report to Council 26th February 2015 within the Annual Investment Strategy were not breached during the first 3 months of 2015/16.
12. 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 15 £'000	Jun-15 £'000
Money Market Funds Total	6,498	6,498
Bank of Scotland	4,000	
Lloyds	4,000	
Lloyds Banking Group Total		8,000
NatWest	222	
Royal Bank of Scotland	2,007	
RBS Banking Group Total		2,229
Svenska Handelsbanken		10
Barclays Bank		3,000
Santander		7,959
Credit Suisse	2,000	
Standard Chartered	1,000	
Certificates of Deposits		3,000
Nationwide	2,000	
Building Societies		2,000
TOTAL INVESTMENTS		<u>32,696</u>
Local Authority	2,000	
PWLB	93,717	
TOTAL BORROWING		<u>95,717</u>

External Borrowing

13. The Council's Capital Financing Requirements (CFR) for 2015/16 is £107.611m. 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 £95,717m as at 30 June 2015. Further HRA borrowing of £11m is planned during the year.

Compliance with Treasury and Prudential Limits

14. 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.
15. During the period to 30 June 2015 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.

Capita Asset Services economic background for the quarter ended 30 June 2015 & interest rate forecast:

Poor Q1 GDP growth has yet to be revised higher, but later revisions could prove slightly stronger. On a positive note, the economy still seems to have outperformed the US. Net trade certainly held back growth, cutting 0.9% off the overall position, but this was largely a reversal of the strong performance in Q4. Business investment growth, however, improved and consumer spending grew 0.5% q/q, though this was probably slower than the pace in real income growth. Surveys are supportive of the view that Q2 will see a pick up in economic growth, despite the services PMI (Purchasing Managers Index) easing a touch in May. The sector remains strong and will be backed up by rises in both manufacturing and construction. The May composite PMI indicates Q2 growth accelerating to around 0.6%.

Household spending has likely improved from the 0.5% real growth seen in Q1 as retail sales expanded by 1.2% m/m in April and the CBI reported sales balance for May saw a significant surge. Consumer confidence has dipped a touch with the rise in petrol prices a possible reason, but continues to run at high levels and is indicative of further household spending growth acceleration. The housing market is also gathering momentum with mortgage approvals sharply higher in April. With low mortgage rates and recent stamp duty reforms, there are reasons for confidence that the market has further gains ahead.

Rebalancing towards exports remains problematic as overseas demand remains weak, with sterling strength an issue. Net trade knocked 0.9% off Q1 GDP with the overall March trade deficit leaving that for Q1 larger than in Q4. Weaker exports to the EU drove the widening, despite the EZ showing recent economic growth, but there was also an increase in imports. The potential for exports to improve seems limited in the near-term and export orders indices of surveys are consistent with stagnation. Furthermore, recent gains in sterling strength will only serve to dent the competitiveness of UK goods.

The labour market indicators are supportive of the strength of household spending being sustainable. Employment increased by 202,000 in Q1, though growth in the labour force has resulted in a slowing in falls in the unemployment rate. Increases in jobs were still sufficient to pull the rate of unemployment down to 5.5% and surveys and rises in vacancies are pointing to further falls in the rate. As labour market slack diminishes, wages are being boosted and March gains of 2.7% y/y (excluding bonuses) was the strongest in more than six years. It was markedly higher than inflation, but real pay levels will take a considerable time to recover pre-crisis levels and sustained growth depends on a recovery of productivity levels. Consumer price inflation slipped into deflation in April, prices falling 0.1% m/m, but declines were not broad based and driven by the transport sector, largely a consequence of the timing of Easter. Analysts do not expect deflation to worsen or indeed be prolonged as petrol prices gained more than 2% m/m in May alone. As a result, the downside pressure that it has previously contributed to CPI should weaken fairly quickly. On top of this food price inflation is expected to increase. Weakness in inflation has been goods-centric as services inflation has remained robust and is set to build on the pick up in nominal earnings' growth.

The Bank of England MPC continues to vote unanimously to hold policy at current levels, but two members indicated that the choice was marginal. However, the lack of price pressures, allied to weaker than expected Q1 growth and a subsequent weaker start to Q2 than hoped, has seen market rate expectations of a rate hike put no earlier than Q2 next year.

