



Audit and Governance Committee

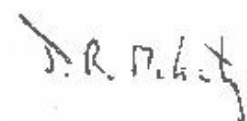
Meeting: Monday, 19th September 2016 at 6.30 pm in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP

Membership:	Cllrs. Gravells, Cook, Stephens, Wilson, Taylor, Patel and Pullen
Contact:	Atika Tarajiya Democratic and Electoral Services Officer 01452 396127 Atika.tarajiya@gloucester.gov.uk

AGENDA

1.	APOLOGIES To receive any apologies for absence.
2.	DECLARATIONS OF INTEREST To receive from Members, declarations of the existence of any disclosable pecuniary, or non-pecuniary, interests and the nature of those interests in relation to any agenda item. Please see Agenda Notes.
3.	MINUTES (Pages 5 - 12) To approve as a correct record the minutes of the meeting held on 20 th June 2016.
4.	PUBLIC QUESTION TIME (15 MINUTES) To receive any questions from members of the public provided that a question does not relate to: <ul style="list-style-type: none"> • Matters which are the subject of current or pending legal proceedings, or • Matters relating to employees or former employees of the Council or comments in respect of individual Council Officers
5.	PETITIONS AND DEPUTATIONS (15 MINUTES) To receive any petitions and deputations provided that no such petition or deputation is in relation to: <ul style="list-style-type: none"> • Matters relating to individual Council Officers, or • Matters relating to current or pending legal proceedings
6.	AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN (Pages 13 - 14) To consider the Action Plan.
7.	INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/17 (Pages 15 - 38)

	To consider the report of the Head of Audit Risk Assurance which informs Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2016/17.
8.	STATEMENT OF ACCOUNTS 2015/16 (Pages 39 - 156) To consider the draft Statement of Accounts presented by the head of Finance and accompanying letter of representation to be presented to the City Council's external auditors.
9.	KPMG EXTERNAL AUDIT REPORT 2015/16 (ISA 260 REPORT TO THOSE CHARGED WITH GOVERNANCE) (Pages 157 - 182) To consider the report presented by KPMG.
10.	CHANGES TO THE ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS (Pages 183 - 190) To consider the report of the Head of Finance outlining options for the appointment of the Council's External Auditor for the 2018/19 statement of accounts.
11.	UPDATE TO THE AUDIT AND GOVERNANCE COMMITTEE TERMS OF REFERENCE (Pages 191 - 202) To consider the report of the Head of Audit Risk Assurance outlining the proposed revised Audit and Governance Committee's Terms of Reference, providing further clarity around the Committee's Governance role.
12.	BUSINESS RATES POOLING REPORT FOR 2015-16 (Pages 203 - 206) To consider the report of the Cabinet Member for Performance and Resources summarising the Business Rates Pool outturn position for the 2015/16 financial year.
13.	LOCAL GOVERNMENT OMBUDSMAN DECISIONS (Pages 207 - 210) To consider reports of the Ombudsman in respect of two recent Ombudsman investigations, one resulting in a finding of fault or injustice on the part of the Council and the other where the case was not pursued.
14.	AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME (Pages 211 - 214) To consider the Work Programme.
15.	DATE OF NEXT MEETING 21 st November 2016 at 6:30pm in Civic Suite, North Warehouse.



Jon McGinty
Managing Director

Date of Publication: Friday, 9 September 2016

NOTES

Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

<u>Interest</u>	<u>Prescribed description</u>
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged
Land	Any beneficial interest in land which is within the Council's area. For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.
Corporate tenancies	Any tenancy where (to your knowledge) – (a) the landlord is the Council; and (b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest
Securities	Any beneficial interest in securities of a body where – (a) that body (to your knowledge) has a place of business or land in the Council's area and (b) either – i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with

whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, “securities” means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

Access to Information

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For further details and enquiries about this meeting please contact Atika Tarajiya, 01452 396127, atika.tarajiya@gloucester.gov.uk.

For general enquiries about Gloucester City Council’s meetings please contact Democratic Services, 01452 396126, democratic.services@gloucester.gov.uk.

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Any recording must take place in such a way as to ensure that the view of Councillors, Officers, the Public and Press is not obstructed. The use of flash photography and/or additional lighting will not be allowed unless this has been discussed and agreed in advance of the meeting.

FIRE / EMERGENCY EVACUATION PROCEDURE

If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by council staff. It is vital that you follow their instructions:

- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
- Do not re-enter the building until told by a member of staff or the fire brigade that it is safe to do so.



AUDIT AND GOVERNANCE COMMITTEE

MEETING : Monday, 20th June 2016

PRESENT : Cllrs. Gravells, Cook, Stephens, Wilson, Taylor, Patel, Pullen and Dallimore Ex- Officio (Substitute for Cllr D. Norman)

Others in Attendance

Darren Gilbert, KPMG LLP
Theresa Mortimer, Head of Audit, Risk and Assurance
Shirin Wotherspoon, Monitoring Officer
Jon Topping, Head of Finance
Stephanie Payne, Group Manager, Audit, Risk and Assurance
Atika Tarajiya, Democratic Services Officer

APOLOGIES : Cllr D. Norman

1. APPOINTMENT OF CHAIR AND VICE-CHAIR

The appointments of Councillor Gravells as Chair and Councillor Cook as Vice Chair were noted.

The Chair advised Members that he had agreed to consider an urgent item of business to be considered at the end of the meeting.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

In response to Councillor Stephens' query regarding the Marketing Gloucester Limited (MGL) assurance final audit report not being included as part of the agenda for this meeting as reported on item 73 of the minutes of the 14th March 2016, the Group Manager for Audit, Risk and Assurance advised that a finalised report would be presented to Audit and Governance Committee on the 19th September 2016. Councillor Wilson noted that the MGL audit was recorded as being completed in the Head of Audit, Risk, Assurance annual report 2015/16, observing that this error would need to be corrected.

AUDIT AND GOVERNANCE COMMITTEE
20.06.16

RESOLVED:

That the minutes of the meeting held on Monday 14th March 2016 be approved and signed by the Chair as a correct record.

4. PUBLIC QUESTION TIME (15 MINUTES)

There were no public questions.

5. PETITIONS AND DEPUTATIONS (15 MINUTES)

There were no petitions or deputations.

6. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN

The Committee considered the Action Plan.

The Head of Finance updated Members with regards to Minute 17. He explained that Civica were planning an upgrade of the security firewalls imminently and provided this was completed successfully, would allow the new software to be implemented across a number of Council services, including Guildhall, Tourist Information Centre and Cemeteries and Crematorium.

In relation Minute item 73, The Head of Finance clarified that the motion, approved by full Council on the 20th November 2014, adopted a policy to pay all staff employed on zero hour contracts the living wage. He advised that this information had been circulated to Members by the Management Accountant as requested.

Councillor Stephens commented that it would be useful to be provided with a breakdown of the services that employ zero hour staff. The Head of Finance confirmed that this information would be circulated to Members.

7. KPMG INTERIM LETTER

Darren Gilbert, KPMG reported as there had been no significant issues during the planning and control evaluation phases of the audit plan, it had not been considered necessary to report to Committee on this occasion. He advised that a report was scheduled for the meeting on the 19th September 2016 following finalisation of the City Council accounts. He noted that that a technical update, which had not been available prior to the agenda for this meeting being published, would be circulated to Members and welcomed any questions the Committee might have with regards to this.

Councillor Wilson welcomed the stable position that the City Council was now in and placed on record his thanks to Officers and to everyone involved. The Chair echoed these thanks and noted the marked improvement against previous years.

RESOLVED:

That the report be noted.

AUDIT AND GOVERNANCE COMMITTEE
20.06.16

8. POSITION STATEMENT ON STATEMENT OF ACCOUNTS

The Head of Finance advised the Committee that the accounts had been prepared and were presently undergoing final checks. He explained that they were due to be signed on the 30th June 2016, with KPMG prepared to begin their Audit from the week commencing 11th July 2016. He confirmed, in response to Councillor Stephens' query that the finalised accounts would be circulated to all Members.

RESOLVED:

That the report be noted.

9. BENEFITS AUDIT UPDATE ON ACCURACY RATE

The Head of Finance reported that an audit of the benefit claims process had been requested by the Committee in the previous year, following concerns regarding the accuracy rate. He reported that following improvements enacted by Officers in partnership with Civica, the accuracy rate had improved considerably. He noted that when discounting inaccuracies of under £3.00, the City Council's inaccuracy rate was substantially lower than other neighbouring authorities.

Councillor Stephens stated that the information previously provided did not detail the negative impact these inaccuracies had on the claimants, noting that a number of these claimants would be in desperate circumstances and relied heavily on the money they received. He also queried whether there was any national bench mark that could be used as a comparable figure.

The Head of Finance advised the Committee, that the original report presented to Members had contained a lot more detail than that provided in the updates since. He advised that there was no national benchmark as local authorities were not obliged to publish this information.

Councillor Taylor acknowledged the impact processing errors could have on claimants and assured Members that the Committee had considered the issue in detail in the previous year and were satisfied with the progress made in improving the inaccuracy rate.

Councillor Dallimore welcomed the concerns raised by Members on the issue, commenting that Gloucester Advice Partnership had also considered this matter and had not found any significant issues in the benefits claim process.

The Chair suggested that it would be helpful for the Committee to consider the issue in 12 months' time, with comparable data from last year and with the inclusion of the additional information requested by Councillor Stephens.

RESOLVED:

That the update be noted.

AUDIT AND GOVERNANCE COMMITTEE
20.06.16

10. INTERNAL AUDIT PLAN 2015/16 FINAL MONITORING REPORT

The Group Manager for Audit, Risk and Assurance highlighted key areas of the report, advising that the Benefits and Payroll audit were finalised post April 2016.

In response to Councillor Pullen's query regarding the criteria for the different recommendations given to each completed Audit, the Group Manager referred the Member to the descriptions of each statement listed in Appendix 1 of the report.

Councillor Wilson expressed his disappointment that the audit of Marketing Gloucester Limited (MGL) had not been completed, though it had been requested approximately 15 months previously. The Group Manager cited the senior management turnover as one of the reasons for the delay in completion, reporting that a report had been drafted and was awaiting responses from Officers before finalisation.

In response to Councillor Stephens' query of whether the report could be circulated prior to the September meeting, The Head of Audit, Risk and Assurance advised that this was not standard protocol as it prevented discussion and reasoned debate. She also commented that it was not within the terms of reference for Council meetings for the finalised report to be presented outside of a formal Committee meeting.

In response to Councillor Pullen's query regarding lessons learnt following issues with the Rugby World Cup ticket allocation, the Head of Finance reported that it was recognised that the process should have initiated much earlier to take into account late changes and requests for variations. Councillor Patel reported that in some cases tickets gifted by Members to their chosen community representative had not been received, such as in the case of the Town Crier and queried what steps would be taken to rectify this situation in the future. Councillor Dallimore acknowledged that there had been a number of issues, mostly relating to finite time scales, and commended Officers for all their efforts in helping to deliver this large project within limited resources.

In response to Councillor Stephens' query regarding the online direct debit registration for Garden Waste referred to in Appendix 1, the Group Manager confirmed that information regarding this would be circulated to Members post Committee.

RESOLVED:

That the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited be endorsed.

11. HEAD OF AUDIT RISK ASSURANCE ANNUAL REPORT 2015/16

The Group Manager for Audit, Risk and Assurance highlighted key areas of the report. Referring Members to the low levels of client feedback received, she advised that work was underway to improve this figure, noting that the feedback that was received rated the service highly.

AUDIT AND GOVERNANCE COMMITTEE
20.06.16

Councillor Stephens commended Officers for their work but expressed disappointment that only 4 client feedback forms out of a total of 29 had been achieved. Referring to Appendix 2, he commented that there was a rising national trend of fraud cases which the 2015/16 figures did not reflect. He queried what action was being taken to market the fraud investigatory team.

The Group Manager advised that the Single Fraud Investigation Service (SFIS), which investigated a large volume of the fraud cases for the City Council, were not included within Appendix 2. The Head of Audit, Risk and Assurance highlighted that a review the Council's Fraud Policy and associated framework would be conducted during 2016/2017, benchmarking the current arrangements against the recently published CIPFA standards and guidance.

In response to Councillor Stephens' request for a detailed breakdown of fraud cases investigated by SFIS could be provided to Members. The Chair queried if this could be considered at the September meeting. The Head of Finance agreed that he would enquire with Department of Work and Pensions who managed the SFIS as to what information they could provide.

RESOLVED:

That the assurance provided by 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) be endorsed.

12. AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2015/16

The Chair welcomed the positive work undertaken in the 2015/2016 year and advised the Committee that a review of the terms of reference for Audit and Governance Committee would commence shortly.

In response to Councillor Stephens' query, the Chair reported that Members were appointed to a hearing panel as and when required and membership would be reflective on political balance of the Council's elected Members.

RESOLVED TO RECOMMEND TO COUNCIL:

That the Audit and Governance Committee's Annual Report 2015/16 be noted.

13. TREASURY MANAGEMENT ANNUAL UPDATE 2015/16

The Head of Finance highlighted key areas of the report commenting that no long term borrowing had been undertaken during the final quarter of 2015/16.

RESOLVED:

That the report be noted.

AUDIT AND GOVERNANCE COMMITTEE
20.06.16

14. ANNUAL GOVERNANCE STATEMENT 2015/16

The Head of Finance highlighted key areas of the report noting that there had been no significant governance issues in 2014/15.

The Head of Audit, Risk and Assurance reported that a review of the governance arrangements would take place following newly released guidance published by CIPFA, and this would come into effect in the forthcoming municipal year.

Councillor Stephens commented that there had been no public consultation undertaken on the proposed governance arrangements outlined in the Devolution deal currently being brokered. He acknowledged that this was a wider issue that needed to be considered more fully by Members and suggested that a wide ranging public consultation exercise, such as a referendum, be undertaken.

Councillor Dallimore concurred with Councillor Stephen's comments acknowledging that the public needed to be consulted on the final devolution proposals. She commented that the format of the public consultation would need to be considered and agreed by Members.

RESOLVED:

That the Annual Governance Statement 2015/16 (including the actions planned by the Council to further enhance good governance arrangements), as set out in **Appendix 1**, be approved.

15. ANNUAL COMPLAINTS MONITORING REPORT

In response to Councillor Pullen's query regarding the increase in complaints, the Head of Finance advised that the rise of complaints were not as result of a change in reporting procedures.

In response to Councillor Stephens' request for a detailed breakdown of complaints relating to the Amey and NMS environmental service, Councillor Cook explained that an audit of the Amey contract was due to be undertaken and would consider all unmet KPIs. The Head of Finance commented that the NMS Environmental service was linked directly to the Amey contract.

The Chair invited all Members to come forward with any pieces of assurance work that they wanted the Committee to consider, cautioning them to take into account internal audit resources available. He suggested that the terms for the reference for the Amey contract be reviewed by the Committee prior to the work being undertaken.

RESOLVED:

That the report be noted.

AUDIT AND GOVERNANCE COMMITTEE
20.06.16

16. ANNUAL STANDARDS REPORT

The Monitoring Officer advised Members that whilst she has dealt a few concerns, she had not been required to investigate any formal Member conduct complaints. She noted that training had been offered to all Members, with further training currently being arranged.

RESOLVED:

That the update be noted.

17. INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The Head of Audit, Risk and Assurance reported that the as the Chief Internal Auditor for Gloucestershire County Council and Gloucestershire Police, the work approach she adopted in these organisations had been assessed by the Chartered Institute of Internal Auditors and was found to be 100% compliant with the Public Sector Internal Audit Standards 2013. She advised that provided the same approach was adopted, the City Council would also be deemed to be fully compliant.

RESOLVED:

That the Internal Audit Quality Assurance and Improvement Programme be adopted.

18. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

The Committee considered the Work Programme.

The Chair noted that the work programme would need to be amended to reflect the incorporate the review of the Amey audit when completed.

19. URGENT ITEM OF BUSINESS

The Monitoring Officer summarised key areas of the report advising Members that the dispensation, if granted, would only be relevant for the meeting of the Council on the 30th June 2016. She advised that Cheltenham Borough Council and Tewkesbury Borough Council were also in the processing of taking similar reports to their respective Committees.

