STROUD DISTRICT COUNCIL
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Council Offices Ebley Mill Ebley Wharf Stroud Gloucestershire GL5 4UB

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14 September 2016

AUDIT AND STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **22 SEPTEMBER 2016** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at 7.00 pm.

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.

A G E N D A

1 **APOLOGIES**
To receive apologies for absence.

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

3 **MINUTES**
To approve the minutes of the meeting held on 5 July 2016.

4 **PUBLIC QUESTION TIME**
The Chair of Committee will answer questions from members of the public submitted in accordance with the Council's procedures.
DEADLINE FOR RECIEPT OF QUESTIONS is noon on 19 September 2016. Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post or by Email: democratic.services@stroud.gov.uk

5 **WORK PROGRAMME**
To consider and update the work programme.

6 **REPORT TO THOSE CHARGED WITH GOVERNANCE**
To consider KPMG's External Audit Report 2015/16.

7 **STATEMENT OF ACCOUNTS 2015/16**
To approve the Statement of Accounts 2015/16 and receive KPMG's audit opinion.

8 **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2015/16**
To advise on the Treasury Management activities in 2015/16 in accordance with the Council's Treasury Policy Statement.

9 **1ST QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2016/17**
To approve an update on treasury management activity as at 30 June 2016.

10 **STANDARDS REVIEW: CODE OF CONDUCT AND INVESTIGATIONS PROCEDURE**
To consider the standards issues during 2015/16 and review the current investigations procedure.

11 **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/17**
To inform Members of the internal audit activity progress in relation to the approved internal audit plan.

12 **SELF ASSESSMENT OF RISK MANAGEMENT ARRANGEMENTS**
To provide independent assurance on the adequacy of the Council's risk management framework.

13 **CHANGES TO THE ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS**
To recommend to Council the preferred appointment process for the appointment of external auditors.

14 **MEMBERS' QUESTIONS**
See Agenda Item 4 for deadline for submission.

Members of Audit and Standards Committee

Councillor Nigel Studdert-Kennedy (Chair)
Councillor Rachel Curley (Vice-Chair)
Councillor Martin Baxendale
Councillor Stephen Davies
Councillor Colin Fryer
Councillor Keith Pearson
Councillor Mark Reeves
Councillor Tom Williams
Councillor Penny Wride

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AUDIT AND STANDARDS COMMITTEE

3

5 July 2016

7.00 pm – 8.50 pm

Council Chamber, Ebley Mill, Stroud

Minutes

Membership

Councillor Nigel Studdert-Kennedy (Chair)	P	Councillor Keith Pearson	P
Councillor Rachel Curley (Vice-Chair)	P	Councillor Mark Reeves	P
Councillor Martin Baxendale	P	Councillor Tom Williams	P
Councillor Stephen Davies	P	Councillor Penny Wride	P
Councillor Colin Fryer	P		

A = Absent P = Present

Officers in attendance
Chief Executive Officer
Group Manager, Audit Risk and Assurance
Accountancy Manager
Head of Audit Risk and Assurance
Democratic Services Assistant

Others in attendance
Darren Gilbert KPMG

AC.001 APOLOGIES

There were none.

AC.002 DECLARATIONS OF INTEREST

There were none.

AC.003 MINUTES

RESOLVED **That the Minutes of the meeting held on 5 April 2016, are approved as a correct record.**

AC.004 PUBLIC QUESTION TIME

None received.

AC.005 WORK PROGRAMME

Members discussed the Committee's work programme for 2016/17. It was agreed to change the date of the next meeting to 22 September 2016. The Chair advised that an informal meeting with Internal Audit would take place later in the year and some items could be carried over to 2017/18.

Darren Gilbert advised the Committee that in respect of the Audit Letter there was no significant matter to report and the Audit Fee Letter set out the programme for the next audit and the fees.

Darren Gilbert responded to questions from members about the Housing Revenue Account and the setting of the 'materiality threshold' which was set at £1.5m on a basis of 1%-2% of gross revenue expenditure.

RESOLVED **To agree the work programme with a revised date of 22 September for the next meeting of the Committee.**

AC.006 HEAD OF AUDIT RISK ASSURANCE ANNUAL REPORT 2015/16

The Group Manager, Audit Risk and Assurance presented Members with a brief overview of Internal Audit work, compliance with Council policies and general probity issues for the financial year ending 31 March 2016, also providing an opinion on the overall adequacy and effectiveness of the organisation's control environment, comprising risk management, control and governance.

In response to questions the Head of Audit Risk and Assurance confirmed that with the new shared service more resources would be dedicated to fraud investigation work. Members noted the low level of feedback forms returned to audit. Officers advised that a new reporting system was being introduced which would make it easier for managers and service heads to respond.

RESOLVED **To endorse the assurance from the Head of Audit Risk Assurance that a satisfactory level of assurance can be given, that there is a generally sound system of internal control in place at the Council (designed to meet the Council's objectives).**

AC.007 INTERNAL AUDIT PLAN MONITORING REPORT 2015/16

The Group Manager, Audit Risk and Assurance presented the above report which detailed the results of the audits completed as part of the agreed 2015/16 Internal Audit Plan. The report identified that further work had been undertaken to meet the requirements of the Local Government Transparency Code 2015.

Appendix A to the report identified the assurance levels given against Benefits, Creditors and Debtors and noted that the recommendations had been taken on by managers.

Appendix B identified those areas where audits had been undertaken and recommendations had not been actioned by the required date and further identified the revised dates for completion. In response to questions Members accepted the reasons why some recommendations had not been implemented on time. It was suggested that future reports should contain a clear explanations why some things hadn't been completed.

In respect of the issue of cash reconciliation it was recommended that an audit should be undertaken in 2017/18 across the whole Council.

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

AC.008 INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

The Head of Audit Risk and Assurance presented the report which gave an introduction into the Internal Audit QAIP as required by the Public Sector Internal Audit Standards (PSIAS) 2013.

RESOLVED **That Audit and Standards Committee reviews and considers the Internal Audit QAIP (which includes both internal and external assessments and reporting arrangements) and formally approves its adoption.**

AC.009 DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2015/16

The Accountancy Manager presented the report which summarised the District Council's Corporate Governance arrangements in place during 2015/2016, via the publication of an AGS which is in accordance with the requirements of the Local Government Act 1999, the Accounts and Audit Regulations 2015 and the CIPFA/SOLACE guidance – Delivering Good Governance in Local Government 2007 (Addendum 2012).

RESOLVED **That the AGS 2015/16 (including the actions planned by the Council to further enhance good governance arrangements), as set out in Appendix A, be approved.**

AC.010 HRA BALANCES INTERNAL AUDIT REVIEW

The Head of Audit Risk Assurance presented a verbal report. It was reported that at the request of the Chief Executive, the Internal Audit shared service completed a review of the HRA balances reported to Members between 2014/15 and 2015/16.

The investigation was undertaken in May and June 2016 with a report circulated to Members of the Strategy and Resources and Audit and Standards Committees on 15 June 2016. The investigation confirmed that there was no fraud or irregularity; however the reported HRA balances had been overstated by £909,000. The overstatement had impacted on the HRA budget and business plan for 2016/17 and subsequent years.

The investigation raised eight recommendations to improve the controls surrounding the budget and outturn reporting to Members. It was reported that Internal Audit would complete follow up reviews on the implementation of the HRA balances investigation. The budget monitoring review has been brought forward and will commence on 17 October 2016.

The Chief Executive Officer advised Members that work was being undertaken to consider the options to bring the future plans into line with the resources available. A report would be presented to the Housing Committee and to Strategy and Resources Committee.

RESOLVED **To accept the report.**

AC.011 MEMBERS' QUESTIONS

There were none.

The meeting closed at 8.50 pm.

Chair

STROUD DISTRICT COUNCIL

AGENDA ITEM NO

AUDIT & STANDARDS COMMITTEE

22 SEPTEMBER 2016

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WORK PROGRAMME 2016/17: Items for future meetings

Date of meeting	Matter to be considered (i.e. insert report / project title)	Lead Member and Officer)
22 Nov 2016	Annual Audit Letter	KPMG
	Treasury Management Half Year Review	Graham Bailey
	Internal Audit Plan Monitoring 2016/17	Theresa Mortimer
	Review of Anti-Fraud Policies	Theresa Mortimer
	Review of Risk Register	David Stanley
	Update on Car Park Audit	Theresa Mortimer
7 Feb 2017	Annual Summary of Certification of Grant Claims and Returns 2015/16	KPMG
	Treasury Management Activity Q3 16/17	Graham Bailey
	Treasury Management, Annual Investment and MRP Strategies 2017/18	Graham Bailey
	Internal Audit Charter/Partnership update	Theresa Mortimer
11 April 2017	Financial Statements 2016/17 Audit Plan	KPMG
	Internal Audit Plan Monitoring 2016/17	Theresa Mortimer
	Annual Internal Audit Plan 2017/18	Theresa Mortimer
	Review of the Procurement Action Plan	Sarah Turner
	Annual Report Of the Audit & Standards Committee	Cllr Studdert-Kennedy
	Review of Effectiveness of Internal Audit	David Stanley

Information sheets sent to committee members

Date sent (Reference number)	Topic	Notes (e.g. responsible officer)
22 September 2016 (AS - 2016/17-001)	Update on Procurement Action Plan	Sarah Turner

External Audit Report 2015/16

Stroud District Council

—

12 September 2016

Contents

The contacts at KPMG in connection with this report are:

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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. Public Sector Audit Appointments 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, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints 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 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 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 2015/16 financial statements; and
- The work to support our 2015/16 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 2015/16*, presented to you in April 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our Interim Audit Letter 2015/16 issued in April 2016.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June/July 2016.

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 2015/16 explained our risk-based approach to VFM. We have now completed the work to support our 2015/16 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 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Acknowledgements

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

KPMG

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified a total of four adjusted audit adjustments with a total value of £2.7 million. The impact of these adjustments and management adjustments to the accounts is to: — No change to the balance on the general fund and HRA account as at 31 March 2016; — Increase the surplus on provision of services for the year by £1.1 million; and — Decrease the net worth of the Authority as at 31 March 2016 by £1.1 million. We have included a full list of significant audit adjustments at Appendix two. All but one of these were adjusted by the Authority. 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 total.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risks in our 15/16 External audit plan issued in April 2016: — Housing development spend We have worked with officers throughout the year to discuss this key risk and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this key risk area.

Headlines (cont.)

Agenda Item 6

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Accounts production and audit process	We received complete draft accounts in accordance with the Accounts and Audit Regulations deadline of 30 June 2016. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. Our audit commenced on 27 June, 2 weeks earlier than the previous year, in anticipation of the faster closing deadlines (requiring accounts sign-off by 31 July) which will have effect from the 2017/18 audit year onwards. Despite this shortened preparation timetable, the vast majority of information was available on day 1 of the audit. The Authority has good processes in place for the production of the accounts with mostly good quality supporting working papers, and officers mostly dealt efficiently with audit queries, although we had a few minor delays in some areas reliant on these key officers. The audit process has been substantially completed within the planned timescales with a few outstanding points as set out on page 8. As in previous years, we will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process, when we will be performing our audit 1 week earlier to work further towards faster closing deadlines. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in April 2016. — Contract procurement — Achievement of the savings plan 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. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our work on contract procurement was of particular focus as we issued a qualified VFM conclusion in 2014/15, 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. Based on the work we have performed this year, although we still identified some issues in relation to procurement exercises that we sample tested, these were less significant in nature and therefore we consider that sufficient improvements have been made for us to issue an unqualified VFM conclusion this year. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016. However, it remains important that the Council continues to focus on making improvements to its procurement arrangements, both through the processes in place and the extent to which they are applied in practice.

Headlines (cont.)

Agenda Item 6

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Data analytics	To support our audit approach and to provide insight into the Authority's Non-Pay Expenditure, we have conducted data & analytics on the Accounts Payable system during 2015/16. We have outlined the results of this in Appendix 3 and made a recommendation on page 23.
Completion	At the date of this report, our audit of the financial statements is substantially complete subject to completion of the following areas: — Conclusion of final audit queries around debtors — Completion of tie-back of final financial statements to system You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to officers on 26 July 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. 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.

Section three: Financial Statements

Agenda Item 6

Proposed opinion and audit differences

Our audit has identified a total of five audit adjustments, four of which were posted by management.

The impact of these adjustments is to:

- **Increase the surplus on the provision of services for the year by £1.1 million; and**
- **Decrease the net worth of the Authority as at 31 March 2016 by £1.1 million.;**
- **With no movement on the general fund and HRA account as at 31 March 2016.**

Proposed audit opinion

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 22 September 2016.

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 two for more information on materiality) level for this year's audit was set at £1.5 million. Audit differences below £75,000 are not considered significant.

Our audit identified a total of four significant audit differences, which we set out in Appendix two. It is our understanding that these will be adjusted in the final version of the financial statements. We also identified one misstatement that has not been adjusted by management as it does not have a material effect on the financial statements.

One of the adjustments related to the manner in which HRA grant income had been recognised within the accounts. This has previously been erroneously processed through the general fund surplus, so an adjustment has been posted to correct this in both this year's figures (£813k) and the comparative figures (£6.6m). There is no impact of this adjustment on the overall general fund or HRA balances as the grant income is subsequently reversed into the capital adjustment account through the Movement in Reserves Statement

Management has also made a few other non-material adjustments to the figures presented in the pre-audit accounts.

The tables below illustrate the total impact of audit and management adjustments on the Authority's movements on the General Fund and HRA for the year and balance sheet as at 31 March 2016.

There is no net impact on the General Fund and HRA as a result of audit.

Movements on the general and HRA funds 2015/16

£m	Pre-audit	Post-audit	*Ref (App.3)*
Surplus on the provision of services	9,588	10,713	*1,2,3,4*
Adjustments between accounting basis and funding basis under Regulations	(12,196)	(13,321)	*1,2,3,4*
Transfers to earmarked reserves	(325)	(325)	
Decrease in General Fund and HRA	**(2,933)**	**(2,933)**	

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	256,850	256,850	
Other long term assets	3,679	3,679	
Current assets	39,622	39,622	
Current liabilities	(11,668)	(11,668)	
Long term liabilities	(146,618)	(147,718)	*4*
Net worth	**141,865**	**140,765**	
General Fund	8,662	8,662	
HRA	1,938	1,938	
Other usable reserves	13,782	12,682	
Unusable reserves	117,483	117,483	
Total reserves	**141,865**	**140,765**	

KPMG

Proposed opinion and audit differences (cont.)

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

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2016.

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

In addition, we identified a 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 2015/16 ('the Code'). The Authority has addressed these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

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

We have made a couple of minor comments in respect of its format and content which the Authority has agreed to amend.

Significant audit risks

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 2015/16*, presented to you in April 2016, we identified the significant risks affecting the Authority's 2015/16 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 Risk 1 – Housing development spend

— Risk

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. With this increased level of spend, 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.

— Findings

We have performed substantive testing of fixed asset additions including completed and ongoing schemes. We have also reviewed the Council's valuation judgements made for significant complex schemes. We did not identify any issues in this work.

Agenda Item 6

Significant audit risks

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 2015/16* 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.

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Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 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.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because 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.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

Agenda Item 6

In our External Audit Plan 2015/16, presented to you in April 2016, we identified two areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each area of audit focus.

Area of focus 1 – Valuation of property

— Area

The Council holds a significant property portfolio and needs to consider whether the carrying value of property assets are materially misstated as at the balance sheet date. In doing so, it should pay particular consideration to complex development schemes or property earmarked for a change in usage or as surplus to ensure the valuation of these as per the most recent valuation is still appropriate.

— Findings

We have reviewed the appropriateness of the valuation methodology and considered the expertise of the valuers performing the exercise, and in addition reviewed the Council's consideration of the accuracy of the year-end carrying value of properties not revalued at the balance sheet date. We have performed testing of a sample of property revaluations back to valuation report. We did not identify any material misstatement from this work.

Area of focus 2 –Business rates pooling

— Area

The Council is a member of the Gloucestershire business rates pool whereby it pools its business rates collected with other Councils in Gloucestershire. The scheme experienced a deficit in 2014/15, mainly as a result of successful appeals made by Virgin Media in Tewkesbury which caused Tewkesbury Borough Council to miss its income target and pool losses being met by revenue reserves of the member authorities, Stroud's share of this was £301,000. This has led to Tewkesbury withdrawing from the scheme from 2016/17 onwards, but it was still a member for 2015/16.

The complexities of the scheme including the deficit situation mean that the process to account for the scheme is very complex and therefore subject to increased risk of error. In addition, the deficit situation puts increased pressure on the Council reserves.

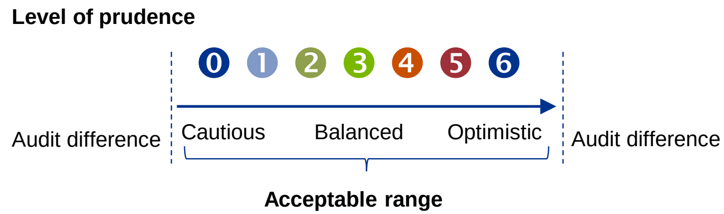
— Findings

We have considered the pool position at year-end including the impact of Tewkesbury's withdrawal and the Council's plans for funding any continuing deficit position. In addition, we have reviewed the Council's accounting for the pool within its accounts and the Collection Fund disclosure account to consider accuracy of the pool transactions.

No issues have been identified in our review of the accounting. There remains a deficit on the NDR element of the Collection Fund but this has decreased from £2,742k to £892k due to a surplus of £1,850k this year. The Authority is applying established processes to recover the deficit in future years. No issues have been identified in our review of the accounting.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£0.7 million *(PY: £0.9 million)*	The amount of provisions is immaterial. The balance mainly includes a provision for NNDR appeals. We consider the provision disclosures to be proportionate.
Property, Plant and Equipment (valuations / asset lives)	3	3	£256.9 million *(PY: £238.2 million)*	Property, plant and equipment is made up of £209m council dwellings, £46m other land and buildings, and £1.5m non-property assets. The property assets are depreciated over their useful lives and valued over a five year period. An in-house valuer assesses 20% of the non-housing assets each year across each property class, with housing assets being revalued on an index basis every year with a more detailed "beacon" valuation every 5 years. We reviewed a sample of revalued assets and noted that these were accounted for correctly. We consider that the valuation approach for this year is sufficient to avoid the risk of a material audit difference in the assets which have not been revalued, but the Council should remain alert to the potential of material movements in non-revalued asset values in future years.
Pensions	3	3	£40.7 million *(PY: £49.7 million)*	Assumptions are set in calculating the liability amount. Discounted at a rate of 3.4% (PY 3.1%), for the current year the life expectancy stayed the same as the prior year and the inflation rate was set at 2.1% (PY 2.1%). Key assumptions are in the middle of KPMG's acceptable range.

Accounts production and audit process

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

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

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has generally strong accounting practices within its financial reporting process and produces good quality accounts. We consider that accounting practices are appropriate. During our audit, we have considered the impact of the issue identified in May 2016 relating to the HRA balance, which was found to have been reported incorrectly within the budget setting process (an overstatement of £909k) while noting that the figure audited in the 2014/15 accounts was accurate. We have reconciled the HRA and General Fund balances audited within the 2015/16 accounts to the final outturn reports and no issues have been identified.
Completen-ess of draft accounts	We received a complete set of draft accounts on 27 June 2016. The Authority made a number of amendments to the narrative report after this date but prior to the 30 June deadline. There were also a few management adjustments made to the Accounts subsequent to the audit commencing which have been incorporated into the post-audit accounts.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on January 2016, set out our working paper requirements for the audit. The quality of working papers provided was generally good and met the standards specified in our *Accounts Audit Protocol*. We have made some suggestions for improvement in future years regarding the working papers for debtors and creditor accounts (which were initially on a journal basis rather than a breakdown of solely the year-end balance, making it harder to identify the balances for audit).
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. We did experience delays in some cases, specifically as several audit areas are reliant on availability and workload of a few key officers, so when these officers are dealing with multiple audit queries (from multiple members of the team), it can cause a delay in the provision of information. We recommend that the Authority continues to look at how this process can be improved with relation to faster close-down, as this will result in both the accounts preparation and audit timetable being further shortened.

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 2014/15*. Appendix one provides further details.

Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Stroud District Council for the year ending 31 March 2016, 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 four 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 Section 151 Officer 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.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report.

Section four: Value for Money

Agenda Item 6

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

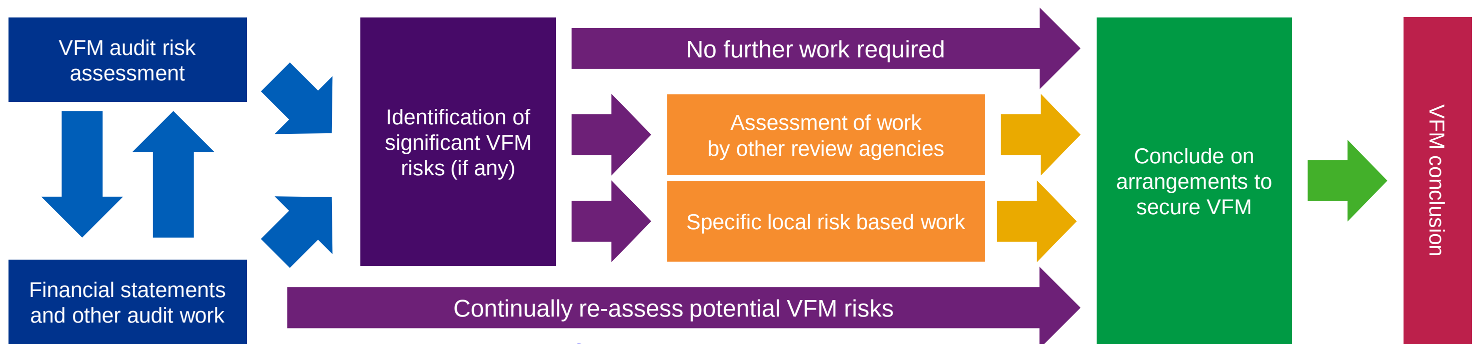
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓ Met	✓ Met	✓ Met



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Specific VFM Risks

We have identified a number of specific VFM risks.

We have performed additional work in relation to the areas set out on these slides.

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
Achievement of the savings plan	— In line with all authorities, Stroud needs to seek continuing savings in the forthcoming years as its central government funding continues to fall. This is likely to become increasingly difficult in future years as small incremental savings become harder to identify, and more transformative solutions may be needed. — As part of our additional risk based work, we reviewed the controls the Authority has in place to ensure financial resilience, in particular the Medium Term Financial Plan, which we will review to understand whether it has duly taken into consideration: — funding reductions; — salary inflation; — general inflation; — demand pressures; — restructuring costs; and — sensitivity analysis given the degree of variability in the above factors. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.	**Specific risk based work required: Yes** We undertook a review of the GF and HRA Medium Term Financial Plans ensuring that the funding assumptions appeared reasonable, other significant year-on-year changes appeared realistic and that it included all relevant costs. We are comfortable that the MTFPs appeared to have been developed methodically and scrutinised / reviewed sufficiently. They can be remodelled to reflect movements in assumptions. This remodelling is being performed by the Council to update the HRA MTFP in response to the HRA issue noted on page 16. The GR MTFP has identified a budget gap, particularly in the final two years of the plan (2018/19 and 2019/20). There are however plans in plans to identify further savings to bridge this gap. Based on this work, we have concluded that proper arrangements are in place relating to achievement of the savings plan.

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Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

We have performed additional work in relation to the areas set out on these slides.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Contract procurement	— In 2014/15 we issued a qualified VFM opinion as a result of instances identified in our and in internal audit's work where the Council had not followed its own procurement policies by failing to operate an appropriate procurement exercise and by making inappropriate variations to existing contracts. — At the time of our audit, the Council had already identified issues in its processes and steps were being taken to address these with the implementation of the action plan as well as a more centralised procurement overview. — In 2015/16, we have addressed this risk by reviewing the implementation of this action plan, and also performed sample testing on contracts for evidence of non-compliance, as well as considering the work of internal audit in this area.	**Specific risk based work required: Yes** Our action plan review found that the Council was on track against all the actions, while noting that some of actions have changed direction since our previous audit following the transfer of corporate governance over procurement to the Corporate Team. Our review of internal audit work covered three reports: - Dursley Pool Fitness Extension - Council House New Build-Mankley Road - HRA External works These reports were all satisfactory with the exception of one element in one report which had a limited opinion in relation to receipt of tenders and evaluation of contractor submissions. We reviewed the findings of these reports and while there are clearly improvements still to be made, these were much reduced in relation to last year and more minor or specific in nature. We then performed further testing over significant contracts and outsourcing arrangements made during the year. The new arrangements with NKS/Mears and UBICO were reviewed at a high level with no issues noted in this review (we note that Internal Audit will perform a more detailed review of the NKS/Mears contracts during 2016/17). On the basis of this work, while it is clear that there remain some discrepancies in procurement procedures, in particular relating to IA work during the year, the issues are much reduced from last year and less significant in nature. In addition, we did not identify any issues in the most significant new arrangements established during the year. Based on this, we consider that sufficient improvements have been made for us to issue an unqualified VFM conclusion this year. However, it remains important that the Council continues to focus on making improvements to its procurement arrangements, both through the processes in place and the extent to which they are applied in practice.

Appendices

Appendix 1: Key issues and recommendations
Appendix 2: Audit differences
Appendix 3: Data Analytics
Appendix 4: Independence and objectivity

Agenda Item 6

Key issues and recommendations

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					
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.	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.	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.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	**Purchase data analytics findings** We have performed a range of analytics over purchase ledger data for 2015/16 as set out on pages 29 to 31, which have identified a number of areas for follow up by management: - A significant amount of invoices were raised without purchase order within the Agresso system - A significant amount of purchase orders were raised after the invoice date This means there is a risk that the purchase order authorisation control is not operating correctly for these invoices In addition, we have identified a number of transactions which are possibly duplicate which we have provided to management for follow-up **Recommendation** Management should follow up on the items identifies and considers whether and process changes or additional training/education is required regarding the use of Purchase Orders	The council recognises the importance of raising purchase orders)POs) for goods and services within the Agresso system. The processing and payment of invoices has been subject to a 'Systems Thinking' review in the last 12 months. This review recommended that POs should be raised for all invoices where possible, with some notable exceptions such as utilities and Tenant Services repairs and works orders. It also recommended that the finance team, after a transitional period, should enforce PO compliance so that invoices presented for payment without a valid PO would not be processed and returned to the supplier. The finance team are currently considering the timing of this change. It is likely that the Agresso system will require a significant upgrade in the coming months. Therefore, it would be more practical to delay the rollout of enforced PO compliance until we have had more time to understand the impact an upgrade would have on the way POs and invoices are processed in Agresso. David Stanley March 2017 (review progress)

Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15*.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	-

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	2	**Borrowing in Advance of Need** 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. 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). We noted 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. 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. 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. **Recommendation** Make the changes to the Treasury Management Strategy that we have identified above.	Sandra Cowley Strategic Head (Finance & Business Services) Due date: Audit & Standards Committee – January 2016 Full Council – February 2016	Council approved the 2016/17 Treasury Management Strategy (TMS) in February 2016. The TMS included a policy on borrowing in advance of need.

Follow up of prior year recommendations (continued)

The Authority has [not] implemented all of the recommendations in our *ISA 260 Report 2014/15*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
2	3	**Lack of sensitivity analysis within MTFS** We have noted that the Council's Medium Term Financial Strategy (MTFS) did not include any detailed sensitivity analysis. 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. **Recommendation** 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.	Sandra Cowley Strategic Head (Finance & Business Services) Due date: We will review this in light of the recommendation made in the Budget Strategy report to Strategy and Resources Committee in October 2015.	Our discussions with senior management and members when preparing the MTFP highlighted the potential variables on some of the assumptions included in the MTFP. This was highlighted in some detail in the MTFP reports to Strategy and Resources committee and Council in January 2016, with particular attention drawn to the assumptions made on Government funding. We will continue to review this in the Budget Strategy report to Strategy and Resources committee in October 2016.

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £75,000.

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.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Stroud District Council's financial statements for the year ended 31 March 2016.

Impact						
No.	**Comprehensive Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Cr Cost of Services £2,225k	Dr Adjustments between accounting basis and funding basis £2,225k				The actuarial movements on the pension reserve had been booked inaccurately with too much of the movement going through Other Comprehensive Income (no overall impact on balances).
2	Cr Gain on disposal of non-current assets £454k	Dr Adjustments between accounting basis and funding basis £454k				An element of the cash proceeds on disposals of non-current had gone straight to the capital receipts reserve without going through the CI&ES
3	Dr Grant Income (General Fund) £813k Cr Grant Income (HRA) £813k	Cr General Fund £813k Dr HRA £813k				Elements of the grant income received during the year related to HRA spend, so should have gone through the HRA but were erroneously booked to the general fund. A similar error was made during 2014/15 and has been corrected by a prior year adjustment (impact £6.6m with no impact on year-end balances)
4	Dr Grant Income £1,100k	Cr General Fund £1,100k Dr Capital Adjustment Account £1,100k		Cr Long-term creditors £1,100k		Adjustment relating to £1.1m cash loan that was received from HCA for Briscombe Port development shortly before year-end. This loan is repayable if SDC cannot meet certain conditions set by the HCA after 10 years. It has therefore been moved from income into creditors at the current time until ability to meet these conditions is more certain. This treatment will be revisited in future years as progress against HCA conditions is made.
	Cr £1,579k	**Dr £2,679k**		**Cr £1,100k**		**Total impact of adjustments**

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Audit differences (cont.)

The cumulative impact of uncorrected audit differences is £302k.

This is below our materiality level of £1.5 million.

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 2016.

Impact						
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1		Cr General fund £302k Dr Pension Reserve £302k	Cr Pensions Assets £302k	Dr Creditors £302k		This relates to March 2016 pension contributions which had not been paid to the pension administrator (Gloucestershire County Council) prior to year end. International Accounting Standard (IAS) 19 Employee Benefits 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 and on the mechanics of the pension transactions within the accounts, as the Council has an equivalent creditor balance to the pension scheme.
	-	**-**	**Cr £302k**	**Dr £302k**	**-**	**Total impact of uncorrected audit differences**

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.5 million for the Authority's accounts.

We have reported all audit differences over £75,000 for the Authority's accounts.

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 2015/16, presented to you in April 2016.

Materiality for the Authority's accounts was set at £1.5 million which equates to around 1.9 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 £75,000 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.

Accounts Payable - Data Analytics

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion.

We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.'

Key Findings

To support our audit approach and to provide insight into the Authority's Non-Pay Expenditure, we have conducted data & analytics on the Accounts Payable system.

We conducted 15 tests, and followed up on particular exceptions with management. Key observations are set out below.

During this period, a total of 15,267 invoices made up of 26,443 individual invoice lines have been recorded with a value of £39.7m. This is an increase from the same period in the prior year of £4.2m, or 12%, mainly driven by increased capital spend, especially within the HRA.

We noted that 20,715 invoice lines were not matched to a purchase order within our data set. This is common practice for some areas such as utilities, however would be inappropriate for the majority of expenditure types. These invoice lines represent 78% of the total number of invoice lines recorded in the period. We have queried this with officers, who have informed us that the main reasons for this are that:

1) purchase orders are not raised most HRA invoices on Agresso as these are paid against contracts which are recorded/authorised on Tenant Services Northgate system (raising POs on Agresso will cause duplication).