US

The recent Q1 GDP growth figure showed that output shrank by 0.7% which has been attributed to the cold weather, a ports strike and decline in the shale oil industry, along with some elements of seasonality. However, note that in recent years, Q1 has tended to be weak by comparison to the subsequent quarters. Other measures, such as gross domestic income, offer a far more upbeat picture of the quarter.

Overall, retail sales were unchanged in April, but excluding autos, gasoline and building materials they were lower. Though previous opening quarters have seen weaknesses in these areas reversed, the early Q2 indications suggest that is not the case in 2015, which raises concerns. Real incomes were boosted early in the year, helped by declines in gasoline prices. However, that has not been reflected in consumption growth, and savings levels are higher than in 2014. Consumer confidence has eased as gasoline prices have picked up recently, but levels remain reflective of consumption growth being strong.

Investment had proved weak with annualised business equipment production and underlying capital goods shipments negative again in April, though Q2 looks more promising as a whole. Mining investment will remain a drag on business investment, but with oil prices improving drilling rigs and mining investment may show some recovery later in the year. New home sales and housing starts gains indicate a rise in residential investment, which could offer a slight lift to GDP growth. Business investment also seems to be on the rise, which is better than might be expected given the growth rate in the overall economy. The previous declines in the value of energy sales and inventories means that business inventory to sales ratios have improved, but when petroleum is excluded that ratio is little changed.

The ending of the port dispute, along with the impact of a late Chinese New Year, saw a jump in imports which increased the trade deficit markedly in March, as export growth lagged. The main driver of the deficit was a large increase in the trading deficit with China, but this is already known to have narrowed in the two months following the February surge. As shipping of these Chinese goods was delayed, this should ease the Chinese trade deficit in April and likely the following couple of months. The increased bilateral deficit is a little surprising given that the \$ is little moved against the Renminbi. Meanwhile, the improvement in EZ PMIs point to improved US exports to the bloc.

April payroll growth indicates that the slowing in March was temporary, although the bounce was not as much as hoped. Unemployment continues to fall and firms are finding it harder to fill positions, so the unemployment rate could fall from 5.4% to around 5.0% fairly quickly.

Labour market data has continued to be upbeat with the downtrend in weekly jobless claims still in place and job vacancies increasing, whilst those voluntarily leaving employment is rising. The ISM non-manufacturing employment index is consistent with services payroll gains of not far off 250,000 per month. Wage growth is picking up according to the employment cost index, but average hourly earnings suggest that rises are modest.

Annualised CPI remained negative in April but core inflation is on the rise. Core inflation is running at 1.8% y/y, but the three month annualised rate is running at a three year high 2.6%, some of the gain is down to used car price rises after softness at the end of 2014. Headline inflation is also set to bounce in May as gasoline prices have spiked by about 10% m/m, which could add 0.5% to overall CPI. Both headline and core producer prices are also in the negative zone. Unit labour cost increases indicate that core CPI inflation could rise to 2% and though breakeven inflation rates continue at low levels, they have been moving upward from the low point at the start of the year. Household inflation expectations have changed very little.

Though there remains uncertainty over the timing of the Fed's first interest rate increase, equities have continued the uptrend that commenced six years ago, with Wall Street indices hitting fresh all-time highs. Treasury yields have bounced but are still some way below the 2014 peak, and this has occurred when short term interest expectations have softened as data releases have turned softer.

EZ

Recent activity indicators suggest that economic recovery in the bloc is losing steam, having seen acceleration to 0.4% q/q in Q1. This was better than that in both the US and UK, and lifted annual growth to 1%. The Economic Sentiment Indicator was unchanged in May and is indicative of the annual rate of growth edging higher, which implies that Q2 growth will be similar to that in Q1. The composite PMI, meanwhile, slipped for a second month, and is less upbeat, projecting 0.3% growth. Over the bloc, the evidence of both surveys and actual data indicate that the recovery in Germany is losing momentum and that in France it is weak, while Spain is growing the fastest and Italy is improving. Greece, however, is facing a deepening recession.

After a weak March, retail sales have improved which is positive for Q2. Gains were led by non-food items, while new car registrations have increased at the strongest rate in five years. Falling prices should continue to support sales. May CPI was 0.3%, but the retail sales deflator was negative. Consumer confidence dipped for a second month in May but is still consistent with annual consumption growth of 1.5%.