RESOLVED:

That authority be delegated to the Monitoring Officer, in consultation with the Chairman and Vice- Chairman of this Committee, to determine applications for dispensation which are made by Members of the City Council in order to participate in the business to be conducted at the meeting of the Council on 30 June 2016.

AUDIT AND GOVERNANCE COMMITTEE
20.06.16

20. DATE OF NEXT MEETING

Monday 19th September 2016 at 6:30pm.

21. URGENT ITEM OF BUSINESS

Time of commencement: 6.30 pm hours

Time of conclusion: 7.37 pm hours

Chair

AUDIT AND GOVERNANCE COMMITTEE – 19 SEPTEMBER 2016

ACTION PLAN

MINUTE NO.	MATTER	CURRENT STATUS	RAG	TARGET DATE	OWNER
<u>Actions arising from meeting held on 24 September 2012:</u>					
17	Implementation of purchased software with a modern stock control facility at the Guildhall.	<p>A review of the Guildhall operations, including IT requirements, has been undertaken by Consultants and a cross party working group of Members. A decision on whether to purchase new EPOS software with stock control functionality has been made and a new system is expected to be implemented in July 2016.</p> <p>A Guildhall follow up review was undertaken by Internal Audit in November 2015 which confirmed that a manual stock control system was in place. Internal Audit has included a further review of this area within the 2016/2017 Internal Audit plan.</p>	A	Implementation date July 2016	JT
<u>Actions arising from meeting held on 20 June 2016:</u>					
10	Report to Committee on deadline for Garden Waste online direct debit registration.	The Group Manager to liaise with Customer Services and Civica and circulate information to Members	A	Prior to September 2016	SP
11	Report to Committee on fraud cases investigated by Single Fraud Investigation Service (SFIS),	The Head of Finance to liaise with DWP and report back to Committee.	A	September 2016	JT

PLEASE NOTE: Rolling agenda items requested by the Committee have not been included above but have been included on the Audit and Governance Work Programme.

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Meeting:	Audit and Governance Committee	Date:	19 th September 2016
Subject:	Internal Audit activity progress report 2016/17		
Report Of:	Head of Audit Risk Assurance (Chief Internal Auditor)		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Theresa Mortimer - Head of Audit Risk Assurance		
	Email:	Tel: 01452 326338	
	Theresa.Mortimer@gloucester.gov.uk		
Appendices:	A: Internal Audit activity progress report 2016/17		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2016/17.

2.0 Recommendations

- 2.1 Audit and Governance Committee is asked to **RESOLVE** to note:
- The progress against the Internal Audit Plan 2016/17; and
 - 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.

3.0 Background and Key Issues

- 3.1 Members approved the Internal Audit Plan 2016/17 at the 14th March 2016 Audit and Governance 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.
- 3.2 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 outcome of the Marketing Gloucester internal audit 2015/16.
- 3.3 The report is the first progress report in relation to the Internal Audit Plan 2016/17.

4.0 Asset Based Community Development (ABCD) Considerations

- 4.1 There are no ABCD implications as a result of the recommendation made in this report.

5.0 Alternative Options Considered

- 5.1 No other options have been considered as the purpose of this report is to inform the Committee of the Internal Audit work undertaken to date, and the assurances given on the adequacy and effectiveness of the Council's control environment operating in the areas audited. Non completion of Internal Audit activity progress reports would lead to non compliance with the PSIAS and the Council Constitution (see report section 6.2 and 6.3).

6.0 Reasons for Recommendations

- 6.1 The role of the Audit Risk Assurance shared service is to examine, evaluate and provide an independent, objective opinion on the adequacy and effectiveness of the Council's internal control environment, comprising risk management, control and governance. Where weaknesses have been identified, recommendations have been made to improve the control environment.
- 6.2 The PSIAS state that the Chief Internal Auditor should report on the outcomes of Internal Audit work, in sufficient detail, to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.
- 6.3 Consideration of reports from the Chief Internal Auditor on Internal Audit's performance during the year, including updates on the work of Internal Audit, is also a requirement of the Audit and Governance Committee's terms of reference (part of the Council Constitution).

7.0 Future Work and Conclusions

- 7.1 In accordance with the PSIAS, and reflected within the Audit and Governance Committee work programme, Internal Audit activity progress reports against the approved Internal Audit Plan 2016/17 are scheduled to be presented to the Audit and Governance Committee at the January, March and June 2017 meetings.

8.0 Financial Implications

- 8.1 There are no direct financial costs arising out of this report.
- (Financial Services have been consulted in the preparation this report).

9.0 Legal Implications

- 9.1 Nothing specific arising from the report recommendations.
- (One Legal have been consulted in the preparation this report).

10.0 Risk and Opportunity Management Implications

- 10.1 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.

11.0 People Impact Assessment (PIA):

- 11.1 A requirement of the Accounts and Audit Regulations 2015 is for the Council to 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 delivered by Audit Risk Assurance which is an internal audit and risk management shared service between Gloucester City Council, Stroud District Council and Gloucestershire County Council. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.
- 11.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

- 12.1 There are no 'Community Safety' implications arising out of the recommendations in this report.

Sustainability

- 12.2 There are no 'Sustainability' implications arising out of the recommendations in this report.

Staffing & Trade Union

- 12.3 There are no 'Staffing and Trade Union' implications arising out of the recommendations in this report.

Background Documents: Internal Audit Plan 2016/17
PSIAS
CIPFA Local Government Application Note for the UK PSIAS

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INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/2017



Gloucester
City 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 Gloucester City Council, Stroud District 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 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 outcome of the Marketing Gloucester internal audit 2015/16 (please refer to **Appendix 1**).

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

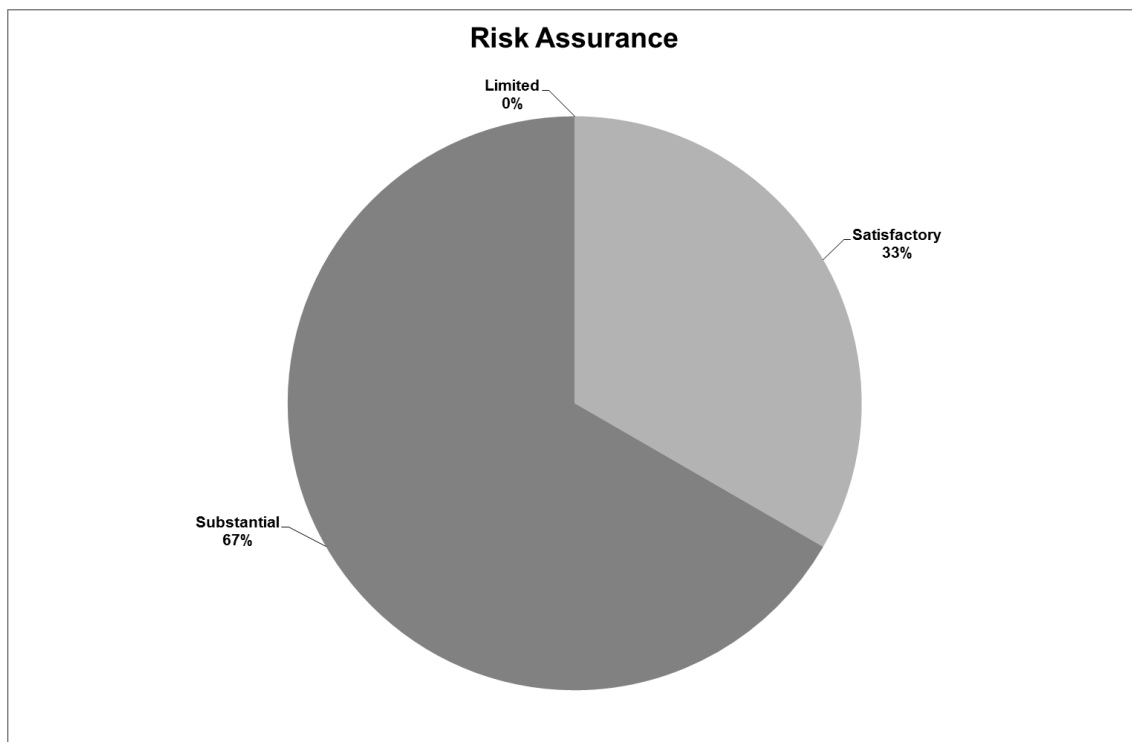
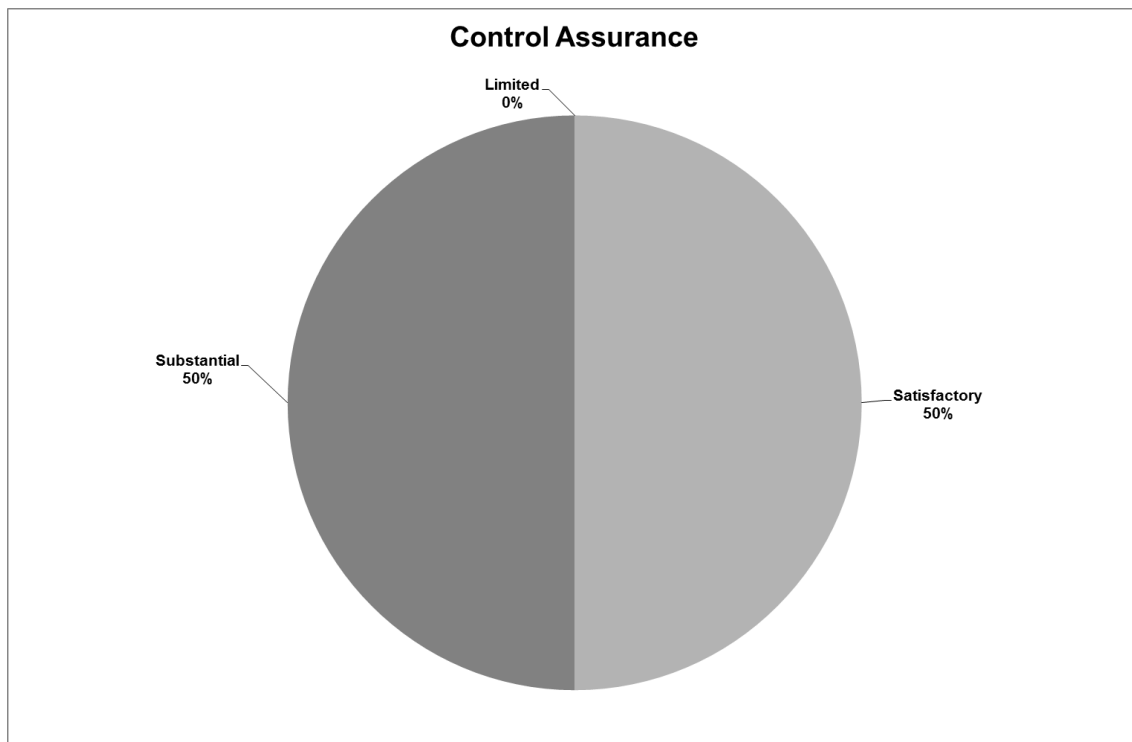
The schedule provided at **Appendix 2** provides the summary of 2016/17 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Appendix 3** 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 Governance Committee. Explanations of the meaning of these opinions are shown below.

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 Strategy.	<ul style="list-style-type: none"> • 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 Strategy.	<ul style="list-style-type: none"> • 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 Strategy, the service area has not demonstrated an 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.	<ul style="list-style-type: none"> • 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 provided 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 Governance 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 an 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, **12** recommendations to improve the control environment, **none** of these being high priority recommendations i.e. **12** 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.

Final audit report from 2015/16 audit plan – Marketing Gloucester

Background

The 2015/16 Internal Audit Plan was approved by Audit and Governance Committee on 16th March 2015. On request of the Audit and Governance Committee, the Plan included a Marketing Gloucester internal audit to ensure audit coverage of Council expenditure with partnership organisations.

2015/16 Internal Audit Plan delivery was completed by the Gloucestershire Audit & Assurance Partnership (GAAP) in line with the approved GAAP Internal Audit Charter. Assurance levels applied within 2015/16 were in accordance with the following table:

Explanation of assurance level	
Control level	Description
Good	Robust framework of controls – provides substantial assurance.
Satisfactory	Sufficient framework of controls – provides satisfactory assurance – minimal risk.
Limited	Some lapses in framework of controls – provides limited assurance. A number of areas identified for improvement.
Unsatisfactory	Significant breakdown in or lack of framework of controls – provides unsatisfactory assurance. Unacceptable risks identified – fundamental changes required.

Due to being 2015/16 Internal Audit Plan relevant, the Marketing Gloucester internal audit results have not been included within section 4 of this Progress Report.

Audit scope and timing

The objective of the internal audit was to review the following main areas to determine whether the Council could appropriately evidence the achievement of Value for Money (VFM) from funding arrangements in place with Marketing Gloucester Ltd (the Company):

- Economy (cost):
 - Total 2015/16 Council approved funding allocated to the Company (overall and by operational activity/event).
 - The 2015/16 Company budget, including confirmation of Council funding.
- Efficiency (performance and output):
 - Whether the Company and the Council met the Funding and Management Agreement (FMA) clauses.
 - Whether the Company had appropriate financial management controls in place over Council funding to ensure appropriate allocation and utilisation of funds (overall and by operational activity/event) e.g. budget setting, budgetary control; and financial reporting.

➤ Effectiveness (customer satisfaction):

- How the Council ensured that VFM was delivered by the Company e.g. regular Council review of Company performance (overall and by operational activity/event).

The audit scope was to review the processes and controls in place for the 2015/16 financial year up to the point of audit.

Audit stage	Timing
Audit planning	Quarter 3 2015/16
Audit work	February 2016 to April 2016
Original draft report	28 th April 2016
Updated draft report	23 rd June 2016
Final report	22 nd July 2016

Assurance level

On the basis of work carried out during the audit review, and the number and classification of recommendations identified through audit testing, the audit opinion was that there was **Unsatisfactory Assurance** on arrangements, processes and controls in place with the Company at the point of audit.

A total of 7 recommendations were raised within the audit report (4 High Priority, 1 Medium Priority and 2 Low Priority), to support strengthening of the overall control framework and increased assurance in the area audited.

Key findings

At the point of audit:

- The current legal agreement between the Council and the Company (the FMA 2008) was confirmed as out of date and not complete for all Council spend (funding and service expenditure) with and liabilities owed by the Company.
- Instances of Council and Company non-compliance with the FMA and wider Council policies were also identified within the audit (e.g. treatment and payment of seconded posts).
- Opportunities are available to further formalise and develop on current performance management arrangements.

Conclusion

Strengthening of Council arrangements, processes and controls in place with the Company had been initiated within the latter part of 2015/16, following review of the area by the Council's Managing Director and agreement of actions to be completed. This included set up of the Council-Marketing Gloucester Ltd Partnership Performance Review meeting in March 2016, led by the Cabinet Member for Culture and Leisure and attended by lead Council officers and the Company Chief Executive Officer.

However, based on the audit trail available and audit observations raised, the Council was unable to appropriately evidence the achievement of Value for Money (VFM) from funding arrangements in place with the Company at the point of audit.

Management Actions

Management responses to the internal audit recommendations raised were positive and internal audit has identified significant progress made by the Council since the date of the original draft audit report. The latest date for recommendation implementation was December 2016.

Audit follow up of the Marketing Gloucester internal audit report 2015/16 is planned to be completed in January 2017, to provide assurance that full recommendation implementation has occurred.

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

Summary of Satisfactory Assurance Opinions on Control

Service Area: Regeneration and Economic Development

Audit Activity: Commercial Rents - Follow up

Background

Asset Management manage the City Council's property assets through a range of functions including disposals, granting of leases and rent reviews. In 2015/16 Internal Audit reviewed the effectiveness of the controls within these functions with the Audit and Governance Committee updated on the 18/01/2016 with the following outcome:

Controls over	Audit opinion
Disposals	Good
Security & control of assets	Good
Terrier system	Satisfactory
Work status	Satisfactory
Lease renewals	Satisfactory
Rent reviews	Satisfactory
Voids	Satisfactory
Declaration of Interests	Limited

Scope

The audit completed in 2015/16 made six recommendations for improvement including one High Priority recommendation relating to declaration of interests. As a consequence it was agreed that a follow-up review would be completed as part of the 2016/17 work-plan to provide assurance that the proposed action taken by management has been completed.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key findings

- The one High Priority recommendation has been implemented with a Declaration of Interest Form now completed by all members of the Asset Management team.
- Three of the five Medium Priority recommendations have been fully implemented, one partially implemented and one placed on hold pending further confirmation of any subsequent process changes resulting from Asset Management entering into a shared service arrangement.