2) there are some exceptions where it is difficult to raise POs like utility bills, stationery (contract), taxis, postage & franking machine etc.

An analysis of period 12 shows that of the general fund invoices raised, 57% did not have a matched purchase order. Our data has been provided to officers for analysis in order to identify if there is an issue with compliance.

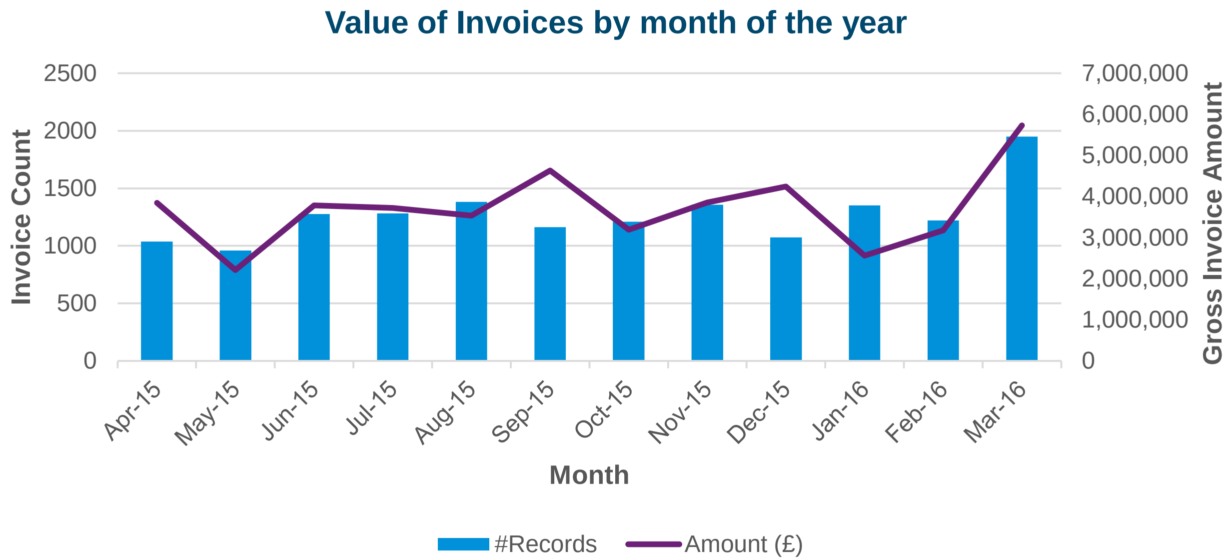
We have also identified a list of matches which could constitute potential duplicates totalling £146,000, which we have provided to management for investigation. It should be noted that the majority of these are likely to be false positives based on the supplier, date and value as many of the Authority's invoices are for regular values. The total number of possible duplicates is not material, so we do not require further work for completion of our audit.

We have raised a recommendation in relation to the points above so that actions against this can be tracked.

Accounts Payable – Data Analytics (cont.)

This chart analyses the purchase invoices by month, both in terms of value and number.

1. Analysis by month



Analysis of results

Significant outliers in this chart could suggest inaccurate or lack of purchase invoice processing. The chart shows an increase in invoices posted in March 2016, suggesting an increased spend in the final month of the year.

September and December are high outliers in terms of value of invoices but on investigation, this is due to stage payments on certain large capital contracts e.g. Lovells, Mears and NKS in these months. No audit issues have been identified from this work.

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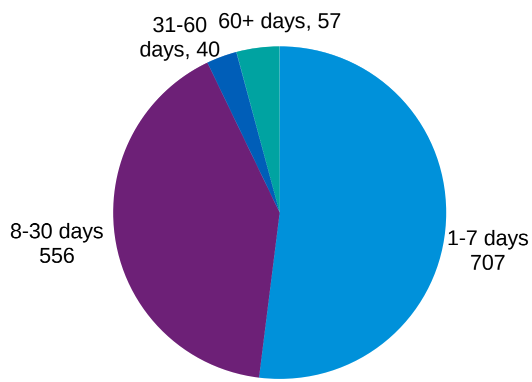
Accounts Payable – Data Analytics (cont.)

This chart analyses invoices where the purchase order was dated after invoice date.

3. *Analysis of purchase orders dated after the invoice date*



4. *Analysis of purchase orders dated after the goods delivery date*

Number of purchase orders dated after the goods delivery date	0

Analysis of results

We noted a total number of 1360 invoices matched to purchase orders, dated before the date of the purchase order. This is approximately 10% of the invoices recorded in the period, and they have a total value of £571k. Raising purchase orders after the invoice date potentially circumvents the purchase authorisation control prior to the Council being committed to pay for the goods or services.

The graph shows an analysis of the number of days after the invoice that each purchase order is dated.
The longest period after the date of an invoice that a was approved is 726 days.

Those in the 60+ days band relate mostly to expenditure by the Subscription Rooms bar and museum. Officers have provided explanations for this as follows:

1 – Museum & Subscription rooms need to order items over the weekend; due to unavailability of authorisers & urgency of the nature of transactions a requisition is raised & order is placed prior to authorisation. The invoices & items are generally received on the same day or next morning at the very latest hence the order is authorised after receipt of invoice.

2 – In case of large orders where invoices are received in segments an initial invoice is received before the whole order is raised. To keep things consistent the initial invoice is paid against the larger order.

3 – There is a general training issue which is the main cause of this problem. Staff generally do not have the appropriate knowledge regarding the purpose of POs.

We have raised a recommendation in relation to this.

Agenda Item 6

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

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 this. 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.

Declaration of independence and objectivity (cont.)

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.

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.

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 2016, 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.

Appendix four

Audit Independence

Audit Fees

Our fee for the audit is 53,886 plus VAT (£73,593 in 2014/15). This fee was £1,911 higher than our scale fee of £51,975, because, as noted in our Audit Plan, we needed to perform some additional work for our VFM conclusion in relation to procurement which was not incorporated in our original scale fee. This fee variation of £1,911 is subject to approval by PSAA. Our scale fee for certification for the HBCOUNT Housing Benefit subsidy work is £9,900 plus VAT (the final fee will be confirmed once the work is complete).

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these. Both services are audit related services and are both individually and in aggregate below the de minimis amount requiring PSAA approval of £18,000 or 20% of the scale audit fee.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Certification of Pooling of Housing Capital Receipts claim	£5,000 estimate including 2014/15 overruns (work still ongoing)	**Self interest** – The fee is below the deminimis threshold set by the PSAA. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). **Self review** – The nature of this work is to review and certify the specific financial and non-financial datat hat the Authority reports to DCLG and HCA. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. **Management threat** – This work will be review of historical information only – no decisions made **Familiarity** – This threat is limited given the scale, nature and timing of the work. **Advocacy** – We will not act as advocates for the Authority in any aspect of this work. **Intimidation** – not applicable
HCA compliance audit	£3,500	
Total estimated fees	**£6,500**	
Total estimated fees as a percentage of the external audit fees	**12%**	

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STROUD DISTRICT COUNCIL

AGENDA ITEM NO

AUDIT AND STANDARDS COMMITTEE

22 SEPTEMBER 2016

7

Report Title	**STATEMENT OF ACCOUNTS 2015/16**
Purpose of Report	To approve the Statement of Accounts 2015/16 and receive KPMG's audit opinion, including the changes to the accounts since the unaudited accounts were signed off by the Accountancy Manager and Deputy Section 151 Officer on 30 June 2016.
Decision(s)	Committee **RESOLVES:** (a) to approve the audited Statement of Accounts for the year ending 31 March 2016, and (b) that the Deputy 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. Alan Carr, Solicitor Tel: 01453754357 Email alan.carr@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 • Accounts and Audit (England) Regulations 2011 • Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 'Code') Appendix A – Statement of Accounts

Discussion

1. In accordance with requirements under the Accounts and Audit (England) Regulations 2011, the Accountancy Manager and Deputy 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 2016 and its income and expenditure.

2. The Statement of Accounts for 2015/16 was signed as approved by the Accountancy Manager and Deputy Section 151 Officer on 30 June 2016, in accordance with these requirements. The unaudited Statement of Accounts 2015/16 was made available on the Council's website from 30 June 2016.

3. A number of changes have been made to the unaudited Statement of Accounts 2015/16. 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 there was a reclassification of a £1.1m receipt in connection with the redevelopment of Brimscombe Port from the Homes and Community Agency from a grant to a long term creditor in recognition of conditions that may require monies or property to be returned to the giver. A summary of the balance sheet changes is set out in the table below.

Balance Sheet Changes 2015/16

	Unaudited £000	Audited £000	Change £000
Property, Plant & Equipment	256,850	256,850	-
Other assets & liabilities	-114,985	-116,085	-1,100
Net Assets	**141,865**	**140,765**	**-1,100**
Usable Reserves	24,382	23,282	-1,100
Unusable Reserves	117,483	117,483	-
Total Reserves	**141,865**	**140,765**	**-1,100**

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) 2015/16', 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 2016.

   - **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 2016. 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.

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/council/public-notices/public-audit-of-accounts.

STROUD DISTRICT COUNCIL
www.stroud.gov.uk

Statement of Accounts 2015/2016

Contents

Narrative Report

Introduction to Stroud, Facts and Figures

The District of Stroud is located in the county of Gloucestershire, and covers an area of approximately 45,325 hectares (453 km^2 or 175 $miles^2$). Much of the eastern half of the District falls into the Cotswold Area of Outstanding Natural Beauty (AONB).

- Stroud has a population of 112,779 (2011 census) living in 51,679 households
- Stroud's population is expected to grow to 129,800 by 2037 (http://www.neighbourhood.statistics.gov.uk/HTMLDocs/dvc183/index.html#25/298/77/null/null/false/false/na/1)
- 3,837 new houses were built 2006-2015 and 7,563 projected to be built 2016-2031 to meet the minimum residual housing requirement(Source: SDC Local Plan)

Council Performance

During 2015, Stroud District Council updated the Corporate Delivery Plan (CDP) 2015-2019. The plan, which is available on the Council's website (link) sets out the vision for the district – to be leading a community that is making Stroud District a better place to live, work and visit for everyone. The CDP seeks to set out how this will be achieved around key priorities:

- **ECONOMY** - Help local people and businesses grow the local economy and increase employment
- **AFFORDABLE HOUSING -** Provide affordable, decent and social housing
- **ENVIRONMENT** - Help the community minimise its carbon footprint, adapt to climate change and recycle more
- **RESOURCES** - Provide value for money to our taxpayers and high quality services to our customers
- **HEALTH AND WELLBEING** - Promote the health and wellbeing of our communities and work with others to deliver

During 2015/16, a number of actions/outcomes have been achieved in relation to the CDP. These involved officers from all parts of the Council, but also from many partner organisations (such as the Homes and Communities Agency, Stroud Valleys Canal Company, Cotswolds Canal Trust). The CDP actions are reviewed and monitored on a quarterly basis and reported to each Committee as part of quarterly performance reports from members. The table below, is not an exhaustive record of the Council's performance, but does provide an indication of the breadth of achievement against the CDP.

Performance against CDP objectives in 2015/16

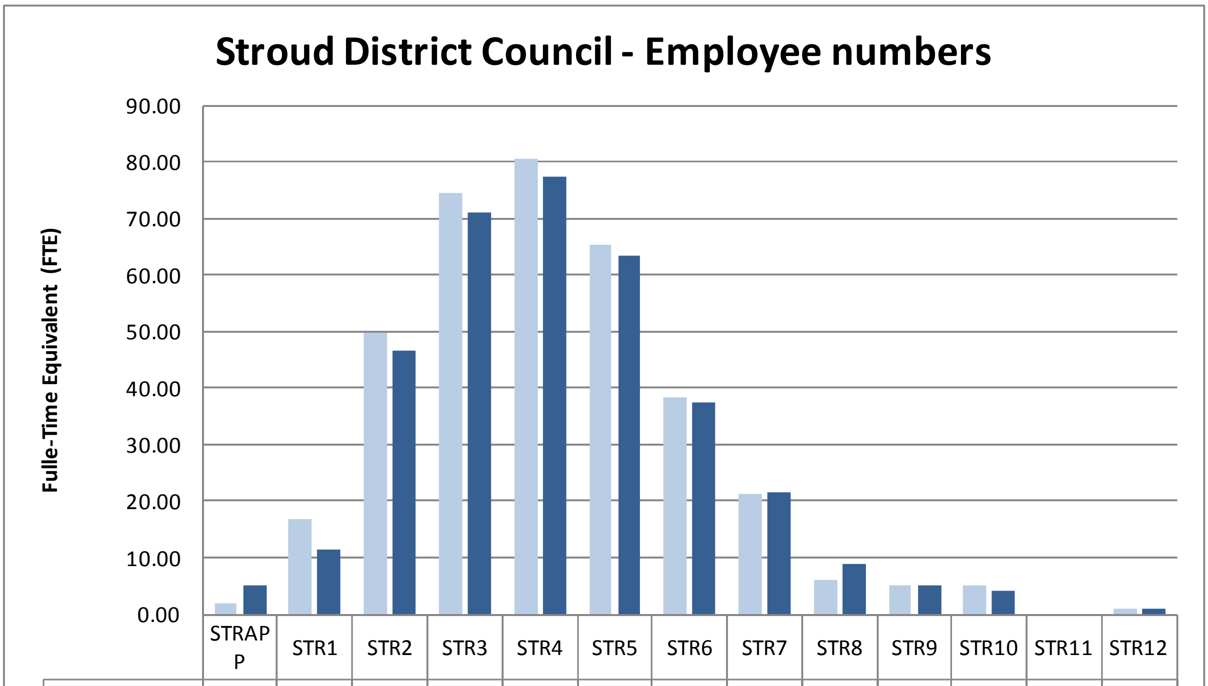
Economy	Affordable Housing	Environment	Resources	Health and Well Being
Dursley Pool – construction started of £1.5m Fitness centre due to open July 2016 Developed and implemented our Work Experience Charter working with local schools and businesses Provided 9 apprenticeships within the council, seconding 2 of these to local businesses to improve skills levels Provided grant funding for small businesses and social enterprise to grow business, create jobs and relocate/expand.	Delivered 72 new Affordable Homes in 2015/16 (16 shared ownership, 56 rental). Investment of £8.8m in existing Housing Stock. Financial inclusion strategy (money management, access to training and employment, credit unions and welfare support) implemented through multi-agency partnership (Stroud Money Advice Forum)	SDC's Local Plan formally adopted in December 2015 Provision of 'Warm and Well' advice to households in fuel poverty and installation of energy efficiency measures.	£0.437m of budget savings identified in 2015/16 MTFP delivered. IT infrastructure in place to enable on-line booking and payment for all council services. Delivery of the Building Control Partnership with Gloucester City Council	GP Referral Service scheme extended to Thomas Keble, Maidenhill and Stratford Park centres. Delivered physical activity and learning programmes at the Museum in the Park for 2,000 people from schools, care homes and community groups

The Council also has a Jobs and Growth Plan (link) which is underpinned by over £5 million of investment. This includes employment and homes at Littlecombe, Dursley; the largest regeneration site in Gloucestershire, which we now own. Added to that and uniquely, we are leading a £20 million canal regeneration project which has won various national awards. Over the last 12 months:

- a much praised 'Stroud Ambitions' event was delivered, which offered careers guidance to over 1,000 year nine pupils and was supported by more than 50 local companies;
- jobs and investment at key sites such as Brimscombe Port, near Stroud, and Littlecombe, Dursley has taken place and more is planned;
- we continued a highly successful programme of apprenticeships, work placements and education-business links;
- we improved property management, with over 1,000 people now employed in companies on council owned premises;
- our investment in the local economy (more than £75 million over five years) progressed. Council house building and improvement programmes; our mortgage scheme; carbon management programme; canal regeneration project; and energy efficiency schemes are all part of this investment;
- we have helped growing companies relocate within the district, with substantial private investment in jobs, apprenticeships and production facilities.

People

As at January 2016 the Council employed 352.72 full-time equivalent (FTE) officers to deliver a wide range of services to the public (365.82 as at January 2015)



	STRAPP	STR1	STR2	STR3	STR4	STR5	STR6	STR7	STR8	STR9	STR10	STR11	STR12
FTE Jan 2015	2.00	16.94	49.75	74.45	80.64	65.37	38.50	21.12	6.00	5.05	5.00	0.00	1.00
FTE Jan 2016	5.00	11.26	46.52	71.10	77.20	63.44	37.44	21.66	9.00	5.10	4.00	0.00	1.00

The Council pays spot salaries to all employees. The table above shows the number of full-time equivalent officers at each pay grade. Further details on staff remuneration are available in the Council's Fair Pay and Senior Pay Policy Statement (link).

Financial Performance

General Fund

The Council's General Fund revenue budget for 2015/16 was agreed against the backdrop of continuing reductions in core Government funding. The council's budget included a significant level of investment to support the Jobs and Growth Plan (£2m over 2 years to deliver housing, £0.6m over 2 years to support the Stroud Valleys Initiative intended to mitigate flood risk to unlock housing and employment land within the Stroud valleys).

A balanced budget was set through

- Delivery of £0.437m of savings and efficiencies
- Use of balances £0.414m (revised budget £0.621m)

The majority of the savings related to workforce planning savings and income generation. Stroud's approach in setting out the budget position in its Medium Term Plan (MTFP) is that savings are only included when they are known/certain rather than including indicative savings levels to be achieved in order to balance the budget.

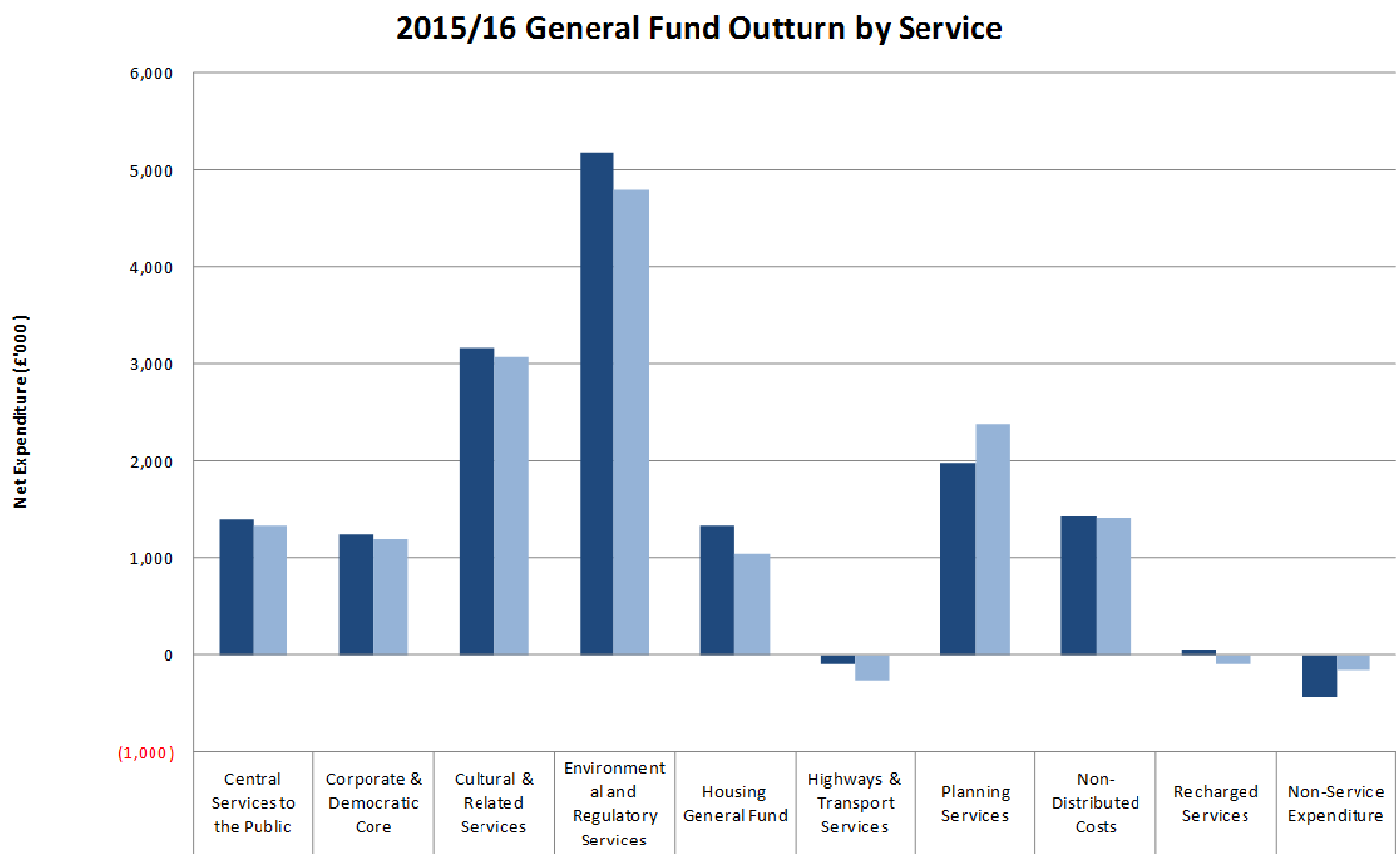
New Homes Bonus forms a significant part of the Council's finances to support the General Fund budget. The Council received £2.277m in 2015/16 and is due to receive £3.210m in 2016/17 – around 21% of the total funding of the General Fund. It was recognised as significant financial risk to the Council as part of the budget setting process for both the 2015/16 and 2016/17.

The General Fund revenue outturn position for 2015/16 is an under spend after agreed carry forwards of £0.635m. The main reasons that have resulted in the under spend are:

- additional income from Revenues and Benefits team (DWP grant allocations and successful recovery of overpaid benefit)
- savings from lower than anticipated staffing costs (a mix of in-year savings and vacancy levels)
- additional New Burdens grants received in year
- strong performance on income from fees and charges

However, there remained some cost pressures across the General Fund that partially offset the savings and additional income outlined above. Whilst the Council formally adopted the Local Plan, cost pressures remain within the planning environment in terms of expenditure on planning appeals (appeals can be hugely expensive and include residential development and supermarket appeals) and consultancy required to progress planning applications. Further cost pressures are expected in 2016/17 with the commencement of the new Waste and Recycling contract.

The net position for the General Fund (prior to and budget carry forwards) is set out in the chart below. This shows net revenue spend of £14.705m compared to a budget of £15.240m. As a result, £15k is added to balances rather than £621k being drawn from balances.



	Central Services to the Public	Corporate & Democratic Core	Cultural & Related Services	Environmental and Regulatory Services	Housing General Fund	Highways & Transport Services	Planning Services	Non-Distributed Costs	Recharged Services	Non-Service Expenditure
Net Budget (£'000)	1,412	1,242	3,157	5,171	1,329	(101)	1,975	1,430	52	(425)
Net Actual (£'000)	1,333	1,190	3,068	4,799	1,034	(255)	2,374	1,416	(100)	(155)

Performance on Business Rates

Owing to the way in which income from Business Rates is accounted for, the net position on business rates is generally in-line with the budgeted position. However, the underlying performance on business rates is much healthier than the outturn suggests. Stroud has seen growth in business rates income over the last 12 months, in part due to the opening of the M5 services between J11a and J12.

Stroud also benefits from Business Rates collected in respect of renewable energy schemes, as this sits outside the Business Rates Retention Scheme. An additional £108k of business rates income was generated from renewable energy schemes. However, the level of outstanding backdated business rate appeals remains high and is still subject to a high degree of uncertainty.

Stroud is also the lead authority for the Gloucestershire Business Rates Pool (GBRP). Based on the submitted NNDR3 returns, the GBRP is reporting a surplus of £1.129m. This is predominantly due to an improved position across the majority pool members (in particular Stroud, Gloucester and Cotswold) and the consequential impact of the lower pool levy rate

After accounting for a safety net payment to Tewkesbury of £252k, the remaining balance of £878k was distributed back to pool members in accordance to the governance arrangements pro-rata to 2014/15's deficit. This means that Stroud received £137k from the pool surplus (essentially a repayment of around 50% of 2014/15's deficit), and this has been transferred to the Business Rates reserve to provide safety-net funding to smooth out any fluctuations in funding in future years.

Housing Revenue Account

The council owns and maintains its own council housing stock and manages 5,117 properties with a balance sheet value of £209m.

As part of the work undertaken on the Statement of Accounts, it became clear that the HRA opening balance reported to committees during the budget setting process has been overstated by £909k.

- The total figure reported for reserves and balances included the HRA capital receipts reserve, however, this is a balance sheet item and is only included in the budget as income as schemes are progressed that can be financed from the Right to Buy receipts. An Internal Audit investigation was undertaken with recommendations made and accepted by management to improves the internal control framework.

The HRA outturn position for 2015/16 shows a net use of balances of £1.4m, an increase of £0.9m over the revised budget position. The main reasons for the increased use of balances are:

- £0.391m of additional expenditure on the New Build and Development Programme (accelerated delivery)
- £0.106m of additional revenue Repairs and Maintenance expenditure
- £0.470m of changes in HRA Financing increasing the use of HRA balances in year

The impact on HRA balances of this change and the level of expenditure in 2015/16 are shown in the table below.

HRA Balances 2015/16	**Budget £'000**	**Actual £'000**	**Variance £'000**
Opening reserves/balances	**5,796**	**4,887**	**909**
Opening balance	3,729	3,370	359
Spend in year	-494	-1,432	938
Closing balance	3,235	1,938	1,297
Earmarked reserves 1 April	2,067	1,517	550
Applied in year	-1,717	-1,517	-200
Closing balance	350	-	350
Closing reserves/balances	**3,585**	**1,938**	**1,647**

Explanation of variance	
Opening balance misstated in committee reports	909
Outturn position:	
- Capital schemes brought forward	391
- Right to Buy receipts not applied	211
- Shared ownership income delay	121
- repairs & maintenance	106
- other	-91
Total variance	**1,647**

The application of Right to Buy receipts has been a particular issue during 2015/16 and following extensive work it became clear that the receipts could not be applied to schemes that had already applied HCA funding and the appropriation of land from the General Fund to the HRA at market value does not count as eligible expenditure.

Given the much smaller New Build programme in 2016/17 and that almost the whole spend will not be eligible as it has HCA funding attached, the authority's ability to apply RTB receipts is extremely limited in the future.

Impact on HRA budget 2016/17

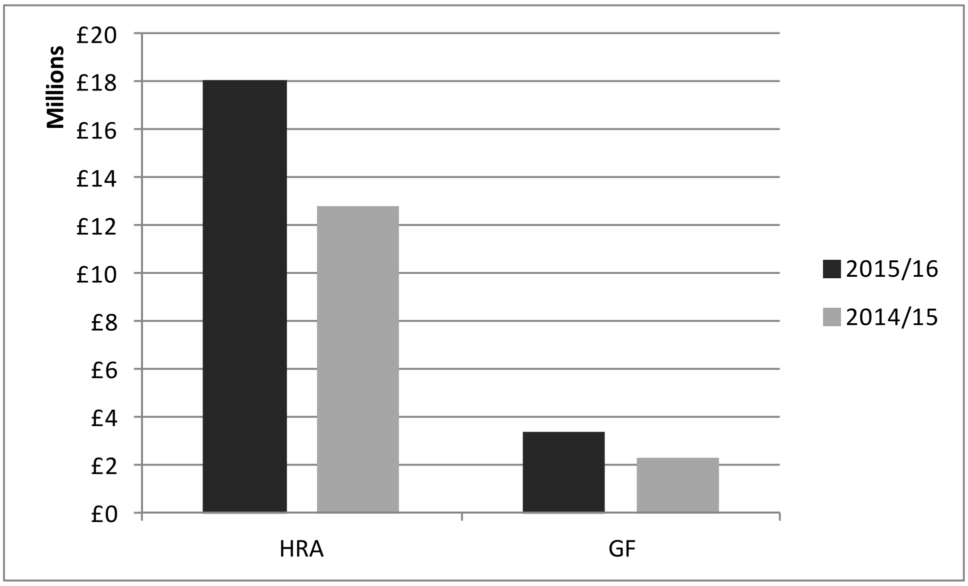
The budget for 2016/17 will need to be updated for the changes regarding RTB receipts described above and take account of the outturn position including a decision on carry forward balances. These changes alone are likely to see HRA balances reduced to zero by the end of 2016/17.

There are a number of options for re-instating balances to a level which provide the cushion needed to face the financial risks the HRA currently faces. For example, earmarked reserves can be reviewed, works can be re-profiled, sales of land and property. Some difficult decisions will need to be made.

All options are currently being looked into and will be reported to the Housing Committee for consideration. Ultimately Strategy and Resources Committee and the Council will need assurances from the Section 151 Officer that the balances are adequate and the estimates are robust.

Capital Outturn

General Fund capital expenditure for 2015/16 was £3.385m (£2.280m in 2014/15). Major General Fund capital projects included Multi-service contract depot £0.9m, Dursley Pool fitness centre £0.8m and the Canal regeneration scheme £0.8m. HRA Capital spend was £18.080m (£12.818m in 2014/15), of which £9.059m was spent on construction of new council dwellings.



The Capital Programme is financed through a number of different sources – capital receipts mainly Right to Buy council house sales, external grants and contributions, GF Capital Reserve, other earmarked reserves, loans and revenue funding.

Revenue Balances/Earmarked Reserves

In common with other local authorities, the Council holds balances to cover a number of potential eventualities and risks of expenditure being required over and above that allowed for within revenue and capital budgets.

As at 31 March 2016 the Council's General Fund balances were £8.662m, with a further £9.060m held in Earmarked Reserves.

Provisions

Provisions totalling £0.734m have been included in the Statement of Accounts to outstanding legal costs associated with Land Charges and meeting the estimated costs of Non-Domestic rating appeals.

Treasury Management performance, Iceland
In September 2015 the Council sold its remaining Icelandic Kroner to Deutsche Bank. Whilst provision had been made to offset any potential foreign exchange loss or losses arising from potential currency controls, the overall loss was on the transaction was £104k. Of this, £54k was charged against the provision with the balance charged to the General Fund.

Pension Fund performance
The balance sheet position of the Council's pension fund deficit has reduced in 2015/16 by £9.025m to £40.662m. This improvement is due to an increase in the net discount rate, and the positive impact of this has outweighed lower than expected asset returns.

Outlook - Medium Term Financial Plan

The Council, in common with other local authorities, faces significant pressure on its finances over the medium term. The level of Government funding supporting the Council's General Fund is reducing with a high degree of uncertainty around the future of New Homes Bonus (NHB) and the impact of 100% Business Rates Retention.

The Medium Term Financial Plan (MTFP) shows that the Council faces a budget gap increasing significantly in the final 2 years of the plan (2018/19 and 2019/20). The table below summarises the cumulative funding gap from 2016/17 to 2019/20 of £4.946m, with the 2018/19 to 2019/20 cumulative funding gap £4.349m being a significant concern.

	2016/17 (£'000)	**2017/18 (£'000)**	**2018/19 (£'000)**	**2019/20 (£'000)**
Net Revenue Budget	15,557	14,708	15,108	15,528
RSG/Tariff Adj/Transition Funding	1,156	449	0	(549)
New Homes Bonus	3,210	2,680	2,000	1,533
Business Rates Retention	3,098	3,158	3,252	3,356
Council Tax	8,036	8,159	8,284	8,411
Collection Fund	(277)	0	0	0
Subtotal	**15,223**	**14,447**	**13,535**	**12,750**
Use of Balances	335	261	1,572	2,777
Cumulative Funding Gap	**335**	**596**	**2,168**	**4,946**

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

The MTFP was prepared using the indicative 4-year settlement announced by the Government. The Council will need to consider whether to accept the 4-year offer by 14th October, which will be considered as part of the 2017/18 Budget Strategy. The 4-year settlement shows that Revenue Support Grant reduces significantly in the first 2 years and ceases from 2018/19. From 2019/20, the Council will be paying a Tariff Adjustment of £0.549m back to Government.