The industrial sector had a reasonable Q1. Production did slip on a monthly basis in March, which pulled the annual growth rate a touch lower to 1.8%. Q1 production growth of 0.9% is the strongest for four years and industry should have made a positive contribution to Q1 GDP expansion. The industrial recovery looks set to continue in peripheral economies, but Germany seems to be struggling. Overall, the EC industrial confidence and output index of the manufacturing PMI saw the April declines reversed in May, but were still not strong enough to point to acceleration in annual growth. The services sector is, though, expected to enjoy acceleration in growth, with confidence levels at a near four year high. Despite a third straight

decline, the services PMI maintains a strong level which points to strong Q2 growth in the sector.

The trade surplus narrowed in March but there are signs that the weaker Euro is helping exporters, with exports up 7.3% y/y in March, the strongest pick up since late 2012. Gains in export values have, though, been a consequence of price increases rather than volumes. This points to firms taking the chance to improve profitability in preference to market share. External improvement has proved broad based, though to differing degrees. If the historic link between the currency and exports holds then export growth should continue, and the EC Survey export orders component indicates a slight improvement. Nevertheless, both of these have offered a rather over-optimistic outlook in recent times.

Employment recovery has continued its gentle pace, with the rate of unemployment at a three year low of 11.1% following April's job growth. Survey employment indices remain upbeat despite the softer activity, but employment growth is not expected to pick up from the 1% rate seen in Q1. The German employment market remains the strongest in the bloc. Further easing of deflationary pressures in the bloc saw headline inflation rise to 0.3% in May as energy inflation picked up. Core inflation hit a nine month high as non-energy goods and services inflation increased, though this does not necessarily point to increased price pressures. Previous falls in producer prices should restrain goods CPI inflation for some time and though consumer import prices have increased on the weaker Euro, much of that impact has probably passed through. Services inflation is unlikely to sustain the May gains whilst wage pressures remain subdued. The deflation threat may have largely passed but weak growth, massive spare capacity and weak cost pressures will ensure that the ECB 2% inflation target remains well out of range.

The battle and ongoing stalemate between Greece and its creditors has affected financial markets in the bloc, despite QE. Periphery bond yields have tightened and equities in the EZ have suffered further losses though, ironically, the Greek bourse has stabilised at current lows. The Euro weakened in late May, in part on interest rate expectations in the US/UK but also on weaker EZ data but the currency could be helped by the belief that inflation could have been stronger than forecast in May.

Asia

Despite it being six months since the Chinese authorities eased interest rates in an attempt to stimulate activity, recent data had continued to be on the weak side, and even shown signs of further deterioration. This raises concerns about the effectiveness of policy to stimulate lending, given that real interest rates remain extremely high. There is also an element that argues that this may also reflect that firms are already laden with debt and overcapacity, thus there is no appetite to borrow. The economy remains on the weaker side of expectations, although data will still be affected by the impact of the Chinese New Year. We may get a better picture once this has cleared, but the signs are that the economy remains subdued. The Japanese economic data should now start to reflect the fact that the impact of last year's Sales Tax increase will fall out of the annual calculations. There are signs that "Abenomics" is having a positive impact but data remains inconsistent, making it difficult to draw firm conclusions about the underlying health of the economy.

Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	End Q3 2015	End Q4 2015	End Q1 2016	End Q2 2016	End Q3 2016	End Q4 2016	End Q1 2017	End Q2 2017	End Q3 2017	End Q4 2017	End Q1 2018
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%
5yr PWLB rate	2.30%	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%
10yr PWLB rate	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%
50yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%

Prudential Indicators as at June 2015

Prudential Indicator	2015/16 Indicator £'000	Actual as at 30 June 2015 £'000
Capital Financing Requirement (CFR)	107,611	95,549
Gross Borrowing	106,779	95,717
Authorised Limit for external debt	118,000	95,717
Operational Boundary for external debt	112,000	95,717
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%	1%
2 years to 5 years	100%	2%
5 years to 10 years	100%	0%
10 years and above	100%	97%

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 2015 strategy with actual gross borrowing as at 30 June 2015.