Conclusion / Management Action

Appropriate action has been taken by management and no further involvement from Internal Audit is required at this point in time.

Service Area: Corporate / Key Financial Systems

Audit Activity: Payroll – Zero Hours Contracts

Background

Zero hours contracts (ZHC) can be used to provide a flexible workforce to meet a temporary or changeable need for staff. It is important for employers to actively monitor their need for ZHC as it may turn out that the need is permanent and therefore a permanent member of staff can be recruited. It is also the Council's policy that any staff on ZHC should be paid at least the National Living Wage.

Scope

The audit objectives were to:

- Establish how many ZHC are in place per service area to ensure accurate information is provided to inform future decision making;
- Confirm whether employees with a ZHC who have not been paid for over one year are removed from the payroll system;
- Ensure that recruitment to the bank of 'zero hours' staff has followed the proper recruitment processes; and
- Ensure that under the Council's requirements that ZHC staff are paid the living wage.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

- The Finance records show that there were 68 ZHC positions across the following Service areas:

Service Area	Number of Positions
Cemeteries and Crematorium	08
Customer Services	01
Guildhall + catering	35
Markets	01
Museums	17
Shopmobility	04
Tourist Information Centre	02
Total	68

- A number of staff will fill more than one ZHC position, which are currently covered by 49 employees across the service areas;
- There are 263 ZHC positions on SAP which have not been paid since the end of March 2015. These should be reviewed and if it is unlikely that the individual will be re-engaged within the next 3 months the position should be removed from SAP;

- During the 2015/16 financial year £128,506 was paid to employees on ZHC;
- The procedures used in recruiting ZHC staff are the same as for full time and part time personnel employed on contracts and these are being appropriately applied; and
- In line with the Green Book pay award, the basic pay rate for ZHC will rise from £7.88/hour to £8.04 from June 2016 backdated to 1st April 2016.

Conclusion

The SAP payroll database has not been kept in line with the Council's expectations of deleting ZHC positions if individuals have not been paid within the last 12 months.

A Living Wage supplement requirement is being adhered to by the Council. The amount paid to ZHC employees is in excess of the National Living Wage and Minimum Wage (set by Government which currently stands at £7.20/hour for employees 25 and over).

The frequency of payments to existing ZHC employees indicates that there was little regular work over a continuous period that would seem to warrant the need for a permanent full time or part time contracts to be considered as opposed to the existing flexible working arrangements.

Management Actions

One medium priority recommendation was made relating to the review and update of the SAP payroll database which has been positively agreed by management.

Service Area: Public Protection

Audit Activity: Markets and Street Trading

Background

Common law for a market is the franchised right of having a concourse of buyers and sellers to dispose of commodities in line with the franchise, and no person can have a franchise without authority from the Crown or Parliament. In relation to Gloucester the rights to hold a market in the town were granted within a Charter of King Edward I dated October 24th 1302.

The Audit of Markets and Street Trading has been carried out in accordance with the agreed 2016/17 Internal Audit Annual Plan.

Scope

Testing was performed upon Street Trading and each of the separate Market functions from which to obtain an opinion upon the level of controls for ensuring that income is properly accounted for, that relevant records are up to date, that formal contracts are in place where markets are operated by a 3rd party, that current charges have been appropriately set and authorised, that Street Trading Policy is current and being complied with, and that agreed management actions from previous audits and investigations have been implemented and continue to work as intended.

Activities during the 2015/16 and 2016/17 financial years were subjected to review as required, in order to ensure that sufficient data was available from which to form an accurate Audit opinion.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

The controls tested relating to the King's Square Cherry and White Pitch Market, the Farmers Market at Gloucester Cross and Street Trading are considered to be substantial, with controls tested relating to the Eastgate Market (General controls), Eastgate Market (Income controls), Hempsted Market and Car Boot and Themed Markets are considered to be satisfactory.

A total of six medium priority recommendations have been made to address the issues identified below. In addition, a further eight management actions were agreed through audit debrief to address low priority matters.

Eastgate Market - Long term lets – Charging variances were identified between the detail within the calculated charges spreadsheet and the applied charges. These were due to a combination of reasons e.g. the charges for the sampled accounts having been last subject to change with effect from 1st February 2011, the charges spreadsheet having been updated to reflect the true costs for the 2015/16 financial year, and a decision made at Director level for stallholder charges to remain unchanged for 2014/15 having continued through to 2016/17.

Eastgate Market - Short term lets - Weekly fees are verbally agreed with the stallholder and whilst a manual record is added to the stallholder's application form the agreement is not formally documented to negate any possible accusations of complicity from Market Officers.

Eastgate Market - Public Liability Insurance - It could not be demonstrated that all current stallholders have public liability insurance, this is required under the terms of their contract and indemnifies the City Council as the site owner/manager should there be a claim against a stallholder that cannot be paid.

Follow up to the 2015/16 investigation - Miscellaneous payment receipts - Review of the miscellaneous payment receipts revealed that only one Market Officer was regularly entering details such as the dates covered by the payments, this information is required to assist with payment identification.

Themed Markets - City Council Website – The website still advises that anyone interested in visiting or operating a Themed Market in Gloucester City should contact the Gloucester City Centre Community Partnership (GCCCP), however the GCCCP folded as of 31st March 2016.

Themed Markets - Invoice to be raised – As at 9th June 2016 Geraud Markets (UK) Limited had still not been invoiced for the International Market held 12th to 15th May 2016 (i.e. £400).

Conclusion

It is evident that there has been improvement in the risk awareness and control environment since the last Markets and Street Trading Audit, which was conducted during 2012-13, and that recommendations made during the 2015-16 investigation into income missing from the Eastgate Market safe have been relayed to the team and implemented.

The risk awareness and control environment reviewed within the 2016-17 Markets and Street Trading Audit is considered to be satisfactory.

Management Actions

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

Summary of Substantial Assurance Opinions on Control

Service Area: Finance

Audit Activity: Benefits Upgrading

Background

Gloucester City Council expenditure on Housing Benefits and Council Tax Support is in excess of £46m per annum. The rules surrounding entitlement to Housing Benefit and Council Tax support are quite complex, and many different elements of data may be needed to successfully calculate entitlement, which combined has the potential to lead to a number of under/overpayments. The service was outsourced to Civica Ltd in October 2011 with an initial contract term of seven years, which has recently been extended to October 2021.

Scope

The External Auditors' have identified Housing Benefits and Council Tax Support as being a key financial system. The Audit approach will be to test key high level controls on an annual basis with the remaining controls as identified by the Chartered Institute of Public Finance and Accountancy (CIPFA) being tested over a rolling 3 year period.

The objective of this audit is to confirm that staff verify that the appropriate 2016/17 system parameters for the Housing Benefits and the Local Council Tax Reduction Scheme have been entered and authorised completely and correctly

Risk Assurance – Substantial

Control Assurance – Substantial

Key findings

- The Local Council Tax Reduction Scheme for 2016/17 was approved by Council in January 2016, with inflationary increases to bring working age claimants (a local decision) in line with pension age claimants (a statutory amendment) approved by the Head of Finance;

- Changes to Housing Benefits and Council Tax Reduction Scheme parameters have been applied by Civica and checked by Gloucester City Council to confirm accuracy and completeness; and
- Calculations based on updated system parameters for a sample of claims were checked and manually re-performed by Civica staff in Test and Train versions of the software before implementation, and re-checked in 'Live' system after year end processes were completed. Checks by Gloucester City Council on this sample confirmed that the parameters were implemented successfully.

Conclusion

The 2016/17 Housing Benefits and Local Council Tax Reduction Scheme parameters have been appropriately updated so the benefit entitlement in 2016/17 is correctly calculated. No recommendations were identified within the internal audit.

Service Area: Finance

Audit Activity: National Non Domestic Rates (NNDR) Multipliers

Background

Under the Local Government Finance Act 1988 National Non-Domestic Rates (NNDR), or business rates, collected by local authorities are a means by which local businesses or organisations (i.e. properties which are not used for domestic purposes, such as shops, factories, offices, beach huts and moorings) contribute towards the cost of local services.

NNDR liabilities are calculated based on the notional annual rent of a property known as the Rateable Value, which is assessed by the Valuation Office Agency. When calculating a hereditament's non-domestic rates liability, one of two multipliers are used: the rateable value times the multiplier equals the notional rates liability. The multiplier figure is set annually by the Government and reflects the change in the Retail Price Index in September the previous year. The standard multiplier includes a supplement which funds small business rate relief.

In 2016/17 the Council issued bills (after the application of reliefs and exemptions) totalling £56m to the 3,900 hereditaments in the District area.

Scope

The audit tested the following key financial controls in relation to the charges levied in 2016/17:

- Appropriate notifications have been received advising of the NNDR multipliers and transitional relief rates for the current financial year; and
- The advised NNDR multipliers and transitional relief rates have been accurately transferred to the billing system.

Risk Assurance – Substantial

Control Assurance – Substantial

Key findings

- Billing system parameters have been subjected to review by Civica's Revenue Manager and the Council's Client Officer prior to annual billing to provide independent assurance that all parameters, including the 2016/17 rating multipliers and transitional arrangements, have been accurately transferred onto the billing system; and
- Civica have also performed reconciliations to a zero variance upon the rateable value within the billing system, upon the gross and net charges payable and also upon the total amount billed at annual billing to provide assurance that the rateable values within the billing system are aligned with Valuation Office records and that all expected bills have been printed.

Conclusion

No recommendations for improvement were identified and a substantial level of assurance has been provided that the 2016/17 National Non-Domestic Rates charges have been appropriately set and that hereditaments within Gloucester and Quedgeley have been appropriately billed.

Service Area: Finance

Audit Activity: Setting of Council Tax Charges

Background

The Council has a duty under the Local Government Finance Act 1992 to calculate the level of Council Tax to be levied and collected. Gloucester City Council is responsible for collecting Council Tax on behalf of itself, Gloucestershire County Council, the Police and Crime Commissioner and Quedgeley Parish Council.

In 2016/17 the Council issued bills (after the application of discounts and exemptions) totalling £56m to the 56,000 properties in the District area.

Scope

The fee setting calculation for Gloucester City Council and Quedgeley Parish Council precept, parameter checks, and billing reconciliations in 2016/17 were reviewed for accuracy.

Risk Assurance – Substantial

Control Assurance – Substantial

Key findings

- The Council Tax Base figures used to calculate the 2016/17 Council Tax charges were found to be derived from the correct data set and used to calculate the band 'D' charges correctly;
- Billing system parameters were found to be accurate, having been input and checked by the service provider before being signed off by the Council's Client Officer; and
- Billing reconciliations on the number of properties and gross charge had been completed satisfactorily.

Conclusion

No recommendations for improvement were identified and a substantial level of assurance has been provided that the 2016/17 Council Tax charges have been appropriately set and that properties within Gloucester and Quedgeley have been appropriately billed.

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

Service Area: Other Services

Audit Activity: Gloucester Guildhall – Follow up review

Background

The 2014/15 Gloucester Guildhall Audits were separated into three elements of Operation and Support controls, Bar and Catering controls and Blackfriars controls for which individual reports were issued that contained a total of 14 recommendations.

A follow up Audit was conducted during 2015/16 where it was established that six of the original recommendations had been implemented and that further work was required to ensure complete implementation of the remaining eight recommendations, of which two were combined due to similarities for required actions.

Scope

A meeting was held with the Guildhall Service Manager to discuss the implementation of the agreed actions, how they are working in practice, and whether any other related issues have arisen since the original Audit.

Risk Assurance – Not Applicable - Follow up audits are restricted to portions of a service areas control environment. Consequently, due to the limited scope of this review an opinion upon the Gloucester Guildhall's overall risk awareness is not appropriate.

Control Assurance – Not Applicable - Follow up audits are restricted to portions of a service areas control environment. Consequently, due to the limited scope of this review an opinion upon the Gloucester Guildhall's overall control environment is not appropriate.

Key findings

It is evident that effective actions have been taken to address the reported issues from which it is considered that three of the recommendations have now been fully implemented, one has been superseded, two have had actions taken which have resulted in partial implementation, and one still requires actioning. The medium priority recommendations requiring further actions relate to:-

- In instances where it is applicable to raise an invoice after the event the invoices are to be raised in line with current service targets, which is currently either within 14 days of the event for individual bookings or the start of the following month for regular multiple bookings;

- The Sundry Debtor Team should be contacted to arrange for the provision of regular debtor reports and for meetings to be set up to aid with reviewing and addressing ongoing recovery and removing irrecoverable debt and aged credits from the system; and
- Officers are required to raise orders for the purchase of goods or services in advance of the provision of the goods / services, in line with the requirements of the Council's Financial Regulations. It is considered that orders should be raised for either the fixed or estimated value in order to raise a commitment on the system. In instances where estimated values have been used the order will require amendment when the true value is known in order to facilitate completion of the order.

Conclusion

It is evident that effective actions have been taken to address the issues reported within the 2014-15 Gloucester Guildhall Audits and that further actions are required to fully implement the remaining three recommendations which relate to order and invoice raising and reviewing debtor accounts.

Management Actions

Management have 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 fraud/irregularity referrals to Internal Audit.

Fraud Risk Assessment / Risk Register

A fraud risk register has been produced during this period, 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 Managing Director, Monitoring Officer and Head of Finance as required, via the Corporate Governance Board.

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Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Governance Committee	Comments
Corporate	Code of Conduct for Employees	High	Audit in Progress				
Corporate	Consultancy Support	High	Planned				
Corporate	Delivery of Savings Targets	High	Planned				
Corporate	Grant Income	High	Planned				
Corporate	Partnership Governance Arrangements	High	Planned				
Corporate	Payroll - New Starters and Leavers Processes	High	Planned				
Corporate	Payroll - Zero Hours Contracts	High	Final Report Issued	Satisfactory	Satisfactory	19/09/2016	
Corporate	Shared Services	High	Audit in Progress				
Corporate	Staff Appraisal System	High	Planned				
Corporate	IT Disaster Recovery and Business Continuity	High	Audit in Progress				
Corporate	Cyber Security	High	Audit in Progress				
Democratic Services	Election Accounts	High	Planned				New Activity requested by Democratic and Elections Service
Finance	Benefits Uprating	High	Final Report Issued	Substantial	Substantial	19/09/2016	
Finance	Benefits - Part 2	High	Planned				
Finance	Setting of Council Tax Charges	High	Final Report Issued	Substantial	Substantial	19/09/2016	
Finance	Council Tax - Part 2	High	Audit in Progress				
Finance	Capital Accounting	High	Planned				KPMG joint working protocol
Finance	Cash & Bank	High	Planned				KPMG joint working protocol
Finance	General Non-Pay Expenditure (Creditors)	High	Planned				KPMG joint working protocol
Finance	Network Access Controls	High	Planned				KPMG joint working protocol
Finance	New Financial Management System	High	Planned				
Finance	National Non Domestic Rates (NNDR) Multipliers	High	Final Report Issued	Substantial	Substantial	19/09/2016	
Finance	National Non Domestic Rates (NNDR) - Part 2	High	Audit in Progress				
Finance	Procurement Cards	High	Audit in Progress				
Planning	Building Control Shared Service	High	Audit in Progress				
Planning	Section 106 Agreements	High	Audit in Progress				
Regeneration & Economic Development	Gloucester Supports Business Grants	High	Audit in Progress				
Regeneration & Economic Development	Townscape Heritage Initiative	High	Planned				
Regeneration & Economic Development	Follow up to Commercial Rents (brought forward)	High	Final Report Issued	Substantial	Satisfactory	19/09/2016	Brought forward from 15/16 plan
Neighbourhood Service	Community Support Grants	High	Audit in Progress				
Neighbourhood Service	Garden Waste	High	Planned				Recommendations follow up
Neighbourhood Service	Amey - Streetcare contract	High	Audit in Progress				New Activity requested by Audit and Governance Committee
Public Protection	Markets and Street Trading	High	Final Report Issued	Satisfactory	Satisfactory	19/09/2016	
Other Services	Electoral Service	High	Planned				
Other Services	Homelessness	High	Audit in Progress				
Other Services	New Box Office System	High	Planned				
Other Services	Off-Street Car Park Income	High	Audit in Progress				
Other Services	Gloucester Guildhall	High	Final Report Issued	Not Applicable	Not Applicable	19/09/2016	Recommendations follow up

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GLOUCESTER CITY COUNCIL 2015/16 STATEMENT OF ACCOUNTS

<u>CONTENTS</u>	
	Page
Welcome to the Statement of Accounts 2015/16	1
Narrative Report	4
Explanation of the Financial Statements	13
Statement of Responsibilities for the Statement of Accounts	14
Statement of Accounting Policies	16
The Core Financial Statements	
Movement in Reserves Statement	26
Group Movement in Reserves Statement	27
Comprehensive Income and Expenditure Statement	28
Group Comprehensive Income and Expenditure Statement	29
Balance Sheet	30
Group Balance Sheet	31
Cash Flow Statement	32
Notes to the Core Financial Statements	34
The Supplementary Financial Statements	
Collection Fund	74
Glossary of Financial Terms	78
Annual Governance Statement 2015/16	82
Independent Auditors Report	107

INTRODUCTION

Gloucester City Council

Welcome to the Statement of Accounts 2015/16

I hope you find these accounts interesting and informative. The accounts, together with the accompanying notes, explain the Council's services and how your council tax was spent during the year.