The Government is consulting on changes to the New Homes Bonus and is due to provide details of these changes in summer 2016. Owing to pressures within Adult Social Care funding, it is anticipated that the final design of the NHB scheme will shift resources away from lower-tier authorities to those with social care responsibilities. Stroud is likely to see a significant reduction in the level of NHB it receives, the level of NHB included in the MTFP reduces from £3.210m in 2016/17 to £1.533m in 2019/20 reflecting the Government's preferred funding methodology outlined in the consultation document.

Since April 2013, the Council has retained a proportion of the business rates collected locally under the Business Rates Retention (BRR) scheme. Whilst BRR allows councils to keep some of the growth in business rates in their area, an element of risk is borne by the council in terms of business rates appeals and business failures.

Stroud is also the lead authority for the Gloucestershire Business Rates Pool (GBRP) and has provided the opportunity to keep a greater share of business rates income within Gloucestershire. The GBRP is reporting a surplus of £1.129m and after accounting for a safety net payment to Tewkesbury of £252k, the remaining balance of £877k was distributed back to pool members in accordance to the governance arrangements pro-rata to 2014/15's deficit. This means that Stroud received £137k from the pool surplus.

When the final Local Government Finance Settlement was announced in February 2016, the government extended to all Councils the ability to raise Council Tax by £5 or up to 2% per annum, whichever is the greater. As Stroud had already considered its strategy for Council Tax increases, the MTFP only included increases of 1.99% per annum. The Council will need to consider whether to increase Council Tax by £5 annum as part of the 2017/18 Budget Strategy.

The financial environment is expected to remain difficult for local authorities for the foreseeable future, especially given the result of the referendum on EU membership. The Council has been successful in delivering significant budget and efficiency savings to date and has been pro-active in identifying and delivering savings. However, further significant savings or cost reductions are needed over the medium term to help balance the budget. The 2017/18 Budget Strategy will set out the way in which these can be delivered through a combination of service reviews, income generation or cost reductions.

Summary of the Core Financial Statements

The Statement of Accounts summarises the Council's financial performance and cash flows for the 2015/16 financial year from 1 April 2015 to 31 March 2016, and its position at the financial year end of 31 March 2016.

There are four **core financial statements**:

Movement in Reserves Statement (page 14)
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. Usable reserves decreased by £0.971m in 2015/16, (2015/16 £23.282m, 2014/15 £24.253m), with Unusable reserves increasing by £22.786m (2015/16 £117.483m, 2014/15 £94.697m)

Comprehensive Income and Expenditure Statement (page 16)
This statement shows the accounting cost in the year of providing the council's services.

Balance Sheet (page 17)
This statement shows the assets and liabilities of the Council. The Total Net Worth of the Council increased by £21.815m in the year (2015/16 £140.765m, 2014/15 £118.950m)

Cash Flow Statement (page 18)
This statement shows the changes in cash and cash equivalents in the year. There was a decrease in cash and cash equivalents of £7.426m (2015/16 £9.200m, 2014/15 £16.626m)

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

Housing Revenue Account Income and Expenditure Statement (page 83)
This statement shows the economic cost in the year of providing Housing services through the HRA.

Collection Fund Statement (page 90)
This statement shows the Council Tax and Non-Domestic Rating (NNDR) income received in the year less precepts and charges to the collection fund. Overall, the deficit on the NNDR element reduced by £1.850m (2015/16 £0.892m deficit, 2014/15 £2.742m deficit). There is an increased surplus on the Council Tax element of £0.225m (2015/16 £1.188m surplus, 2014/15 £0.963m surplus).

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 2016.

Signed: Date:

D Stanley CPFA **22 September 2016**
Accountancy Manager (Deputy s151 Officer)

(For and on behalf of Strategic Head (Finance and Business Services))

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 2016. This statement is made on page 12.

Signed: Date:

D Stanley CPFA **22 September 2016**
Accountancy Manager (Deputy s151 Officer)

(For and on behalf of Strategic Head (Finance and Business Services))

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 2015-16

	Notes	(a) General Fund Balance £000	(b) Earmarked GF Reserves £000	(c) Housing Revenue Account £000	(d) Capital Receipts Reserve £000	(e) Capital Grants Unapplied £000	(f) **Total Usable Reserves** £000	(g) Unusable Reserves £000	(h) **Total Authority Reserves** £000
Balance at 31 March 2015		**8,646**	**8,735**	**4,887**	**1,507**	**477**	**24,253**	**94,697**	**118,950**
Surplus or (deficit) on provision of services (accounting basis)		**(448)**	**-**	**11,161**	**-**	**-**	**10,713**	**-**	**10,713**
Other Comprehensive Income & Expenditure		**-**	**-**	**-**	**-**	**-**	**-**	**11,102**	**11,102**
Total Comprehensive Income & Expenditure		**(448)**	**-**	**11,161**	**-**	**-**	**10,713**	**11,102**	**21,815**
Adjustments between accounting basis & funding basis under regulations	*7*	**789**	**-**	**(14,110)**	**1,384**	**253**	**(11,684)**	**11,684**	**-**
Net Increase / (Decrease) before Transfers to Earmarked Reserves		**341**	**-**	**(2,949)**	**1,384**	**253**	**(971)**	**22,786**	**21,815**
Transfers to / (from) Earmarked Reserves	*8*	**(325)**	**325**	**-**	**-**	**-**	**-**	**-**	**-**
Increase / (Decrease) in Year		**16**	**325**	**(2,949)**	**1,384**	**253**	**(971)**	**22,786**	**21,815**
Balance at 31 March 2016		**8,662**	**9,060**	**1,938**	**2,891**	**730**	**23,282**	**117,483**	**140,765**

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

* Restated Movement in Reserves Statement 2014-15

	Notes	(a) General Fund Balance £000	(b) Earmarked GF Reserves £000	(c) Housing Revenue Account £000	(d) Capital Receipts Reserve £000	(e) Capital Grants Unapplied £000	(f) **Total Usable Reserves** £000	(g) Unusable Reserves £000	(h) **Total Authority Reserves** £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)		**(268)**		**17,605**			**17,337**	**-**	**17,337**
Other Comprehensive Income & Expenditure				**-**			**-**	**(5,185)**	**(5,185)**
Total Comprehensive Income & Expenditure		**(268)**	**-**	**17,605**	**-**	**-**	**17,337**	**(5,185)**	**12,152**
Adjustments between accounting basis & funding basis under regulations	*7*	**1,746**		**(14,623)**	**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**

* restated see Note 14 of Supplementary Financial Statements (page 82)

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

2014/2015 gross expenditure	2014/2015 gross income	2014/2015 net expenditure	figures in £'000s	*note*	2015/2016 gross expenditure	2015/2016 gross income	2015/2016 net expenditure
			Expenditure on Council Services				
2,231	-886	1,345	central services to the public		2,340	-998	1,342
1,497	-343	1,154	corporate & democratic core		1,518	-323	1,195
4,442	-1,514	2,928	cultural & related services		4,555	-1,406	3,149
6,514	-1,691	4,823	environmental & regulatory services		6,568	-1,781	4,787
664	-1,048	-384	highways & transport		458	-717	-259
25,528	-22,855	2,673	housing revenue account		23,017	-23,541	-524
-	-13,103	-13,103	council dwelling revaluation (material item- page 85)		-	-7,931	-7,931
28,140	-26,451	1,689	housing general fund		27,594	-26,213	1,381
6,208	-2,719	3,489	planning & development services		5,868	-2,826	3,042
-	-16	-16	non distributed costs		379	-	379
75,224	-70,626	4,598	**Surplus (-) / Deficit on Operations**		72,297	-65,736	6,561
3,425	-888	2,537	**Other Operating Expenditure**	*9*	3,712	-2,365	1,347
1,903	-899	1,004	**Financing & Investment Income & Expenditure**	*10*	1,718	-310	1,408
-	-25,476	-25,476	**Taxation & Non-Specific Grant Income**	*11*	-	-20,029	-20,029
		-17,337	**Surplus (-) / Deficit on Provision of Services**				**-10,713**
		-2,513	Surplus(-) / Deficit on revaluation of Property, Plant & Equipment assets	*24*			-942
		7,698	Actuarial remeasurement gains(-) / losses on pension assets / liabilities	*40*			-10,160
		5,185	**Other Comprehensive Income & Expenditure**				**-11,102**
		-12,152	**Total Comprehensive Income & Expenditure**				**-21,815**

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 2015 £000		Notes	31 March 2016 £000
238,253	Property, Plant & Equipment	12	256,850
140	Heritage Assets	13, 44 - 45	140
1,908	Investment Property	14	1,873
130	Intangible Assets	15	101
1,208	Long Tem Investments	16	1,201
402	Long Term Debtors	16	364
242,041	**Long Term Assets**		**260,529**
6,077	Short Term Investments	16	19,900
550	Assets Held for Sale	20	550
746	Inventories	17	448
12,558	Short Term Debtors	18	9,524
16,626	Cash and Cash Equivalents	19	9,200
36,557	**Current Assets**		**39,622**
-12,837	Short Term Creditors	21	-11,668
-12,837	**Current Liabilities**		**-11,668**
-549	Long Term Creditors	21	-1,606
-859	Provisions	22	-734
-95,717	Long Term Borrowing	16	-104,717
-49,686	Other Long Term Liabilities	40	-40,661
-146,811	**Long Term Liabilities**		**-147,718**
118,950	**Net Assets**		**140,765**
24,253	Usable Reserves	23	23,282
94,697	Unusable Reserves	24	117,483
118,950	**Total Reserves**		**140,765**

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.

Cash Flow Statement

31 March 2015 £000		Notes	31 March 2016 £000
-17,337	Net surplus(-) or deficit on the provision of services		-10,713
-3,583	Adjust net surplus or deficit on the provision of services for non cash movements	25	-7,093
2,076	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		3,575
-18,844	Net cash flows from Operating Activities		-14,231
15,392	Investing Activities	26	30,657
-1,000	Financing Activities	27	-9,000
-4,452	**Net increase(-) or decrease in cash and cash equivalents**		**7,426**
12,174	Net cash and cash equivalents at the beginning of the reporting period		16,626
16,626	Net cash and cash equivalents at the end of the reporting period	19	9,200

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

(a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, 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 2015/16* and *the Service Reporting Code of Practice 2015/16,* 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 Polices 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 3.5% (3.2% in 2014-15) 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 2016, 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at 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, and

- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the polices 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), and

- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve. 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 2015/16 (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)
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other classes of asset – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at 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 may capitalise salaries where employees work full time on a project. 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 2016/17 Code of Practice includes the adoption of amendments to the following Accounting Standards:

Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
Annual Improvements to IFRSs 2010 – 2012
Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
Annual Improvements to IFRSs 2012 – 2014
Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

The amendments are not expected to have a material impact on the Council's accounts. However, in the 2016/17 year the comparator 2015/16 Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must reflect the new formats and reporting requirements as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

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 2016, which includes £12m of heritage lottery funding. The land aspects of this project are managed separately by the Stroud Valleys Canal Company. The Council does not have access to benefits or exposure to the risk of a potential loss so there is no group relationship.

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

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

As well as the items described in note 3, the items in the Council's Balance Sheet at 31 March 2016 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	A reduction of 1 year in useful asset lives would result in an additional £0.288m depreciation charge

	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.	(£0.135m council dwellings and £0.153m other assets).
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries, Hymans Robertson LLP, is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £11.280m (14/15 £12.039m). However, the assumptions interact in complex ways. During 2015/16, the Council's actuaries advised that the net pension liability had decreased by £10.160m (increase by £7.698m 14/15) as a result of remeasurements by the actuary.
Arrears	At 31 March 2016 the Council had a short term debtor balance of £10.487m and a bad debt provision of £963k or 9.18% 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:-

- Decrease in net pension fund liabilities of £9m (see note 40).
- HRA capital programme which includes new build properties was £18.1m (2014/15 £12.8m). For more detail see Note 4 of the HRA financial statements on page 86.

6. Events after the Balance Sheet Date

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government to negotiate the terms of the UK exiting the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the Council can be made.

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 2015-16

2015-16	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	-1,135	-8,497	-	-	-	9,633
Revaluation gains / (losses) on Property, Plant and Equipment	356	7,931	-	-	-	-8,287
Movements in the market value of Investment Properties	-35	-	-	-	-	35
Amortisation of intangible assets	-29	-	-	-	-	29
Capital grants and contributions applied	-	813	-	-	-	-813
Revenue expenditure funded from capital under statute	-1,287	-	-	-	-	1,287
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	-	-1,177	-	-	-	1,177
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	1,233	6,269	-	-	-	-7,502
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions applied credited to the Comprehensive Income and Expenditure Statement	735	-	-	-	-735	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	482	-482
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	206	3,369	-3,575	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	1,705	-	-	-1,705
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-31	-	31	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-455	-	455	-	-	-
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	-	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 40)	-3,460	-721	-	-	-	4,181
Employer's pensions contributions and direct payments to pensioners payable in the year	2,231	815	-	-	-	-3,046
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	887	-	-	-	-	-887
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-2	-	-	-	-	2
Total Adjustments	**-789**	**14,110**	**-1,384**	**-**	**-253**	**11,684**

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

* Restated 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	**-1,746**	**14,623**	**-1,461**	**-**	**-70**	**11,346**

* restated see Note 14 of Supplementary Financial Statements (page 88)

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 2015/16.

Transfers to / from Earmarked Reserves 2015-16

	Balance 1st April 2014	Tsfers From 2014-15	Tsfers To 2014-15	**Balance 31st March 2015**	Tsfers From 2015-16	Tsfers To 2015-16	**Balance 31st March 2016**
General Fund:	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
building control shared service	-	-	-	-	-	59	59
business rates safety net	162	-	-	162	-	137	299
business rate pool SEDF reserve	8	-8	-	-	-	-	-
business rate pool reserve	27	-27	-	-	-	-	-
capital	1,886	-239	605	2,252	-1,015	213	1,450
climate change	625	-	-	625	-4	50	671
closed circuit television	68	-	15	83	-	8	91
district council elections reserve	35	-	-	35	-	-	35
dursley pool reserve	-	-	-	-	-	130	130
economic development	420	-585	165	-	-	-	-
efficiency savings / invest to save	179	-	-	179	-	-	179
homelessness prevention	51	-	71	122	-2	-	120
housing	35	-35	-	-	-	1,000	1,000
information communication technology	384	-	50	434	-192	200	442
jobs and growth reserve	-	-	1,558	1,558	-197	-	1,361
legal counsel	139	-48	30	121	-	30	151
littlecombe	349	-	73	422	-	-	422
merrywalks car park reserve	-	-	93	93	-93	7	7
neighbourhood planning grant reserve	-	-	20	20	-	-	20
new homes bonus	350	-350	-	-	-	-	-
opportunity land purchase	250	-	-	250	-	-	250
planning appeal costs	330	-	25	355	-130	25	250
planning strategy	91	-91	-	-	-	-	-
property maintenance	428	-110	70	388	-110	70	348
retrofit guarantee	75	-	-	75	-	-	75
risk management / insurance	70	-	-	70	-	-	70
S106 maintenance reserve	204	-	-	204	-	-	204
strategic employment reserve	683	-683	-	-	-	-	-
Stratford Park leisure centre "sinking fund"	100	-	40	140	-	-	140
Stroud Valleys Initiative	-	-	-	-	-	100	100
unapplied revenue grants	39	-	-	39	-39	120	120
unapplied revenue contributions	82	-	-	82	-82	-	-
warm and well grants	68	-	-	68	-	-	68
waste management reserve	450	-	110	560	-	40	600
work force planning	400			400	-	-	400
total earmarked reserves - General Fund	**7,988**	**-2,176**	**2,925**	**8,735**	**-1,864**	**2,189**	**9,060**
HRA:							
major repairs reserve	-	-4,095	4,095	-	-5,308	5,308	-

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

9. Other Operating Expenditure

Other Operating Expenditure

2014/15 £000		2015/16 £000
2,713	Parish Council Precepts	2,874
206	Parish Local Council Tax Support Grant	157
96	Levies	106
-	Land charge provision	120
410	Payments to the Government Housing Capital Receipts Pool	455
-888	Gains (-) / losses on the disposal of non-current assets	-2,365
2,537	**Total**	**1,347**

10. Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure

2014/15 £000		2015/16 £000
77	Interest payable and similar charges	51
1741	Net interest on the net defined benefit liability	1,578
85	Repayment of Icelandic investments	54
-279	Interest receivable and similar income	-287
-33	Feed in tariff income	-23
-587	Income and expenditure in relation to investment properties and changes in their fair value	35
1,004	**Total**	**1,408**

11. Taxation and Non Specific Grant Income

Taxation and Non Specific Grant Income

2014/15 £000		2015/16 £000
-10,487	Council tax income	-10,822
-2,125	Non domestic rates	-3,273
-4,386	Non-ringfenced government grants	-4,386
-8,478	Capital grants and contributions	-1,548
-25,476	**Total**	**-20,029**

12. Property, Plant and Equipment

Property, Plant and Equipment						
Movements in 2015-16	**council dwellings**	**council dwellings under construction**	**other land & buildings (incl. *community assets)**	**vehicles, plant furniture & equipment**	**infra-structure assets**	**total property, plant & equipment**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or valuation						
At 1 April 2015	294,792	4,191	40,215	2,971	428	342,597
Additions	8,497	9,059	2,332	290	-	20,178
Revaluation increases/decreases (-) recognised in the Revaluation Reserve	892	-	50	-	-	942
Revaluation increases/decreases(-) recognised in the Surplus / Deficit on the Provision of Services	7,724	369	194	-	-	8,287
Derecognition - disposals	-1,178	-	-	-	-	-1,178
Derecognition - other	-	-	-	-	-	-
Transfers	2,889	-2,889	-	-		-
At 31 March 2016	**313,616**	**10,730**	**42,791**	**3,261**	**428**	**370,826**
Accumulated Depreciation & Impairment						
At 1 April 2015	-96,037	-	-6,345	-1,847	-116	-104,345
Depreciation charge	-4,333		-882	-219	-19	-5,453
Depreciation written out to the Surplus / Deficit on the Provision of Services	4,333	-	-	-	-	4,333
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-8,497	-	-	-15	-	-8,512
At 31 March 2016	**-104,534**	**-**	**-7,227**	**-2,081**	**-135**	**-113,977**
Net Book Value						
At 31 March 2016	**209,082**	**10,730**	**35,564**	**1,180**	**293**	**256,850**
At 31 March 2015	198,755	4,191	33,870	1,124	312	238,253

*Other land and buildings includes £54k Net book Value of Community Assets.

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

Property, Plant and Equipment

Movements in 2014-15	council dwellings	council dwellings under construction	other land & buildings (incl. *community assets)	vehicles, plant furniture & equipment	infra-structure assets	total property, plant & equipment
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2014	271,172	2,870	37,002	2,820	428	314,292
Additions	10,802	2,016	499	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	-695	2,056	-		2,056
At 31 March 2015	**294,792**	**4,191**	**40,215**	**2,971**	**428**	**342,597**
Accumulated Depreciation & Impairment						
At 1 April 2014	-85,235	-	-6,207	-1,633	-97	-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**	**-**	**-6,345**	**-1,847**	**-116**	**-104,345**
Net Book Value						
At 31 March 2015	**198,755**	**4,191**	**33,870**	**1,124**	**312**	**238,253**
At 31 March 2014	185,937	2,870	30,795	1,187	331	221,122

*Other land and buildings includes £54k Net book Value of Community Assets.

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.
- Buildings: 20 to 50 years.
- Vehicles, Plant, Furniture and Equipment: 5 to 15 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
• Southbank, Woodchester	587
• Top of Town Phase 2	1,303
• Top of Town Phase 3	1,630
• Mankley Road, Leonard Stanley	2,227

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	council dwellings under construction	other land & buildings (incl. community assets)	vehicles, plant furniture & equipment	infra-structure
	£000	£000	£000	£000	£000
Carried at depreciated historical cost		10,361	12,215	1,180	293
Valued at fair value as at:					
31 March 2016	209,082	369	4,967		
31 March 2015			5,286		
31 March 2014			23,457		
Total Cost or Valuation	**209,082**	**10,730**	**45,925**	**1,180**	**293**

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 2014	20	80	40	**140**
Additions				**-**
Disposals				**-**
Revaluations				**-**
At 31 March 2015	20	80	40	**140**
Cost or valuation				
At 1 April 2015	20	80	40	**140**
Additions				**-**
Disposals				**-**
Revaluations				**-**
At 31 March 2016	**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	2015/16 £000	2014/15 £000
Balance at start of the year	1,908	3,944
Additions:	-	-
Disposals:	-	-17
Revaluations:		
Net gains / losses (-) from fair value adjustments	-35	587
Transfers:		
to (-) / from Held for Sale	-	-550
to (-) / from Property, Plant & Equipment	-	-2,056
Other changes:	-	-
	1,873	**1,908**

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 £29k charged to revenue in 2015/16 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	
	2015-16	**2014-15**
	£000	**£000**
Balance at start of year:		
- Gross carrying amounts	572	572
- Accumulated amortisation	-442	-412
Net carrying amount at start of year	**130**	**160**
Purchases	0	0
Amortisation for the period	-29	-30
Net carrying amount at end of year	**101**	**130**

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 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
Investments				
Loans and receivables	1,201	1,208	19,900	6,077
Total Investments	**1,201**	**1,208**	**19,900**	**6,077**
Debtors				
Loans and receivables	364	402	9,524	12,558
Total Debtors	**364**	**402**	**9,524**	**12,558**
Borrowings				
Financial liabilities at amortised cost	-104,717	-95,717	-	-
Total Borrowings	**-104,717**	**-95,717**	**-**	**-**
Creditors				
Financial liabilities carried at amortised	-23	-30	-	-
Financial liabilities carried at contract cost	-1,583	-519	-11,668	-12,837
Total Creditors	**-1,606**	**-549**	**-11,668**	**-12,837**

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 2016 of 1.13% to 3.12% for loans from PWLB and 0.25% to 1.44% 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	31/03/2016		31/03/2015	
	carrying amount £000	**fair value £000**	**carrying amount £000**	**fair value £000**
Financial liabilities	104,717	114,534	95,717	103,582
Long-term creditors	1,606	1,538	549	501
Short-term creditors	11,668	11,668	12,837	12,837

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	31/03/2016		31/03/2015	
	carrying amount £000	**fair value £000**	**carrying amount £000**	**fair value £000**
Loans & receivables	29,424	29,424	18,635	18,635
Long-term debtors	364	277	402	306
Long-term investments	1,201	1,316	1,208	1,233

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 offers 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. This scheme commenced in April 2012 and closed to new loan applications in February 2015. A total of £4.7m of loans have been issued which utilise £0.9m of the available guarantee. As at March 2016 there are no arrears cases, and there have been no repossessions under the scheme since inception.

17. Inventories

Inventories	Bar Stock		HRA PV and Renewable Heating Component Stock		Garden Waste Bins		TOTAL	
	2015-16 £000	2014-15 £000	2015-16 £000	2014-15 £000	2015-16 £000	2014-15 £000	2015-16 £000	2014-15 £000
Balance outstanding at start of year	5	5	741	1,500	-	-	746	1,505
Purchases	31	39	-	149	31	-	62	188
Recognised as an expense in the year	-29	-37	-232	-908	-	-	-261	-945
Written off balances	-2	-2	-97	-	-	-	-99	-2
Balance outstanding at end of year	**5**	**5**	**412**	**741**	**31**	**-**	**448**	**746**

18. Debtors

Debtors	**31 March 2016**	**31 March 2015**
	£000	**£000**
Central government bodies	4,257	3,438
Other local authorities	2,046	4,006
Other entities & individuals	3,221	5,114
Total	**9,524**	**12,558**

19. Cash and Cash Equivalents

Cash & Cash Equivalents	**31 March 2016 £000**	**31 March 2015 £000**
Cash held by the Authority	4	4
Bank current accounts	-1,901	-984
Short-term deposits with banks	11,097	17,606
Total Cash & Cash Equivalents	**9,200**	**16,626**

20. Assets Held for Sale

Assets Held for Sale	**31 March 2016**	**31 March 2015**
	£000	**£000**
Balance outstanding at start of year	550	-
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**	**550**

21. Creditors

Creditors	Current		Non Current	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£000	£000	£000	£000
Central government bodies	2,906	1,414	1,100	-
Other local authorities	1,849	5,386	200	200
Public corporations & trading funds	-	-	273	309
Other entities & individuals	6,913	6,037	33	40
Total	**11,668**	**12,837**	**1,606**	**549**

22. Provisions

Provisions	Glitnir Escrow Account	Land Charges	Municipal Mutual	NNDR	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2015	50	125	25	659	859
Additional provisions made in 2015-16	-	120	-	210	330
Amounts used in 2015-16	-50	-101	-	-304	-455
Unused amounts reversed in 2015-16	-	-	-	-	-
Balance at 31 March 2016	-	**144**	**25**	**565**	**734**

Towards the end of September 2015 the Council sold its remaining Icelandic Kroner to Deutsche bank, the remaining provision was utilised to offset the loss arising from that transaction. An auction receipt of £232k meant there was an overall loss on the transaction of £104k. The amount of £54k not charged against this provision was charged to the Comprehensive Income and Expenditure account.

Whilst a number of outstanding NNDR appeals were settled in 2015/16 and funded from the provision, it is considered prudent to make provision for the revised number of outstanding appeals. Overall, this has resulted in a net decrease of £94k 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 2015	Usable Reserves	31 March 2016
£000		**£000**
8,646	General Fund	8,662
8,735	Earmarked General Fund Reserves	9,060
4,887	Housing Revenue Account	1,938
1,507	Capital Receipts Reserve	2,891
477	Capital Grants Unapplied	730
24,253	**Total Usable Reserves**	**23,282**

24. Unusable Reserves

31 March 2015	Unusable Reserves	31 March 2016
£000		**£000**
13,606	Revaluation Reserve	14,178
131,851	Capital Adjustment Account	144,155
-49,687	Pensions Reserve	-40,662
-939	Collection Fund Adjustment Account	-52
-135	Accumulating Absences Adjustment Account	-137
94,697	**Total Unusable Reserves**	**117,483**

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 2015	Revaluation Reserve	31 March 2016
£000		**£000**
11,412	**Balance at 1 April**	**13,606**
2,648	Upward revaluation of assets	1,252
-90	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-310
2,558	**Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**	**942**
-362	Difference between fair value depreciation & historical cost depreciation	-370
-1	Accumulated gains on assets sold or scrapped	-
-363	**Amount written off to the Capital Adjustment Account**	**-370**
13,606	**Balance at 31 March**	**14,178**

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

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 2015 £000	Capital Adjustment Account	31 March 2016 £000
118,429	**Balance at 1 April**	**131,851**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:	
-11,950	Charges for depreciation & impairment of non-current assets	-9,633
12,171	Revaluation (losses)/gains on PPE	8,287
-30	Amortisation of intangible assets	-29
-1,631	Revenue expenditure funded from capital under statute	-1,287
-1,188	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	-1,178
-2,628		-3,840
363	Adjusting amounts written out of the Revaluation Reserve	370
-2,265	**Net written out amount of the cost of non-current assets consumed in the year**	**-3,470**
	Capital financing applied in the year:	
812	Use of the Capital Receipts Reserve to finance new capital expenditure	1,705
4,077	Use of the Major Repairs Reserve to finance new capital expenditure	5,308
6,576	Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	813
1,902	Application of grants to capital financing from the Capital Grants Unapplied Account	481
1,732	Capital expenditure charged against the General Fund & HRA balances	7,502
15,099		15,809
587	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	-35
15,686		**15,774**
131,851	**Balance at 31 March**	**144,155**

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

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 2015 £000	Pensions Reserve	31 March 2016 £000
-40,902	**Balance at 1 April**	**-49,687**
-15,170	Actuarial gains or losses on pensions assets & liabilities	12,385
3,619	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	-6,406
2,766	Employer's pensions contributions & direct payments to pensioners payable in the year	3,046
-49,687	**Balance at 31 March**	**-40,662**

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 2015 £000	Collection Fund Adjustment Account	31 March 2016 £000
-281	**Balance at 1 April**	**-939**
18	Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	39
-676	Business Rate Pooling	848
-939	**Balance at 31 March**	**-52**

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 2015 £000	Accumulating Absences Adjustment Account	31 March 2016 £000
-122	**Balance at 1 April**	**-135**
122	Settlement or cancellation of accrual made at the end of the preceding year	**135**
-135	Amounts accrued at the end of the current year	-137
-13	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	**-2**
-135	**Balance at 31 March**	**-137**

25. Cash Flow Statement – Operating Activities

31 March 2015 £000	Cash Flow Statement - Non Cash Items Included in Surplus(-) / Deficit on Provision of Services	31 March 2016 £000
-1,147	Depreciation charges	-1,120
-30	Amortisation charges	-29
1,414	Impairments and revaluations	-245
-2,667	Increase (-) / decrease in creditors	112
4,286	Increase / decrease (-) in debtors	-3,034
-38	Increase / decrease (-) in long term debtors	-38
-269	Increase (-) / decrease in provisions	-298
-759	Increase / decrease (-) in inventories	125
-1,087	Non cash charges for retirement benefits	-1,135
-1,188	Carry amount of non current assets sold	-1,178
587	Investment properties' revaluation	-35
-2,685	Other non cash items	-218
-3,583	**Non cash items in Net Surplus(-) / Deficit**	**-7,093**

26. Cash Flow Statement – Investing Activities

31 March 2015 £000	Cash Flow Statement - Investing Activities	31 March 2016 £000
13,468	Purchase of property, plant & equipment, investment property & intangible assets	20,178
14,000	Purchase of short-term & long-term investments	61,683
-2,076	Proceeds from the sale of property, plant & equipment, investment property & intangible assets	-3,369
-10,000	Proceeds from short-term & long-term investments	-47,835
15,392	**Net cash flows from investing activites**	**30,657**

27. Cash Flow Statement – Financing Activities

31 March 2015 £000	Cash Flow Statement - Financing Activities	31 March 2016 £000
-1,000	Cash receipts of short-term & long-term borrowing	-9,000
-	Other receipts from financing activities	-
-	Other payments for financing activities	-
-1,000	**Net cash flows from financing activites**	**-9,000**

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 services 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 2015/16	Corporate and Democratic Core £'000	Cultural and Related Services £'000	Central Services to the Public £'000	Environmental and Regulatory Services £'000	Housing General Fund £'000	Highways and Transport £'000	Non Distributed Costs £'000	Planning Services £'000	Recharged Services £'000	Housing Revenue Account £'000	Total £'000
Fees & Charges	-323	-1,406	-852	-1,781	-1,102	-717	-5	-2,443	-150	-25,528	-34,307
Govt Grants	-	-	-147	-0	-25,112	-	-	-30	-	-818	-26,106
Total Income	-323	-1,406	-999	-1,781	-26,213	-717	-5	-2,473	-150	-26,345	-60,413
Employee	119	1,452	984	1,241	758	98	1,420	2,034	3,829	3,988	15,922
Non-Pay	494	2,396	843	4,270	26,127	251	1	1,477	1,455	23,789	61,102
Support Services	901	627	506	1,069	363	112	1	1,336	1,542	-	6,456
Less: Recharge Income	-	-	-	-	-	-	-	-	-6,776	-	-6,776
Total Expenditure	1,513	4,475	2,332	6,580	27,248	462	1,421	4,847	50	27,777	76,704
Net Cost of Services	**1,190**	**3,068**	**1,333**	**4,799**	**1,034**	**-255**	**1,416**	**2,374**	**-100**	**1,432**	**16,292**

Service Income and Expenditure 2014/15	Corporate and Democratic Core £'000	Cultural and Related Services £'000	Central Services to the Public £'000	Environmental and Regulatory Services £'000	Housing General Fund £'000	Highways and Transport £'000	Non Distributed Costs £'000	Planning Services £'000	Recharged Services £'000	Housing Revenue Account £'000	Total £'000
Fees & Charges	-343	-1,514	-615	-1,311	-1,022	-903	-44	-2,239	-115	-23,780	-31,884
Govt Grants			-12	-10	-25,427			-35		-6577	-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	-	-	-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**	**1,286**	**2,154**	**51**	**-4,475**	**10,478**

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 2015/16	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
Employee Costs	15,922				15,922		15,922
Other Service Expenditure	60,782				60,782		60,782
Pension Interest Cost		1,229	-94		1,135	1,578	2,713
Reversal of Major Repairs Allowance credited to the HRA			-5,308		-5,308		-5,308
Net expenditure in relation to investment properties and changes in their fair value		35			-	35	35
Revenue expenditure funded from capital under statute		1,287			1,287		1,287
Capital expenditure charged to GF or HRA balances		-1,233	-6,269		-7,502		-7,502
Revaluation losses on Property, Plant and Equipment		-356	-7,931		-8,287	54	-8,233
Depreciation, Amortisation and Impairment		1,164	8,497		9,661		9,661
Gain or Loss on Disposal of Non-Current Assets					-	-2,365	-2,365
Parish Council Precepts					-	2,874	2,874
Parish Local Council Tax Support Grant					-	157	157
Drainage Board Levy					-	106	106
Provision					-	120	120
Payments to Housing Capital Receipts Pool					-	455	455
Interest Payable and Similar Charges					-	51	51
Total Expenditure	**76,704**	**2,126**	**-11,105**	-	**67,690**	**3,065**	**70,755**
Fees & Other Income	-34,307				-34,307	-	-34,307
Govt Grants	-26,106				-26,106	-813	-26,919
Gain/Loss on Disposal of Fixed Assets					-	-	-
Interest & Investment Income					-	-287	-287
Taxation & Non-Specific Grant Income		-735			-735	-19,216	-19,951
Other		17			17	-23	-6
Total Income	**-60,413**	**-718**	-	-	**-61,131**	**-20,339**	**-81,470**
Net Expenditure	**16,292**	**1,408**	**-11,105**	-	**6,559**	**-17,274**	**-10,713**

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

Reconciliation to Subjective Analysis **2014/15**	**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**
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	-31,884				-31,884		-31,884
Govt Grants	-32,061		3,308		-28,753	-1,511	-30,264
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**

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 2015/16 or 2014/15.