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 £95.549m provides the Council with the opportunity to borrow if appropriate. Further borrowing of 11m is planned during 2015/16 for HRA & the Refuse Contract.

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 2015 to 30 June 2015.

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 2015 to 30 June 2015.

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 a period in excess of a year. Current policy only permits lending beyond 1 year with other Local Authorities up to a maximum of 3 years, apart from the £1m invested for 5 years as part of the Local Area Mortgage Scheme.

STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

29 SEPTEMBER 2015

10

Report Title	INTERNAL AUDIT PLAN MONITORING REPORT
Purpose of Report	To inform Members of the audits completed as part of the 2015/16 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. Management responses to audit recommendations are included in each assignment report.
Financial Implications and Risk Assessment	<p>There are no financial implications arising directly from this report.</p> <p>Sandra Cowley Strategic Head (Finance & Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk</p> <p>Risk Assessment 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.</p>
Legal Implications	<p>Before making the resolution as proposed in the decision box, the Committee should be satisfied that the internal controls warrant the assurance levels referred to by the Auditor.</p> <p>Karen Trickey Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: Karen.trickey@stroud.gov.uk</p>
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 2015/16 Plan. The Committee will continue to receive regular monitoring reports on achievement against the 2015/16 Internal Audit Plan.
Background Papers/ Appendices	<p>Background papers:</p> <ul style="list-style-type: none"> • Internal Audit Plan 2015/16 • Public Sector Internal Audit Standards <p>Appendix A: List of Audits completed as part of the Internal Audit Plan 2015/16: April 2015 to August 2015.</p>

Background

1. At the Audit and Standards Committee meeting held on 7 April 2015 Members approved the Internal Audit Annual Plan 2015/16. In accordance with the requirements of the Public Sector Internal Audit Standards this report details the outcomes of Internal Audit work.

Progress

2. This is the first report on compliance against the 2015/16 Plan and includes details of the audits completed during the period April to August 2015. 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 April 2015 to August 2015 is 55% (6 out of 11 planned audits completed), against a target of 90% (10 out of 11 planned audits completed). However, these figures do not take into account 3 reports that were at draft report stage and 2 audits that were substantially complete as at 31 August 2015.
3. Details of the audits completed 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.
4. It has been agreed previously that Members would be notified of any agreed Rank 1 'High Priority' and Rank 2 'Medium Priority' audit recommendations that had not been fully implemented by the agreed date. There were none identified for the period covered by this report.

Final Account – Renewable Energy

5. Tenant Services employed an independent and specialised company to verify and agree the renewable energy final account. Internal Audit has not carried out detailed testing or verification work of the final account as reliance and assurance has been taken on the work performed by the independent company. However, it is the opinion of the Internal Audit Manager that the verification approach and process adopted by the company was appropriate and reasonable.

6. The total renewable energy expenditure that has been agreed with the Contractor is £8.5m (net of VAT), and taking into account the payments made to the contractor of £7.9m, leaves a final amount to be invoiced and paid of £600,000.
7. As a result of the review by Internal Audit, a query has been raised on the rate of VAT applied to payments made for works undertaken. Depending on the nature of the contract used for these works, VAT at the reduced rate (5%) would be applicable to the costs of energy saving materials, installation and ancillary services, however, the Contractor applied the VAT rate of 20% to the renewable energy invoices issued to, and paid by, the Council. As at the date of writing this report, this query has yet to be resolved.

Additional Work Undertaken

8. At the request of the Audit & Standards Committee, a review was undertaken of the procurement arrangements relating to the provision of youth services. The report on this review was sent to Members of the Audit & Standards Committee on 28 July 2015.