In these times of year on year cuts in government funding for local government the Council continues to provide sound financial management and deliver good value services. The Council remains committed to continuous improvement in all areas and to drive forwards best practice and value for money for the services delivered in Gloucester City.

The Council achieved efficiency savings in excess of £1.174m for 2015/16 which is around 7.4% of the original budget. Our updated Medium Term Financial Plan (Money Plan) provides a clear strategic direction for the Council finances through to 2020/21. We are confident of achieving the challenging savings targets we have set ourselves for 2016/17 of £0.609m both to meet the financial pressures placed upon us from reductions in government grant but also to keep Council Tax levels low for our residents.

The City Council's element of the Council Tax for a Band D property was £180.42 for 2015/16. This represents around 12% of an average bill of £1,478.65. There was no increase in Council tax during the year. The City's Council tax again provided excellent value for money.

As part of continued improvement in financial management at Gloucester City Council we produced these accounts ahead of the statutory deadline. The early production of these accounts is only possible by having sound financial management processes and a robust system of budget monitoring through out the year. This reflects the dedication of all finance staff in delivering these improvements both in this and future financial years.

The information contained within these accounts is presented as simply and clearly as possible. However the accounts of such a large and diverse organisation as Gloucester City Council are, by their nature, both technical and complex.

I have structured this narrative statement to enable readers to understand the Council, its operating environment and to assist in the understanding of the Statement of Accounts.

The sections contained with this narrative statement are;

1. Key facts about Gloucester
2. Key facts about Gloucester City Council
3. A summary of financial performance
4. An explanation of the financial statements
5. Non-financial performance

The 2015/16 statement of accounts will be published in September 2016.

Finally a thank you to you, the reader, for showing an interest in the Council's finances. If you would like to know more about the Council's finances please do not hesitate to contact us at the address below.

Jon Topping

Head of Finance (Section 151 Officer)

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NARRATIVE REPORT

NARRATIVE REPORT

1. Introduction

The Statement of Accounts presents the financial position of the Council for the year ended 31 March 2016. The Accounts are produced in the format stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with best accounting practice. This report provides a brief explanation of the financial aspects of the Council's activities and a guide to the significant matters reported in the accounts.

The Narrative Report replaces the Explanatory Forward included in previous Statements of Accounts. It provides information about Gloucester City Council and the key issues affecting the Council and its accounts, including a summary of its financial position at 31st March 2016.

2. An Introduction to Gloucester City

Gloucester City is a district council in the County of Gloucestershire with one parish council, Quedgeley. The City shares its borders with Stroud District Council, Forest of Dean District Council and Tewkesbury Borough Council. Gloucester, the county City, has plenty on offer and is everything you'd expect from a vibrant, multi-cultural British City.

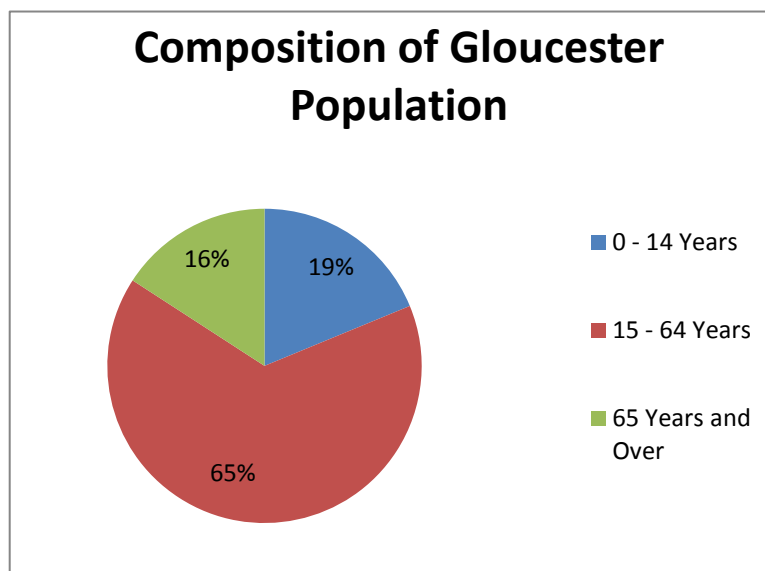
It has one of the richest heritage offerings in the country, from its time as a Roman colony, to one of the three most important medieval cities in England, then its development into an industrial centre. It is home to one of the finest medieval buildings in the country: the breath-taking cathedral which has formed the backdrop of many scenes in Doctor Who and Harry Potter films.

The famous Kingsholm stadium, home of Gloucester Rugby Club, recently staged several matches for the Rugby World Cup and the City received plaudits as one of the best host cities for the tournament. The historic docks have seen a stunning regeneration in recent years, delivering a retail outlet centre, great leisure and catering offerings, and superb riverside accommodation.

The City has many cultural offerings, hosting the Tall Ships festival, the Three Choirs Festival, several museums and the NME-shortlisted Guildhall music and performance venue.

Today, Gloucester is undergoing something of a modern day renaissance, rediscovering and celebrating its rich history. The regeneration of the docks, the Kings Quarter, the Greater Blackfriars area and other once-neglected areas of the City has brought in significant investment.

The profile of the local population is an important factor in the services the Council provides. The Office for National Statistics Mid-Year Estimates for 2014 reported that Gloucester's estimated population was 125,469 with the age profile as presented below.



Gloucester has a relatively young age profile, with proportionally more people aged 0-15 years compared to aged 65 years and over. Gloucester has a younger profile than the national average in England.

NARRATIVE REPORT

3. About Gloucester City Council

Gloucester City Council is a multifunctional and complex organisation. Its policies are directed by the political leadership and implemented by Senior Management Team and Officers of the Council. The following section describes the political and management structures of the Council.

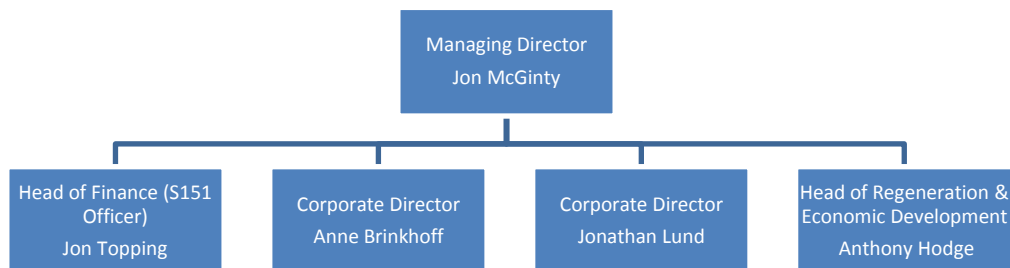
In 2015/16 Gloucester had 16 wards. Residents of the City were represented by 36 Councillors during 2015/16 post the election in May 2015. Following a recent boundary review this will be 39 Councillors for 2016/17 onwards.

The political make up of the Council for 2015/16 was:

Party	No of Councillors
Conservative Party	20 Councillors
Labour Party	9 Councillors
Liberal Democratic Party	7 Councillors

The result of the local election did not change the overall control of the Council with representatives from Conservative, Labour and Liberal Democrat holding seats. The Conservative party remained the administration and gained overall control with a majority of 4 seats.

The Council employs a work force of approximately 270 staff to manage and deliver services to residents under the direction of the Senior Management Team. On 1 July 2015 the Council appointed a joint post acting as the Managing Director of Gloucester City Council and Commissioning Director of Gloucestershire County Council on a shared basis. During the course of 2015/16 both current Directors in post left to new appointments and the Council successfully recruited in February 2016, with both posts commencing in May 2016. The current senior management structure is shown below:



The Council provides a wide range of services to residents, through direct provision, joint working, strategic partnerships and through third parties.

Detailed below are posts held during 2015/16:

Mayor and Deputy Mayor in the 2015/16 Municipal Year

Mayor - Councillor S Field
Sheriff and Deputy Mayor - Councillor J Beeley

NARRATIVE REPORT

3. About Gloucester City Council (Cont.)

Cabinet in 2015/16

Leader of the Council and Cabinet Member for Regeneration - Councillor P James
Deputy Leader of the Council - Councillor J Dallimore
Cabinet Member Performance and Resources - Councillor D Norman MBE
Cabinet Member Communities and Neighbourhoods - Councillor J Dallimore
Cabinet Member Housing, Health and Leisure - Councillor C Organ
Cabinet Member Environment - Councillor J Porter
Cabinet Member for Culture - Councillor L Noakes

Chair of Committees in 2015/16

Licensing and Enforcement Committee - Councillor T Randle
Overview and Scrutiny Committee - Councillor J Lugg
Organisational Development Committee - Councillor P James
Planning Committee - Councillor G Taylor
Audit and Governance Committee - Councillor D Llewellyn

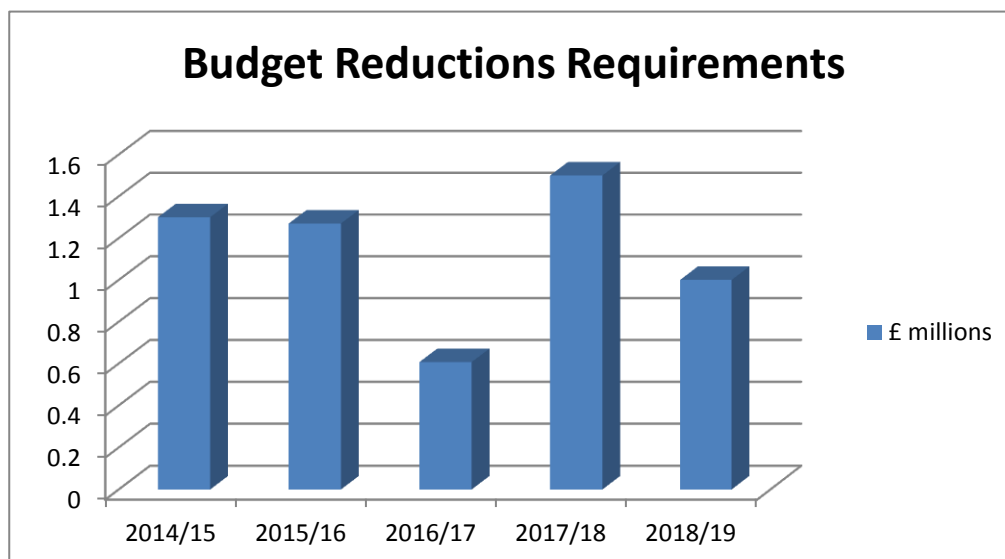
Chief Officers in 2015/16

Managing Director (from July 2015) - Mr J McGinty
Director of Services and Neighbourhoods (until December 2015) - Mr M Shields
Corporate Director (until March 2016) - Mr R Cook
Head of Finance (Section 151 Responsible Officer) - Mr J Topping

4. A summary of Financial Performance

The 2015/16 budgeting process was as in the previous years of austerity influenced by the on-going need to make savings and efficiencies while still delivering council services to the residents of the city. The net budget requirement of £15.969m was approved by Cabinet and Council in February 2015. The Money Plan (www.gloucester.gov.uk/council/performance-and-spending/budget-and-finance/Pages/5-Year-Money-Plan.aspx) identified targeted reductions in 2015/16 of £1.270m. The Money Plan included no increase in Council Tax for the fifth year which resulted in an income from Council Tax of £6.394m.

In producing the Money Plan for 2015-16 to 2019-20 the aim was to align the objectives set out in the Council Plan 2014-17. The revenue budget reductions included in the Money Plan highlighted that the Council would have to continue the programme to significantly review its future organisational arrangements in order to provide value for money services. The chart below identifies the level of savings required over the life of the plan, updated following the Local Government Financial Settlement on February 2016.



NARRATIVE REPORT

4. A summary of Financial Performance

The net revenue budget approved by Council in February was £15.969m. The actual net expenditure for the year was £17.338m following approved transfer to and from earmarked reserves £1.456m.

The following table details the Council's final net revenue expenditure analysed by service area. This differs from the Net Cost of Service in the Comprehensive Income and Expenditure Account Statement by the exclusion of costs relating to depreciation, revenue expenditure funded by capital under statute and certain pension adjustments.

Service	2015/16 Budget	Year End Outturn	Variance
Planning	454	473	19
Legal and Democratic Services	1,100	1,027	(73)
Communications	125	119	(6)
Housing Services	761	734	(27)
HR	346	184	(162)
Guildhall and Museums	422	711	289
Catering Review and Cultural Services Strategy	0	33	33
Internal Audit	175	172	(3)
Neighbourhood Services	4,523	4,625	102
Environmental Planning and the Countryside Unit	427	473	46
Voluntary Sector	381	374	(7)
Shopmobility	4	56	52
Cem and Crem	(857)	(960)	(103)
Markets	(212)	(109)	103
Contact Centre	753	697	(56)
TIC	151	208	57
Public Protection	1,017	1,009	(8)
Financial Services	752	282	(470)
Revenues and Benefits	81	(306)	(387)
Business Improvement	700	816	116
IT	1,403	1,501	98
Asset Management	(487)	(789)	(302)
Economic Development	367	356	(11)
Parking	(856)	(902)	(46)
Marketing Gloucester	408	486	78
Senior Management and RWC	276	532	256
Total Service Expenditure	12,215	11,802	(412)

As identified in the table below a final position of an overspend of £0.247m compared to a budgeted overspend of £0.030m.

Service	2015/16 Budget	Year End Outturn	Variance
Interest Income	(46)	(57)	(11)
Interest Expenditure	715	322	(393)
Minimum Revenue Provision	615	550	(65)
Capital Financing Charge	100	413	313
Corporate Pension Contribution	2,310	2,857	546
Provisions	60	(5)	(65)
Total Corporate Costs	3,754	4,080	325
Transfer to / (from) Earmarked Reserves	0	1,456	
Transfer to / (from) General Fund	(30)	(247)	

NARRATIVE REPORT

4. A summary of Financial Performance (cont.)

The expenditure was financed by sources of funding as detailed in the table below:

Service	2015/16 Budget	Year End Position	Variance
Council Tax Funding	(6,394)	(6,415)	(21)
Retained Business Rates	(3,681)	(4,764)	(1,083)
Council Tax Freeze Grant	(45)	(74)	(29)
Revenue Support Grant	(2,734)	(2,743)	(9)
New Homes Bonus	(3,085)	(3,095)	(10)
Total Funding	(15,939)	(17,091)	(1,152)

The main variances relate to essentially one off items being as follows;

1. Delays in achieving savings targets in relation to Amey
2. The final costs of historic items relating to the Councils impairment of Icelandic bank debt
3. The non-delivery of savings targets by Guildhall and Museums services
4. A significant reduction in recycling income
5. Significant savings were delivered in the recovery level of Housing Benefit overpayments
6. Increased income from planning and crematorium

The gross cost of service provision amounts to £100.792m and this has been analysed by type as shown in the table below:

Expenditure Type	2015/16 £000	2014/15 £000
Employee Expenses	9,169	10,301
Other Service Expenses	76,800	99,028
Support Service Recharges	(9,814)	(9,634)
Non-distributed costs	-	1
Exceptional items	-	-
Other Operating Expenditure	1,191	51,067
Capital charges and investment property expenditure	5,788	5,902
Business rates expenditure	17,658	17,626
Gross Cost of Services	100,792	174,291

The Council received gross income of £95.633m and this is analysed in the table below:

Income Type	2015/16 £000	2014/15 £000
Government Grants	44,883	46,155
Income from Council Tax and non-specific grant income	35,363	35,973
Fees, Charges & Other Service Income	13,100	30,949
Interest and Investment property income and other operating income	2,287	2,018
	95,633	115,095

NARRATIVE REPORT

4. A summary of Financial Performance (cont.)

The capital budget was approved by Cabinet and Council in February 2015, with subsequent approvals bringing the final capital budget to £9.320m for 2015/16. Capital expenditure for 2015/16 was £4.242m

There was an underspend on the revised capital budget compared to budgeted expenditure of £5.077m, these underspends will be carried forward into 2016/17 capital programme to meet on going capital commitments.