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	2015-16 £000	2014-15 £000
Allowances	324	320
Expenses	5	6
Total	329	326

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	15-16	110,569	32,257	142,826
	14-15	110,569	25,740	136,309
Strategic Head (Tenant & Corporate Services)	15-16	68,935	20,473	89,408
	14-15	67,822	16,074	83,896
Strategic Head (Development Services)	15-16	68,935	20,473	89,408
	14-15	67,822	16,074	83,896
Strategic Head (Customer Services)	15-16	68,935	20,473	89,408
	14-15	67,822	16,074	83,896
Strategic Head (Finance & Business Services)	15-16	68,935	20,473	89,408
	14-15	67,822	16,074	83,896
Strategic Head (Tenant Services)	15-16	-	-	-
	14-15	53,183	12,604	65,787
Legal Services Manager and Monitoring Officer	15-16	61,002	18,118	79,120
	14-15	60,251	14,279	74,530

There is no longer a Strategic Head (Tenant Services) post in 15-16, the responsibilities of this post were added to the role of Strategic Head (Corporate Services), which has become Strategic Head (Tenant & Corporate Services).

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	2015/2016 Number of employees	2014/2015 Number of employees
£50,000 - 54,999	3	3
£55,000 - 59,999	3	-
£60,000 - 64,999	1	-
£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	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
0 - 20	14	4	1	2	15	6	£131,576	£32,053
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	2015-16 £000	2014-15 £000
external audit services carried out by the appointed auditor for the year	56	68
certification of grant claims and returns by the appointed auditor	18	14
other services provided during the year by the appointed auditor	1	-
Total	**75**	**82**

34. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

Grant Income, contributions & donations	2015-16 £000	2014-15 £000
Credited to Taxation & Non Specific Grant Income		
DCLG Non Domestic Rates	3,273	2,125
DCLG Revenue Support Grant	1,866	2,555
DCLG Council Tax Freeze	84	83
DCLG - New Homes Bonus Scheme	2,284	1,618
DCLG - New Burdens	131	89
Other government grants	22	41
Capital Grants & Contributions:-		
Heritage Lottery Fund - Canal Scheme	54	874
DCLG Disabled Facilities Grants	330	257
Decent Homes Funding	-	5,900
Homes and Communities Agency Grant	846	677
Other Capital Grants & Contributions	878	770
Total	**9,767**	**14,989**
Credited to Services		
DWP Housing Benefit Grant	24,513	25,418
DWP Discretionary Housing Payments / In & Out of Work	85	42
DWP Housing Benefit Administration Grant	490	542
DWP Housing Benefit Reform Funding	-	14
DCLG Severe Weather	-	9
DCLG Repair & Renew	-	1
GCC Recycling Credits	585	549
Other grants	205	43
Total	**25,878**	**26,618**

The Council has received £1.1m from Homes and Community Agency during 2015/16 in connection with the redevelopment of Brimscombe Port. This has yet to be recognised as income as there are conditions attached to that may require the monies or property to be returned to the giver. This amount is currently recorded as a long term liability. There is no equivalent amount relating to any receipts in 2014/15.

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

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 2015/16 and 2014/15 is shown in note 31. Members have not disclosed any material transactions with related parties in either year, although 3 Members did not return a Declaration Form. 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 2015/2016, 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 payments to SVCC during 2015/2016 relate to the Agreement between the respective parties dated 16th March 2012.

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

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	2015-16 £000	2014-15 £000
Opening Capital Financing Requirement	**95,549**	**95,549**
Capital Investment		
Property, Plant & Equipment	20,178	13,468
Intangible Assets	-	-
Revenue Expenditure Funded from Capital under Statute	1,287	1,631
Sources of Finance		
Capital receipts	-1,705	-812
Government grants & other contributions	-1,294	-8,478
Sums set aside from revenue	-1,220	-350
Direct revenue contributions	-11,590	-5,459
Closing Capital Financing Requirement	**101,205**	**95,549**
Explanation of movement in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	5,656	-
Increase / (decrease) in Capital Financing Requirement	**5,656**	**-**

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 2016 £000**	**31 March 2015 £000**
Not later than one year	167	195
Later than one year & not later than five years	398	530
Later than five years	-	63
Total	**565**	**788**

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	**2015-16 £000**	**2014-15 £000**
Minimum lease payments	195	329
Dilapidations - phase 1 lease expiry	-	189
	195	**518**

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 2016 £000**	**31 March 2015 £000**
Not later than one year	179	216
Later than one year & not later than five years	393	537
Later than five years	-	71
Total	**572**	**824**

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 2015-16 nil contingent rents were receivable by the Council (2014-15 Nil).

38. Impairment Losses

During 2015/16 the Council has recognised impairment losses of £8.512m (£10.036m loss in 2014/15). This is analysed below:-

2014/15				2015/16		
Impairment charges to Surplus / Deficit (-)	Impairment charges to Revaluation Reserve	Total	Impairment Losses	Impairment charges to Surplus / Deficit (-)	Impairment charges to Revaluation Reserve	Total
£000	£000	£000		£000	£000	£000
10,802	-	10,802	Council Dwellings	8,497	-	8,497
-766	-	-766	Other Land & Buildings	-	-	-
-	-	-	Vehicles, Plant & Equipment	15	-	15
-	-	-	Infrastructure	-	-	-
-	-	-	Community Assets	-	-	-
-	-	-	PPE under Construction	-	-	-
-	-	-	Investment Properties	-	-	-
-	-	-	Intangible Assets	-	-	-
10,036	-	10,036		8,512	-	8,512

39. Termination Benefits

The Council terminated the contract of 6 employees in 2015/16, incurring a liability of £32,053 (15 employees £131,576 in 2014/15) – 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**	
	2015-16	**2014-15**
	£000	**£000**
Comprehensive Income & Expenditure Statement		
Cost of Services		
current service cost	2,569	2,070
past service costs (including curtailments)	34	42
Financing and Investment Income & Expenditure		
net interest expense	1,578	1,741
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**4,181**	**3,853**
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement		
return on plan assets (excluding the amount included in the net interest expense)	2,225	(6,583)
actuarial gains and losses on changes in demographic assumptions	-	-
actuarial gains and losses arising on changes in financial assumptions	(12,385)	15,228
other experience	-	(947)
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	**(5,979)**	**11,551**
Movement in Reserves Statement		
reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	9,025	(8,785)
Actual amount charged against the General Fund Balance for pensions in the year:		
employer contributions payable to the scheme	**3,046**	**2,766**

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	2015-16 £000	2014-15 £000
Present value of the defined benefit obligation	(112,784)	(121,911)
Fair value of plan assets	72,122	72,224
Net liability arising from the defined benefit obligation	**(40,662)**	**(49,687)**

The present value of unfunded benefits is £907k (£1.081m 2014/2015).

Reconciliation of the Movements in the Fair Value of Scheme Assets

Reconciliation of the Movements in the Fair Value of Scheme Assets	2015-16 £000	2014-15 £000
Opening fair value of scheme assets	72,224	63,529
Interest income	2,312	2,719
Remeasurement gain/loss:		
- the return on plan assets, excluding the amount included in the net interest expense	(2,225)	6,583
Contributions from employer	3,046	2,766
Contributions from employees into the scheme	587	611
Benefits paid	(3,822)	(3,984)
Closing fair value of scheme assets	**72,122**	**72,224**

The actual return on scheme assets in the year was £0.087m (2014/15: £9.302m).

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

Reconciliation of the Present Value of the Scheme Liabilities (Defined Benefit Obligation)	2015-16 £000	2014-15 £000
Opening balance at 1 April	121,911	104,431
Current service cost	2,569	2,070
Interest cost	3,890	4,460
Contributions from scheme participants	587	611
Remeasurement (gains) and losses		
- actuarial gains/losses arising from changes in demographic assumptions	-	-
- actuarial gains/losses arising from changes in financial assumptions	(12,385)	15,228
- other	-	(947)
Past service cost (including curtailments)	34	42
Benefits paid	(3,822)	(3,984)
Closing balance at 31 March	**112,784**	**121,911**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £112.784m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall pensions reserve balance of £40.662m. 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 2017 is £3.268m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2017 are £60k.

Local Government Pension Scheme assets comprised

Asset Category	Period ended 31 March 2016				Period ended 31 March 2015			
	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	4,447	-	4,447	6%	3,880	-	3,880	5%
Manufacturing	2,178	-	2,178	3%	1,725	-	1,725	2%
Energy and Utilities	1,310	-	1,310	2%	1,834	-	1,834	3%
Financial Institutions	3,492	-	3,492	5%	3,433	-	3,433	5%
Health and Care	567	-	567	1%	688	-	688	1%
Information Technology	391	-	391	1%	0	-	0	0%
Other	1,499	-	1,499	2%	1,734	-	1,734	2%
Debt Securities:								
Corporate bonds (investment grade)	3,725	-	3,725	5%	3,671	-	3,671	5%
Corporate bonds (non-investment grade)	281	-	281	0%	277	-	277	0%
UK Government	6,602	-	6,602	9%	6,807	-	6,807	9%
Other	995	-	995	1%	1,184	-	1,184	2%
Private Equity:								
All	-	212	212	0%	-	216	216	0%
Real Estate:								
UK Property	3,941	1,420	5,360	7%	3,586	1,241	4,827	7%
Overseas Property	-	370	370	1%	-	372	372	1%
Investment Funds and Unit Trusts:								
Equities	2,413	30,890	33,303	46%	2,388	31,549	33,937	47%
Bonds	3,162	186	3,347	5%	3,135	192	3,327	5%
Hedge Funds	-	-	-	0%	-	-	-	0%
Commodities	-	-	-	0%	-	-	-	0%
Infrastructure	-	-	-	0%	-	-	-	0%
Other	-	3,383	3,383	5%	-	3,309	3,309	5%
Derivatives:								
Inflation	-	-	-	0%	-	-	-	0%
Interest Rate	-	-	-	0%	-	-	-	0%
Foreign Exchange	-	-	-	0%	-	-	-	0%
Other	-7	-	-7	0%	-4	-	-4	0%
Cash and Cash Equivalents:								
All	666	-	666	1%	1,008	-	1,008	1%
Totals	**35,662**	**36,459**	**72,122**	**100%**	**35,346**	**36,879**	**72,225**	**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	2015-16	2014-15
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	2.2%	2.4%
Rate of increase in salaries	3.7%	3.8%
Rate of increase in pensions	2.2%	2.4%
Discount rate	3.5%	3.2%

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 2016	Estimated % increase to Employer Liability	Estimated monetary amount £000
0.5% decrease in Real Discount Rate	10%	11,280
1 year increase in member life expectancy	3%	3,383
0.5% increase in the Salary Increase Rate	3%	3,218
0.5% increase in the Pension Increase Rate	7%	7,908

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 to keep employers' contribution rates as constant as possible. Funding levels are set for a 3-year period. The results from the next triennial valuation as at 31 March 2016 will be available later in 2016.

Stroud District Council anticipates employer contributions of £3.268m to the scheme in 2016/17.

The weighted average duration of the defined benefit obligation for scheme members is 17.5 years at 31 March 2016 (17.5 years 31 March 2015).

41. Contingent Liabilities

There are no material contingent liabilities to report as at 31 March 2016.

42. Contingent Assets

The Council has lodged a claim for overpaid postage VAT of up to £0.65m as at 31 March 2016.

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 26/02/2015 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2015/16 is £118m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary is £112m. 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.

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 £8m. Outside of the UK the Council will only make deposits in AAA-rated countries and has set an investment limit of £8m 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 2015/16 to credit risk in relation to its investments in banks and building societies of £41.5m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that, whilst rare, it can happen that such entities can fail to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no new evidence at 31 March 2016 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 2016**	**Historical experience of default**	**Historical experience adjusted for market conditions at 31 March 2016**	**Estimated maximum exposure to default & uncollectability at 31 March 2016**	**Estimated maximum exposure at 31 March 2015**
	£000	**%**	**%**	**£000**	**£000**
	A	B	C	(A*C)	
Bonds	-	-	-	-	-
Customers	9,524	4.5%	4.5%	429	565
				429	565

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. Of the £9.524m balance £8.772m 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 2016**	**31 March 2015**
	£000	**£000**
Less than three months	262	33
Three to six months	8,381	11,524
Six months to one year	51	32
More than one year	78	157
	8,772	11,746

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 eighteen PWLB loans that mature in more than five years.

Maturity - liabilities	**31 March 2016**	**31 March 2015**
	£000	**£000**
Less than one year	11,668	12,838
Between one and two years	-	-
Between two and five years	3,506	3,549
More than five years	101,717	92,717
	116,891	109,104

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 of greater than one year in duration are the key parameters use 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	**Aprroved Minimum Limits**	**Aprroved Maximum Limits**	**31 March 2016**	**31 March 2015**
	%	**%**	**£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	3,000	-
More than 10 years	-	100	98,717	92,717
Total			**104,717**	**95,717**

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 not holding investments with the intention of trading, where tradable investments are held it is policy to hold them until maturity. This has the effect of nullifying market risk.

Interest Rate Risk

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

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

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

The Council has a number of strategies for managing interest rate risk. Policy is currently 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 2016, 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	13
Impact on Other Comprehensive Income & Expenditure	13
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)	19,511

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 had foreign exchange exposure resulting from an amount due from Glitnir held in Icelandic Kroner in an escrow account due to currency controls. An auction during 2015-16 of this currency amount means the Council has no further foreign currency exposure at 31 March 2016. Further detail is available in 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 2011/12 to 2015/16.

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

*** Restated**

2014/2015		*notes*	**2015/2016**	
£000			**£000**	**£000**
	income			
-20,948	dwelling rents	*6*	-21,750	
-382	non-dwelling rents	*8*	-346	
-1,316	charges for services and facilities		-1,235	
-170	transfers from General Fund		-170	
-39	contribution towards expenditure		-40	
-22,855	**total income**			**-23,541**
	expenditure			
3,794	repairs and maintenance		4,220	
5,047	supervision and management		4,944	
2,141	special services		1,847	
-1,926	depreciation, impairment and revaluation	*11*	566	
3,257	debt management costs		3,351	
112	increased provision for bad or doubtful debt	*10*	158	
12,425	**total expenditure**			**15,086**
-10,430	**net cost of HRA services as included in the whole authority Comprehensive Income & Expenditure Statement**			-8,455
324	HRA share of corporate and democratic core			323
-10,106	**net cost of HRA services**			-8,132
	HRA share of operating income & expenditure included in the whole authority Comprehensive Income & Expenditure Statement:			
-884	gain (-) or loss on sale of HRA non-current assets	*13*		-2,192
	interest payable & similar charges			
-39	HRA interest & investment income			-24
	pensions interest cost & expected return on pensions assets			
-6576*	Capital grants and contributions receivable			-813
-17,605	**surplus(-) / deficit for the year on HRA services**			**-11,161**

* restated see Note 14 below

Movement on the Housing Revenue Account Statement

*** Restated**

2014/2015 £000		**2015/2016 £000**
-1,905	**balance on the HRA as at the end of the previous reporting period**	**-4,887**
-17,605	surplus(-) / deficit for the year on the HRA Income & Expenditure Statement	-11,161
14,623	adjustments between accounting basis & funding basis under regulations	14,110
-2,982	net increase (-) or decrease before transfers to or from reserves	2,949
-	transfers to or from reserves	-
-2,982	**increase (-) or decrease in year on HRA**	**2,949**
-4,887	**balance on the HRA as at the end of the current reporting period**	**-1,938**

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

*** Restated**

2014/2015 £000		**2015/2016 £000**
7	difference between any other item of income & expenditure determined in accordance with the Code & those determined in accordance with statutory HRA requirements (if any)	-
6576*	Capital grants and contributions receivable	813
884	gain or loss (-) on sale of HRA non-current assets	2,192
-206	HRA share of contributions to or from the Pensions Reserve	94
1,359	capital expenditure funded by the HRA	6,269
-	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	-
4,077	transfer to / from (-) Major Repairs Reserve	5,308
1,926	transfer to / from (-) the Capital Adjustment Account	-566
14,623	**net additional amount required to be credited (-) or debited to the HRA balance for the year**	**14,110**

* restated see Note 14 below

Notes to the Housing Revenue Account (HRA)

1. Housing stock

The Council was responsible for managing an average of 5,104 dwellings during the year. 24 dwellings were sold under the right-to-buy legislation and 2 non right-to-buy sales , compared with 27 total sales in the previous year. There were 71 dwellings added through completions at the Minchinhampton, Leonard Stanley and other development sites. Also, 19 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

2014/15						2015/16				
1 Apr	**right-to-buy sales**	**other disposals**	**additions**	**31 Mar**	(number by type of dwellings)	**1 Apr**	**right-to-buy sales**	**other disposals**	**additions**	**31 Mar**
1,296	-1		1	1,296	bungalows	1,296		-2		1,294
1,536	-3		2	1,535	flats	1,535			13	1,548
2,249	-22	-4	7	2,230	houses	2,230	-24	-19	42	2,229
25	-			25	maisonettes	25				25
2	-1		4	5	shared ownership	5			16	21
5,108	**-27**	**-4**	**14**	**5,091**	**total housing stock**	**5,091**	**-24**	**-21**	**71**	**5,117**

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 15**	**additions in year**	**disposals**	**revaluation**	**depreciation & impairment**	**transfers**	**Balance 31 Mar 16**
operational assets							
- council dwellings	198,755	8,497	-1,178	12,949	-12,830	2,889	209,082
- community assets	23	-	-	-	-	-	23
- development sites	4,191	9,059	-	369	-	-2,889	10,730
- other land and buildings	4,322	524	-	-110	-	-	4,736
non-operational assets							
- investment property	970	-	-	-	-	-	970
total net fixed assets	**208,261**	**18,080**	**-1,178**	**13,208**	**-12,830**	-	**225,541**

In 2015/16 the Council Dwelling stock were revalued and increased in value by £12.949m (revaluation £8,616m and £4,333 depreciation reversal; £17.372m 2014/15).

2. Vacant possession value of dwellings

The open market vacant possession of dwellings including land within the HRA at 31 March 2016, at March 2016 prices is £674m. The value of dwellings net of the social element factor (31%) is £209m. The difference of £465m 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 £5.3m NMRA which is a proxy for depreciation.

Major repairs reserve		
2014/2015	(figures in £'000s)	**2015/2016**
-	balance 1 April	
-4,077	transferred in	-5,308
-	transferred out to Housing Revenue Account	
4,077	financing of Capital expenditure	5,308
-	**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 2014/ 2015	**financing 2014/2015**				**capital schemes**	**Spend 2015/ 2016**	**financing 2015/2016**			
	capital receipts	**capital grants**	**borrowing**	**revenue funding**	(All figures in £000's)		**capital receipts**	**capital grants**	**borrowing**	**revenue funding**
2,241	-	612	-	1,629	kitchen & bathroom replacement	2,241	-	-	-	2,241
1,827	-	1,827	-	-	void work	600	-	-	-	600
270	-	-	-	270	disabled adaptations	272	-	-	-	272
247	-	-	-	247	electrical works	246	-	-	-	246
431	-	-	-	431	roofing	746	-	-	-	746
591	-	-	-	591	door & window renewal	597	-	-	-	597
4,138	-	4,138	-	-	cental heating / fuel switch / sustainable energy	2,332	-	-	-	2,332
1,057	-	-	-	1,057	other capital works	1,463	-	-	-	1,463
2,016	806	-	-	1,210	new build	9,583	1,690	813	4,000	3,080
12,818	**806**	**6,577**	**-**	**5,435**	**total capital expenditure**	**18,080**	**1,690**	**813**	**4,000**	**11,577**

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		
2014/ 2015	(figures in £'000s)	**2015/ 2016**
2,096	council house sales	2,035
-34	*less* : cost of sales	-31
-	other receipts	1,334
2,062	total capital receipts	3,338
-410	*less:* pooled receipts paid to Government	-455
1,652	**total usable capital receipts**	**2,883**

6. Rent income

This is the total dwelling rent collectable for the year after allowanced for empty property. At 31 March 2016 there were 77 vacant properties for rent representing 1.5% of the total (on 31 March 2015 the figures were 89 and 1.7%). The average weekly rent in 2015/2016 was £83.19, an increase of £2.42, or 3% 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 £136k in respect of former tenants, has increased by £128k (24.5%). See also note 10.

Analysis of rent arrears

2014/ 2015	(figures in £'000s)	2015/ 2016
48	court costs	49
350	current rent arrears	466
125	former tenant arrears	136
523	**gross arrears at 31 March**	**651**

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 £0.426m at 31 March 2016 (£0.363m at 31 March 2015).

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 2015/2016.

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 £4.333m (£4.077m in 2014/2015). 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 £8.497m (£10.802m in 2014/2015).

In addition to this impairment charge, the debit of £0.566m to the HRA income and expenditure statement includes upwards revaluations of properties of £8.616m (£12.588m in 2014/2015) and £0.259m (£0.515m in 2014/15), and a net nil depreciation.

Depreciation, Impairment & Revaluation

2014/2015		(figures in £'000s)		**2015/2016**
	-13,810	Revaluation	-8,875	
	707	Revaluation - revaluation reserve	944	
-13,103				-7,931
-4,077		Depreciation write-back		-4,333
10,802		Impairment		8,497
4,077		Depreciation		4,333
375		Derecognition		-
-1,926		**balance 31 March**		**566**

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.

14. Prior Period Adjustment

The prior period adjustment relates to £6.576m of capital grant income recognised in 2014/15 relating to HRA capital expenditure that was recognised within the General Fund surplus and transferred to Unusable Reserves through the 'Adjustment between the Accounting Basis and Funding Basis under Regulations' in the 2014/15 Statement of Accounts. This has been amended within the comparative figures in the 2015/16 Statement of Accounts, so that the grant income is recognised within the HRA surplus, and presented as such within Housing Revenue Account Income and Expenditure Account (page 83) and the Movement in Reserves statement (page 14). It is transferred to Unusable Reserves through the 'Adjustment between the Accounting Basis and Funding Basis under Regulations', which has been restated accordingly. The impact is as set out in the table below:

Prior period adjustment	General Fund	Housing Revenue Account
Surplus or (deficit) on provision of services (accounting basis) - as previously stated	6,308	11,029
Prior period adjustment	-6,576	6,576
Surplus or (deficit) on provision of services (accounting basis) - restated	-268	17,605
Adjustment between Accounting Basis and Funding Basis under Regulations - as previously stated	-4,830	-8,047
Prior period adjustment	6,576	-6,576
Adjustment between Accounting Basis and Funding Basis under Regulations - restated	1,746	-14,623

The ‘Net increase/(decrease) before transfers to Earmarked Reserves’ and the Balance on the Movement in Reserves statement at 31 March 2015 has not changed as a result of the prior period adjustment.

Collection Fund

2014/15			income		2015/16		
business rates £000	council tax £000	total £000		notes	business rates £000	council tax £000	total £000
	-64,400	-64,400	council tax receivable	16		-65,690	-65,690
-24,700		-24,700	net rates payable by ratepayers	18	-26,169		-26,169
			expenditure				
			apportionment of previous year surplus / deficit (-)				
-88		-88	Central Government		-519		-519
-71	134	63	Stroud District Council		-415	165	-250
-18	582	564	Gloucestershire County Council		-104	708	604
-	109	109	Gloucestershire Police and Crime Commissioner		-	135	135
			precepts / shares				
12,511		12,511	Central Government		12,825		12,825
10,009	7,640	17,649	Stroud District Council		10,260	7,744	18,004
2,502	44,571	47,073	Gloucestershire County Council		2,565	45,178	47,743
	8,490	8,490	Gloucestershire Police and Crime Commissioner			8,606	8,606
	2,713	2,713	Parish and Town Councils			2,875	2,875
			charges to collection fund				
		-	less: write offs of uncollectable amounts				
384	52	436	less: increase / decrease (-) in bad debt provision		-61	54	-7
865		865	less: increase / decrease (-) in provision for appeals		-236		-236
157		157	less: cost of collection		158		158
		-	Interest		30		30
138	2	140	less: transitional protection payments		-293	1	-292
1		1	less: disregarded amounts		109		109
1,690	**-107**	**1,583**	**surplus(-) / deficit for the year**		**-1,850**	**-224**	**-2,074**
1,053	-856	197	balance at start of the year		2,743	-963	1,780
2,743	**-963**	**1,780**	**balance at end of the year**		**893**	**-1,187**	**-294**

Notes to the Collection Fund

15. 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.

16. 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 2015/16 was calculated as follows: -

band	estimated number of properties after effect of discounts	ratio	band D equivalent dwellings
DIS A	13.45	5/9	7.47
A	4,152.10	6/9	2,768.07
B	9,040.71	7/9	7,031.66
C	9,929.70	8/9	8,826.40
D	6,894.24	9/9	6,894.24
E	5,805.41	11/9	7,095.50
F	3,568.23	13/9	5,154.11
G	2,302.45	15/9	3,837.42
H	222.50	18/9	445.00
	41,928.79		42,059.87
less:	adjustment for collection rate (1.5%)		-630.90
council tax base			**41,428.97**

17. Council tax income

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

Income from council tax

		£'000 2015-16		£'000 2014-15
total council tax base *(see note 15)*	41,428.97		40,871.90	
multiplied by average band D tax rate	£1,554.54		£1,551.53	
total property income		-64,403		-63,414
add: transitional relief		-1		-2
add: other adjustments		-1,286		-984
income from council tax		**-65,690**		**-64,400**

18. 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	105.92	127.10	148.28	169.47	190.65	233.02	275.38	317.75	381.30
county council	630.01	756.01	882.01	1,008.01	1,134.01	1,386.01	1,638.01	1,890.02	2,268.02
police authority	116.84	140.21	163.57	186.94	210.31	257.05	303.78	350.52	420.62
average parish	41.43	49.71	58.00	66.28	74.57	91.14	107.71	124.28	149.14
total	894.20	1,073.03	1,251.86	1,430.70	**1,609.54**	1,967.22	2,324.88	2,682.57	3,219.08

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

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

19. 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. Prior to 1 April 2013 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.

Administration of NNDR was changed following the introduction of a business rates retention scheme in 2013/14, and so 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 2015/16 were estimated before the start of the financial year as £25.650m (£10.260m to Stroud, £12.825m to Central Government, and £2.565m to Gloucestershire County Council). In addition, a share of the estimated collection fund deficit from 2014/15 of £1.038m has been allocated in the same proportions. These sums have been paid in 2015/16 and charged to the collection fund in year.

net rates payable by ratepayers

	£'000 2015-16	£'000 2015-16	£'000 2014-15	£'000 2014-15
Gross Rates Payable by Ratepayers		**32,673**		**31,300**
(Less):				
Transitional Relief	-293		138	
Mandatory Reliefs	-4,209		-4,620	
Unoccupied Property Relief	-1,239		-1,531	
Discretionary Reliefs (unfunded)	-154		-192	
Discretionary Reliefs (funded through s31 Grant)	-562		-395	
Hardship Relief	-47		1	
Total Cost of Reliefs		**-6,504**		**-6,600**
Net Rates Payable by Ratepayers		**26,169**		**24,700**

The total non-domestic rating income in 2015/16 was £26.462m (£23.156m in 2014/15). For 2015/16, the total non-domestic rateable value at the year-end is £68.9m (£66.9m in 2014/15). The national multipliers for 2015/16 were 48p for qualifying Small Businesses, and the standard multiplier being 49.3p for all other businesses (47.1p and 48.2p respectively in 2014/15).

20. Business rate net share

The income credited to the CI&E statement for business rates is £3.273m (14-15 £2.125m). This is comprised as follows:

Net share from business rates					
		£'000	**£'000**	**£'000**	**£'000**
		2015-16	**2015-16**	**2014-15**	**2014-15**
SDC local share		10,260		10,009	
add:	40% of prior year deficit	1,091		421	
less:	40% of estimated deficit	-415		-71	
less:	40% of current year deficit	-351		-1,097	
			10,585		9,262
less:	tariff payment to Government		-7,638		-7,495
	levy		-733		-111
add:	Section 31 grant		813		770
	Renewable Energy schemes		109		-
net income from business rates			**3,136**		**2,426**
add:	Gloucestershire BR pool surplus / deficit (-)		137		-301
net income from business rates (inc GBRP)			**3,273**		**2,125**

21. Council tax and Business rate provision for bad debts

A Council Tax provision was made during 2015/16 amounting to £54k (2014/2015 £52k). This was calculated using CIPFA Guidelines. The total amount of the provision at 31 March 2016 is £381k and represents 24% of the £1.571m debt outstanding (£351k, 23% and £1.507m at 31 March 2015).