Conclusions

9. 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 Audits Completed

2015/16 Audit Plan: April 2015 – August 2015

Audit	Comments	Level of Assurance
Council Tax – Opening Debit	<p><u>Audit Objective</u> The objective of this audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • That reconciliation has been prepared of the number of properties in the district based on data held in the Council Tax system C/F data held by the Valuation Office • That the rates for 2015/16 have been properly approved by Council and applied within the Council tax computer system • Data presented for Council approval was correct and is supported by data calculated by Finance, and accurately includes the precepts set by County Council, Police & Crime Commissioner & by Parishes. <p><u>Period of Audit</u> The audit covered the opening debit for the financial year 2015/16.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classifications of recommendations identified through audit testing, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place over all areas covered by this audit.</p>	Good
Non Domestic Rates – Opening Debit	<p><u>Audit Objective</u> The objective of this audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Appropriate notifications have been received advising of the NDR multipliers and transitional relief rates for the current financial year; • The advised NDR multipliers and transitional relief rates have been accurately input into the billing system. 	Good

	<p><u>Period of Audit</u> The audit covered the opening debit for the financial year 2015/16.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classifications of recommendations identified through audit testing, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place over all areas covered by this audit.</p>	
TIC	<p><u>Audit Objective</u> The objective of this audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • All income is properly accounted for and has been promptly banked; • Stock levels are adequately controlled and stock takes are undertaken, and reported upon. • Goods and services have been ordered, received and paid for in accordance with Contract Procedure Rules and Financial Regulations; • Staff time records and Payroll; • Access restrictions and review of access rights to relevant software <p><u>Period of Audit</u> The audit covered the testing of transactions during the period 1 April 2015 to 30 June 2015.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classifications of recommendations identified through audit testing, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place over all areas covered by this audit.</p>	Good
Homelessness	<p><u>Audit Objective</u> The objective of this audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • That Policies and Procedures are up to date, publicised to the general public, and compliant with statutory regulations; • That there are adequate procedures for the checking and payment of invoices in respect of the provision of bed and breakfast accommodation, 	Satisfactory

	<p>and for the prevention of homelessness;</p> <ul style="list-style-type: none"> • That there are adequate procedures operating for the control of budgets and reconciliation to the General Ledger; • There are adequate procedures in place to ensure that selected bed and breakfast accommodation adequately meets the needs of clients; • There are adequate cases records maintained of persons provided with bed and breakfast accommodation. (Including details of the length of stay, payments made, and any monies recovered out of benefit payments to the clients); • Adequate procedures are in place and records available to recover debts, Recovery of costs and outstanding debts. This refers to the recovery of deposits paid to private landlords under the Homelessness Prevention Fund Scheme at the end of tenancies. <p><u>Period of Audit</u> The audit covered the twelve month period to June 2015.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classifications of recommendations identified through audit testing, the audit opinion is that there is a Satisfactory level of assurance on the adequacy and operating effectiveness of controls in place over all areas covered by this audit.</p> <p>The main areas of weakness identified for which two Rank 2 'Medium Priority' recommendations have been made, are as follows:</p> <ul style="list-style-type: none"> • Lack of supporting documentation relating to the contractual arrangement between Stroud District Council and the company providing and maintaining the Homelessness database; • The Council's responsibilities to ensure that the B&B establishments used are subject to regular inspection in terms of suitability and safety, including the currency of insurance policies. <p>The recommendations made as a result of this audit have been agreed by management, with the latest implementation date being August 2015.</p>	
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<p>Recruitment & Selection</p>	<p><u>Audit Objective</u> The objective of this audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • The Authority has an up to date and documented recruitment and selection policy; • All vacancies to be filled are fully justified, financially assessed and correctly authorised before recruitment commences; • Candidates are correctly and fully assessed and the evaluation is appropriate for the job role; • Appropriate vetting checks are carried out to obtain proof of identity, qualifications, disclosure of convictions, previous employment and performance, etc; • Staff involved in the recruitment and selection process are appropriately trained; • Recruitment advertising costs are effectively managed and the use of recruitment agencies to fill vacancies monitored for cost effectiveness and appropriate; • Personal data is kept complete, up to date and secure from unauthorised access; • Successful candidates agree to Stroud District Council's terms and conditions, and the Council's policies, and receive appropriate induction; • Staff performance is successfully monitored during the probationary period; • Standards and KPIs have been set out by HR (Service Level Agreements) and these are resourced, maintained and developed to ensure delivery. <p><u>Period of Audit</u> The audit covered the twelve month period to March 2015.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classifications of recommendations identified through audit testing, the audit opinion is that there is a Limited level of assurance on the adequacy and operating effectiveness of controls in place over all areas covered by this audit.</p> <p>The main areas of weakness identified for which six Rank 2 'Medium Priority' recommendations have been made, are as follows:</p>	<p>Limited</p>
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	<ul style="list-style-type: none"> • The Council's Work Force Plan for the next 5 years (2015-19) has not yet been formulated, written and approved. In addition the previous Work Force Plan (2010-14) did not detail the Council's policy and usage of agency staff; • Incomplete staff records retained within HR. Testing identified there was no employee signed Contract of Employment for 3 employees, out of 15 selected for testing; no signed documents for 2 employees and 6 agency staff confirming that they had read and understood Council Policies, and no documentary evidence for 3 employees that they had successfully completed their induction; • The 'Agency Worker Contractor – Induction Checklist' does not detail all the Council Policies that the agency worker should read and understand ; • All completed and signed probationary forms for 8 employees, out of 15 selected, were not held by HR. In addition, 3 employees were not provided with a letter from HR confirming they have passed their probationary period despite HR receiving the required documents. A Probation spreadsheet, maintained by HR, showed that in total there are 36 employees with outstanding completed probationary forms and 9 cases where all the forms have been received, but an appropriate letter has not been sent to the employee; • There is no documented formal escalation process where after follow-up the completed probationary forms remain outstanding; • There was a lack of documentary evidence to confirm that HR management had undertaken appropriate regular checks to confirm: <ul style="list-style-type: none"> - The recruitment and selection processes for filled vacancies have been correctly performed and all appropriate documents obtained; - Signed and completed probationary forms have been promptly received and letters sent to employees confirming successful completion of their probationary period. <p>The recommendations made as a result of this audit have been agreed by management, with the latest implementation date being December 2015, except for the recommendation relating to the Work Force Plan where an implementation date of March 2016 has been provided.</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 descriptions:

CONTROL LEVEL	DESCRIPTION
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		DESCRIPTION
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.
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 inefficiencies.

STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

29 SEPTEMBER 2015

11

Report Title	ANNUAL REPORT ON FRAUD & CORRUPTION 2014-15.
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	<p>There are no financial implications arising directly from this report however the investment in resources to prevent and detect of fraud will serve to protect the Council's finances.</p> <p>Sandra Cowley Strategic Head (Finance & Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk</p> <p>Risk Assessment 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.</p>
Legal Implications	<p>This report is provided for information; no decisions being sought of the committee.</p> <p>Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: Karen.trickey@stroud.gov.uk</p>
Report Author	<p>Terry Rodway, Internal Audit Manager Tel: 01453 754111 Email: terry.rodway@stroud.gov.uk</p>
Options	N/A
Performance Management Follow Up	<p>Management will keep developments with the Gloucestershire Fraud Hub under review. The Committee will continue to receive an annual update on Fraud Activity and Counter Fraud</p>

Background Papers/ Appendices	<ul style="list-style-type: none">• Background papers– None• Appendices - None
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Background

1. The 'Guide to the Audit & Standards Committee Work', which is the basis for the terms of reference for the Audit & Standards Committee, includes a focus on the arrangements for preventing and detecting fraud and corruption. This report provides Members with details of fraud work undertaken during the financial year 2014/15.

National Fraud Initiative

2. During the latter part of the 2014/2015 financial year, a review of the SDC dataset from the Audit Commission's 2014 National Fraud Initiative (NFI) data matching exercise was undertaken. 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
3. Data types used in the matching exercise include:
 - Housing Benefit
 - Payroll
 - Creditor payments
 - Housing rents
 - Licensing
 - Insurance claims
4. This NFI exercise produced a total of 25 'High Quality' reports of which 13 related to Housing Benefit matches. A 'High Quality' report includes data matches with the same National Insurance Number, or the same name, date of birth, and, address.
5. Report details:
 - 13 reports related to housing benefit – examples of matches included claimants who are on the payroll of different organisations; claimants who appear to be in receipt of benefit from more than one authority; and claimants who may be ineligible for housing benefit as they are in receipt of a student loan. Due to the transfer of the Council's three Fraud Investigators to the Department of Work and Pensions on 1 March 2015 (see paragraph 16 below), these matches have not yet been reviewed, however, arrangements have been put in place for this work to be carried out during September 2015.