A summary of the capital expenditure is shown below. Of the £4.242m spend, £3.650m added to the value of the Council's fixed assets, and the balance was written off in year to the Income and Expenditure Account as revenue expenditure funded from capital under statute. The sources of funding for the Council's capital expenditure in 2015/16 are also shown below:

Capital Expenditure	£000
Housing	542
CCTV	572
Kings Quarter	695
IT Upgrade	1,081
Other including S106 and infrastructure	1,352
	4,242

The table below shows how the Council financed its capital expenditure:

Source of Funding	£000
Section 106	142
Usable Capital receipts	2,668
Grants	879
Borrowing	553
	4,242

5. Accounting Issues and Developments

Pension Fund Deficit

The Council's share of the deficit on the Pension Fund, as at 31 March 2016, has decreased from £65.088m to £58.381m see note 43 for further details.

NARRATIVE REPORT

6. A summary of Non-Financial Performance

In response to the on-going challenges facing local government and Gloucester City Council the Council Plan 2014-17 and the Money Plan 2016-21 have been developed to ensure the Council's strategic objectives and priorities are met.

Gloucester has a clearly defined vision;

"Gloucester will be a flourishing modern and ambitious City which all residents can enjoy"

The Council Plan 2014-2017 contains four key priorities which are underpinned by a number of objectives, as detailed below:

Priority 1: Prosperity – Growing Gloucester's Economy:

Attracting investment, nurturing and encouraging enterprise
A City with skills and job opportunities
A thriving centre and regeneration of the City

Priority 2: People – Working with our communities

Listening to our residents
An active, healthy and safe city for all to enjoy
A City for Everyone

Priority 3: Place – Pride in Our City and improving our environment

A greener Gloucester
A distinctive cultural offer for the City
Affordable and decent housing for all

Priority 4: Performance – Sound finances and strong performance

Sound Finances
Improving performance

Up to mid-year 2015/16, in order to ensure that progress had been made against the aims and objectives detailed in the Corporate Plan, monthly performance reports were produced to highlight achievements and address any challenges. These reports were reviewed during the year by the Senior Management Team (SMT) and Members, and published on the Council's website www.gloucester.gov.uk

Despite the financial constraints we have to operate under, we are still ambitious for the City and strive to deliver excellent services for our residents.

NARRATIVE REPORT

6. A summary of Non-Financial Performance (cont.)

Key achievements during 2015/16 include:

- Hosting the Rugby World Cup was a massive boost to Gloucester's economy and created real pride in our city. 50,000 people visited the Fanzone and many more visited the City and surrounding areas. The TV and media coverage from across the world firmly put Gloucester on the map. Our challenge now is to maximise the economic, volunteering and sporting legacy from the tournament.
- Our Asset-Based Community Development approach has seen more people in Gloucester now taking an active lead in their community and the importance of the role of 'community builders' is becoming widely recognised in the City.
- The past decade has seen significant progress in regeneration across the city. 2015 was another year of real achievement in this regard and 2016 promises to be action-packed as well.
- Planning permission has been granted for development at Bakers Quay alongside the canal, ending over a decade of dereliction.
- The University of Gloucestershire are planning a £20m investment to relocate their Business School to the Oxstalls Campus.
- We are working with the County Council to regenerate the Blackfriars area of the city centre, with the help of a £4.1m grant from Government.
- Regeneration continues at the Railway Triangle, Greyfriars and other sites around the city.
- Gloucester has been granted "Housing Zone" status by the Government to assist in delivering new housing on brownfield sites in and around the city centre.
- Occupancy rates of shops in the city centre are the highest for 10 years, adding to its growing vibrancy.
- We are sharing more services with the County Council & neighbouring District Councils to improve efficiency and save money.
- Works to prepare for the new £7.5m bus station have already started on site as the first phase of the Kings Quarter project.
- We have enhanced our recycling service by collecting two new and additional items, food & drink cartons and aerosols. We plan to expand that range still further as part of our review of the recycling service when we renew our vehicle fleet in 2016/17.
- We are developing a second Memorial Garden of Remembrance at Coney Hill Cemetery and Crematorium which provides families with an opportunity to honour and remember their loved ones with offerings, such as Rose Trees.

NARRATIVE REPORT

7. Significant Changes in Accounting Policies

There have been no significant changes to accounting policies in the financial year.

Further Information

Further details of the accounts can be obtained from the Head of Finance, Herbert Warehouse, The Docks, Gloucester, GL1 2EQ. Tel. (01452) 396242. A statement of the accounting policies used is shown on pages 16-24 and a glossary explaining some of the technical terms used is included on pages 78-81.

Jon Topping
Head of Finance (Section 151 Officer)

EXPLANATION OF THE FINANCIAL STATEMENTS

The Accounts and Audit Regulations 2015 require the Council to produce a Statement of Accounts for each financial year. These statements contain a number of different elements which are explained below:

Statements to the Accounts

Statement of Responsibilities for the Statement of Accounts sets out the respective responsibilities of the Authority and the Chief Finance Officer (Head of Finance).

Auditor's Report gives the auditor's opinion of the financial statements and of the authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Core Financial Statements

Movement in Reserves 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, which is shown in more detail in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting. The 'Net Increase / Decrease before Transfers to Earmarked Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement shows the cost of providing services in the year in accordance with International Financial Reporting Standards, rather than the amount funded from Council Tax, and other Government grants. The amount funded from Council Tax and Government grants differ from this by a series of adjustments made in accordance with regulations. These adjustments are made in the Movement in Reserves Statement.

Balance Sheet shows the Council's financial position on 31 March 2016. It shows the balances and reserves at the Council's disposal at that date, and summarises the fixed and current net assets employed in carrying out the Council's functions.

Cash Flow Statement shows the changes in the Council's cash and cash equivalents 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 way of taxation and grant income, or by the recipients of services provided. 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. Cashflows arising from financing activities are useful when predicting claims on future cashflows to the Council by providers of capital, i.e. borrowing.

Supplementary Statements

Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and Non-Domestic Rates (NDR) and its distribution to precepting bodies. For Gloucester, the Council Tax precepting bodies are the Police and Crime Commissioner for Gloucestershire and Gloucestershire County Council.

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 financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance (Section 151 Officer);
- * Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- * To approve the Statement of Accounts.

Responsibilities of Head of Finance (Section 151 Officer)

The Head of Finance (Section 151 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 Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing the statement of accounts, the Head of Finance (Section 151 Officer) has:

- * Selected suitable accounting policies and then applied them consistently;
- * Made judgements and estimates that were reasonable and prudent;
- * Stated whether applicable accounting standards have been followed, subject to any material
- * Complied with the Code of Practice;
- * Kept proper accounting records which were up to date; and
- * Taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts presents a true and fair view of the financial position of Gloucester City Council at 31 March 2016 and its income and expenditure for the year ended on that date.

Signed

Dated

Jon Topping

Head of Finance (Section 151 Officer)

Signed

Dated

Andrew Gravells

Chair of Audit Committee

STATEMENT OF ACCOUNTING POLICIES

STATEMENT OF ACCOUNTING POLICIES

STATEMENT OF ACCOUNTING POLICIES

1 GENERAL PRINCIPLES

This Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its financial position at 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 to be prepared in accordance with proper accounting practices. These practices, primarily, comprise the Code of Practice on Local Authority 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.

2 ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that 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.
- 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 as income and expenditure on the basis of the effective interest rate for relevant financial instruments 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 against revenue for the income that might not be collected.

3 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 three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4 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.

5 PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES, 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.

6 CHARGES TO REVENUE AND 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 service 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 based on 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 by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

STATEMENT OF ACCOUNTING POLICIES

7 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 entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the 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 the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

Post Employment Benefits - Pensions

Employees of the Council are eligible to be members of the Local Government Pension Scheme (LGPS) administered by Gloucestershire County Council. The Scheme provides defined benefits (retirement lump sums and pensions) to members earned as the employees work for the Council. The cost of retirement benefits is calculated by the Pension Fund Actuary and is recognised in the Income and Expenditure account when these benefits are earned by employees, rather than when lump sums and contributions to the Pension Fund are made.

The LGPS is accounted for as a defined benefit scheme as follows:

- The liabilities of the LGPS attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.4% based on the indicative rate of return on the adoption of the AA corporate bond basis. This is at the IAS19 valuation date, subject to removal of recently re-rated bonds from the index.
- The assets of the LGPS attributable to the council are included in the Balance Sheet at their fair value as follows:
 - Quoted securities – current bid price;
 - Unquoted securities – professional estimate;
 - Unlisted securities – current bid price; and
 - 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 a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Account to the revenue accounts of services for which the employees worked.
- **Past service cost** - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Account as part of Non Distributed Costs.
- **Net interest on the defined benefit liability i.e. net interest expense for the Council** - the change during the period in the net defined liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in 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- taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- **The return on plan assets** - excluding amounts included in net interest on the net defined liability- credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **Gains/losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
- **Actuarial gains and losses** - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

STATEMENT OF ACCOUNTING POLICIES

7 EMPLOYEE BENEFITS (continued)

Contributions paid to the LGPS - cash paid as employer's contributions to the pension fund in settlement of liabilities. This is not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions 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.

8 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 are not reflected in the Statement of Accounts.

9 FINANCIAL INSTRUMENTS

Financial Liabilities

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.

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

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

Financial Assets

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.

STATEMENT OF ACCOUNTING POLICIES

9 FINANCIAL INSTRUMENTS (continued)

Available-for-Sale Assets

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

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

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, 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. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

10 FOREIGN CURRENCY TRANSLATION

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

11 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, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (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 transferred from the General Fund Balance to the Capital Grants Unapplied reserve, if the funds have not been spent, or the Capital Adjustment Account, if the funds have been used to finance capital expenditure, in the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12 HERITAGE ASSETS

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the Council in pursuit of its overall objectives in relation to the maintenance of the heritage. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art.

The Council's heritage assets are included in the balance sheet at their insurance valuation which is based on market values. These insurance valuations are updated on an annual basis. Heritage assets are considered by the Council to have indeterminate lives and it does not consider it appropriate to charge depreciation.

Community assets (including parks but excluding archaeological sites), cemeteries and crematoria (land only) and allotments, where there are restrictions on alternative uses, are not heritage assets and are reflected as community assets and included in property, plant and equipment.

The carrying values of heritage assets are reviewed where there is any indication that an asset may be impaired. Any impairment is recognised and measured in accordance with the Council's general policies on impairment-refer accounting policy note 19.

In the unlikely event of the disposal of heritage assets, the proceeds are accounted for on a similar basis to disposals of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the accounts and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

STATEMENT OF ACCOUNTING POLICIES

13 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 where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being 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 is not 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 relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

14 INTEREST IN COMPANIES AND OTHER ENTITIES

The Council has material interests in companies and other entities that are defined as subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

15 INVENTORIES AND LONG TERM CONTRACTS

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO costing formula.

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.

16 INVESTMENT PROPERTY

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. Revaluation and disposal gains and losses, however, 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.

17 LEASES

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

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

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the 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 which reduces the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

STATEMENT OF ACCOUNTING POLICIES

17 LEASES (continued)

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 benefitting from the use of the leased asset. Charges are made on the straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if 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 item of property, plant and 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 is written-off to the Other Operating Income and 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 are apportioned between:

- A charge for 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 leased asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received the element for the capital receipt for the disposal of the asset is used to write-down the lease debtor. At this point the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

Where the 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. if 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.

18 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 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 multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

Charges are based on a variety of methods including allocations according to officers' use of time, charge per unit of service/deliverable and charge per member of staff/full time equivalent (FTE).

19 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 (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The following de-minimis limits are applied by the Council in recognising assets:

- Cost of an individual asset in excess of £6,000.
- A group of assets having a total cost in excess of £6,000 with an individual cost of more than £250 where the assets are functionally interdependent, have broadly simultaneous purchase dates and are under single managerial control.
- Costs associated with the initial equipping and set-up costs of a new building or significant refurbishment irrespective of their individual or collective cost.

STATEMENT OF ACCOUNTING POLICIES

19 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. 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 gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Component accounting

Component accounting thresholds have been set as the lower of:

- * Component assets over £350,000 (2014/15 £350,000) in value; or
- * Component assets value at least 20% of the overall asset value.

The component asset is only recognised at the point of valuation of the overall asset.

The 2015/16 valuation identified no assets meeting the component accounting thresholds. The same position was found for 2014/15.

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 as follows:

- 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 and thereafter to the relevant service line in the Comprehensive Income and Expenditure Statement.
- 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, and thereafter to the revaluation reserve.

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 on assets acquired commences with effect from 1 April in the next financial year.

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line over the useful life of the properties.
- Vehicles, plant, furniture and equipment – straight-line over the useful lives of the assets.
- Infrastructure and community assets – straight-line over the useful life of the assets.

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 previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

STATEMENT OF ACCOUNTING POLICIES

19 PROPERTY, PLANT AND EQUIPMENT (continued)

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 a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the 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 non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

20 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 uncertainties.

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 from another party (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 Council's control. 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 Council's control.

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.

21 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, retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

22 REVENUE AND 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 that there is no impact on the level of Council Tax.

STATEMENT OF ACCOUNTING POLICIES

23 VAT

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.

24 GROUP ACCOUNTS

The Code states that Group Accounts shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of the Subsidiaries, Associates and Jointly Controlled Entities shall align with the policies of the Council, for the purpose of Group Accounts, where materially different. Such adjustments that are necessary to align the group accounting policies are made as Consolidation adjustments.

Interests in Companies and Other Entities

The Council has material interests in companies and other separate entities that have the nature of being subsidiaries, joint ventures and Associates and require it to prepare Group Accounts.

Basis of Consolidation

The Group Accounts consolidate the Council's accounts with those of Gloucestershire Airport Ltd, in which the Council has a 50% shareholding (the remaining 50% is owned by Cheltenham Borough Council). Certain entities in which the Council has an interest have not been included in the group accounts as the impact of incorporating these into the the group accounts are considered to be immaterial.

Accounting Policies

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

The financial statements for Joint Ventures, Associates and Subsidiaries have been prepared under the historical cost convention in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2015).

For the purposes of the Group Accounts, the airport's property, plant and equipment has been revalued at fair value in order to bring them in line with the Council's accounting policies. A formal valuation with a valuation date of 31 March 2012 was undertaken by an external valuer in 2011/12.