Business Rate provision for bad debts was £292k and represents 49.2% of the £594k amount outstanding (£474k, 63.4% and £748k at 31 March 2015).

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 2016 on pages 14 to 94. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. 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 Accountancy Manager (Deputy s151 Officer) and auditor

As explained more fully in the Statement of Responsibilities, Accountancy Manager (Deputy s151 Officer) (For and on behalf of 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 the financial statements 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 Accountancy Manager (Deputy s151 Officer); and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Report 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 2016 and of the Authority's expenditure and income for the year then ended;

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception
The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 98 to 117 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 Narrative Statement 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 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or

- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or

- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

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 20(1) (c) of the Local Audit and Accountability Act 2014 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 Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether Stroud District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Stroud District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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, Stroud District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, 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 ended 31 March 2016.

Certificate

We certify that we have completed the audit of the financial statements of Stroud District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Darren Gilbert
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol BS1 6AG
22 September 2016

Annual Governance Statement 2015/16

1.0 Scope of responsibility

1.1 Stroud District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, 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 and to facilitate 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 6 (1b) of the Accounts and Audit Regulations 2015 in relation to the preparation 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 the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

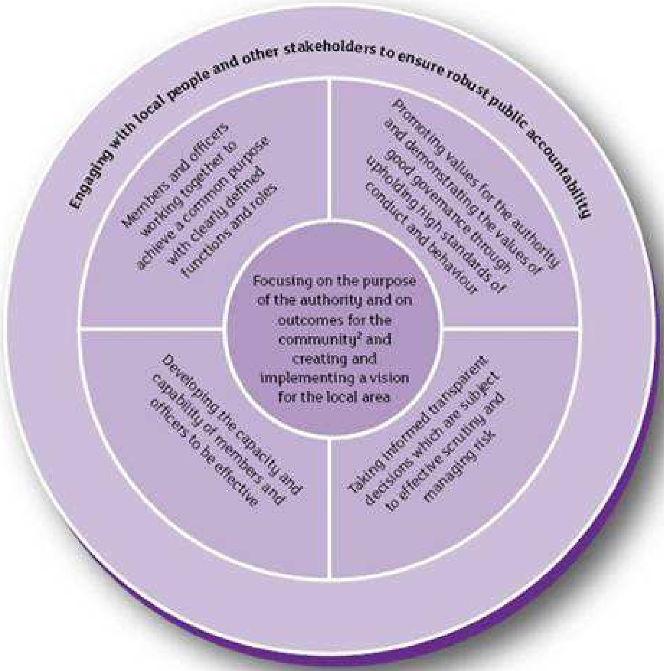
2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The 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 2016 and up to the date of approval of the Statement of Accounts.

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 has adopted a Local Code of Governance that is based around a number of key principles. The six core principles (underpinned by a number of supporting principles) are summarised below:



- <u>Core Principle 1</u>: Stroud District Council aims to focus on its purpose and on outcomes for the community, creating and implementing a vision for the local area;
- <u>Core Principle 2</u>: Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- <u>Core Principle 3</u>: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- <u>Core Principle 4</u>: Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk;
- <u>Core Principle 5</u>: Developing the capacity and capability of Members and officers to be effective; and
- <u>Core Principle 6</u>: Engaging with local people and other stakeholders to ensure robust public accountability.

3.3 Further details on the principles, together with a commentary on the current level of organisational compliance, are provided within this statement.

3.4 Strategy and Resources Committee has maintained the principal role in overseeing governance framework 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 and Standards Committee which promotes 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.

4.0 Core Principle 1: 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 The Council's major policy objectives in 2015/16 are detailed in the Council's Corporate Delivery Plan 2015 – 2019. In establishing the competing priorities of local people, the Council has highlighted that it has a strong leadership role hence, the Plan reflects the Council's vision as:

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

4.2 Stroud District Council's Corporate Delivery Plan seeks to demonstrate how this vision will be achieved through delivery of the Council's key priorities, which are:

- Priority 1: Economy – Help local people and businesses grow the local economy and increase employment;
- Priority 2: Affordable Housing – Provide affordable, decent and social housing;
- Priority 3: Environment – Help the community minimise its carbon footprint, adapt to climate change and recycle more;
- Priority 4: Resources - Provide value for money to our taxpayers and high quality services to our customers; and
- Priority 5: Health and Well Being – Promote the health and well being of our communities and work with others to deliver the public health agenda.

4.3 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/council/corporate-plans-policies/corporate-delivery-plan

4.4 Each year the Council reviews progress made in delivering the Plan and a new version is published. A review of the Council's Corporate Delivery Plan 2015 – 2019 and the progress made on its delivery was acknowledged by the Strategy and Resources Committee on 3rd March 2016.

4.5 Corporate Team (with the support of the committees as far as relevant to their particular work as outlined above) monitors progress of the Corporate Delivery Plan and each Plan priority has a lead officer responsible for delivery. The Council uses interactive software to update the Plan quarterly. In addition, two Members of each service committee meet on a quarterly basis with senior management teams to review performance. These Members subsequently report back to their appropriate committees on an exception basis to report key outcomes. To further enhance the review and reporting of performance, the Strategy and Resources Committee (at its meeting on 25th June 2015) agreed there should be a standardised approach adopted across all committees for this performance monitoring process. This has been actioned within 2015/16, e.g. through the continued Member Performance Champions approach.

4.6 Improvements in the Council's Project Management Framework have also been delivered within 2015/16 to support delivery and review of project outcomes. This has been facilitated by the Business Projects Manager and has included officer training on specific project areas (e.g. options appraisal and project management).

5.0 Core Principle 2: 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 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, expectations and 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 adopted for 2015/16 were in accordance with the recommendations of the Independent Remuneration Panel report received by Council on 5th June 2014.

5.5 A further review of the scheme of payments for Members has recently been concluded by the Independent Remuneration Panel. The recommendation for a revised Members Allowance Scheme for 2016/17 to 2019/20 was approved by Council at its meeting on 25th February 2016.

5.6 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 required to keep the statement under review and publish a new version each year. The Senior Pay Policy Statement for 2015/16 was approved by Council at its meeting on 9th April 2015 (following the recommendation for approval by Strategy and Resources Committee on 26th March 2015).

6.0 Core Principle 3: 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 and was originally adopted by Council in July 2012. Subsequent formal update was approved by Council in April 2014, following changes to the standards regime under the 2011 Act. Review of the Members Code of Conduct during 2015/16 was completed by the Council Monitoring Officer and the Constitution Review Working Group and confirmed that the Code did not require formal update.

6.2 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 attendance at other authority's meetings protocol.

6.3 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 the Whistle-Blowing Policy (which covers all Council *'employees, officers, apprentices, consultants, contractors, volunteers, interns, casual workers and agency workers'*).

7.0 Core Principle 4: Take informed and transparent decisions, which are subject to effective scrutiny and managing risk

7.1 The Council is committed to efficient and effective decision-making and for ensuring that those responsible for decision-making are clearly identifiable to local people and that the decision-makers explain the reasons for their decisions.

7.2 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 the public. The nature of committee form of governance adopted by the Council, as opposed to Executive arrangements, is by its very nature, self scrutinising. The Constitution Review Working Group reviewed the effectiveness of scrutiny arrangements during the year and reported the review findings to Council on 15th May 2015 with recommendations to improve the scrutiny function. Outcomes against the recommendations were reported to Council on 14th April 2016 through the Fourth Report of the Constitution Review Working Group.

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 para 6.3).

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

'The culture, processes and structures that are directed towards effective management of potential opportunities and threats to the Council achieving its priorities and objectives'

7.5 The Council recognises that both financial and non financial risk must be managed in order to achieve their stated vision, priorities and key action outcomes. The Council has a Risk Management Policy, the purpose of which is to provide a framework for the effective management of risks within the Council. The Policy was reviewed in June 2013 by the Audit and Standards Committee, to take account of the proposed changes to Council's risk management arrangements, and subsequently approved by Strategy and Resources Committee. During 2015/16, review of the Risk Management Policy and the Council's Risk Register was completed by Audit and Standards Committee with the outcome that the Policy was confirmed as 'effective' and that no Policy change was required.

A planned action is in place for review of the Risk Management Policy and associated framework against new standards within 2016/17 (see **Appendix 2**).

7.6 The Council has an Audit and Standards Committee. The core functions of an audit committee are set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) best practice guidance entitled 'Audit Committees – practical guidance for Local Authorities and Police', 2013 Edition. These are not detailed in the Constitution but are 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 and Business Services) as the Chief Financial Officer (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. The Corporate Team, comprising of the Council's Strategic Heads of Service and the Chief Executive, reviews performance on complaints, including the limited number resulting in investigations by the Local Government Ombudsman. No major complaints against Stroud District Council were upheld by the Ombudsman within 2015/16.

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 and updated in July 2015. The updated Policy was made available to Officers and Members within the Council Constitution, through the Council Hub (the Council's intranet).

7.10 New guidance has been issued during 2016 regards Fighting Fraud and Corruption Locally, which is supported by the CIPFA Counter Fraud Centre. The Council will undertake a self-assessment against the new guidance during 2016/17 (including a review of the Council's Anti-Fraud and Corruption Strategy), to confirm the Council's position and identify areas for development (see **Appendix 2**).

8.0 Core Principle 5: Develop the capacity and capability of Members and Officers to be effective

8.1 The Council has the Investor in People (IiP) award. IiP 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. In June 2014, the Strategy and Resources Committee agreed to set up a cross party working group to consider Member training and development. The Member Development Group met during 2014/15 and the result of their review was presented to and approved by Strategy and Resources Committee on 8th January 2015. Outcomes within 2015/16 have included updated principles for the Council's Member Development Programme, the refreshed Councillor Induction Programme 2015/16 and the Member Development Programme 2015/16 events.

9.0 Core Principle 6: 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. Information about how the Council is governed is available on the Council's website - www.stroud.gov.uk/council

9.2 To ensure the Council directs its resources accordingly, 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 the public, examples of which are the Housing Tenants Forum and the Local Strategic Partnership.

9.3 The Council publishes a leaflet with its Council Tax demands, which summarises financial performance and at the end of each financial year publishes a Statement of Accounts. An annual budget consultation process is also undertaken with residents, voluntary sector groups and local businesses.

9.4 In order to increase transparency and accountability in local government, central government introduced a legal requirement for councils to report upon the remuneration of senior employees. This information was published as part of the Council's annual accounts and the Senior Pay Policy Statement for 2015/16 (see paragraph 5.6).

10.0 Review of the effectiveness of governance arrangements

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 Chief Internal Auditor, and also by comments made by the external auditors and other review agencies and inspectorates.

10.2 The governance framework that has been applied in maintaining and reviewing the effectiveness of the governance framework is as follows (paragraphs 11 to 16):

11.0 The Council

11.1 The Council's governance framework, primarily based on its Constitution, is dynamic, evolving and reviewed on a regular basis to ensure that it reflects the aspirations both of the Council and the public to whom it is accountable. In line with the Constitution criteria *'Changes to the Constitution will be approved by the full Council after consideration of the comments from the Monitoring Officer. Routine changes to keep the Constitution up to date may be made by the Monitoring Officer alone.'* A Constitution Review Working Group has also been set up by the Council to feed into the review and update process.

11.2 The Constitution was reviewed within early 2015/16 and the outcomes suggested by a Report of the Council's Constitution Review Working Group approved by full Council on 21st May 2015. Subsequent review of the Constitution was completed within 2015/16 and the Report of the Council's Constitution Review Working Group was presented to and approved by full Council on 14th April 2016.

11.3 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. The Constitution sets out the roles and responsibilities of the Council's committees and all principal arrangements under which it operates its business.

12.0 Service Committees

12.1 Committees are tasked with undertaking all functions associated with their stated roles, responsibilities and terms of reference. Their purpose is to deal with strategic oversight and scrutiny. The terms of reference of committees need to be balanced with the delegations to officers. The expectation is that officers under delegated authority will be able to take decisions to further the objectives, policies and strategies set by committees.

12.2 A Constitution Review Working Group was originally set up to review the effectiveness of the committee system following its first year of operation. As mentioned within section 11, the Working Group has continued in operation and has raised recommendations with full Council in 2015/16 resulting in amendments to the Constitution.

13.0 Audit and Standards Committee

13.1 Good corporate governance requires independent, objective 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 good governance, risk management, internal control and financial reporting issues within an organisation, as well as providing a forum for the discussion of matters 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 and Police'. 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 (as referred to in paragraph 7.6).

13.3 In accordance with accepted best practice guidance for audit committees, the 2015/16 Annual Report of the Audit and Standards Committee (which details the work and achievements of the Audit and Standards Committee during 2015/16) was reported to Council on 14th April 2016 (following review and recommendation by Audit and Standards Committee on 5th April 2016).

14.0 Internal Audit

14.1 Internal Audit is a legislative requirement of the Accounts and Audit Regulations 2015. The Regulations state *'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'*

14.2 With effect from 1st June 2015, the existing internal audit shared service between Gloucester City Council and Stroud District Council was extended to include Gloucestershire County Council, who became the new host authority for the shared service, which also included a risk management service across all three partners. As a result, the City Council internal audit staff were TUPE transferred to Gloucestershire County Council. Three of the shared service team remain based at the Stroud District Council offices to ensure a constant and accessible audit presence.

14.3 The governance arrangements for the new internal audit shared service include a Shared Services Board which comprises the Chief Financial Officers (s151 Officers) from each of the three Councils. The role of this Board is to oversee the strategic delivery of the internal audit and risk management function/service to each authority.

14.4 The Public Sector Internal Audit Standards (PSIAS) require the authority to review the effectiveness of its internal audit function at least once a year, and that the findings of this review should be included in the Annual Governance Statement.

14.5 The review for 2015/16 consisted of an External Quality Assessment (an independent assessment of the effectiveness of an internal audit function) of the Gloucestershire County Council internal audit service. This review was undertaken during May 2015 by the Chartered Institute of Internal Auditors and included a review of the team's conformance to the International Professional Practice Framework (IPPF) as reflected in the PSIAS, benchmarking the function's activities against best practice and assessing the impact of internal audit on the organisation. There are 56 fundamental principles to achieve with more than 150 points of recommended practice in the IPFF. The independent assessment identified 100% conformance. The Chartered Institute of Internal Auditors stated: *'It is our view that*

GCC's internal audit function conforms to all 56 principles. This is excellent performance given the breadth of the IPPF and the challenges facing the function'. The internal audit shared service plans to apply consistent systems and processes which will support compliance across the shared service partners.

14.6 Internal Audit work is carried out to the standards outlined in the PSIAS. The Standards require the Chief Internal Auditor to provide an objective and evidence based annual opinion to those charged with governance on the effectiveness of the Councils governance arrangements, which includes the adequacy of the mitigating controls in place that manage the key risks. The opinion then feeds into the Council's Annual Governance Statement. The Head of Audit Risk Assurance (Chief Internal Auditor's) annual report 2015/16 concluded:

'I am satisfied that, based on the internal audit activity undertaken during 2015/16 and management's actions taken in response to that activity, enhanced by the work of other external review agencies, sufficient evidence is available to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of Stroud District Council's overall internal control environment. Therefore, in my opinion, for the 12 months ended 31st March 2016, Stroud District Council has a satisfactory overall control environment, to enable the achievement of the Council's outcomes and objectives.

In providing my opinion it should be noted that assurance can never be absolute. The most that Internal Audit can provide is a reasonable assurance that there are no major weaknesses in risk management arrangements, control processes and governance.'

14.7 The Standards also state that, within this written report to those charged with governance, the Council's Chief Internal Auditor should identify any issues that are relevant to the preparation of the Annual Governance Statement. The 2015/16 report by the Chief Internal Auditor states:

'From the risk-based Internal Audit Plan assignment work undertaken during 2015/16, there are no issues (with the exception of the caveat as detailed below) of which I am aware I regard as sufficiently significant to be considered in relation to the preparation of the Council's Annual Governance Statement. Whilst the Internal Audit work undertaken did result in one audit with an unsatisfactory level of assurance (Renewable Energy Heating – Contract Audit) in my view, the issues identified are not deemed to be significant governance issues.

Caveat: HRA balances investigation:

At the request of the Chief Executive (i.e. not from the risk-based Internal Audit Plan 2015/16), the Audit Risk Assurance shared service completed an investigation of HRA balances reported to Members between 2014/15 and 2015/16.

The investigation was undertaken in May and June 2016. The report was circulated to Members of the Strategy and Resources and Audit and Standards Committees on 10th June 2016. Formal presentation of the investigation report was made to Strategy and Resources Committee on 15th June 2016.

Findings and recommendations from the HRA balances investigation report will be considered within the 2015/16 Annual Governance Statement.'

See **Appendix 2** regards the HRA balances investigation.

15.0 External Review of Procurement Procedures

15.1 In January 2015, the Council commissioned an external review of its internal procurement systems and processes in response to concerns originally raised and reported in the Annual Governance Statement 2013/14 (procurement was also an exception raised within the KPMG ISA260 2014/15 – see paragraph 16.2). The outcome of the review was reported to the Audit and Standards Committee on 7th April 2015 alongside an action plan detailing a series of improvement actions which, when fully implemented, will enhance the Council's overall performance in relation to procurement.

15.2 The Procurement Board was formed to facilitate and lead on the delivery of the action plan within 2015/16 and report progress to the Audit and Standards Committee. The review of the Procurement Action Plan (including confirmed progress on the 2015/16 Action Plan and the proposed 2016/17 Actions) was presented to and approved by Audit and Standards Committee on 5th April 2016.

15.3 The approved 2016/17 Procurement Action Plan will be led by Corporate Team (following transfer of the governance procurement and contract management from the Procurement Board) and is included within the overarching Annual Governance Statement 'Improvement Plan – 2015/16 Governance Improvement Actions' at **Appendix 2**.

16.0 External Audit and Other Review/Assurance mechanisms

16.1 **External Audit** - is part of the process of accountability for public money. It makes an important contribution to the stewardship of public funds and the corporate governance of public services. The scope of External Audit work covers not only the audit of financial statements but also aspects of corporate governance.

16.2 In September 2015, the Council's External Auditor produced their 'report to those charged with governance' (ISA 260) relating to their audit of the Council's 2014/15 financial statements. The report was presented to the meeting of the Audit and Standards Committee on 29th September 2015. The headlines from the ISA 260 report were that:

- The auditors anticipated issuing an unqualified audit opinion by 30th September 2015 (which was subsequently issued).
- The auditors reported that the Council's Annual Governance Statement 2014/15 *'complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and it was not misleading or inconsistent with other information (they were) aware of from (their) audit of the financial statements.'*
- Three audit adjustments were identified to be actioned on the balances presented in the pre-audit Statement of Accounts – the impact of the adjustments was to reduce the Council 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.

- The auditors concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources with the exception of the matter below which was reported within 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 is own procurement policies by failing to operate an appropriate procurement exercise and by making inappropriate variations to existing contracts'.

See Annual Governance Statement section 15 and **Appendix 2** regards procurement control improvement actions.

16.3 **Risk Management** – see report paragraphs 7.4 and 7.5.

16.4 **Eco-Management and Audit Scheme** (**EMAS)** - The Council has been registered under the EMAS since 1999. EMAS, which is only awarded after an external and independent assessment, is designed to recognise and reward organisations that go beyond minimum legal compliance and continually review their environmental performance.

16.5 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. The most recent external assessment was completed in December 2015 and resulted in the Council being awarded with EMAS accreditation for 2016/17.

Assurance Framework

16.6 **Assurance Statements** – Each officer within the Stroud management team is responsible for delivering the objectives set out in their service plan. All managers are responsible for identifying and managing the risks that may affect delivery of their service objectives. This work includes monitoring the effectiveness of controls put in place to mitigate the risks and carrying out remedial action where controls are weak or not in place. Each Strategic Head, and nominated Head of Service and or Service Manager, is required to assist the preparation of the Annual Governance Statement for the Council by providing an assurance statement for the internal control framework operating within their service(s). An assurance checklist is initially completed and signed off by each nominated officer following their self assessment, identifying any areas of positive governance initiatives and/or significant control issues, the actions taken to address them and the timescales for completion. The statements were then submitted to their relevant Strategic Head, to provide them with assurance that appropriate governance arrangements are in place within all parts of their areas of business.

16.7 If, having considered the checklists submitted, the Strategic Heads are satisfied that appropriate arrangements are in place in each area, or that any weaknesses identified have a timescale for improvement, they will be able to countersign the statement. Any remedial actions identified are monitored by the relevant Strategic Head/Head of Service to ensure all actions are completed within the specified timescales.

16.8 When the Stroud management team are confident that there are robust governance arrangements in place within their areas of responsibility, or whether any further improvement actions are needed, the signed assurance statements and an overarching composite statement are provided to the Chief Executive, highlighting any improvement areas for final sign off. This is designed to provide final assurance to the Leader and the Chief Executive that there are appropriate arrangements in place within all areas under the control of each Strategic Head for the proper governance of Council business.

16.9 Key themes raised by the Certificates of Assurance (Assurance Statements) for 2015/16 were as follows:

- The Council has had appropriate governance arrangements in place within 2015/16.

- Governance good practice or development areas implemented within the year:
  - Procurement Board delivery of Procurement Action Plan recommendations within 2015/16, with progress reported to Members (paragraphs 15.1 and 15.2);
  - Project Management Framework review – updated to include review of project outcomes (paragraph 4.6);
  - Review and update of the Constitution, with results of the Constitution Review Working Group reported to Council (paragraphs 11.1 and 11.2); and
  - Comprehensive New Members Induction Programme (paragraph 8.2).

- Governance areas for development and improvement within 2016/17 (see **Appendix 2**):
  - Business Continuity and Disaster Recovery (ICT and operations);
  - Risk management – general and within projects, partnerships, alternative service delivery models and contracts;
  - Anti-fraud and corruption strategy and whistle-blowing procedures – new CIPFA Code of Practice released – review and update required to reflect the new Code;
  - Procurement Action Plan 2016/17 recommendations to be led and actioned by Corporate Team; and
  - Housing Revenue Account balances investigation – control improvement recommendations made for implementation in 2016/17.

- Other key areas of consideration (see **Appendix 2**):
  - Devolution – future governance arrangements; and
  - Chief Internal Auditor to undertake a self-assessment against new CIPFA guidance on the Annual Governance Statement and its associated assurance framework.

16.10 The Leader and Chief Executive of the Council have a responsibility to ensure that the document is supported by an embedded assurance framework, reliable evidence and accurately reflects the Council's governance framework.

16.11 **Strategic Head (Finance and Business Services) Statement (Chief Financial Officer - s151 Officer)** – 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 (2016) to ensure an effective system of internal control is maintained and operated in connection with the resources concerned.

The Council's Strategic Head (Finance and Business Services) has confirmed that the authority's financial management arrangements conform with the CIPFA Statement, and has also made the following comments in paragraphs 16.12 to 16.16 below:

16.12 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:

- Budget systems;
- 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 financial reports which indicate actual expenditure against the forecasts; and
- Capital expenditure arrangements and project management disciplines.

16.13 The 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.

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.

16.14 The arrangements for internal audit are as set out in the Annual Governance Statement (section 14) and the Chief Internal Auditor is satisfied that they operate to a defined standard. A review of the effectiveness of internal audit has been undertaken and reported to the Audit and Standards Committee. The Chief Internal

Auditor has also provided an independent opinion in her annual report stating that she is satisfied the Council has an adequate control environment in place.

16.15 Risk Management is the process by which risks are identified, evaluated and controlled, and is a key element of the governance framework. Ongoing reviews of the Council risk register has been undertaken throughout the year to ensure any risks associated with the achievement of the Council's aims and objectives in the Corporate Delivery Plan have been identified. This has been completed both by Officers and Members (through Audit and Standards Committee).

16.16 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).

DG Stanley

Signed: 7th September 2016

Sandra Cowley, Strategic Head (Finance and Business Services) (S151 Officer) / David Stanley, Accountancy Manager (Deputy S151 Officer)

17.0 Significant governance issues

17.1 To the best of our knowledge, the governance arrangements, as defined above and within the Council's Local Code of Corporate Governance, have been operating effectively during the year with the exception of those areas identified in **Appendix 2.** We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Steve Lydon David Hagg

Signed: 7th September 2016

Steve Lydon
Leader of the Council

David Hagg
Chief Executive

Appendix 1

Progress on 2014/15 Governance Improvement Actions

The Annual Governance Statement 2014/15, approved by Audit and Standards Committee on 29th September 2015, did not include an Improvement Plan.

However, the report did raise a specific governance area for development regards the Council's procurement activity. Progress on the area has been noted within the Annual Governance Statement 2015/16 section 15. Further required Governance Improvement Actions have also been included within **Appendix 2**.

Appendix 2

Improvement Plan – 2015/16 Governance Improvement Actions

As a result of the 2015/16 review of governance arrangements, the following governance issues were identified.

Review reference	Action	Target date
Local Code of Corporate Governance Core Principle 1	**Governance in working with others:** The Council is required to focus on the purpose of the authority and on outcomes for our customers and stakeholders and creating and implementing a vision for the local area. The Council has joined with ten of our public sector partners to have one conversation with government about how through devolution we can achieve better outcomes and reduced costs. **Action:** The devolution bid, if successful, includes a commitment to a new governance arrangement. This is a statutory process and will be led by the Chief Executive. The process will include consultation and engagement with the organisations involved and other stakeholders.	To be determined - depending upon outcome of bid
Revised CIPFA Guidance on Delivering Good Governance 2016	**CIPFA - Delivering Good Governance in Local Government : Framework (2016 Edition):** The Council currently prepares and publishes an Annual Governance Statement in accordance with the CIPFA Delivering Good Governance in Local Government 2007 (Addendum 2012). This guidance/framework has been refreshed and defines the principles that should underpin the governance arrangements of the Council and applies to the annual governance statements prepared for the financial year 2016/17 onwards. **Action:** The Chief Internal Auditor to test the Council's governance arrangements and be able to demonstrate that its governance structures comply with the core and sub principles contained within the revised framework. To then develop and maintain, on behalf of the Council, a local code of governance / governance arrangements reflecting the principles set out.	31st March 2017

Review reference	Action	Target date
Local Code of Corporate Governance Core Principle 3 (and Annual Governance Statement paragraph 7.10)	**Anti-Fraud and Corruption Strategy:** The Council is required to promote values for the authority and demonstrate the values of good governance through upholding high standards of conduct and behaviour. The Fighting Fraud and Corruption Locally 2016–2019 Strategy has been developed by local authorities and counter fraud experts and supported by the CIPFA Counter Fraud Centre. It is the definitive guide for council leaders, chief executives, finance directors and all those with governance responsibilities. The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape. **Action:** During 2016/17 the Chief Internal Auditor will undertake a self-assessment against the new guidance to measure the Council's counter fraud and corruption culture and response and propose enhancements as required.	31st March 2017
Annual Governance Statement paragraphs 7.4 & 7.5	**Risk Management Policy and approach:** Risk management is a core part of the Council's corporate governance framework and internal control environment. It is one of the six core principles within the Council's Code of Governance – 'taking informed and transparent decisions which are subject to effective scrutiny and managing risk'. The Council's Risk Management Policy should reaffirm and improve effective risk management in the Council, comply with good practice and in doing so, effectively manage potential opportunities and threats to the organisation achieving its objectives. The Policy should also support the consideration and auctioning of risk management within Council partnerships and contracts. **Action:** The Chief Internal Auditor will review the Council's risk management arrangements (including the Risk Management Policy) against the latest ISO 31000 risk management standard. The review findings will be reported to Audit and Standards Committee and will inform future risk management development at the Council.	31st March 2017

Review reference	Action	Target date
Annual Governance Statement paragraph 14.7	**HRA balances investigation:** The investigation of HRA balances reported to Members between 2014/15 and 2015/16 (requested by the Chief Executive and reported to Strategy and Resources Committee on 15th June 2016) confirmed that reported HRA balances shown in Strategy and Resources and Housing Committee outturn and budget reports had been overstated by £909,000. The overstatement has impacted on the HRA budget and business plan for 2016/17 (and subsequent years). The investigation report raised 8 recommendations to improve controls surrounding budget and outturn reporting to Members. Responsibility for control implementation and governance improvement has been allocated to the S151 Officer and the Accountancy Manager. **Action(s):** Internal Audit to complete follow up reviews on the implementation of the HRA balances investigation recommended controls. Review to be completed in two stages within quarters 2 and 3 2016/17. The follow up review findings will be reported to Audit and Standards Committee. Revision and update of the HRA business plan (including options available to the Council) to be presented to Housing Committee and Strategy and Resources Committee by the S151 Officer and Accountancy Manager.	Regular updates to be provided to Audit and Standards Committee within 2016/17 Civic year

Review reference	Action	Target date
Annual Governance Statement paragraphs 15.0 to 15.3	**Procurement Action Plan:** Weakness in the use and management of procurement and contract management increases the risk of legal challenge from suppliers and contractors of not complying with relevant regulations and internal Council Contract and Procurement Rules. It also increases the risk that the Council cannot demonstrate that it is securing value for money when procuring. The Council drafted the Procurement Action Plan 2015/16 to mitigate against the above risks. Implementation in 2015/16 was delivered through the Procurement Board and progress reported to the Audit and Standards Committee. At 2015/16 year end, governance of procurement and contract management was transferred from the Procurement Board to the Corporate Team. To continue development of the area, Audit and Standards Committee approved the proposed 2016/17 Action Plan on 5th April 2016. **Action:** Corporate Team to lead on delivery and implementation of the approved Procurement Action Plan 2016/17 (first review planned for 12th July 2016). Progress against the 2016/17 Plan will be reported to Audit and Standards Committee.	Latest Plan implementation date – 31st March 2017
Annual Governance Statement paragraph 16.9	**Business Continuity and Disaster Recovery:** The Council's Excelsis risk register includes the risk 'COMS10: If the Council does not regularly review it's business continuity/disaster recovery plans to ensure they are fit for purpose, the delivery of frontline and back office services will be disrupted in the event of an incident' which has a current risk score of 8 (allocated in line with the Council Risk Management Policy) and a target risk score of 4. The COMS10 lead officer is the s151 Officer. To support mitigation of the COMS10 risk, the s151 Officer and ICT Delivery Manager have raised the area for inclusion within the Risk Based Internal Audit Plan 2016/17. **Action:** Business Continuity and Disaster Recovery consultancy review to be completed by Internal Audit in liaison with the ICT Delivery Manager, to support control improvement. Review action plan to be reported to Audit and Standards Committee.	31st March 2017

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 *revenue* 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 *revenue expenditure funded by capital under statute,* long-term debtor or *intangible asset*;
capital receipts	income from the sale of capital assets such as land and Council houses. Capital receipts can only be used (subject to certain legal exceptions) to finance new *capital expenditure*;
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: 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 *budget*; and is a forecast of income and expenditure for the year
forecast	an *estimate* of income and expenditure in a financial year;
General Fund	the account that records and finances Council *revenue* expenditure, other than *HRA*;
Housing Revenue Account (HRA)	a separate statutory account dealing with the *revenue* income and expenditure arising from the provision of Council-owned and managed dwellings;
IAS 19	International Accounting Standard 19 *Employee Benefits* 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 *HRA* 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 *General Fund*, including inflation, government grants, service changes,

	base rate changes and the *tax base*;
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 *actual* expenditure is more than the *budget*;
precept	a levy made by the police and crime commissioner, county council, district council or parish/ town councils on the *Collection Fund* 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: 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 *capital* 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 *revenue* 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 *capital receipt*;
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: 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; and c) 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 *actual* expenditure is less than the *budget*.