- 2 reports related to payroll – examples of matches included individuals paid by Stroud District Council both via the payroll and the creditors system, and, individuals paid by two organisations. The cases were investigated by Internal Audit and no evidence of fraud identified.
 - 10 reports related to Creditors – examples of matches included possible duplicate payments to the same creditor for the same goods/services, and possible VAT overpayments. The investigation did not identify any instances of duplicate payments and confirmed that all VAT payments were correct.
6. As stated in paragraph 2 above, the NFI exercise is carried out on a cyclical basis. This is every two years. Following the abolition of the Audit Commission, the Cabinet Office NFI Team is continuing to operate the NFI data matching service.

Benefit Fraud

7. During 2014/15, the Benefit team identified approx. £945,000 in benefit overpayments. Of these overpayment cases, the Benefits Fraud team investigated 316 allegations of fraud. As a result of these investigations 9 cases of fraud 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 9 cases; and formal cautions were issued in 27 cases of fraud.
8. 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 (£2,000). 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 paragraph 7 above, 27 cautions were issued during 2013/14.
9. 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, whichever is the greater, up to a maximum penalty of £2,000. 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 paragraph 7 above, there were 9 Administration Penalty cases in 2014/15.
10. The Fraud team identified 3 cases where the amount of benefit overpayment exceeded £10,000. One case totalling £40,500 is subject

to an ongoing appeal; an overpayment of £22,800 related to a claimant not disclosing savings of over £70,000, and has since been repaid; an overpayment of £15,000 related to a claimant failing to declare they were working, which is being repaid in monthly instalments.

11. The Council's Revenue & Benefits Manager has stated that there has been an approximate increase of 50% in 'new' housing benefit overpayment debt which has been identified following a pilot scheme called Real Time Information (RTI) with HMRC. As part of this scheme, the Council has been receiving data which includes details of claimants' actual wages/pensions, which has identified differences in the wages/pensions declared on claimants' benefit application forms.

Internal Fraud

12. There were no cases of alleged internal fraud referred to Internal Audit for investigation during 2014/15.

Corruption/Collusion

13. There were no cases of alleged corruption/collusion referred to Internal Audit for investigation during 2014/15.

Fraud Alerts/Awareness

14. 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 email scams. Upon receipt, the Internal Audit team passes details to the appropriate service unit for information and action where appropriate.

Protecting the Public Purse Fraud Briefing

15. At the February 2015 meeting of the Audit & Standards Committee, Members received a report from KPMG entitled 'Protecting the Public Purse Fraud Briefing 2014'. The data used in the 'Briefing' was drawn from the Audit Commission's annual fraud and corruption survey for the financial year 2013/14.

Counter Fraud Work

16. Under Welfare Reform the DWP has created a national fraud investigation team, the Single Fraud Investigation Service (SFIS), which will investigate all cases of welfare benefit fraud. This includes the fraud investigation work of Housing Benefit which had been previously carried out locally by each Council. As a result, the Council's three Benefit Fraud Investigators, together with any outstanding investigations at that time, were transferred to the DWP on 1 March 2015.
17. As a result of the creation of the Single Fraud Investigation Service, and the subsequent TUPE transfer to the DWP of the Council's Fraud Investigators, the Strategy & Resources Committee agreed, in

January 2015, to the creation of a Counter Fraud Officer role. This role is for a two year period to undertake corporate fraud work.

Gloucestershire Counter Fraud Hub

18. In the latter part of 2014, a joint bid was made by Cotswold District Council, Cheltenham Borough Council and West Oxfordshire District Council for Counter Fraud funds available from central government. The requested funds were for the establishment of a Gloucestershire Counter Fraud Hub for the 'development of data warehousing, intelligence led counter fraud activity, and, enhanced partnership working'. Although the bid was submitted by Cotswold District Council on behalf of the above named authorities, the bid was also 'agreed in principle' by the s151 Officers of the other councils within Gloucestershire.
19. Notification that the bid was successful was received in January 2015. Since this date, staff from the 'Hub' have been meeting with officers from the various councils within Gloucestershire to discuss how the 'Hub' will operate and to obtain buy-in to the 'Hub' services.
20. As the 'Hub' project is still in its infancy, it has yet to be determined what the 'Hub' can provide for Stroud District Council and therefore, due to this, it has been decided not to recruit to the post of Counter Fraud Officer at this point in time as there is potential to use the resources of the new Hub.