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

	Gloucestershire Airport
(a) Freehold Property	2% per annum of cost
(b) Plant & Machinery	10% per annum of cost
(c) Office Equipment	10% per annum of cost
(d) Motor Vehicles	10% per annum of cost
(e) Computer Equipment	20% per annum of cost
(f) Taxiway / Runway	4% per annum of cost

CORE FINANCIAL STATEMENTS

CORE FINANCIAL STATEMENTS

GLOUCESTER CITY COUNCIL MOVEMENT IN RESERVES STATEMENT For the years ended 31 March 2015 & 2016

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 for council tax setting purposes. The Net Increase/(Decrease) before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2014	1,820	112	7,611	3,464	1,897	14,904	63,519	78,423
Movement in Reserves during 2014/15								
Surplus/(deficit) on the provision of services-as restated	(6,498)	-	(52,698)	-	-	(59,196)	-	(59,196)
Other Comprehensive Income and Expenditure-as restated	-	-	-	-	-	-	(4,339)	(4,339)
Total Comprehensive Income and Expenditure	(6,498)	-	(52,698)	-	-	(59,196)	(4,339)	(63,535)
Adjustments between accounting basis & funding basis under regulations (Note 6)	7,009	-	46,646	6,308	642	60,605	(60,605)	-
Net Increase/(Decrease) before transfers (to)/from Earmarked Reserves	511	-	(6,052)	6,308	642	1,409	(64,944)	(63,535)
Transfers from HRA	1,559	-	(1,559)	-	-	-	-	-
Transfers (to)/from Earmarked Reserves (Note 7)	(2,009)	2,009	-	-	-	-	-	-
Increase/(Decrease) in 2014/15	61	2,009	(7,611)	6,308	642	1,409	(64,944)	(63,535)
Balance at 31 March 2015	1,881	2,121	-	9,772	2,539	16,313	(1,425)	14,888
Movement in Reserves during 2015/16								
(Deficit)/Surplus on the provision of services	(5,159)	-	-	-	-	(5,159)	-	(5,159)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	7,840	7,840
Total Comprehensive Income and Expenditure	(5,159)	-	-	-	-	(5,159)	7,840	2,681
Adjustments between accounting basis & funding basis under regulations (Note 6)	6,368	-	-	(7,060)	(181)	(873)	873	-
Net (Decrease)/Increase before Transfers to Earmarked Reserves	1,209	-	-	(7,060)	(181)	(6,032)	8,713	2,681
Transfers from/(to) Earmarked Reserves (Note 7)	(1,456)	1,456	-	-	-	-	-	-
Net (Decrease)/Increase in 2015/16	(247)	1,456	-	(7,060)	(181)	(6,032)	8,713	2,681
Balance at 31 March 2016	1,634	3,577	-	2,712	2,358	10,281	7,288	17,569

CORE FINANCIAL STATEMENTS

GLOUCESTER CITY COUNCIL GROUP MOVEMENT IN RESERVES STATEMENT For the years ended 31 March 2015 & 2016

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

	Usable Reserves			Unusable Reserves			Total Group Reserves
	Council	Council's Share of Subsidiaries, Joint Ventures and Associates	Total Group	Council	Council's Share of Subsidiaries, Joint Ventures and Associates	Total Group	
	£000	£000	£000	£000	£000	£000	
Balance at 1 April 2014	14,904	3,829	18,733	63,519	11,820	75,339	94,072
Movement in Reserves during 2014/15							
Surplus or (deficit) on the provision of services	(59,196)	119	(59,077)	-	-	-	(59,077)
Adjustment in respect of group share of prior year reserves for subsidiary no longer included in group accounts (Refer to Note 47)	-	532	532	-	-	-	532
Adjustment in respect of group share of prior year reserves for associates no longer included in group accounts	-	-	-	-	-	-	-
Other Comprehensive Income and Expenditure	-	-	-	(4,339)	(1,241)	(5,580)	(5,580)
Total Comprehensive Income and Expenditure	(59,196)	651	(58,545)	(4,339)	(1,241)	(5,580)	(64,125)
Adjustments between Group Accounts and GCC Account - Note 47	-	(3,620)	(3,620)	-	3,620	3,620	-
Net Increase/(Decrease) before Transfers	(59,196)	(2,969)	(62,165)	(4,339)	2,379	(1,960)	(64,125)
Adjustments between accounting basis & funding basis under regulations (Note 6)	60,605	-	60,605	(60,605)	-	(60,605)	-
Increase/(Decrease) in 2014/15	1,409	(2,969)	(1,560)	(64,944)	2,379	(62,565)	(64,125)
Balance at 1 April 2015	16,313	860	17,173	(1,425)	14,199	12,774	29,947
Movement in Reserves during 2015/16							
Surplus or (deficit) on the provision of services	(5,159)	339	(4,820)	-	-	-	(4,820)
Other Comprehensive Income and Expenditure	-	-	-	7,840	220	8,060	8,060
Total Comprehensive Income and Expenditure	(5,159)	339	(4,820)	7,840	220	8,060	3,240
Adjustments between Group Accounts and GCC Account (Note 47)	-	(57)	(57)	-	57	57	-
Net Increase/(Decrease) before Transfers	(5,159)	282	(4,877)	7,840	277	8,117	3,240
Adjustments between accounting basis & funding basis under regulations (Note 6)	(873)	-	(873)	873	-	873	-
Increase/(Decrease) in 2015/16	(6,032)	282	(5,750)	8,713	277	8,990	3,240
Balance at 31 March 2016	10,281	1,142	11,423	7,288	14,476	21,764	33,187

CORE FINANCIAL STATEMENTS

GLOUCESTER CITY COUNCIL COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT For the year ended 31 March 2016

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.

Description	2015/16			2014/15
	Gross Expenditure	Gross Income	Net Expenditure	Net Expenditure
	£000	£000	£000	£000
Central Services to the public	4,419	1,408	3,011	3,939
Cultural, environmental, regulatory and planning services				
Cultural Services	6,211	1,282	4,929	4,700
Environmental Services	4,910	4,012	898	787
Planning and Development Services	3,337	1,616	1,721	1,375
Service Management and Support Services	7,772	1,062	6,710	6,661
Highways and transport services	2,287	2,385	(98)	(85)
Other Housing Services	46,021	45,724	297	1,047
Corporate and Democratic Core	1,198	494	704	1,227
Non distributed costs	-	-	-	1
Deficit on Operations	76,155	57,983	18,172	19,652
Other Operating Expenditure (Note 8)	1,191	-	1,191	51,067
Financing and investment income and expenditure (Note 9)	5,788	2,287	3,501	3,884
(Surplus) / Deficit on discontinued operations (Note 30)	-	-	-	2,940
Taxation and Non-specific Grant Income (Note 10)	17,658	35,363	(17,705)	(18,347)
Deficit on Provision of Services	100,792	95,633	5,159	59,196
<i>Items that will not be reclassified to the (surplus) or deficit on the provision for services</i>				
(Gains) / Losses on revaluation of Property, Plant and Equipment assets	(1,160)	-	(1,160)	(238)
Re-measurement of the net defined benefit liability (Note 24)	-	6,680	(6,680)	4,577
Other Comprehensive Income and Expenditure	(1,160)	6,680	(7,840)	4,339
Total Comprehensive Income and Expenditure	99,632	102,313	(2,681)	63,535

CORE FINANCIAL STATEMENTS

GLOUCESTER CITY COUNCIL GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

For the year ended 31 March 2016

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.

Description	2015/16			2014/15
	Gross Expenditure	Gross Income	Net Expenditure	Net Expenditure
	£000	£000	£000	£000
Central Services to the public	4,419	1,408	3,011	3,939
Cultural, environmental, regulatory and planning services				
Cultural Services	6,211	1,282	4,929	4,700
Environmental Services	4,910	4,012	898	787
Planning and Development Services	3,337	1,616	1,721	1,375
Service Management and Support Services	7,772	1,062	6,710	6,661
Highways and transport services	2,287	2,385	(98)	(85)
Other Housing Services	46,021	45,724	297	1,047
Corporate and Democratic Core	1,198	494	704	1,227
Non distributed costs	-	-	-	1
(Surplus)/Deficit on Operations	76,155	57,983	18,172	19,652
Other Operating Expenditure (Note 8)	1,191	-	1,191	51,067
Financing and investment income and expenditure (Note 9)	5,788	2,287	3,501	3,963
(Surplus) / Deficit on discontinued operations (Note 30)	-	-	-	2,822
Taxation and Non-specific Grant Income (Note 10)	17,658	35,363	(17,705)	(18,347)
Deficit on Provision of Services	100,792	95,633	5,159	59,157
Share of the (Surplus)/Deficit on the provision of Services				
Joint Ventures			(421)	(103)
Share of Tax Expenses				
Joint Ventures			81	23
Group Deficit			4,820	59,077
<i>Items that will not be reclassified to the (surplus) or deficit on the provision for services</i>				
(Gains) / Losses on revaluation of Property, Plant and Equipment assets			(1,160)	(238)
Actuarial (Gains) / Losses on pension assets / liabilities			(6,680)	5,583
Share of Other Comprehensive Income and Expenditure				
Joint Ventures			(220)	236
Group Other Comprehensive Income and Expenditure			(8,060)	5,581
Total Comprehensive Income and Expenditure			(3,240)	64,658

CORE FINANCIAL STATEMENTS

GLOUCESTER CITY COUNCIL BALANCE SHEET

As at 31 March 2016

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. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves 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'.

	Notes	31/03/2016 £000	31/03/2015 £000
Property, Plant & Equipment	11	55,958	55,204
Investment Property	12	24,424	24,729
Heritage Assets	13	6,127	6,222
Intangible Assets	14	952	1,081
Long Term Investments	15,46	437	495
Long Term Debtors	15,19(i)	1,083	1,199
Long Term Assets		88,981	88,930
Short Term Investments	15	16	8,139
Assets held for Sale	16	606	129
Inventories	17	41	100
Short Term Debtors	15,19	8,443	9,289
Cash and Cash Equivalents	20	1,621	26,556
Current Assets		10,727	44,213
Total Assets		99,708	133,143
Short Term Borrowing	15,21(i)	(10,287)	(13,997)
Short Term Creditors	15,21	(5,132)	(5,572)
Provisions (<1yr)	22	(1,006)	(866)
Current Liabilities		(16,425)	(20,435)
Provisions	22	(197)	(233)
Long Term Borrowing	15,21(ii)	(5,000)	(30,000)
Capital Grants Received in Advance	36	(2,136)	(2,499)
Other Long Term Liabilities	43	(58,381)	(65,088)
Long Term Liabilities		(65,714)	(97,820)
Net Assets		17,569	14,888
Usable Reserves	23	10,281	16,313
Unusable Reserves	24	7,288	(1,425)
Total Reserves		17,569	14,888

CORE FINANCIAL STATEMENTS

GLOUCESTER CITY COUNCIL GROUP BALANCE SHEET			
As at 31 March 2016			
The group balance sheet has been prepared by combining the Council's share of the net assets of Gloucestershire Airport Ltd (50% of the total, adjusted for revaluations), with the net assets of the Council.			
As a Joint Venture, the Council's share of the net assets and liabilities in Gloucestershire Airport Limited has been included as long-term investment, eliminating the share capital and also includes the revalued airport land and buildings.			
	Note	31/03/2016 £000	31/03/2015 £000
Property, Plant & Equipment	11	55,958	55,204
Investment Property	12	24,424	24,729
Heritage Assets	13	6,127	6,222
Intangible Assets	14	952	1,081
Long Term Investments	15,46	2	60
Long Term Debtors	15,19(i)	1,083	1,199
Investment in Joint Venture		16,053	15,494
Long Term Assets		104,599	103,989
Short Term Investments	15	16	8,139
Assets held for Sale	16	606	129
Inventories	17	41	100
Short Term Debtors	15,19	8,443	9,289
Cash and Cash Equivalents	20	1,621	26,556
Current Assets		10,727	44,213
Total Assets		115,326	148,202
Short Term Borrowing	15, 21(i)	(10,287)	(13,997)
Short Term Creditors	15,21	(5,132)	(5,572)
Provisions (<1yr)	22	(1,006)	(866)
Current Liabilities		(16,425)	(20,435)
Provisions	22	(197)	(233)
Long Term Borrowing	15,21(ii)	(5,000)	(30,000)
Capital Grants Received in Advance	36	(2,136)	(2,499)
Other Long Term Liabilities	43	(58,381)	(65,088)
Long Term Liabilities		(65,714)	(97,820)
Net Assets		33,187	29,947
Usable Reserves	23	11,423	17,173
Unusable Reserves	24	21,764	12,774
Total Reserves		33,187	29,947

CORE FINANCIAL STATEMENTS

GLOUCESTER CITY COUNCIL CASH FLOW STATEMENT For the year ended 31 March 2016				
<p>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 way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.</p>				
	Notes	2015/16 £000	2014/15 £000	Group 2014/15 £000
Deficit on the provision of services		(5,159)	(59,196)	(59,157)
Adjustments in respect of non-cash movements		4,766	133,237	133,187
Adjustments in respect of items that are investing and financing activities		2,216	(72,979)	(72,979)
Net Cash Flows from Operating Activities	25	1,823	1,062	1,051
Net Cash Flows from Investing Activities	26	(2,654)	13,507	13,507
Net Cash Flows from Financing Activities	27	(24,104)	9,804	9,804
Net Increase/(Decrease) in cash and cash equivalents		(24,935)	24,373	24,362
Cash and cash equivalents at the beginning of the year		26,556	2,183	2,204
Cash and cash equivalents at the end of the year		1,621	26,556	26,566
The Balance of Cash and Cash Equivalents and Bank Overdraft		2015/16 £000	2014/15 £000	2014/15 £000
Cash and Cash Equivalents		1,621	26,556	26,556
Balance at 31st March		1,621	26,556	26,556



NOTES TO THE CORE FINANCIAL STATEMENTS

NOTES TO THE CORE FINANCIAL STATEMENTS

1 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT ADOPTED

For 2015/16 the following accounting standards have been issued but not yet adopted:

Amendments to IAS19 Employee Benefits (Defined Benefits Plans: Employee Contributions)

Amendment to IFRS11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)

Amendment to IAS16 Property, Plant and Equipment and IAS38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)

Amendment to IAS1 Presentation of Financial Statements

Changes to the format of the CIES, MIRS and the introduction of the new Expenditure and Funding Analysis

Changes to the format of the Pension Fund Account and the Net Assets Statement.

The Code of Practice requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. It is considered that these standards will not have a material impact on the financial statements of Gloucester City Council, so no further disclosure is required in these accounts for the 2015/16 year.

2 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING PRINCIPLES

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

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.

3 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. 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 repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £62k for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects of the net pension liability of changes in individual assumptions can be measured. For instance a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £12.276 million. The assumptions, however, interact in complex ways. During 2015/16 the Council's actuaries advised that the net pensions liability had decreased by £6.765 million as a direct result of changes to the financial assumptions in the previous year.
Provision for Business Rates Appeals	The Council maintains a provision for outstanding business rates appeals. The provision has been calculated based on the current list of live appeals, using analysis of historical rates of successful appeals and percentage reduction in rateable value.	The Council has calculated the appeals provision based on the possible reduction in rates received. If the % of appeals which were successful increased by 1% across all classes of property, an additional £72k would have to be set aside.
Arrears	At 31 March 2016, the Council had a balance of sundry debtors of £1.853 million. A review of the aged debt profile and recovery percentages suggested that a provision for doubtful debts of approximately 19.30% is appropriate. In the current economic climate, however, it is not certain that such a provision would be sufficient.	If collection rates were to deteriorate, the provision made for doubtful debts would need to increase based on the actual levels of recovery achieved. It is estimated that a 1% increase in the required provision would result in an increase in the bad debt provision of £19k.

4 MATERIAL ITEMS OF INCOME AND EXPENDITURE

Where items are not disclosed on the face of the Comprehensive Income and Expenditure Statement, the nature and amount of material items should be set out in a note. For Gloucester City Council these include gains and losses arising on asset revaluations and the pensions deficit.

The net revaluation Gains arising from the revaluation of the Council's assets, including investment property, amounted to £0.724 million. The revaluation includes £(0.985) million recognised in the surplus/(deficit) in the provision of services.

Refer to notes 11, 12 and 16 for details of the revaluation of property, plant and equipment assets.

Details of the pension deficit are included in note 43.

5 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Council's Audit Committee on 19th September 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

As at 19th September 2016 (Audit Committee approval) one post balance sheet events have been identified:

"On 23 June, the EU referendum took place, 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."