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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Your name
……………………………………………………………………………………..

Your address……………………………………………………………………………..

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Telephone...Email ....

Thank you

STROUD DISTRICT COUNCIL

AGENDA ITEM NO

AUDIT AND STANDARDS

22 SEPTEMBER 2016

8

Report Title	**ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2015/2016**
Purpose of Report	To advise on the treasury management activities in 2015/2016, in accordance with the Council's Treasury Policy Statement. To report on actual 2015/2016 Prudential Indicators in accordance with the requirements of the Prudential Code.
Decision(s)	**The Audit & Standards Committee:** approves the treasury management activity annual report for 2015/2016 and the actual Prudential Indicators.
Consultation and Feedback	Capita Asset Services Limited.
Financial Implications and Risk Assessment	There are no financial implications arising directly from this report. The Council has operated within the approved Treasury Management Strategy for the year, which is designed to ensure the Council's exposure to risk is limited. Appendix A of the report sets out the return made on the Council's investments. The average rate on these investments was 0.69% and the interest earned was £233k. Total borrowing for the year was £104.717m, as set out in paragraph 16 of the report. Paragraphs 17-19 set out the outturn position regarding the Icelandic Currency deposits, following the sale of the remaining balance held in Escrow to Deutsche Bank with a net currency and auction loss of £105k. David Stanley, Accountancy Manager Tel: 01453 754100 E-mail: david.stanley@stroud.gov.uk

Legal Implications	This report is provided for the Committee's information as part of its treasury management procedures. There are no significant legal implications. 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	The Committee will receive regular reports on treasury activity throughout the year.
Background Papers/ Appendices	• Council Report 28 January 2016 Agenda Item 4(g), Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2016/17 • Council Report 26 February 2015 Agenda Item 8(a), Treasury Management Strategy, Annual Investment Strategy and MRP Policy Statement 2015/16 A – Temporary investments 2015/2016 B – Actual Prudential Indicators 2015/2016 C – Explanation of Prudential Indicators D – The economy and interest rates 2015/2016 E – Borrowing and investment rates in 2015/2016

Discussion

1. The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2001 was adopted by this Council on 21 March 2002, and the revised 2009 code was adopted on 21 January 2010. This Council fully complies with its requirements.

2. The primary requirements of the Code are as follows:

   - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

   - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

   - Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a midyear review report and an annual review report of the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Audit & Standards Committee.

3. Treasury management in this context is defined as:

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

Treasury Activity

4. A summary of treasury management activity for 2015/2016 is shown below:

Treasury Activity 2015-16				
	April 2015	Increase	Decrease	March 2016
	£000	£000	£000	£000
Debt				
Borrowing:				
Long-term	95,717	9,000	-	104,717
Short-term	-	-	-	-
Total debt	**95,717**	**9,000**	-	**104,717**
Investments				
Externally managed	-	-	-	-
Internally managed - Long term	-	-	-	-
Internally managed - Short term	23,911	7,028	-	30,939
Total investments	**23,911**	**7,028**	-	**30,939**
Net investments	**-71,806**	**-1,972**	-	**-73,778**

Investment Strategy

5. Investment strategy for 2015/2016 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government 'Guidance on Local Government Investment' issued in March 2004, and our own investment policy which set out permitted specified and non-specified investments. In addition, the Council received and followed weekly investment advice from Capita Asset Services detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Capita Asset Services, economic briefings and monitoring the financial press.

6. Investment strategy, set out in the report to Council in February 2015, stated that the Council would aim to invest for longer durations and up to a year to take advantage of better rates available, and primarily within the UK. There would be much less reliance on call accounts and money market funds as the return on these investments was no longer as good as other options. All investment options would be subject to the Capita creditworthiness methodology, and the Council's own limitations as to duration of investment and amount invested.

7. The expectation for interest rates within the strategy for 2015/16 was for Bank Rate to remain at 0.5% until quarter 4 of 2015, and then to start rising modestly over a period of time. However, rates remained at 0.5% for the whole of financial year 2015-16. The Council achieved a return of 0.69% in an environment of continued falling interest rates.

8. **Appendix A** has a summary of investments during the year.

Borrowing Outturn for 2015/16

9. The Council had total borrowing of £104.717m as at 31 March 2016. During the year £9m of PWLB was borrowed in line with the Council's Capital Financing Requirement.

Lender	Principal	Type	Interest Rate	Years to Maturity	Maturity Date	New 15-16
PWLB	£1m	Fixed Interest Rate	2.42%	2 years	28/03/2018	
Hampshire CC	£2m	Fixed Interest Rate	2.40%	2 years	05/02/2019	
PWLB	£1m	Fixed Interest Rate	1.63%	4 years	11/02/2021	Y
PWLB	£2m	Fixed Interest Rate	1.93%	6 years	11/02/2023	Y
PWLB	£6m	Fixed Interest Rate	3.32%	16 years	31/03/2032	
PWLB	£10m	Fixed Interest Rate	3.45%	21 years	31/03/2037	
PWLB	£7m	Fixed Interest Rate	3.51%	26 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.51%	26 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.53%	31 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.53%	31 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.52%	36 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.52%	36 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.51%	41 years	31/03/2057	
PWLB	£7m	Fixed Interest Rate	3.51%	41 years	31/03/2057	
PWLB	£10m	Fixed Interest Rate	3.48%	45 years	31/03/2061	
PWLB	£9.717m	Fixed Interest Rate	3.48%	45 years	31/03/2061	
PWLB	£2m	Fixed Interest Rate	3.16%	47 years	20/08/2063	Y
PWLB	£1m	Fixed Interest Rate	3.55%	48 years	28/11/2064	
PWLB	£2m	Fixed Interest Rate	3.20%	49 years	18/08/2065	Y
PWLB	£2m	Fixed Interest Rate	2.96%	49 years	11/02/2066	Y
Total Loans	**£104.717m**					

The Economy and Interest Rates

10. An analysis of UK economic performance and interest rates during 2015/2016 is in **Appendix D**.

Performance Measurement

11. **Appendix A** has details of the investments made during the year. All of these were 'approved investments' with counterparties included on the Council's lending list, and within permitted limits as regards time and amount.

12. The average level of investments held was £33.504 million and the average return on these investments was 0.69%, compared with the average uncompounded 7-day LIBID rate of 0.361% which is a generally accepted benchmark rate (the 3 month uncompounded LIBID rate is given as well for comparative purposes). The interest earned was £233k.

	Average Investment	Rate of Return	Benchmark Return 7 day LIBID uncompounded	For comparison 3 month LIBID uncompounded
Internally Managed	£33,504,863	0.69%	0.361%	0.456%
Externally Managed	N/A	N/A	N/A	N/A

13. Stroud is a member of a Capita Asset Services Benchmarking group. The group is comprised of Worcestershire County Council, North Warwickshire Borough Council, Herefordshire County Council, Wyre Forest District Council, Warwick District Council, Warwickshire County Council, Rugby Borough Council, Nuneaton and Bedworth Borough Council, Cherwell District Council, Stratford on Avon District Council and Oxford City Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2015/16 Stroud has again compared very favourably with the benchmark group in terms of return achieved, whilst maintaining a low risk portfolio.

14. The above figures exclude interest earned on the £1m invested in the Local Authority Mortgage Scheme and £331k retained by Glitnir bank in an Escrow account. If these investments earning 3.8% and 3.65% respectively are taken into account then the rate of return increases to 0.798% on an average investment balance of £34.664m. Total interest earned including these non-standard investments was £277k.

Prudential Indicators and Compliance with Borrowing Limits

15. The Council is required by the Prudential Code to report actual prudential indicators after the yearend. These are shown in **Appendix B**.

16. The Council had loans totalling £104.717m during 2015/2016. This amount of borrowing was well within both the authorised and operational borrowing limits of £118m and £112m respectively.

Borrowing limits 2015/2016	Approved Limit	Actual
Authorised limit for external debt (£'million) (Includes deferred liabilities)	£118m	£104,717
Operational boundary for external debt (£'million)	£112m	£104,717

Icelandic Currency Deposits

17. An amount equivalent to £nil at March 2016 (£331k March 2015) is held by Glitnir Bank in an Icelandic Kroner Escrow account.

18. During September 2015 the Council sold its remaining Icelandic Kroner to Deutsche Bank. A total of £232,301.42 was received by the Council. The transaction meant a loss, net of currency gains, of £104,536 was incurred. This was comprised of an exchange rate gain of £10,770 and an auction loss of £115,306.

19. Part of the auction loss, £50,118 was charged to the provision set aside as cover against potential risks associated with foreign exchange fluctuations and currency controls. The remainder of the loss was a charged to the General Fund balance.

Member Training

20. Member training provided by Capita Asset Services on treasury management issues took place on 13 January 2016. Further training for Members will be scheduled for 2016/17.

Temporary Investments - Summary Activity 2015/2016				
Borrower	**Type**	**Average Principal Invested £**	**Interest £**	**Average Rate**
RBS Group				
NatWest Treasury Reserve	Call	478,222	1,198.86	0.25%
RBS Deposit	Fixed	1,413,699	13,571.51	0.96%
RBS Treasury Reserve	Call	7,473	18.73	0.25%
RBS	CD	586,301	5,921.64	1.01%
RBS Group Total		**2,485,694**	**20,710.74**	
Lloyds Group				
Bank of Scotland	Fixed	5,684,933	44,782.74	0.79%
Lloyds	Fixed	4,431,781	33,826.08	0.76%
Lloyds 32 Notice	Call	332,892	1,902.68	0.57%
Lloyds Group Total		**10,449,605**	**80,511.50**	
Barclays Bank PLC				
Barclays	FIBCA	1,444	0.71	0.05%
Barclays	Fixed	5,020,548	30,153.04	0.60%
Barclays Total		**5,021,992**	**30,153.75**	
Nationwide				
Nationwide	CD	663,014	4,707.40	0.71%
Nationwide	Fixed	665,753	3,381.91	0.51%
Nationwide Total		**1,328,767**	**8,089.31**	
Santander				
Santander - 95 day notice	Notice	2,101,343	18,963.90	0.90%
Santander - 180 day notice	Notice	961,392	11,086.30	1.15%
Santander MMA	Call	1,978,872	15,874.35	0.80%
Santander Total		**5,041,608**	**45,924.55**	
Credit Suisse	CD	523,288	3,062.19	0.59%
Deutsche	MMF	647,175	2,993.41	0.46%
Federated Prime Rate MMF	MMF	3,751,911	18,134.97	0.48%
Goldman Sachs MMF	MMF	1,743,514	7,672.46	0.44%
Handlesbanken	Call	10,373	36.41	0.35%
Ignis	MMF	1,325,593	5,844.83	0.44%
Standard Chartered	CD	928,767	7,309.32	0.79%
Toronto Dominion	CD	246,575	2,251.85	0.91%
Grand Total		**£33,504,863**	**£232,695**	**0.69%**

Types of investment

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

CD - Certificate of Deposit which are tradeable financial investments.

DMO - Investment with the government's Debt Management Office. Interest rate fixed.

FIBCA - Fixed Interest Bearing Current Account

Fixed - fixed term investments at fixed interest rates.

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

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

TB - Treasury Bills are fixed term investments in government securities at fixed interest rates.

Prudential Indicators	2014/15 £'000 actual outturn	2015/16 £'000 original indicator	2015/16 £'000 actual outturn
Capital Expenditure			
Non- HRA	2,280	8,336	3,385
HRA	12,818	20,687	18,080
TOTAL	**£15,098**	**£29,023**	**£21,465**
Ratio of financing costs to net revenue stream			
Non- HRA	-2.46%	-1.46%	-2.40%
HRA	15.55%	15.32%	15.41%
Net borrowing requirement			
brought forward 1 April	94,717	95,717	95,717
carried forward 31 March	95,717	106,779	101,373
in year borrowing requirement	**£1,000**	**£11,062**	**£5,656**
In-year Capital Financing Requirement			
Non- HRA	-	4,300	1,656
HRA	-	7,762	4,000
TOTAL	**-**	**£12,062**	**£5,656**
Capital Financing Requirement as at 31 March			
Non- HRA	7,569	11,869	9,225
HRA	87,980	95,742	91,980
TOTAL	**£95,549**	**£107,611**	**£101,205**
HRA borrowing limit	£95,742	£95,742	£95,742
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	£0.05	£2.07	£1.23
Increase in average housing rent per week	-£0.20	£0.75	£0.53
Authorised limit for external debt			
borrowing	95,717	118,000	104,717
other long term liabilities	-	-	-
TOTAL	95,717	118,000	104,717
Operational boundary for external debt			
borrowing	95,717	112,000	104,717
other long term liabilities	-	-	-
TOTAL	95,717	112,000	104,717
Upper limit for fixed interest rate exposure			
Net principal re. Fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
Net principal re. Fixed rate borrowing / investments	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	-	8,000	-

Explanation of prudential indicators

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

Capital expenditure – compares the 2015/16 original capital estimates with the actual outturn. Actual 2014/15 outturn is shown for comparison.

Ratio of financing costs to net revenue stream – this indicator shows the effect of HRA self-financing debt, with the cost of servicing debt accounting for 15.41% of rental income. Interest on reserves and balances still makes a positive contribution to General Fund finances.

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

In year capital financing requirement – this shows that in 2015/2016 capital spend was financed by borrowing of £5.656m, and the remainder was financed by the Council's capital resources such as grants, capital receipts and revenue contributions. The comparative 2014/2015 figure shows the capital spend for that year was fully financed by the Council's capital resources and no borrowing was required.

Capital financing requirement (CFR) as at 31 March – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £101.205m provides the Council with the opportunity to borrow if appropriate. The Council has £104.717m in long term borrowing. This indicates Council has borrowed in advance of need to take advantage of historic low interest rates.

Incremental impact of capital investment decisions – increase in Council Tax (Band D) per annum – this indicator shows that the funding of the Non-HRA capital programme over and above the original estimate in 2014/2015 meant the equivalent of £1.23 per annum on band D council tax arising through interest foregone arising from the additional capital resources spent.

Incremental impact of capital investment decisions – increase in average housing rent per week – The lower than estimated spending on the HRA capital programme cost an estimated 53p per week of the average housing rent in increased investment interest, rather than the expected 75p per week.

Authorised limit for external debt - this is the "affordable borrowing limit" for external temporary borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cash flows. The Council does not have the power to borrow above this level. The Authorised Limit was set at £118m in February 2015.

Operational boundary for external debt – this is set as the more likely amount required for day to day cash flow purposes. It is acceptable to be above or below this level as long as the Authorised Limit is not breached. The Operational Boundary was set at £112m in February 2015.

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

Upper limit for total principal sums invested for over 364 days – the amount it is considered can prudently be invested for a period in excess of a year. Although the Council can invest for longer than a year no such investments were made in 2015/2016 in accordance with Capita Asset Services' advice.

The Economy and Interest Rates 2015-2016

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging-market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling materially. These rates continued at very low levels during 2015/16.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

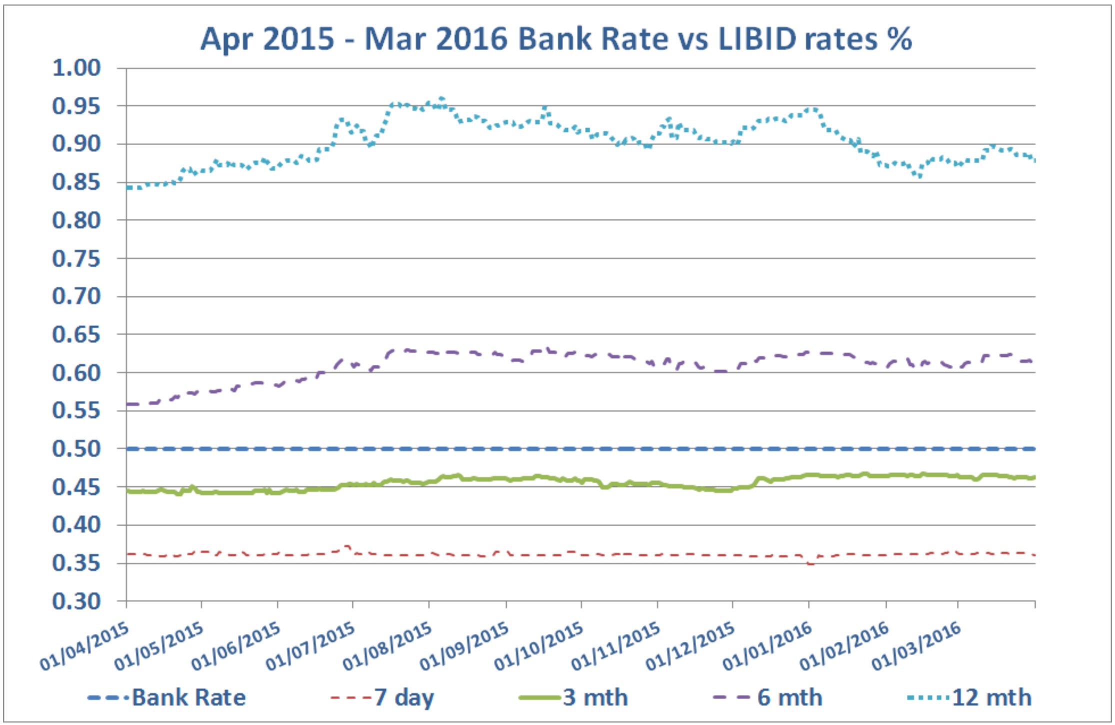
On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and

Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.

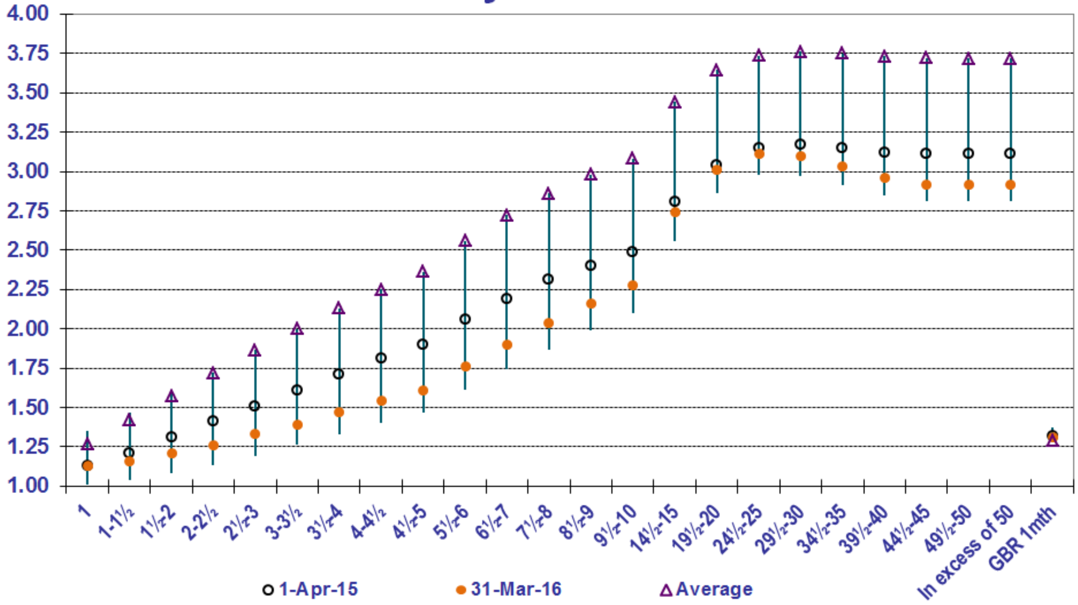
The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

INVESTMENT AND BORROWING RATES 2015-2016

Money market investment rates 2015/16					
	7 day	1 month	3 month	6 month	1 year
1/4/15	0.361	0.381	0.445	0.559	0.843
31/3/16	0.361	0.386	0.463	0.615	0.878
High	0.372	0.389	0.468	0.635	0.959
Low	0.349	0.377	0.441	0.557	0.842
Average	0.361	0.383	0.456	0.609	0.902
Spread	0.023	0.012	0.027	0.078	0.117
High date	26/6/15	3/11/15	15/2/16	16/9/15	5/8/15
Low date	31/12/15	16/4/15	22/4/15	9/4/15	2/4/15



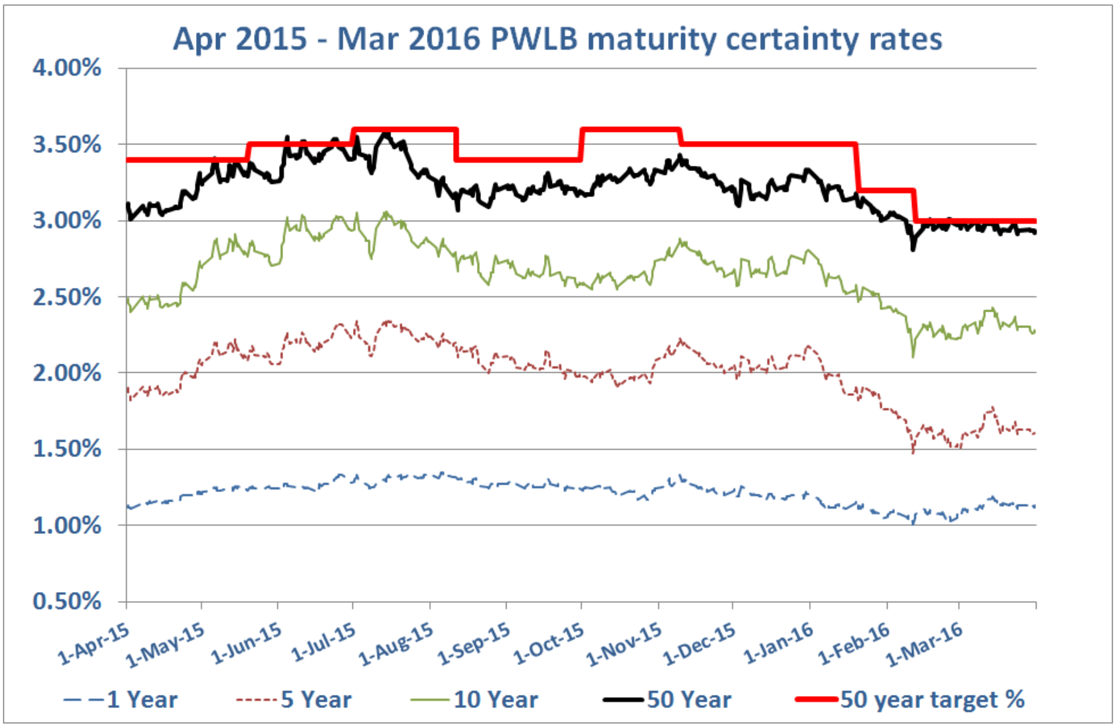
PWLB certainty rate variations in 2015-16



	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/15	1.130%	1.210%	1.510%	1.710%	1.900%	2.490%	3.150%	3.110%	1.320%
31/3/16	1.130%	1.160%	1.330%	1.470%	1.610%	2.280%	3.110%	2.920%	1.310%
High	1.350%	1.470%	1.860%	2.120%	2.350%	3.060%	3.660%	3.580%	1.370%
Low	1.010%	1.040%	1.190%	1.330%	1.470%	2.100%	2.980%	2.810%	1.310%
Average	1.212%	1.302%	1.608%	1.814%	2.004%	2.653%	3.348%	3.216%	1.336%
Spread	0.340%	0.430%	0.670%	0.790%	0.880%	0.960%	0.680%	0.770%	0.060%
High date	05/08/2015	06/08/2015	02/07/2015	15/07/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015	30/10/2015
Low date	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	21/03/2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/15	1.13%	1.90%	2.49%	3.15%	3.11%
31/3/16	1.13%	1.61%	2.28%	3.11%	2.92%
Low	1.01%	1.47%	2.10%	2.98%	2.81%
Date	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.21%	2.00%	2.65%	3.35%	3.22%

PWLB certainty maturity borrowing rates.



STROUD DISTRICT COUNCIL

AGENDA ITEM NO

AUDIT AND STANDARDS COMMITTEE

22 SEPTEMBER 2016

9

Report Title	**1ST QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2016/17**
Purpose of Report	To provide an update on treasury management activity as at 30/06/2016.
Decision(s)	**The Audit and Standards Committee APPROVES the treasury management activity first quarter report for 2016/2017.**
Consultation and Feedback	Capita Asset Services Limited
Financial Implications & Risk Assessment	The recent decision by the Bank of England's Monetary Policy Committee to cut interest rates to 0.25% will reduce the level of investment income the Council is able to earn on its investments. The Council's 2016/17 budget assumed investment income of £200k. There is obviously some risk to this being achieved. David Stanley – Accountancy Manager Tel : 01453 754100 Email : david.stanley@stroud.gov.uk
Legal Implications	This report is provided purely for information and as such there are no legal implications to report on the 'decision' proposed. 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
Options	None
Performance Management Follow Up	Further quarterly reports and a full 2016/17 annual report

Background Papers	○ Council Report 25 February 2016, Agenda Item 8a, Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2016/17.
Appendices	A – Economic Update B – Prudential Indicators as at 30 June 2016 C – Explanation of prudential indicators

Background

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

2. This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the first quarter of the financial year, and to report on prudential indicators and compliance with treasury limits. A quarterly report is regarded as good practice, but is not essential under the Code of Practice for Treasury Management (the Code).

Discussion

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in November 2009, and it was adopted by this Council on 21 January 2010. This first quarter report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

    - An economic update – Appendix A
    - A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
    - A review of the Council's investment portfolio for 2016/17
    - A review of the Council's borrowing strategy for 2016/17
    - A review of compliance with Treasury and Prudential Limits for 2016/17.

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2016/17 was approved by Council on 25 February 2016. 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.

6. A breakdown of the Council's investment portfolio as at 30 June 2016 is shown in Table 2 of this report. Borrowing during the year has been in line with the Strategy. There has been one deviation from the strategy in relation to investments with banking groups previously classified as Government Guaranteed Banks. In the February 2016 Strategy the limit was revised to £8m per banking group, from £12m per banking group. However, the limit stated in the February 2016 Strategy was intended to read £8m per bank after consultation with our advisors Capita. The actual limit of £8m per group was breached by £411k between the period 15th June 2016 until the next fixed term investment matured on the 22nd July 2016.

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 three years with government or local government provided they are sufficiently highly rated on Capita's weekly list.

Investment Portfolio 2016/17

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:

<u>TABLE 1: Average Interest Rate Compared With Benchmark Rates</u>

Period	Investment Interest Earned	Average Investment	Average Interest Rate	Benchmark 7 day LIBID	Benchmark 3 month LIBID
01/04/16 - 30/06/16	£59,510	£34.328m	0.72 %	0.36 %	0.43 %

9. The Local Area Mortgage Scheme investment of £1m at 3.8% with Lloyds is excluded from the above table. If this interest is included the interest earned is £68.9k at an average interest rate of 0.8114%.

10. Table 2 below shows the investments and borrowing position at the end of June 2016.

11. The approved limits as set out in the Treasury Management Strategy report to Council 26th February 2015 within the Annual Investment Strategy was breached once during the first 3 months of 2016/17.

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 £8m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

	Jun 16 £'000	Jun 16 £'000
Money Market Funds Total	3,131	**3,131**
Bank of Scotland	3,000	
Lloyds	5,410	
Lloyds Banking Group Total		**8,410**
NatWest	1	
Royal Bank of Scotland	2,007	
RBS Banking Group Total		**2,008**
Svenska Handlesbanken		**10**
Barclays Bank		**2**
Santander		**7,933**
Toronto Dominion	2,000	
Nordea	1,000	
Certificates of Deposits		**3,000**
Nationwide	6,000	
Building Societies		**6,000**
TOTAL INVESTMENTS		**30,494**
Local Authority	2,000	
PWLB	104,717	
TOTAL BORROWING		**106,717**

External Borrowing

13. The Council's Capital Financing Requirements (CFR) for 2016/17 is £114.381m. 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 £106.717m as at 30 June 2016. During June two £1m PWLB loans were taken at rates of 2.65% & 2.51% for 47 and 50 years respectively. These rates are 0.85% and 1% lower than the preferential rates offered by the government for HRA financing.

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 2016 the Council breached the treasury limits on one occasion, as set out in paragraph 6, and otherwise complied with the Prudential Indicators set out in the Council's TMSS and 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 2016 & interest rate forecast saw:

Overview

On the lead up to the EU referendum, UK economic growth performed surprisingly strongly (0.6% q/q). Industrial production fell in May but had a very strong month in April.

Services output also gained in April. In the US, underlying retail sales growth hit a two year high in May but industrial activity and business investment remained weak. Accordingly, the Fed may be deterred from increasing interest rates while payroll growth goes through this lull, and the uncertainty surrounding Brexit will add to the central bank's caution. Nevertheless, analysts continue to point to the risks of a rising inflation backdrop that could force the Fed to raise rates at a faster pace than currently indicated by the futures curve.

Q2 EZ growth was expected to have slowed from that in Q1, with the June composite PMI consistent with just 0.3% q/q growth. Industrial production and retail sales saw only modest gains, falling short of Q1 performance, and economists suggested that a slow-down may be the feature of the remainder of the year as rising inflation impacts on households' real income growth. The UK decision to leave the EU is likely to add to downside pressures on sentiment in the bloc.

Chinese growth figures continued to be treated with scepticism in some quarters.

UK

Output indicators suggested an economic slowdown post the EU referendum Leave vote.However, the GfK consumer confidence survey was one of the few surveys to point to a more positive story. Industrial production contracted in May, but expanded strongly in April, so even further contraction in June would probably leave it healthily stronger over Q2. The index of services showed solid growth in April. Post-Brexit data will be awaited, but analysts expect stagnation in the second half of the year, with a potential pick up in 2017, but the outlook is highly uncertain.

Accordingly, recovery remains in the hands of household spending, which did not seem overly held back by the referendum uncertainty, with retail sales volumes increasing in both April and May to indicate a strong quarter's contribution to Q2 GDP growth. The June CBI reported sales balance, however, fell suggesting a slowing of sales. Though consumer confidence eased it did so from extremely high levels, reflecting solid spending growth. The BoE agents' measure of consumer services was also healthy, but the housing market may be less supportive of spending going forward, with new buyer enquiries dipping and suggesting sharp house price growth slowing.

Employment levels improved in the run up to the referendum, pushing it to a record high, and unemployment down to 5%, an eleven year low. Employment intentions remained upbeat but whether this will remain post-Brexit is unknown. Annual average earnings rose strongly in April but were more subdued over the three month average. Surveys pointed to an acceleration of wage growth, reflecting previous take up of labour market slack. However, the EU vote and ongoing underemployment are likely to restrain the upside potential.

Timing of Easter apart, CPI held fairly steady at 0.3%, with core inflation at 1.2%. Fuel's impact increased in May to offset weaker clothing/food inflation. That contribution is likely to increase as the value of the £ falls and base effects lift the annual rate. Wholesale energy prices remained below 2014 levels and with utility firms purchasing wholesale energy two years in advance the drag from retail energy will continue on inflation. Import prices will increase on the back of Sterling's Brexit weakening, which will have both direct and indirect impacts on inflation, though that effect generally has a two year time lag. The effect may, though, be softened if the economy weakens as expected. Inflation forecasts have seen the 2% target being hit earlier, in Q2 next year, while looser monetary policy will soften mortgage payments and narrow the gap between CPI and RPI measures.

Financial markets were initially rocked by the Brexit decision and the Bank of England was not slow to indicate that it would take action to support the economy in the aftermath of the vote and the uncertainty ahead. An interest rate cut in Q3 was expected and the interest rate expectations curve had shifted lower. Gilt yields crumbled, with the benchmark ten year yield hitting a record low. Sterling fell to a thirty five year low on the back of the move in the relative interest rate expectations. The UK's sovereign rating had also, been downgraded. On the upside, the FTSE 100 rallied strongly, as member companies' earnings are more international, though the more domestic focussed 250 struggled.

US

Monthly data was indicative of Q2 GDP growth bouncing to around 2.5-3% annualised, after slowing to sub-1% in Q1. However, survey evidence was not overly upbeat, with the weighted average of the two ISMs only at a level consistent with growth of 1.5%.

Retail sales were strong in both April and May, with vehicle sales also recovering strongly, and real consumption looked set to pick up to around 3.5% annualised, or more, in Q2. Normalisation in weather conditions will see utilities' spending ease back, but seemed unlikely to drag too greatly on overall spending.

Consumers did not spend the savings generated by previous falls in gasoline prices, so the more recent uplift in fuel costs were expected to have a limited impact on real consumption levels. Employment growth slowing had not dented the healthy gains in real incomes which, when combined with a high level of consumer confidence, was expected to support the continued current strength of consumption growth.

Slower job creation remained an issue but this only appeared to be a temporary situation following previous, extremely strong, weather related gains. In previous years the slowing was concentrated in weather sensitive sectors, such as construction, retail and leisure. Warmer weather over the winter had probably seen unseasonal increases in participation rates. The drop in the rate of unemployment was down to a decline in the labour force rather than job creation, and average hourly earnings growth improved, having accelerated to 2.5% annualised.

Headline CPI had been fairly steady, at around 1%, a consequence of the sharp decline in energy prices. The price of crude oil had bounced steeply over the previous four months and, after a recent easing, was expected to have a reduced inflationary impact on prices over H2. Core inflation had been above 2% for a while but the core PCE measure (the Fed's favoured measure) was lower, at 1.6%. Core services inflation was on a long term uptrend and hit an eight year high in May. Core goods inflation dipped on a large decline in vehicle prices, but with steel prices picking up this could prove only short term.

Headline producer prices had been rising since the start of the year, but core prices remained subdued. The latter could be set to rise according to survey evidence, which indicated that higher steel tariffs could impact. Firms were seeing unit labour costs accelerate to around 3%, which is consistent with core inflation of around 2.5%. If slack in the labour market is reduced, this could add to wage pressure, which in turn would add to unit labour costs increases. Breakeven inflation rate levels (measured from the spread between nominal and inflation-protected Treasury yields) rallied, and survey inflation expectation levels also picked up.

EZ

The June composite PMI was unchanged at a level indicating just 0.3% q/q growth, while the Economic Sentiment Indicator eased and reflected similar levels of growth. National PMIs were not obviously affected by the UK referendum, but it will be of greater interest to see how they react to the outcome.

The strength of the consumer sector in Q1 was unlikely to be replicated in Q2. Consumer spending was responsible for the bulk of Q1 GDP growth, but retail sales had only grown moderately in April and May. There were mixed performances among the main economies but falling prices seemed to be less of a boost than last year, with annual retail sales volume growth levels well down. Consumer confidence did dip in June but remained higher than in early 2016, but the level did suggest a slowing in annual consumer spending growth. Italian confidence hit a nineteen month low.

The industrial sector improved performance. All sectors of production saw improvement, with consumer and capital goods the strongest. Germany and France saw the strongest gains. The June manufacturing PMI was indicative of annual EZ production growth of around 2.5% but, like all surveys, was reflective of pre-Brexit sentiment. The labour market recovery was maintained with the May fall in unemployment equal to that of the previous six months average. This pulled the rate of unemployment down to 10.1%, the lowest since July 2011. Improvement was fairly widespread, with Spain's jobless rate dipping below 20% for the first time in six years. However, survey employment intentions fell in June adding to signs of slowing employment growth. EZ price pressures were subdued, though headline consumer prices ticked back into positive territory in June, to end a brief period of deflation. Services inflation lifted core inflation, but it too remained fairly minimal.

Markets in the EZ were affected by the Brexit vote, but the damage could have been worse. The €uro declined despite the lower expectations for US interest rates but it strengthened on a trade weighted basis, on the back of gains against Sterling. Combined with a potentially weaker EZ economic outlook, equities were hit, banking sector stocks in particular, whose profitability would be threatened by further monetary policy easing. Safe haven asset demand increased with global economic concerns, which left the majority of German bunds yields too low for the ECB to purchase. Peripheral bond yields jumped initially but returned to near levels seen at the start of June.

Asia

The Chinese economy continued to grow at a healthy rate, according to official figures, despite the fact that the authorities were seeking to rebalance the economy towards more domestically driven growth. Commentators were unconvinced about the figures coming out of Beijing, which contrast with the unofficial Caixin PMI activity surveys that showed private sector firms struggling to generate growth. Growth was expected to be reported at just under 7% but economists were inclined to put the figure at a more moderate 5%. The Japanese economy did not offer any indication that recovery is likely to take off at any time soon, with the PMIs remaining in contraction territory, industrial production falling, inflation remaining minimal and consumer confidence weak. The election in July, however, was expected to provide Prime Minister Abe with an endorsement of his policies. The economic recovery had not been helped by risk aversion ahead of the UK's EU vote, which saw investor demand for safe havens, with the consequence of the Yen strengthening significantly, which in turn impacted on export prospects.

Summary
The month ended with the initial shock of the UK Brexit decision being reversed. The Bank of England moved swiftly to allay some fears and to stave off the potential economic downturn that it projected would be the result of Brexit. It indicated that it will ease monetary policy, leading markets to expect a rate cut in July or August. The interest rate outlook was significantly different from that at the start of the quarter.

Markets

	Open	Close	High	Low
FTSE 100	6,242	6,231	6,290	6,050
£/$	$1.467	$1.448	$1.477	$1.433
€/£	£0.783	£0.768	£0.795	£0.756
5y Gilt	0.979%	0.899%	0.985%	0.779%
10y Gilt	1.609%	1.432%	1.610%	1.354%
25y Gilt	2.356%	2.172%	2.356%	2.172%
50y Gilt	2.234%	2.025%	2.234%	1.964%

The volatility seen in markets throughout June could be attributed, almost entirely, to the shifts in opinion and sentiment on the EU referendum.

The volatility over the probability of a Brexit resulted in fluctuations of investors' expectations of monetary policy, with a rate cut this year widely anticipated.

Sterling was affected by these shifting sands of opinion, while investor fears saw increased activity in options protecting against a fall in the £.

The FTSE 100 was largely flat over the month, slightly underperforming other developed market bourses. The more UK-centric FTSE 250 underperformed, reflecting the specific concerns of investors regarding the UK's position.

Prudential Indicators as at June 2016

Prudential Indicator	2016/17 Indicator £'000	Actual as at 30 June 2016 £'000
Capital Financing Requirement (CFR)	114,381	104,499
Gross Borrowing	114,549	106,717
Authorised Limit for external debt	130,000	106,717
Operational Boundary for external debt	125,000	106,717
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	8,000	0
Maturity structure of borrowing limits		
Under 12 months	100%	0%
12 months to 2 years	100%	1%
2 years to 5 years	100%	3%
5 years to 10 years	100%	2%
10 years and above	100%	94%

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 2016 strategy with actual gross borrowing as at 30 June 2016.

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 £114.381m provides the Council with the opportunity to borrow if appropriate. Borrowing of £7m is planned during 2016/17.

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 2016 to 30 June 2016.

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 2016 to 30 June 2016.

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 AND STANDARDS

22 SEPTEMBER 2016

AGENDA ITEM NO

10

Report Title	**STANDARDS REVIEW: CODE OF CONDUCT AND INVESTIGATIONS PROCEDURE**
Purpose of Report	To provide a report on the standards issues during 2015/16 and to review the current investigations procedure.
Decision(s)	**That the Committee RESOLVES:** 1. The Code of Conduct Investigations Procedure be amended to: a. allow informal resolution of complaints which would otherwise be referred for investigation, by the Monitoring Officer subject to prior consultation with an independent member; and b. require Town and Parish Councils to attempt to resolve complaints about their own members (particularly disputes between members) themselves before the complaint is referred to the Monitoring Officer. 2. The existing membership of the Standards Panel be confirmed subject to Panel meetings having at least one independent member and a district councillor present.
Financial Implications	There are no financial implications arising directly from this report. David Stanley, Accountancy Manager Tel: 01453 754100 E-mail: david.stanley@stroud.gov.uk
Legal Implications	As outlined in the report.
Report Author	Karen Trickey, Legal Services Manager & Monitoring Officer Tel: 01453 754469 Email: karen.trickey@stroud.gov.uk
Options	To make alternative changes or none to the relevant codes and procedures.

Complaints received during 2015/16

1. During the course of the last civic year, as was the case in 2014/15, eight formal complaints (two against district councillors and the remainder against parish / town councillors) were received by the Monitoring Officer alleging a breach of the relevant councils' codes of conduct. This complaint level does not in itself present any cause for concern given that there are over 500 councillors in the Stroud District. The complaints against the parish and town councillors all related to alleged failures to declare interests and / or to refrain from participating in the debate and vote. The remaining complaints concerned the behaviour of the members generally.

2. All eight complaints were investigated. Two of the complaints were dealt with informally at the request of the complainant. Two other complaints these (being the ones against district councillors) were investigated but did not substantiate a breach of the Code, no further formal action being appropriate beyond drawing the councillors' attention to the matter to avoid any potential for concern in the future. The remaining four cases (which concerned two members in two parish / town councils) were referred to the Standards Panel for determination, as breaches of the Code were substantiated by the investigating officer. The Standards Panel recommended that training be undertaken by the whole council (including the clerk) due to the poor administration and understanding of the code within the authorities.

3. Although the Standards Panel has recommended that the training of Parish and Town Councils be approved by the Monitoring Officer where it is not possible for her to provide such, it is very much a matter for the individual councils concerned as to whether they follow the recommendations of the Panel. When deciding whether training is appropriate, account is taken of the resources available for training particularly within small parish councils. In the two cases where training was recommended by the Standards Panel in 2015/16 it was apparent that the councils had sufficient resources to fund good quality training. Nevertheless, the councils did not accept the need for training or did not secure training to a level needed to improve their standards of conduct in the public interest. Unfortunately, the limited sanctions (e.g. censure or training) which the Standards Panel may impose against parish and town councillors, does not always encourage compliance in practice. It is with this in mind, along with the considerable time (and as such) cost incurred by the District Council's legal team in investigating parish and town council complaints, that the recommendations to amend the complaints procedure are being made - see paragraphs 8 to 11 in this report.

Other steps taken in 2015/16

4. Over the last 12 months, in terms of seeking to encourage all parish and town councils to promote and secure high standards of conduct, the Monitoring Officer has provided a training event at the District Council's offices open to all such authorities, on the statutory requirements and how to review codes, (at a cost of £50 per council); and more recently, bespoke training for individual councils at their venue and in the evening, has been offered on a trial basis to 20 individual councils (at a cost of £250 per event). Whilst feedback has been positive from councillors who have attended the training held to date, only 12 out of 52 councils have taken up either of the training events offered. Further those taking up the training offered tend not to be the ones which experience most complaints.

5. In addition to the formal complaints made, numerous informal enquiries have been made of the Monitoring Officer by parish / town councillors and members of the public during the course of the year regarding councillors' conduct. As was the case with the eight formal complaints investigated, the vast majority of issues raised with the Monitoring Officer related to councillor involvement in planning applications. Whilst it is not appropriate to provide specific advice to individual parish / town councillors, the Monitoring Officer does seek to direct enquiries to council clerks and relay any advice to the clerk with a view to improving the understanding of key issues across their councils.

6. Concern has been raised with the Monitoring Officer on two occasions at a District Council level about whether the Council's own Code of Conduct regarding interests should be extended to cover friends' interests; such having been particularly relevant to member involvement in the consideration of planning applications. In response to the first occasion, the Constitution Working Group earlier this year, concluded that members' adherence to the key principles underlying the Code of Conduct (e.g. openness and transparency) as well as specific obligations under the Code (e.g. which prohibit members from bringing the office of councillor into disrepute) are sufficient to ensure members voluntarily declare interests which fall outside the realms of 'DPI' and 'Other Interests' within the Code. In response to the second occasion more recently, a reminder of the need for members whose friends have submitted planning applications, to ensure that they are acting objectively and in compliance with the Council's Planning Code has been sent to all members.

7. It is proposed that the Monitoring Officer report back to committee with proposals for the amendment of the District Council's Code of Conduct or the Planning Code of Conduct if any further and reasonable concerns are raised with her regarding inappropriate involvement of members in planning applications and / or the exclusion of 'friends' or 'close acquaintances' interests from the definition of "Other Interests" in the District Council's Code of Conduct.

Standards Investigations Procedure

8. Over recent months, it seems that Parish and Town Councils who have been the subject of investigation have become more aware that in practice compliance with the sanctions available to the Standards Panel is dependent upon the co-operation of the councils, there being no enforcement mechanism available to the District Council. This is a particular concern given the investigation of complaints which are subsequently referred to the Standards Panel for determination, is costly (approximately £4500 per Town / Parish Council investigation). There is no power to recharge an investigation to the councils or councillor concerned (or more particularly enforce payment).

9. Enquiries of a range of other authorities has indicated that most councils tasked with investigating complaints, now tend to encourage more informal means of resolution as it is a more cost effective way to deal with complaints. In contrast, in line with Stroud District Council's current procedure the Monitoring Officer's power to deal with complaints informally largely depends upon the complainant agreeing to such. There is no statutory requirement that a formal investigation be undertaken despite the requirement for such within the Stroud District's procedure. By law, there is simply a need for the Council to have a complaints procedure and to consult an independent person before decisions are made in respect to any allegation which is referred for investigation.

10. Whilst it is not considered appropriate to replace the Standards Panel as more serious complaints are still considered to warrant the option of a formal process for determination, it is recommended that the current scheme be amended to include provisions whereby:

a. the Monitoring Officer may deal with the matter informally if subject to consultation with one of the Council's independent members of the Standards Panel, she considers that will be most effective in the particular case;
b. Town and Parish Councils should attempt to resolve complaints about their own members (particularly disputes between members) themselves before the complaint is referred to the Monitoring Officer.

11. These amendments should help to encourage the resolution of complaints more quickly and reduce costs by minimising the need for formal interviews and reports to the Standards Panel (which account for the majority of time involved). Further, given a significant proportion of enquiries made about parish / town councillors concern personal disputes between members and individual members of the public, it is recommended that parish and town councils be encouraged to seek to resolve issues themselves particularly bearing in mind collective responsibility amongst all members of a relevant authority for upholding high standards of conduct, often helps ensure individual members do not breach their council's code.

Standards Panel

12. The current membership of the Standards Panel consists of three independent members (there being a legal requirement to have at least one independent member for the purpose of consultation on relevant issues) plus at the Council's own volition, the chair / vice chair of Council and two district councillors who are also a parish / town council member and ideally, but not necessarily, members of the Audit and Standards Committee.

13. It is recommended that this membership continue subject to the requirement that a Panel may convene with at least one independent person and a District Councillor present. The latter requirement for Panel meetings will clarify the minimum number of members required for a Panel meeting (an issue which has been raised with the Monitoring Officer) and help enable the Panel to be convened more quickly if such is needed. In recent months, the unavailability of District Councillors and conflicts of interest which particular members held highlighted the lack of flexibility with the current arrangements.

STROUD DISTRICT COUNCIL

AGENDA ITEM NO

AUDIT AND STANDARDS COMMITTEE

22 SEPTEMBER 2016

11

Report Title	**INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/17**
Purpose of Report	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2016/17.
Decisions(s)	The Committee **RESOLVES:** • To note the progress against the Internal Audit Plan 2016/17; and • To note the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.
Consultation and Feedback	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
Financial Implications and Risk Assessment	There are no financial implications arising from the report. David Stanley Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk Risk Assessment: Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.
Legal Implications	This report is provided for information, as such there are no legal implications to highlight to the committee. Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk

Report Author	Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk
Options	There are no alternative options that are relevant to this matter.
Performance Management Follow Up	In accordance with the Public Sector Internal Audit Standards (PSIAS) and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2016/17. These are scheduled to be presented to the Audit and Standards Committee at the November 2016 and April 2017 meetings.
Background Papers/ Appendices	**Appendix A** – Internal Audit activity progress report 2016/17. **Background papers:** ➢ Internal Audit Plan 2016/17; ➢ PSIAS; and the ➢ CIPFA Local Government Application Note for the UK PSIAS.

1.0 Background

1.1 Members approved the Internal Audit Plan 2016/17 at the 5th April 2016 Audit and Standards Committee meeting. In accordance with the Public Sector Internal Audit Standards 2016 (PSIAS), this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.

1.2 The Internal Audit activity progress report 2016/17 at **Appendix A** summarises:

- The progress against the 2016/17 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period June 2016 to September 2016;
- Special investigations/counter fraud activity; and
- The Housing Revenue Account (HRA) balances internal audit follow up review report.

1.3 The report is the first progress report in relation to the Internal Audit Plan 2016/17.

INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/2017

STROUD DISTRICT COUNCIL

ARA
AuditRiskAssurance
Gloucester City Council | Stroud District Council | Gloucestershire County Council

(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards (PSIAS) as representing "proper internal audit practices". The standards define the way in which the Internal Audit Service should be established and undertakes its functions.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council's Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2016/2017 Internal Audit Programme, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period June to September 2016;
- Special investigations/counter fraud activity; and
- The Housing Revenue Account (HRA) balances internal audit follow up review report.

(4) Progress against the 2016/2017 Internal Audit Programme, including the assurance opinions on risk and control

The schedule provided at **Appendix 1** provides the summary of 2016/17 audits which have not previously been reported to the Audit and Standards Committee.

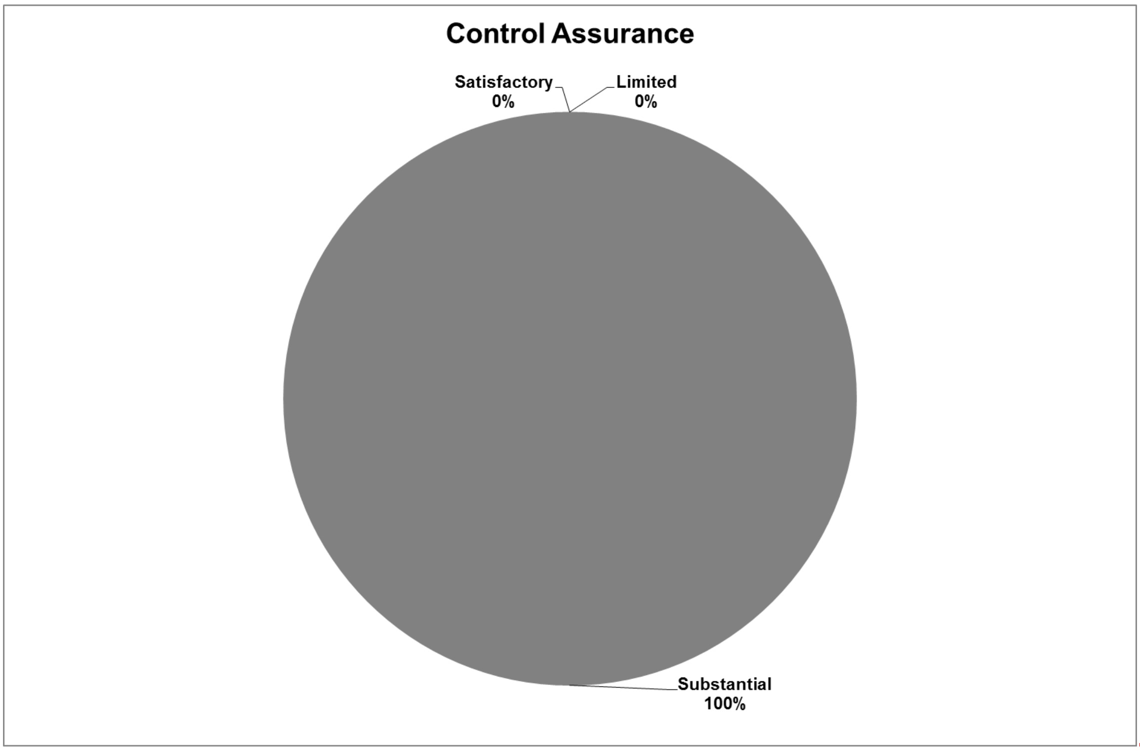
The schedule provided at **Appendix 2** contains a list of all of the 2016/17 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Standards Committee. Explanations of the meaning of these opinions are shown below.

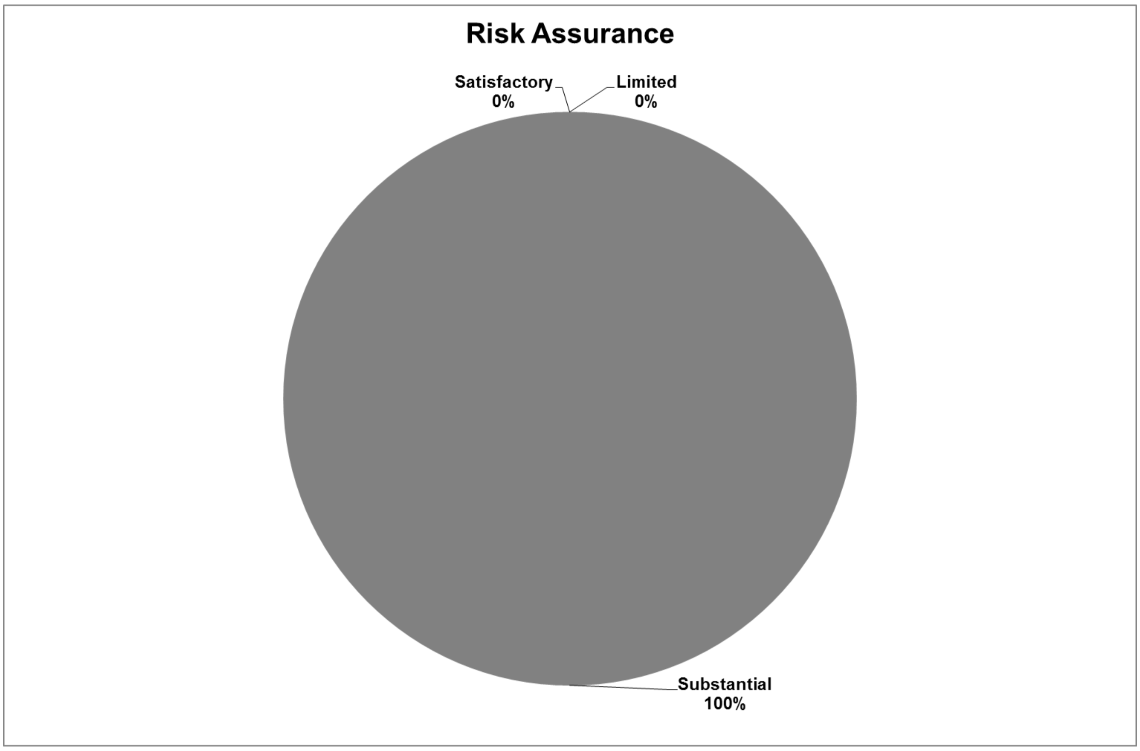
The Housing Revenue Account Balances follow up report / outcomes – **Appendix 3.**

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	**Risk Managed** Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.	• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	**Risk Aware** Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy.	• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	**Risk Naïve** **Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.**	• **System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls** • **Control Application – Significant breakdown in the application of control**

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period June 2016 to September 2016.





(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Standards Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period June 2016 to September 2016, it is pleasing to report that no limited assurance opinions on control have been provided on completed audits from the 2016/17 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period June 2016 to September 2016 Internal Audit made, in total, **13** recommendations to improve the control environment, **11** of these being high priority recommendations (**100%** of these being accepted by management) and **2** being medium priority recommendations (**100%** accepted by management).

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During the period June 2016 to September 2016, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2016/17 Internal Audit Plan.

In the cases where a limited assurance opinion has been given, the Shared Service Senior Risk Management Advisor is provided with the Internal Audit reports, to enable the prioritisation of risk management support.

Completed Internal Audit Activity during the period June 2016 to September 2016

Summary of Substantial Assurance Opinions on Control

Strategic Area:	**Tenant and Corporate Services**
Audit Activity:	**Sheltered Housing Modernisation Project**

Background

Stroud District Council has a sheltered housing stock of 790 homes in 28 schemes that support tenants aged 55+ to live independently in the community. There are a diverse range of residents from under 60's who work, to the over 90's with complex needs. Almost all the schemes are purpose built and are at least 25 years old.

An independent consultancy company categorised each scheme using a traffic light system to reflect the degree of "risk" to the Council:

- Red: A scheme with significant issues relating to its physical nature, repair or condition, the degree of local demand/competition, an inherent viability problem or a combination of these so that significant action will be needed within five years;
- Amber: A probable requirement that major investment, development or re-utilisation will be needed within ten years; and
- Green: A good quality scheme which is essentially sustainable in the longer term (up to 30 years) in its present form with some improvement or upgrading work.

There are five schemes categorised as red, one is red/amber, 13 are amber and 9 are green.

The independent consultancy review was presented to the Housing Committee in October 2015 who resolved that they would support the review of options for the redevelopment of the stock identified in the 'red' and 'red/amber' categories.

A Tenant Services Project Team was formed and on 28th June 2016 their recommendations for the five red and one red/amber sheltered housing stock portfolio was presented to the Housing Committee and were accepted.

Scope

The review sought to provide:

- Assurance that there were effective governance arrangements in place for reporting and decision making during the programme of work; and
- Validation that the information contained in the options, for the six schemes presented to the Housing Committee on 28th June 2016 was robust, clear and complete.

Risk Assurance – Substantial

Control Assurance – Substantial

Key findings

At officer level, the governance for the project is provided by a Sheltered Housing Modernisation Project Steering Group; there is a well defined Terms of Reference, meetings are documented and there is evidence of monitoring of the delivery. However the minutes of the Sheltered Housing Modernisation Project Steering Group meetings lack evidence of the management or challenge to the key risks, methodology and proposed recommendations as observed by Internal Audit during attendance of two recent Project Steering Group meetings.

The Housing Committee has received regular updates on the Sheltered Housing Asset Review (now known as the Sheltered Housing Modernisation Project), since October 2014.

It is evident as part of this project/development of the options appraisal for the Housing Committee that there has been engagement with various professional disciplines, including:

- An Independent Valuer;
- Topographical Surveys were conducted;
- Architects produced costings for developments at the schemes; and
- An independent consultancy company provided the project team with:
  - an understanding of the current supply and condition of available stock; type of housing required; and accommodation aspirations for the future in relation to people aged 55+;
  - an 'Older people's housing demand analysis' which included a snapshot of demand, and the current and proposed sheltered housing stock; and
  - a financial works budget.

In addition, the Sheltered Housing Project Manager has:

- Considered various legislative requirements such as: the Housing Act 1996 (amended by the Homelessness Act 2002), the Localism Act 2011, the 'Equality Act 2010' in particular the guidance on the disposal of premises and an 'Equality and Rural Analysis Form' has been completed; and
- Complied with the Council's Corporate Consultation Strategy; Risk Management Policy; Project Management requirements; Decant Policy and is aware that going forward, as appropriate, will need to comply with the Public Services (Social Value) Act 2012.

Conclusion

Internal Audit concludes that it is evident that there is an effective framework in place to empower good governance for this project and overall these arrangements are operating effectively. During the review period Internal Audit has worked closely with the service area providing professional advice and support as required to aid the achievement of this phase of the project. Internal Audit has made one medium priority recommendation which is aimed at strengthening the transparency of decision making and to further enhance the current risk management arrangements.

Management Actions

Management have responded positively to the one medium recommendation made.

Summary of Consulting Activity and/or Support Provided where no Opinions Are Provided

Strategic Area: Customer Services

Audit Activity: Council Tax 2016-17 Opening Debit

Background

The Council Tax opening debit for 2016-17 was determined, calculated and bills despatched to householders during the previous financial year. Therefore the audit of the Council Tax opening debit has been performed according to this timeframe. This is to confirm that householders are charged the correct charge for the financial year and that any issues are resolved in a timely manner in order to reduce any potential financial exposure. There is no specific Internal Audit opinion for this audit as the results of this review will be taken into account in the main Council Tax audit.

Council Tax is a system of local taxation collected by local authorities and is a tax on domestic property. For 2016-17 the Council Tax requirements for the Council, as approved by Members at a Council meeting, and other ‘precepting’ authorities and agencies was determined as follows:

Authority/agency	Amount £
Stroud District Council	8,035,608
Gloucestershire County Council	47,796,838
Police and Crime Commissioner	8,864,247
Parish and Town Councils	3,143,011
Total	**67,839,704**

Scope

This audit focused on the verification and calculation of the Council Tax opening debit for 2016/17. To achieve this the following objective was set:

- The Council Tax opening debit has been correctly calculated and reflected in the Council Tax system.

Risk Assurance – N/A interim audit

Control Assurance – N/A interim audit

Key findings

The review has highlighted that:

- There was found to be no specific risk documented in the Excelsis Risk Register relating to the opening debit (Excelsis is the Council’s performance/risk management system);
- The total number of properties by Council Tax Band between the Valuation Office Agency (VOA) records and the Council Tax system was correctly performed by the Revenue Officer, however was not subject to management review and approval;
- Two different members of staff (input and verification) were involved in the update of the approved precepts to the Council Tax system. A review by Internal Audit of the Council Tax Band ‘D’ charges updated to the Council Tax system was confirmed as correct back to the appropriate supporting documents; and

- At the time of the audit there was no documentary evidence to confirm that the following reconciliations had been performed:

  a) Manual calculation of the 2016-17 Council Tax gross charge to the Council Tax system; and
  b) Council Tax payable charge as per the Council Tax system to the Council Tax bills generated/issued to householders. In addition whether any exceptions had been correctly accounted for and dealt with.

Conclusion
The audit review highlighted that the risk(s) associated with the opening debit has not been formally recognised by management in the Excelsis Risk Register and therefore the management of the risk has not been fully effective. The current control environment also requires strengthening in order to confirm the 2016-17 Council Tax charge for householders has been correctly calculated and the bills to householders are correct and issued.

In light of the above, Internal Audit has made two High Priority recommendations, which are aimed at strengthening the control environment and the Services' risk management arrangements. A review of the progress in implementing the recommendations will be undertaken later in the financial year as part of the main Council Tax audit.

Management Actions
Management has responded positively to the recommendations made in respect of the above issues identified.