NOTES TO THE CORE FINANCIAL STATEMENTS

6 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER THE 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.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance, therefore, summarises the resources that the Council is empowered to spend on its services or capital investment at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

NOTES TO THE CORE FINANCIAL STATEMENTS

6 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER THE REGULATIONS (Continued)

2015/16 Information

	Usable Reserves £'000			£'000
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Adjustments primarily involving the Capital Adjustment Account:				
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure statement:</i>				
Charges for depreciation of non-current assets	(2,944)	-	-	2,944
Revaluation losses on Property Plant and Equipment and assets held for sale	(989)	-	-	989
Net gains/(losses) from fair value adjustments to investment property	753	-	-	(753)
Amortisation of intangible assets	(454)	-	-	454
Revenue expenditure funded from capital under statute	(592)	-	-	592
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	(478)	-	-	478
Amortisation of premiums and discounts	(3,575)	3,575	-	-
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:</i>				
Direct Revenue Financing				-
Repayment of prior year CFR		1,359		(1,359)
Statutory provision for the financing of capital investment	550	-	-	(550)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	840	-	(840)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	1,021	(1,021)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the sale of non-current assets	519	(519)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	2,668	-	(2,668)
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash		(23)		23
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	413	-	-	(413)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 43)	(3,717)	-	-	3,717
Employer's pensions contributions and direct payments to pensioners payable in the year	3,744	-	-	(3,744)
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which Council Tax and Non-Domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Non-Domestic rates income calculated for the year in accordance with statutory requirements	(471)	-	-	471
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	33	-	-	(33)
Total Adjustments	(6,368)	7,060	181	(873)

GLOUCESTER CITY COUNCIL

NOTES TO THE CORE FINANCIAL STATEMENTS

6 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING UNDER THE REGULATIONS (Continued)

2014/15 Information

	Usable Reserves £'000					£'000
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable
Adjustments primarily involving the Capital Adjustment Account:						
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure statement:</i>						
Charges for depreciation of non-current assets	(2,817)	(2,022)	-	-	-	4,839
Revaluation losses on Property Plant and Equipment and assets held for sale	(2,943)	-	-	-	-	2,943
Net gains/(losses) from fair value adjustments to investment property	(377)	-	-	-	-	377
Amortisation of intangible assets	(449)	-	-	-	-	449
Revenue expenditure funded from capital under statute	(661)	(720)	-	-	-	1,381
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	(1,617)	(123,884)	-	-	-	125,501
Amortisation of premiums and discounts		(6,382)	6,382			-
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure statement:</i>						
Direct Revenue Financing		4,783				(4,783)
HRA Revenue for prior year CFR		1,035				(1,035)
Statutory provision for the financing of capital investment	510	-	-	-	-	(510)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,548	-	-	-	(1,548)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	906	(906)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited as part of the sale of non-current assets	1,331	76,482	(77,813)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	2,142	-	-	(2,142)
Capital Receipts applied to HRA CFR			62,750			(62,750)
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	(209)	-	209	-	-	-
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash			(9)			9
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	2,022	-	(2,022)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	2,022	-	(2,022)
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	100	30	-	-	-	(130)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 43)	(3,860)	-	-	-	-	3,860
Employer's pensions contributions and direct payments to pensioners payable in the year	2,715	2,041	-	-	-	(4,756)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which Council Tax and Non-Domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Non-Domestic rates income calculated for the year in accordance with statutory requirements	(251)	-	-	-	-	251
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	(29)	-	-	-	-	29
Total Adjustments	(7,009)	(46,646)	(6,308)	0	(642)	60,605

NOTES TO THE CORE FINANCIAL STATEMENTS

7 TRANSFERS TO/(FROM) EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

Reserve No.		Balance at 31/03/2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31/03/2016 £000	Balance at 31/03/2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31/03/2015 £000
	General Fund:								
1	3 Choirs Reserve	5	-	-	5	-	-	5	5
2	Historic Buildings Reserve	53	-	-	53	63	10	-	53
3	Portfolio Reserves	22	-	13	35	10	-	12	22
4	Members Allocation Reserve	14	5	-	9	-	-	14	14
5	Shopmobility Reserve	29	-	-	29	29	-	-	29
6	Regeneration Reserve	313	-	197	510	-	-	313	313
7	Insurance Reserve	10	-	-	10	10	-	-	10
8	Land Adoption Reserve	-	-	710	710	-	-	-	-
9	VAT Shelter Reserve	-	-	291	291	-	-	-	-
10	Business Rates Reserve	-	-	200	200	-	-	-	-
11	Trading Development Reserve	-	-	50	50	-	-	-	-
12	Environmental Reserve	1,000	-	-	1,000	-	-	1,000	1,000
13	Pension Contingency	275	-	-	275	-	-	275	275
14	Repairs Reserve	400	-	-	400	-	-	400	400
	Total	2,121	5	1,461	3,577	112	10	2,019	2,121

Reserve

No. Further details of the reserves

- 1 **3 Choirs Reserve**
The City hosts the 3 Choirs festival every 3 years and this is the contribution from 2015/16 to the final cost of the festival.
- 2 **Historic Buildings Reserve**
This reserve was set up to spread the funds required to finance the refurbishment of historic buildings in the City over a number of years and will fund an agreed award to the Llanthony Priory Trust.
- 3 **Portfolio Reserves**
This represents an annual sum put in reserve for housing surveys undertaken every 3 to 4 years.
- 4 **Members Allocation Reserve**
The reserve represents the remainder of members individual grant allocations to be spent in 16/17
- 5 **Shopmobility Reserve**
Donated funds for shopmobility for use specifically on the shopmobility service.
- 6 **Regeneration Reserve**
The reserve is intended for the delivery of key regeneration priorities.
- 7 **Insurance Reserve**
This reserve is intended to cover possible insurance claims not able to be met from the Insurance Provision (see note 22, page 49).
- 8 **Land Adoption Reserve**
The reserve contains contributions received from developers upon the adoption of open space on housing development. The reserve will be used to fund increased grounds maintenance costs in future years.
- 9 **VAT Shelter Reserve**
Earmarked for future regeneration and housing projects
- 10 **Business Rates Reserve**
A reserve to be used to protect the Council's General Fund from fluctuations in business rates income in future years.
- 11 **Trading Development Reserve**
A reserve to provide funding to allow the Council to explore trading development opportunities to generate revenue in future years
- 12 **Environmental Reserve**
The Council has ongoing potential environmental liabilities from the housing stock transfer, including potential asbestos work liability.
- 13 **Pension Contingency Reserve**
This reserve is intended to cover known and future pension liabilities .
- 14 **Repairs Reserve**
The council has significant exposure to major repairs which are currently unbudgeted and could be a significant risk. This reserve is intended to assist in offsetting potential future liabilities.

NOTES TO THE CORE FINANCIAL STATEMENTS

8 OTHER OPERATING INCOME AND EXPENDITURE

	GCC	GCC	Group	Group
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
(Gains) / Losses on the disposal of HRA Assets	-	47,351	-	47,351
Precepts and Grants paid to parish councils	243	227	243	227
Contribution to Housing Pooled Receipts	-	209	-	209
Repayment of capital grants	-	(8)	-	(8)
(Gains) / Losses on disposal of non current assets	(41)	345	(41)	345
Revaluation losses arising on revaluation of non-current assets	989	2,943	989	2,943
Total	1,191	51,067	1,191	51,067

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	GCC	GCC	Group	Group
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
Interest payable and similar charges	3,897	2,599	3,897	2,577
Interest and Investment property income	(2,287)	(2,018)	(2,287)	(2,023)
Pensions Interest and Expected Return on pensions assets	1,987	2,475	1,987	2,581
Expenditure on investment properties	657	451	657	451
Changes in fair value of investment properties	(753)	377	(753)	377
Total	3,501	3,884	3,501	3,963

10 TAXATION AND NON-SPECIFIC GRANT INCOME

	GCC	GCC	Group	Group
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
Income from the collection fund - Council Tax income	(6,658)	(6,455)	(6,658)	(6,455)
Collection Fund (Surplus) / Deficit	471	251	471	251
Business rates tariff	16,744	16,366	16,744	16,366
Business rates levy	443	1,009	443	1,009
Retained Business Rates	(21,067)	(20,839)	(21,067)	(20,839)
Revenue Support Grant (RSG)	(2,734)	(3,800)	(2,734)	(3,800)
Council tax freeze	(74)	(74)	(74)	(74)
New homes bonus	(3,096)	(2,543)	(3,096)	(2,543)
Business rates Section 31 grant	(885)	(691)	(885)	(691)
Other Grants	(9)	(23)	(9)	(23)
Capital Grants	(840)	(1,548)	(840)	(1,548)
Total	(17,705)	(18,347)	(17,705)	(18,347)

NOTES TO THE CORE FINANCIAL STATEMENTS

11 PROPERTY, PLANT AND EQUIPMENT Movements on Balances

Movements in 2015/16	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000
Cost or Valuation								
At 1 April 2015	334	53,511	7,120	12,859	8,778	-	-	82,602
Additions		650	1,566	583	319	80	-	3,198
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	1,160	-	-	-	-	-	1,160
Revaluation increases/(decreases) recognised in Surplus/Deficit on the Provision of Services	-	(881)	-	-	-	-	-	(881)
Derecognition – Disposals	-	-	(82)	-	(33)	-	-	(115)
Assets reclassified as held for sale	-	-	-	-	-	-	-	-
Other movements in cost or valuation	(334)	148	14	14	-	-	418	260
At 31 March 2016	-	54,588	8,618	13,456	9,064	80	418	86,224
Accumulated Depreciation and Impairment								
At 1 April 2015	12	15,899	5,227	4,764	1,496	-	-	27,398
Depreciation Charge	-	1,668	446	457	373	-	-	2,944
Derecognition – Disposals	-	-	(75)	-	(1)	-	-	(76)
Assets reclassified as held for sale	-	-	-	-	-	-	-	-
Other movements in cost or valuation	(12)	5	-	-	-	-	7	-
At 31 March 2016	-	17,572	5,598	5,221	1,868	-	7	30,266
Net book value as at 31 March 2016	-	37,016	3,020	8,235	7,196	80	411	55,958
Net book value as at 1 April 2015	322	37,612	1,893	8,095	7,282	-	-	55,204

NOTES TO THE CORE FINANCIAL STATEMENTS

11 PROPERTY, PLANT AND EQUIPMENT (Continued) Movements on Balances

Comparative Figures 2014/15

Movements in 2014/15	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Total Property, Plant and Equipment £'000
Cost or Valuation						
At 1 April 2014	136,196	43,184	6,791	12,346	8,494	207,011
Additions	7,126	6,358	221	500	281	14,486
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	238	-	-	-	238
Revaluation increases/(decreases) recognised in Surplus/Deficit on the Provision of Services	-	(2,903)	-	-	-	(2,903)
Derecognition – Disposals*	(127,749)	-	-	-	-	(127,749)
Assets reclassified as held for sale	-	-	-	-	-	-
Other reclassifications	-	1,584	-	-	-	1,584
Other movements in cost or valuation	(15,239)	5,050	108	13	3	(10,065)
At 31 March 2015	334	53,511	7,120	12,859	8,778	82,602
Accumulated Depreciation and Impairment						
At 1 April 2014	17,152	9,284	4,672	4,310	1,128	36,546
Depreciation Charge	2,014	1,572	447	441	365	4,839
Derecognition – Disposals	(3,915)	-	-	-	-	(3,915)
Assets reclassified as held for sale	-	-	-	-	-	-
Other reclassifications	-	(7)	-	-	-	(7)
Other movements in cost or valuation	(15,239)	5,050	108	13	3	(10,065)
At 31 March 2015	12	15,899	5,227	4,764	1,496	27,398
Net book value as at 31 March 2015	322	37,612	1,893	8,095	7,282	55,204

NOTES TO THE CORE FINANCIAL STATEMENTS

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation

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

- Council Dwellings – 60 years straight-line
- Other Land and Buildings – 8-60 years straight-line
- Vehicles, Plant, Furniture & Equipment – 5-10 years straight-line
- Infrastructure and Community Assets – 30-95 years straight-line

The following is a list of the major fixed assets owned by the Council at 31 March 2016.

All assets are owned freehold unless otherwise stated.

Operational assets	Non-operational assets
Other Operational land and buildings Gloucester Leisure Centre 2 Cemeteries and 1 Crematorium North Warehouse HKP warehouses (leasehold) Guildhall Gloucester Life Museum and Museum of Gloucester 2 Multi-storey Car Parks (1 leasehold) 13 Surface Car Parks (2 leasehold) Tourist Information Centre (leased) Oxtalls Tennis Centre Hempsted Market Community & Heritage assets Various Parks and open spaces The Fleece Hotel Works of art Museum Exhibits Civic regalia Vehicles plant and equipment Vehicles and items of plant Computer equipment Sports and playground facilities in parks Infrastructure assets Street furniture 5 Public Conveniences (1 leasehold)	Investment properties Eastgate market and shopping centre Bearland Lodge Kings Square / Kings Walk shopping centre Kings Theatre Bus station Gala Club 16 Shops 16 Sports Clubs facilities (mixed tenure) 50% of Gloucestershire Airport (freehold) The Docks Headlease area including No.3 Albion Cottage(leasehold) Barbican Land Ladybellgate Street Former Spartans Club House Site Depot at Eastern Avenue Bentinck House and Bruton Way Blackfriars Inn Barbican House, Commercial Road Various on Commercial Road (leasehold) Grosvenor House Kings House Land Northgate Street

Capital Commitments

At 31 March 2016 the Council did not have any outstanding commitments with regards to capital contracts. Similar commitments at 31 March 2015 were zero

NOTES TO THE CORE FINANCIAL STATEMENTS

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

Revaluations

In the current year the Council has continued with a rolling programme of asset valuations to ensure that all Property, Plant and Equipment required to be measured at fair value are revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- That the values will remain static during that period;
- The property would be freely exposed to the open market;
- No account has been taken of any higher price or rental offer that might be made by a purchaser or lessee with a special interest;
- The valuation relates to the freehold or leasehold interest and good freehold or leasehold title can be shown.
- The property and its value are unaffected by any matters which would be revealed by a local search.

Fair Value Measurement

The Council measures its surplus assets, investment properties and assets held for sale at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either:

- a) in the principal market for the asset
- b) in the absence of a principal market, in the most advantageous market for the asset.

The Council uses internal valuers to provide a valuation of its assets in line with the highest and best use definition within the accounting standard Internal Financial Reporting Standard 13 (IFRS 13) - Fair Value Measurement. The highest and best use of the asset being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets are categorised within the fair value hierarchy as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly

Level 3 - unobservable inputs for the asset.

The Council recognises transfers into and out of the different fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer to occur.

12 INVESTMENT PROPERTIES

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

	GCC and Group	
	2015/16	2014/15
	£000	£000
Rental income from investment property	(2,229)	(1,961)
Direct operating expenses arising from investment property	657	451
Net gain	(1,572)	(1,510)

The fair value of investment properties has been measured using accepted valuation practice. This approach takes account of quoted prices of similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength of existing tenants and data and market knowledge gained in valuing and managing the Council's asset portfolio. The comparable information used from the market and portfolio is not sufficiently similar for direct comparison to be made and adjustments have to be made to the observable data from these transactions. Inputs are unobservable, investment properties are therefore classed as level 3 within the fair value hierarchy.

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.

The following table summarises the movement in the fair value of investment properties over the year:

	GCC and Group	
	2015/16	2014/15
	£000	£000
Balance at beginning of the year	24,729	28,364
Additions:		
- Purchases	68	51
- Subsequent expenditure	-	-
Net gains/(losses) from fair value adjustments	549	(377)
Adjustment		
Transfers:		
- To/From Property, Plant and Equipment / Surplus Assets	(260)	(1,592)
- From Heritage Assets	-	-
- To assets for sale	(223)	(100)
Disposals	(439)	(1,617)
Balance at end of the year	24,424	24,729

NOTES TO THE CORE FINANCIAL STATEMENTS

13 Heritage Assets

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the Council in pursuit of its overall objectives in relation to the maintenance of the heritage. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art.

The heritage assets of the Council are located in the two museums, The Gloucester City Museum and The Gloucester Folk Museum, as well as the Council's offices for items of civic regalia and other similar items. Both museums maintain all their present collections and, where necessary add to them by purchase, bequest or donation with a particular emphasis on items that are of specific interest to the locality of Gloucester City and surrounding areas. It is not the policy of the museums or the Council to dispose of heritage assets for financial or other reasons. Heritage assets of the museums are managed by the curators who report to the respective museum managers.

The Heritage assets have been classified by the Council's heritage service who have reached the conclusion that the value of the assets is as determined for insurance valuation purposes.