Strategic Area:	**Customer Services**
Audit Activity:	**National Non Domestic Rates (NNDR) 2016-17 Opening Debit**

Background
The audit of the 2016-17 NNDR opening debit forms part of the main audit review of NNDR being undertaken later in the financial year. The NNDR opening debit for 2016-17 was determined, calculated and bills despatched to businesses during the fourth quarter of the previous financial year. Therefore the audit of the NNDR opening debit has been performed according to this timeframe. This is to confirm that businesses are charged the correct rates for the financial year and that any issues are resolved in a timely manner in order to reduce any potential financial exposure. There is no specific Internal Audit opinion for this audit as the results of this review will be taken into account in the main NNDR audit.

NNDR is a tax on properties which are not used for domestic purposes such as shops, factories, offices, etc. and is a contribution towards local services. For 2016-17 the NNDR for the Council was calculated to be approximately £34m (gross), which a proportion of the revenue is allowed by the Government to be retained by the Council.

Scope
This audit focused on the verification and calculation of the NNDR opening debit for 2016/17. To achieve this the following objective was set:

- The NNDR opening debit has been correctly calculated and reflected in the NNDR system.

Risk Assurance – N/A interim audit

Control Assurance – N/A interim audit

Key findings

The review has highlighted that:

- There was found to be no specific risk documented in the Excelsis Risk Register relating to the opening debit;
- The rateable value and number of 'hereditaments' reconciliation between Valuation Office Agency (VOA) records and the NNDR system was correctly performed by the Revenue Officer, but was not subject to management review and approval;
- Two different members of staff (input and verification) were involved in the update of the revised 2016-17 NNDR parameters to the NNDR system. A review by Internal Audit of the parameters updated to the NNDR system was confirmed as correct back to the appropriate supporting documents; and
- At the time of the audit, there was no documentary evidence to confirm that the following reconciliations had been performed. In addition, the Revenue and Benefits Manager confirmed the stated reconciliations had not been completed i.e.

  a) Manual calculation of the gross standard non-domestic rates and Small Business Rate Relief including supplement to the NNDR system to confirm correct application of the parameters by the system; and
  b) Rates payable net charge as per the NNDR system to the NNDR bills generated/issued to non-domestic customers to confirm all bills had been correctly created and despatched. In addition any exceptions had been correctly accounted for and dealt with.

The Revenue and Benefits Manager subsequently undertook a billing reconciliation, which highlighted a difference of approximately £5k after exceptions and loss allowance, which could not be accounted for. This potentially represents bills that have not been dispatched to non-domestic customers.

Conclusion

The audit review highlighted that there was no formal acknowledgement of the risk(s) relating to the opening debit within the Excelsis risk management system. This may therefore have contributed to the identified weaknesses in the overall control environment relating to the correct system calculation of NNDR and the issue of bills to businesses.

In light of the above, Internal Audit has made two High Priority recommendations, which are aimed at strengthening the control environment and the Service's risk management arrangements. A review of the progress in implementing the recommendations will be undertaken later in the financial year as part of the main NNDR audit.

Management Actions

Management has responded positively to the recommendations made in respect of the above issues identified.

Summary of Special Investigations/Counter Fraud Activities

Current Status

During the period June 2016 to September 2016 there have been no referrals to Internal Audit.

Fraud Risk Assessment/Risk Register

A fraud risk register is currently being developed the outcome of which will inform future internal audit activity.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The next data collections will be October 2016 and reports will start to be received with matches from January 2017.

Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

The Committee can also take assurance that all special investigations/counter fraud activities are reported to the Chief Executive, Monitoring Officer and Strategic Head (Finance and Business Services).

Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Corporate	Document Retention Policy (Joint review with Legal Services)	High	Planned				
Corporate	Procurement	High	Consultancy				
Corporate	Delivery of Savings Plan	Medium	Planned				
Corporate/Finance and Business	IT Disaster Recovery and Business Continuity	High	Audit in Progress				
Corporate/Finance and Business	Cyber Security	High	Audit in Progress				
Development Services	Building Control Shared Service	Medium	Audit in Progress				
Customer Services	Council Tax Opening Debit 2016/17	High	Final Report Issued	Not Applicable	Not Applicable	22/09/2016	
Customer Services	National Non Domestic Rates (NNDR) 2016-17 Opening Debit	High	Final Report Issued	Not Applicable	Not Applicable	22/09/2016	
Customer Services	Benefits Part 2	High	Planned				
Customer Services	Multi Services Contract	High	Planned				
Customer Services	Off-Street Car Park Income	High	Audit in Progress				
Customer Services	Dursley Pool - Direct Debit Income	Medium	Planned				
Customer Services	Green Waste and Bulky Waste Charges	Medium	Audit in Progress				
Customer Services	Benefits Uprating 2017-18	High	Planned				
Customer Services	Council Tax - Part 2	High	Planned				
Customer Services	Non Domestic Rates (NNDR) - Part 2	High	Planned				
Finance & Business Services	Payroll - New System	High	Audit in Progress				
Finance & Business Services	Budget Monitoring	Medium	Planned				
Finance & Business Services	Capital Accounting (Property, Plant and Equipment)	High	Audit in Progress				KPMG Joint Working Protocol
Finance & Business Services	Cash and Bank	High	Planned				KPMG Joint Working Protocol
Finance & Business Services	General Non Pay Expenditure (Creditors)	High	Planned				KPMG Joint Working Protocol
Finance & Business Services	Network Access Controls	High	Planned				KPMG Joint Working Protocol
Finance & Business Services	General Ledger	High	Planned				KPMG Joint Working Protocol
Finance & Business Services	Housing Revenue Account (HRA) Balances Consultancy Review	High	Final Report Issued	Not Applicable	Not Applicable	05/07/2016	New Activity
Tenant & Corporate Services	Gas Servicing	High	Planned				
Tenant & Corporate Services	Housing Rents	High	Planned				KPMG Joint Working Protocol
Tenant & Corporate Services	LGPS Regulations 2014	High	Planned				
Tenant & Corporate Services	Response Repairs Contract	High	Planned				
Tenant & Corporate Services	Code of Conduct for Employees	Medium	Audit in Progress				
Tenant & Corporate Services	Complaints Process - Tenant Services	Medium	Audit in Progress				
Tenant & Corporate Services	Electoral Service	Medium	Planned				
Tenant & Corporate Services	Health and Safety - Housing Stock and Corporate Assets	High	Audit in Progress				
Tenant & Corporate Services	Sheltered Housing Modernisation Project	Medium	Final Report Issued	Substantial	Substantial	22/09/2016	
Tenant & Corporate Services	Housing Revenue Account (HRA) Rent Debit 2017-18	High	Planned				
Finance & Business Services	Housing Revenue Account (HRA) Balances Consultancy Review follow up	High	Final Report Issued	Not Applicable	Not Applicable	22/09/2016	New Activity

Appendix 3

Housing Revenue Account Balances Follow-Up Report

1st September 2016

Janet Bruce – Principal Auditor

Distribution

Corporate Team
Audit and Standards Committee

Contents

Important

- **The Internal Audit Shared Service conforms to the International Standards for the Professional Practice of Internal Auditing.**

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- Gloucestershire County Council as host authority for the Internal Audit Shared Service accepts no liability to any third party for any loss or expense arising from their reliance on any part of this report.

- The information contained within this document is confidential and comes under the Data Protection Act.

Executive Summary

Introduction

1. An investigation was undertaken by Internal Audit, earlier in the year, following the discovery that balances had been overstated within the Housing Revenue Account (HRA) 2014/15 Outturn report to the Housing Committee. The overstated balances of £909k, continued to be included in financial reports throughout 2015/16.

2. Following the investigation, a report was produced which included eight recommendations; seven high priority and one medium. This follow-up review is intended to provide assurance that these recommendations have been addressed by management and appropriate agreed action taken.

Key Findings

3. It is pleasing to note that progress has been made towards addressing the seven high priority recommendations as identified in the initial audit investigation report. In respect of the one medium priority recommendation, the Section 151 Officer and Accountancy Manager have identified that other financial risks also need to be reviewed and therefore the target date for this recommendation has now changed to October 2016, when Risk.FIN29 (*if budget position is inaccurately reported to members and senior management then risk of significant year end balances/reputational impact*) will be assessed with other risks identified.

4. Specific progress on each recommendation is included within Appendix 1 of this report.

Conclusion

5. Due to the timing of this initial follow-up review, not all actions as recommended and agreed can be verified at this time. For example, required checks will not be able to be verified until the Statement of Accounts and budget monitoring reports are produced in advance of committee meetings planned for the end of September and middle of October 2016.

6. As a result, a further progress update will be provided to the Audit and Standards Committee in November.

HRA Balances - Recommendations/Action Plan

High (H): Action is imperative to ensure that the objectives for the area under review are met.

Medium (M): Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
1.	**A sense check is undertaken to ensure that all financial information contained within the Statement of Accounts, including the Explanatory Foreword and Notes is consistent throughout.** **A sign off sheet to be completed to evidence the check and to provide assurance to the Strategic Head (Finance and Business Services) that all financial information is consistent.**	**Inconsistency** **Reporting errors** **Unchecked information is used to inform budget and other spending decisions** **Reputation**	**H**	Agreed	GB (Principal Accountant – Technical)	July 2016

Progress:
At present the Statement of Accounts report has yet to be completely finalised. A last run through for accuracy, etc. will be undertaken week beginning 5th September 2016, although a draft report has been published on Stroud District Council's (SDC) website. The external auditors have reviewed the accounts and as a result a few changes have been made to note 7 (Adjustments between accounting basis and funding under regulations), which will be reflected in the final version. However, they have made no qualified statements. The final version will be submitted to Democratic Services for 12th September 2016 to be published, in preparation for the Audit and Standards Committee meeting on 22nd September 2016. A comprehensive sign off sheet has been produced (Appendix 2), which will be signed as the checks are undertaken and completed as part of finalising the Statement of Accounts for publication.

An update on the progress with implementing this recommendation to be provided to the November 2016 Audit and Standards Committee.

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
2.	**HRA and other HRA resources (earmarked reserves and capital receipts) are identified separately to capital receipts within Outturn and other reports to Members, given that capital receipts are ring-fenced and may need to be repaid to Central Government, if not utilised.**	**Ambiguity in respect of balances that are usable and those that are ring-fenced and may be unusable.**	**H**	Agreed	DS (Accountancy Manager)	June 2016

Progress:
The 2015/16 HRA Outturn report for the June 2016 HRA Committee showed the Revenue and Capital tables separately and identified the impact on reserves and balances. The Right to Buy (RTB) receipts are now held on the balance sheet.

The Outturn summary figures have been agreed to Agresso (the Council’s accounting system), i.e. net HRA income and expenditure outturn of £1,432k for 2015/2016 reflects a reduction in HRA balances from £3,370k to £1,938k. These figures are reflected in the draft Statement of Accounts.

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
3.	**Before using opening balances in reporting to Members and senior management the figures should be re-checked against financial information within the published Statement of Accounts and Agresso.** **A sign off sheet to be completed to evidence the check and provide the relevant assurances.**	**Incorrect financial information is used to inform Members and senior management.** **Impact on budgets and decisions.**	**H**	**Agreed**	**DS (Accountancy Manager)**	**June 2016**

Progress:
The next budget monitoring report is due to go to the Housing Committee on 27th September 2016 and Strategy and Resources Committee on 13th October 2016. At this time these reports have not been finalised, however, management confirmed that a check will be undertaken to ensure that the opening balances are as published in the Statement of Accounts and Agresso. Management informed Internal Audit that the reports will include an additional table which will identify earmarked reserves, etc. A spreadsheet download from Agresso is being used to ensure that accurate figures will be reflected in budget updates to Members.

A checklist will be put in place ready for sign off following verification of financial information, prior to the production of budget monitoring reports for Members.

An update on the progress with implementing this recommendation to be provided to the November 2016 Audit and Standards Committee.

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
4.	Confirmation that: Capital receipts from RTB are retained on the balance sheet within Capital Receipt Reserves until applied or repaid.	**Usable HRA balances might appear to be higher than they actually are.** **Spend or budget decisions are based on unusable balances**	**H**	**Agreed** **(Any RTB receipts received to date in 2016/17 will be moved to comply)**	**GB (Principal Accountant – Technical)**	**July 2016**

Progress:
Although capital receipts from RTB are now held on the balance sheet until applied, the coding for pooled and non-pooled receipts still needs to be separated within Agresso. This will be undertaken once the external auditors have audited the pooling returns, which will follow a complete review within Finance of all quarterly pooling returns to the DCLG since 2012. This is currently in hand, however it is a time consuming exercise with only one return being able to be reviewed and changed per day due to limitations within the DCLG. Subsequently each changed return will have an impact on the following return. Once all returns have been agreed, the coding within Agresso will be changed to reflect pooled and non-pooled RTB receipts. It is anticipated that this exercise will be complete in order to report to the Housing Committee at the end of September 2016.

An update on the progress with implementing this recommendation to be provided to the November 2016 Audit and Standards Committee.

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
5.	**Confirmation that:** **Budget monitoring updates to Committees will now include the impact of the projected outturn on year end balances at each quarterly Committee update rather than just the in year outturn forecast in budget monitoring reports.**	**Projected outturn and impact on balances is not known/regularly reported to Members to inform decision making.**	**H**	**Agreed**	**DS (Accountancy Manager)**	**July 2016**
Progress: Financial information within a spreadsheet exported from Agresso is already in place ready to export into the General Fund and HRA budget update reports. The budget monitoring reports are due in September / October 2016. **An update on the progress with implementing this recommendation to be provided to the November 2016 Audit and Standards Committee.**						

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
6.	An independent check, other than the author of Outturn reports is undertaken to ensure that the report agrees with Agresso and the figures within in the proposed/actual Statement of Accounts. It is suggested that this should be undertaken by either a peer of the author or the Accountancy Manager. A sign-off sheet should be completed to show that this has been carried out.	Incorrect financial information is used to inform Members and senior management. Impact on budgets and decisions.	H	Agreed	S.151 in conjunction with Accountancy Manager	July 2016

Progress:

A timetable and sign-off sheet (Appendix 2) is in place in respect of the Statement of Accounts which includes checks to ensure that information is consistent with figures published within the HRA Outturn report and Agresso. It is intended that there will be a specific sign-off sheet in preparation for the production of the Outturn report for 2016/17. However, emails between the Accountancy Manager and Principal Accountant (Technical) were provided which showed independent checks had been undertaken before the final publication of the Outturn Report.

Internal Audit also verified the Outturn summary figures to Agresso.

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
7.	There is formal sign off by the Section 151 Officer in respect of reports to Members which involves financial information, to ensure the accuracy and completeness of that information.	Assurance that financial information provided to Members is not accurate. Incorrect financial information is used to inform Members and senior management. Impact on budgets and decisions.	H	Agreed Members of Finance staff involved in the monitoring & reporting process have been involved in producing a revised timetable for the receipt of finance information from budget holders in order to feed into financial reports. This timetable includes other dates of deadlines and sign off requirement by the S.151 Officer. Non-conformation with timetable for budget holder reporting will be progressed to the appropriate Strategic Head. This proposed timetable is to be taken to the Corporate team for approval before implementation.	S.151 in conjunction with Accountancy Manager	July 2016

Progress:
At draft stage, all financial reports to Members are to be reviewed by the Section 151 Officer. In addition, once financial reports are completed, there will be a formal sign-off by the Section 151 Officer to evidence that required checks have been completed, prior to being sent to Democratic Services for printing/publication ready for Committee. However, due to the timing of this review, physical evidence of sign off is not available at this time.

An update on the progress with implementing this recommendation to be provided to the November 2016 Audit and Standards Committee.

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
8.	Consideration is given to reinstatement/review of FIN29 in light of this report.	Recognition of risk of inaccurate budget position being reported to Members and senior management and subsequent risk of significant year-end balances and reputational impact.	M	Will review all finance risks and ensure risks from FIN29 is incorporated within those risks.	DS (Accountancy Manager)	Original: July 2016 Revised: October 2016

Progress:
The target date for this recommendation has been changed to October 2016 due to an initial review of all financial risks and recognition by the Interim S.151 Officer and Accountancy Manager that further consideration needs to be given to other potential risks relating to Finance, such as business continuity. Therefore all financial risks will be reviewed, not just FIN29.

An update on the progress with implementing this recommendation to be provided to the November 2016 Audit and Standards Committee.

Stroud District Council

Finance and Business Services

Statement of Accounts - Checklist

When reviewing the Statement of Accounts, s151 officer and Accountancy manager to complete the checklist below
Principal Accountant (Technical) to keep copy on file to demonstrate evidence of formal review

Statement of Accounts version/date: T:\Accountancy & Audit\Accounts\Financial Services\Statement of Accounts\2015-16\Words & Narrative 15-16\Audited Statement of Accounts

Issue	Statement of Accounts Section	Financial Reporting docs	Agresso check	Comments and further details	Reviewed by (1)	Reviewed by (2)	Date
GF Outturn information contained in the Narrative report is consistent with GF Outturn report provided to S&R Ctte	Narrative Report	S&R GF Outturn	1000-6999				
HRA Outturn information contained in the Narrative report is consistent with GF Outturn report provided to S&R Ctte	Narrative Report	S&R HRA Outturn	7000-7999				
Capital Outturn information contained in the Narrative report is consistent with GF Outturn report provided to S&R Ctte	Narrative Report	S&R Capital Outturn	8000-8999 + HRA Capital codes				
MTFP information contained in the Narrative report is consistent with latest approved version	Narrative Report	Council MTFP (February)					
Summary of Core Financial Statements contained in Narrative report consistent with Core Statements contained within main body of SOA	Narrative Report	SOA					
GF Balances shown in MiRS agree with opening and closing balances on Agresso (Z9400/ZZ770) and balances reported in MTFP	MiRS	MTFP & GF Outturn report	Z9400 PY & CY				
Earmarked Reserves shown in MiRS agree with opening and closing balances on Agresso (Z9401 to Z94xx) and balances reported in MTFP	MiRS	MTFP & GF Outturn report	Z9401 to Z94xx				
HRA Balances shown in MiRS agree with opening and closing balances on Agresso (Z9400/ZZ780) and balances reported in MTFP	MiRS	MTFP & GF Outturn report	Z9400 PY & CY				
GF Capital Receipts shown in MiRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MiRS	MTFP & GF Outturn report, Capital Outturn report	Z9400 PY & CY				
HRA Capital Receipts (non-RTB) shown in MiRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MiRS	MTFP & HRA Outturn report, Capital Outturn report	Z9400 PY & CY				
HRA Capital Receipts (RTB) shown in MiRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MiRS	MTFP & HRA Outturn report, Capital Outturn report	Z9400 PY & CY				
GF Capital Grants shown in MiRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MiRS	MTFP & GF Outturn report, Capital Outturn report	Z9400 PY & CY				

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Stroud District Council

Finance and Business Services

Statement of Accounts - Checklist

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Statement of Accounts version/date: T:\Accountancy & Audit\Accounts\Financial Services\Statement of Accounts\2015-16\Words & Narrative 15-16\Audited Statement of Accounts

Issue	Statement of Accounts Section	Financial Reporting docs	Agresso check	Comments and further details	Reviewed by (1)	Reviewed by (2)	Date
HRA Capital Grants shown in MiRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MiRS	MTFP & HRA Outturn report, Capital Outturn report	Z9400 PY & CY				
CI&ES figures reconcile back to Note 28 and other Financial Reporting	CI&ES	MTFP & GF/HRA Outturn report, Capital Outturn report					

STROUD DISTRICT COUNCIL

AGENDA ITEM NO

AUDIT AND STANDARDS COMMITTEE

22 SEPTEMBER 2016

12

Report Title	**SELF ASSESSMENT OF RISK MANAGEMENT ARRANGEMENTS AT STROUD DISTRICT COUNCIL AGAINST ISO31000 RISK MANAGEMENT – PRINCIPLES AND GUIDELINES**
Purpose of Report	The Accounts and Audit Regulations 2015 state that 'a relevant authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk'. The Audit and Standard's Committee's role is to provide independent assurance on the adequacy of SDC's Corporate Risk Management framework. This report provides appropriate information to enable the Committee to reach a judgement in this area.
Decision(s)	That the Committee **RESOLVES**: • To note the review progress to date; and • That further updates and outcomes will be provided to the Committee during 2016/2017 whether by committee information sheets or reports as appropriate.
Consultation and Feedback	Corporate Team, relevant professional disciplines within Stroud District Council and Audit, Risk Assurance.
Financial Implications and Risk Assessment	Whilst there are no financial implications arising directly from this report, the review of risk management does highlight a need to ensure council staff are adequately trained on Risk Management. This will be met from existing resources. Failure to deliver on effective risk management, particularly during periods of significant change, may have a detrimental effect on the achievement of the potential opportunities and adverse effects that challenge the assets, reputation and objectives of the Council, strategic decision making and the wellbeing of our stakeholders.

Legal Implications	There are no specific legal implications, this report is being provided for information only. Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	Theresa Mortimer Head of Audit Risk Assurance (ARA) (Chief Internal Auditor) Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk
Options	The assessment process will provide the relevant assurances that risk management continues to operate effectively within the Council.
Performance Management Follow Up	Any resulting actions identified will be monitored by Corporate Team and the Audit and Standards Committee.
Background Papers/ Appendices	Appendix A - ISO31000 Risk management – Principles and guidelines.

Self Assessment of Risk Management arrangements at Stroud District Council against ISO31000

22nd September 2016

Sally Coates – Senior Risk Management Advisor (Audit Risk Assurance)
Sarah Turner – Principal Procurement Officer (Stroud District Council)
Paul Brown – Audit/Risk Technical Officer (Audit Risk Assurance)

Executive Summary

Introduction

It has always been important for organisations to identify and manage their risks. This view has been reinforced by public sector legislation i.e. the Accounts and Audit Regulations 2015 where it states *'A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk."*

In addition, the *Delivering Good Governance in Local Government 2007 (Addendum 2012) – CIPFA/SOLACE* guide notes 6 key principles to enable the development of a good governance framework within public services, one of which states that good governance is *'taking informed and transparent decisions which are subject to effective scrutiny and managing risk'.*

Risk Management is about managing our threats and opportunities and striving to create an environment of 'no surprises'. By managing our threats effectively we will be in a stronger position to deliver our business objectives. By managing our opportunities we will be in a better position to improve services and better value for money.

Risk is unavoidable. It is an important part of life that allows us all to move forward and develop. As an organisation it can impact in many ways, whether financially, politically, on our reputation, environmentally, or to our service delivery. It cannot therefore be ignored or avoided, but instead, it must be managed.

Successful risk management is about ensuring that we have the correct level of control in place to provide sufficient protection from harm, without stifling our development. As an organisation, with a range of different stakeholders, each with differing needs and expectations, this can be a challenge. We must ensure that the decisions we take as a Council reflect a consideration of the potential implications for all our stakeholders. We must decide whether the benefits of taking our actions outweigh the risks.

Review of Risk Management Arrangements

In addition to providing an internal audit service, the Audit Risk Assurance Shared Service provides a risk management support service to Stroud District Council. As part of this support service (not an internal audit), the Strategic Head (Finance and Business Services) requested a review of the risk management arrangements operating within the Council to provide the relevant assurances that risk management continues to operate effectively. All review progress updates, reported to the Audit and Standards Committee.

To enable the above and the identification of any improvement areas to the Council's current risk management arrangements, a self assessment was undertaken against the International Standards Organisation ISO 31000:2009, *Risk management – Principles and guidelines*. The ISO 31000 provides principles, framework and a process for managing risk.

It can be used by any organisation regardless of its size, activity or sector. Using ISO 31000 can help organisations increase the likelihood of achieving objectives, improve the identification of opportunities and threats and effectively allocate and use resources for risk treatment.

Organisations using it can compare their risk management practices with an internationally recognised benchmark, providing sound principles for effective management and corporate governance.

The ISO 31000 consists of thirteen key areas (comprising of 59 questions) which are categorised between risk management responsibilities and key systems and processes which are summarised below.

- Responsibilities of Chief Executive/Governance (Officers and Members);
- Responsibilities of senior/middle management;
- Responsibilities for specialist risk management functions;
- Responsibilities for the Corporate Risk Manager;
- Responsibilities for the Chief Internal Auditor;
- Responsibilities for individual employees;
- Risk architecture;
- Risk strategy;
- Risk protocols;
- Planning and design;
- Implementing and benchmarking;
- Measuring and monitoring; and
- Learning and reporting.

Findings

It is pleasing to report that the initial results of the self assessment indicated **91%** compliance with the standards. However, an action plan is currently being developed to further enhance existing arrangements which identifies key improvement areas and includes assessing the effectiveness of the current arrangements in place. The action plan, once finalised and approved by Corporate Team will be presented to the Audit and Standards Committee in November 2016.

Conclusion

It is important that risk management continues to be fully embedded in the business operations of the Council. Adoption of the Action Plan, once finalised, will further enhance the current processes in place and further enable the risks associated with the achievement of the Councils objectives and priorities to be managed.

STROUD DISTRICT COUNCIL | **AGENDA ITEM NO**

AUDIT AND STANDARDS COMMITTEE

22 SEPTEMBER 2016 | **13**

Report Title	**CHANGES TO THE ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS**
Purpose of Report	To summarise the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 external audits. To outline options for the appointment of the Council's External Auditor for the 2018/19 Statement of Accounts and enable the Committee to recommend to Council the preferred appointment process.
Decision(s)	That the Committee **RECOMMEND TO COUNCIL** that it opts in to the Public Sector Audit Appointments Ltd (PSAA) as the Sector Led Body (SLB) for the appointment of the Council's External Auditors from 2018/19.
Consultation and Feedback	Please see report paragraphs 2.1 and 2.4 regards national consultation completed by the LGA.
Financial Implications and Risk Assessment	Other than those detailed within the main body of the report (paragraph 4), there are no further financial implications arising from this report. David Stanley Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk Risk Assessment: There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner. Providing the LGA with a realistic assessment of the Council's likely way forward will enable the LGA to invest in developing appropriate arrangements to support the Council.

Legal Implications	Other than those detailed within the main body of the report (paragraph 5), there are no further legal implications arising from this report. Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	David Stanley Accountancy Manager (Deputy S151 Officer) Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
Options	Alternative options are detailed within section 3 of this report. They are not recommended as the preferred option for the Council due to their associated disadvantages and costs.
Performance Management Follow Up	The Council has until December 2017 to make an appointment. In order that more detailed proposals can be developed, the Committee is asked to give early consideration to the preferred approach and make a recommendation to Full Council. Following approval of the approach to be taken by the Council, update on the progress of the External Auditor appointment will be made to the Audit and Standards Committee.
Background Papers/ Appendices	Appendices: not applicable Background papers: ➢ The Local Audit and Accountability Act 2014; ➢ The Local Audit (Appointing Person) Regulations 2015; and ➢ LGA generic report on External Auditor appointments.

1.0 Background

1.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of External Auditors and the setting of audit fees for all local government and NHS bodies in England. On 5th October 2015 the Secretary of State for Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

1.2 The Council's current External Auditor is KPMG LLP, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by PSAA, the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Over recent years there have been significant reductions in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The indicative scale fee for the audit of Stroud District Council is £51,975 for both 2015/16 and 2016/17**,** which is a reduction in audit fee of 25% when compared to the 2014/15 planned audit fee of £69,300. The indicative fee amounts do not include the fee for the certification of claims and returns.

1.3 When the current transitional arrangements come to an end on 31st March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

1.4 The scope of the external audit will still be specified nationally. The National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work. They will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

1.5 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act) and the Council have until December 2017 to make an appointment. The preferred option, based on consideration of the advantages and risks, is as follows:

2.0 Preferred option: Opt-in to a SLB

2.1 In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a SLB appointed by the Secretary of State under the Act. A SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. At this stage, the length of such contracts has yet to be determined. However, the audit contracts between the SLB and the audit firms will require firms to deliver audits compliant with the NAO Code of Audit Practice.

2.2 *Advantages/benefits:*

a. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities, thus minimising the cost to each individual authority.

b. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.

c. Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

d. The appointment process would not be ceded to locally appointed independent members. Instead a separate body is set up to act in the collective interests of the 'opt-in' authorities.

2.3 *Disadvantages/risks:*

e. Individual elected Members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

f. In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known.

2.4 The LGA have been working on developing a SLB arrangement, with around 270 councils and local bodies who expressed initial interest in a national scheme.

2.5 In late July 2016 under the Local Audit (Appointing Person) Regulations 2015, the DCLG approved PSAA's bid to become the SLB for the independent appointment of auditors for principal authorities in England beginning with responsibilities for the financial year 2018/19.

3.0 Alternative options considered

3.1 The remaining two options open to the Council under the Act are not recommended as the preferred option, due to their associated disadvantages and costs.

3.2 <u>Alternative option 1: To make a stand-alone appointment</u>

3.2.1 In order to make a stand-alone appointment the Council will need to set up an auditor panel. The panel membership must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees. This excludes current and former elected Members (or officers) and their close families and friends. This means that elected Members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

3.2.2 *Advantages/benefit:*

a. Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

3.2.3 *Disadvantages/risks:*

b. Recruitment and servicing of the auditor panel, running the bidding exercise and negotiating the contract are estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances.

c. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts, and is therefore likely to end up paying significantly higher fees.

d. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected Members.

3.3 <u>Alternative option 2: Local joint procurement arrangements</u>

3.3.1 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees. Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities to assess the appetite for such an arrangement.

3.3.2 *Advantages/benefits:*

a. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

b. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

3.3.3 *Disadvantages/risks:*

c. The decision making body will be further removed from local input, with potentially no input from elected Members where a wholly independent auditor panel is used or possibly only one elected Member representing each Council, depending on the constitution agreed with the other bodies involved.

d. The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

e. Even if the Council joins with one or more other local authorities, it will still not be able to offer the scale of appointment that would be available on a nationwide process. It would therefore be likely to incur higher fees than the preferred option detailed in report section 2.

4.0 Financial implications

4.1 The LGA considers that current external fees levels are likely to increase when the current contracts end in 2018.

4.2 The cost of establishing a local or joint auditor panel (a requirement of the section 3 alternative options) would include:

- The cost of recruiting independent appointees (members);
- Servicing the panel;
- Running a bidding and tender evaluation process;
- Letting a contract; and
- Paying panel members' fees and allowances.

These costs are not currently reflected within the Council's budget.

4.3 Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

5.0 Legal implications

5.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31st December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.

5.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

5.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a SLB to become the appointing person.

5.4 Under Regulation 9 of the Local Audit (Appointing Person) Regulations 2015 the decision to opt-in must be made by the authority meeting as a whole (i.e. Full Council).

6.0 Conclusion and reasons for recommendations

6.1 Opting-in to PSAA's national SLB potentially provides the best opportunity to limit future fees or costs, in terms of both appointment of auditors (removing the need to establish a local auditor panel) and the audit (by entering into a large scale collective procurement arrangement).

6.2 The LGA has continuously supported the SLB approach, believing it will offer best value to Councils by reducing set-up costs and having the potential to negotiate lowest possible fees.

6.3 The Council has until December 2017 to make an appointment. In order that more detailed proposals can be developed the Committee is asked to give early consideration to the preferred approach and make a recommendation to Full Council.

6.4 It is recommended that the Committee endorses the preferred option (detailed within section 2) for the appointment of External Auditors and recommends to Council to opt-in to the PSAA as the SLB for the appointment of the Council's External Auditors from 2018/19.