Details of the Council's heritage assets at 31 March 2016 are as follows:

	GCC and Group	
	2015/16 £'000	2014/15 £'000
Oil paintings	1,178	1,178
Coins	247	247
Archaeology	976	976
Silver	648	648
Domestic life exhibits	314	314
Furniture	273	273
Working life exhibits	187	187
Miscellaneous items	2,304	2,399
Total	6,127	6,222
At valuation	5,843	5,958
At cost	284	264
Total	6,127	6,222

The following table summarises the movement in heritage assets during the year:

	GCC and Group	
	2015/16 £000	2014/15 £000
Balance at beginning of the year	6,222	6,106
Revaluation surplus/(deficit)	(104)	(40)
Reclassified to investment property	-	-
Additions	9	156
Balance at end of the year	6,127	6,222

NOTES TO THE CORE FINANCIAL STATEMENTS

14 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.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. Assets are written off on a straight-line basis based on estimated useful lives of 3,4,5,7 and 10 years. Amortisation of newly acquired intangibles commences in the year after they are purchased.

The amortisation of intangible assets expense is included in Central Support services.

Movements in intangible assets during the year are shown below:

	Computer Software	
	2015/16 £'000	2014/15 £'000
Gross book value at the beginning of the year	3,974	3,949
Additions	325	25
Gross book value at the end of the year	4,299	3,974
Amortisation at the beginning of the year	2,893	2,444
Amortised during year	454	449
Amortisation at the end of the year	3,347	2,893
Net book value at the end of the year	952	1,081

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

	2015/16 £000	2014/15 £000
Balance at the beginning of the year:		
- Gross carrying amounts	3,974	3,949
- Accumulated amortisation	2,893	2,444
- Net carrying amount	1,081	1,505
Movement in 2015/16		
Additions:	325	25
Amortisation for the period	454	449
Net carrying amount at the end of the year	952	1,081
Comprising:		
- Gross carrying amounts	4,299	3,974
- Accumulated amortisation	3,347	2,893
	952	1,081

NOTES TO THE CORE FINANCIAL STATEMENTS

15 FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

	GCC				GROUP			
	Long-term		Current		Long-term		Current	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000	£000	£000	£000	£000
Investments								
Loans and receivables	437	495	16	8,139	2	60	16	8,139
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Unquoted equity investment at cost	-	-	-	-	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-	-
Total Investments	437	495	16	8,139	2	60	16	8,139
Debtors								
Loans and receivables	1,083	1,199	8,443	9,289	1,083	1,199	8,443	9,289
Financial assets carried at contract amounts	-	-	-	-	-	-	-	-
Total Debtors	1,083	1,199	8,443	9,289	1,083	1,199	8,443	9,289
Borrowings								
Financial liabilities at amortised cost	(5,000)	(30,000)	(10,287)	(13,997)	(5,000)	(30,000)	(10,287)	(13,997)
Total borrowings	(5,000)	(30,000)	(10,287)	(13,997)	(5,000)	(30,000)	(10,287)	(13,997)
Creditors								
Financial liabilities at amortised cost	-	-	(5,132)	(5,572)	-	-	(5,132)	(5,572)
Financial liabilities carried at contract amount	-	-	-	-	-	-	-	-
Total creditors	-	-	(5,132)	(5,572)	-	-	(5,132)	(5,572)

Income, Expenses, Gains and Losses-GCC

	2015/16					2014/15				
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair value through Profit and Loss	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair value through Profit and Loss	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Interest expense	3,897	-	-	-	3,897	2,599	-	-	-	2,599
Losses on derecognition	-	-	-	-	-	-	-	-	-	-
Increases/(Reductions) in fair value	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-
Fee expense	-	-	-	-	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	3,897	-	-	-	3,897	2,599	-	-	-	2,599
Interest income	-	58	-	-	58	-	57	-	-	57
Interest income accrued on impaired financial assets	-	-	-	-	-	-	-	-	-	-
Increases/(Reductions) in fair value	-	-	-	-	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-	-	-	-	-
Fee income	-	-	-	-	-	-	-	-	-	-
Total Income in Surplus or Deficit on the Provision of Services	-	58	-	-	58	-	57	-	-	57
Gains on revaluation	-	-	-	-	-	-	-	-	-	-
Losses on revaluation	-	-	-	-	-	-	-	-	-	-
Net gain/(loss) for the year	-	-	-	-	-	-	-	-	-	-

NOTES TO THE CORE FINANCIAL STATEMENTS

15 FINANCIAL INSTRUMENTS (Continued)

Fair Values of Assets and Liabilities

Financial liabilities and 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 term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2016 are 1.13% to 2.92% for loans from the PWLB and 3.07% to 3.50% 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, the 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:

	2015/16		2014/15	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial liabilities				
Long-term Borrowings	(5,000)	(5,826)	(30,000)	(34,535)
Short-term Borrowings	(10,287)	(10,287)	(13,997)	(13,997)
Short-term Creditors	(5,132)	(5,132)	(5,572)	(5,572)

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date.

	2015/16		2014/15	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Assets				
Long-term Investments	437	437	495	495
Short-term Investments	16	16	8,139	10,983
Long-term Debtors	1,083	1,083	1,199	1,199
Short-term Debtors	8,443	8,443	9,289	9,289

The fair values of Long Term Debtors, debtors and loans and receivables are estimated to be approximately equivalent to their amortised cost (cost less provision for bad or doubtful debts).

The fair values of temporary borrowings and creditors (short term payables) approximate to their amortised cost as shown above.

16 ASSETS HELD FOR SALE (GCC and Group)

	Current		Non-Current	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Balance at the beginning of the year	129	79	-	-
Additions	50	-	-	-
Disposals	-	(50)	-	-
Gain / Loss on revaluation	204	-	-	-
Assets newly classified as held for sale	-	-	-	-
-Other land and buildings	-	-	-	-
-Investment property	223	100	-	-
Balance at the end of the year	606	129	-	-

NOTES TO THE CORE FINANCIAL STATEMENTS

17 INVENTORIES

	2015/16	2014/15
	£000	£000
Consumable stores		
Balance outstanding at start of year	100	184
Purchased	4	54
Consumed	(63)	(138)
Balance outstanding at year-end	41	100

18 CONSTRUCTION CONTRACTS

At 31 March 2016 the Council and Group had no construction contracts in progress.

19 DEBTORS

These are amounts owed to the Council by various bodies and persons and which fall due in less than one year of the balance sheet date.

	GCC		Group	
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
Central government bodies	542	640	542	640
Other Local authorities	1,118	1,763	1,118	1,763
NHS bodies	-	-	-	-
Public corporations and trading funds	-	-	-	-
Other entities and individuals	6,783	6,886	6,783	6,886
Total debtors	8,443	9,289	8,443	9,289

19(i) Long Term Debtors

Long term debtors are amounts falling due in more than one year from the balance sheet date.

They consist of the following :-

	GCC and Group	
	2015/16	2014/15
	£'000	£'000
Loans to vulnerable people for house renovations	64	88
Loans to Marketing Gloucester	97	-
Staff loans	-	1
Loans to Gloucestershire Airport Ltd-see below	816	1,004
Other loans	106	106
Total	1,083	1,199

Gloucestershire Airport loan details :-

	Current Interest Rate (%)	GCC and Group	
		2015/16	2014/15
		£'000	£'000
10 Year loan			
Balance at 31 March	1.8	864	977
Less: Amount repayable within twelve months included in short-term debtors		(118)	(113)
		746	864
The loan bears interest at 1.8% and is repayable in 6-monthly instalments of £65,831 including interest.			
5 Year loan			
Balance at 31 March	1.5	140	210
Less: Amount repayable within twelve months included in short-term debtors		(70)	(70)
		70	140
The loan bears interest at 1% above base rate and is repayable in monthly instalments of £5,833 per month excluding interest.			
Total		816	1,004

Other loans include an interest-free loan to Gloucester Historic Buildings Ltd and money spent on essential repairs works to private properties, which have been secured as a charge on the properties concerned ('works-in-default').

20 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	GCC		Group	
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
Cash held by the Council	4	6	4	6
Bank current accounts	1,617	7,550	1,617	7,550
Short-term deposits with building societies	-	19,000	-	19,000
Total Cash and Cash Equivalents	1,621	26,556	1,621	26,556

NOTES TO THE CORE FINANCIAL STATEMENTS

21 SHORT-TERM CREDITORS

	GCC		Group	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Central Government Bodies	1,167	852	1,167	852
Other Local Authorities	750	1,241	750	1,241
Other Entities & Individuals	211	14	211	14
Council Taxpayers	143	134	143	134
Business Ratepayers	423	357	423	357
Sundry creditors	2,438	2,974	2,438	2,974
Total	5,132	5,572	5,132	5,572

The amount owed to Other Local Authorities primarily relates to business rates payable to the Gloucestershire Business Rates Pool

The amounts due to Government departments mainly relates to tax collected to be paid over from PAYE and amounts relating to business rates owed to Central Government.

21(i) Short Term Borrowings

	GCC		Group	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Aspire Sports and Cultural Trust	3	3	3	3
Charity deposits	176	199	176	199
Short-term borrowings with other local authorities	10,000	13,500	10,000	13,500
Accrued interest on short-term and long-term borrowings	108	295	108	295
Total	10,287	13,997	10,287	13,997

The fair value of these loans approximates to their carrying value.

21(ii) Long Term Borrowings (GCC and Group)

These consist of loans repayable in excess of twelve months from the balance sheet date. The Council is empowered to borrow from the Public Works Loan Board (PWLb) or from the money markets. Borrowings repayable in less than one year are classified as temporary or current borrowings.

An analysis of loans by lender is as follows:

	Interest Rate (%)	2015/16 Amortised Cost £000	2015/16 Fair Value £000	2014/15 Amortised Cost £000	2014/15 Fair Value £000
Barclays	-	-	-	20,000	22,986
BAE Systems	3.95	5,000	5,826	10,000	11,549
Total		5,000	5,826	30,000	34,535

Loans are reflected in the balance sheet at amortised cost. The fair value of the BAE Systems loans are the cost of settling the liabilities at the balance sheet date. This is more than the amortised cost at 31 March because many of the Council's loans were at interest rates higher than the rates for similar loans at the balance sheet date.

An analysis by date of repayment (maturity) is shown below.

	2015/16 £000	2014/15 £000
Between 1 and 2 years	-	-
Between 2 and 5 years	-	-
Between 5 and 10 years	-	-
More than 10 years	5,000	30,000
Total	5,000	30,000

NOTES TO THE CORE FINANCIAL STATEMENTS

22 PROVISIONS (GCC and Group)

Provisions more than 1 year

These are amounts set aside to meet losses which are likely or certain to occur in the future for greater than 1 year.

	GCC and Group	
	Injury and Damage Compensation Claims	Total
	£000	£000
Balance at 1 April 2015	233	233
Additional provisions made in 2015/16	44	44
Amounts utilised in 2015/16	(80)	(80)
Balance at 31 March 2016	197	197
Consists of:		
Insurance claims provision	197	197
Balance at 31 March 2016	197	197

Insurance and Injury Compensation Claims Provision

The insurance provision is an amount set aside to cover known or likely losses or liabilities arising in respect of certain risks which the Council is not able, or has chosen not, to cover by external insurance. This includes policy excesses in respect of public liability claims, employee liability claims and claims in respect of property damage. This provision is expected to be utilised to cover future claim settlements.

Claims relate to personal injuries sustained where the Council is alleged to be at fault. Provision is made for those claims where it is deemed probable that the Council will have to make a settlement.

Provisions less than 1 Year

These are amounts set aside to meet losses which are likely or certain to occur in the future for less than 1 year.

	GCC and Group		
	NNDR Appeals	Other Provisions	Total
		£000	£000
Balance at 1 April 2015	519	347	866
Additional provisions made in 2015/16	871	79	950
Amounts used in 2015/16	(507)	(303)	(810)
Balance at 31 March 2016	883	123	1,006
Consists of:			
NNDR Appeals	883	-	883
Pension Provision	-	-	-
Legal Services provision	-	44	44
Accumulated Absence provision	-	79	79
Balance at 31 March 2016	883	123	1,006

Legal Service Provision

The Legal Services provision relates to ongoing litigation claims against the Council, these are likely to be resolved within 1 year.

Accumulated Absences Provision

This is the value of holiday and flexi outstanding at 31 March 2016. This is a short term provision for less than a year.

NNDR Appeals Provision

This provision covers the estimated cost to the Council resulting from appeals by ratepayers against their rateable value.

Pension Provision

This provision relates to costs associated with staff who transferred to Gloucester City Homes where the Council retains liability.

NOTES TO THE CORE FINANCIAL STATEMENTS

23 USABLE RESERVES

Movements in the Council's and The Group's usable reserves are detailed in the Movement in Reserves Statement.

24 UNUSABLE RESERVES

	GCC	Group	GCC	Group
	2015/16 £000	2015/16 £000	2014/15 £000	2014/15 £000
Revaluation Reserve	20,921	29,998	20,401	29,478
Pensions Reserve	(58,381)	(59,269)	(65,088)	(66,253)
Capital Adjustment Account	45,673	51,960	44,139	50,426
Deferred Capital Receipts Reserve	53	53	76	76
Financial Instruments Adjustment Account	-	-	(413)	(413)
Collection Fund Adjustment Account	(899)	(899)	(428)	(428)
Short-term Accumulating Compensated Absences Account	(79)	(79)	(112)	(112)
Total Unusable Reserves	7,288	21,764	(1,425)	12,774

(i) Revaluation Reserve

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

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

	2015/16 £000	2015/16 £000	2014/15 £000	2014/15 £000	2014/15 £000
	General	Total	General	HRA	Total
Balance at 1 April	20,401	20,401	20,474	657	21,131
Upward revaluation of assets	1,160	1,160	242	-	242
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	-	(4)	-	(4)
Surplus on revaluation of assets	21,561	21,561	20,712	657	21,369
Difference between fair value depreciation and historical cost depreciation	(644)	(644)	(509)	(8)	(517)
Accumulated gains on assets sold or scrapped	-	-	-	(451)	(451)
Amount written off to the Capital Adjustment Account	4	4	-	-	-
Transferred as a result of the stock transfer	-	-	198	(198)	-
Balance at 31 March	20,921	20,921	20,401	-	20,401

(ii) 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. Notes 6 & 7 provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	GCC Only	
	2015/16 £000	2014/15 £000
Balance at 1 April	44,139	104,513
Reversal of items relating to capital expenditure debited or credited to the CIES		
Charges for depreciation and impairment of non current assets	(2,944)	(4,839)
Revaluation losses on Property, Plant and Equipment and assets held for sale	(989)	(2,943)
Amortisation of intangible assets	(454)	(449)
Revenue expenditure funded from capital under statute	(592)	(1,381)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(478)	(125,501)
	38,682	(30,600)
Adjusting amounts written out of the Revaluation Reserve	640	968
Net written out amount of the cost of non-current assets consumed in the year	39,322	(29,632)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,668	2,142
Capital Receipts applied to HRA CFR	-	62,750
HRA Revenue for prior year CFR	-	1,035
Repayment of prior year CFR	1,359	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	2,022
Capital grants and contributions credited to the CIES that have been applied to capital financing and application of grants to capital financing from the Capital Grants Unapplied Account	1,021	906
Direct Revenue Financing	-	4,783
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	550	510
	44,920	44,516
Movements in the market value of Investment Properties debited or credited to the CIES	753	(377)
Balance at 31 March	45,673	44,139

NOTES TO THE CORE FINANCIAL STATEMENTS

24 UNUSABLE RESERVES (CONTINUED)

(iii) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2015/16 £000	2014/15 £000
Balance at 1 April	(413)	(543)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	413	130
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	413	130
Balance at 31 March	0	(413)

(iv) 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 funds 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.

	2015/16 £000	2014/15 £000
Balance at 1 April	(65,088)	(61,407)
Re-measurement of the net defined benefit liability	6,680	(4,577)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,717)	(3,860)
Employer's pensions contributions and direct payments to pensioners payable in the year	3,744	4,756
Balance at 31 March	(58,381)	(65,088)

NOTES TO THE CORE FINANCIAL STATEMENTS

24 UNUSABLE RESERVES (CONTINUED)

(v) Deferred Capital Receipts Reserve

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

	2015/16 £000	2014/15 £000
Balance at 1 April	76	85
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-
Transfer to the Capital Receipts Reserve upon receipt of cash	(23)	(9)
Balance at 31 March	53	76

(vi) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Non-Domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2015/16 £000	2014/15 £000
Balance at 1 April	(428)	(177)
Amount by which Council Tax and Non-Domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Non-Domestic rates income calculated for the year in accordance with statutory requirements	(471)	(251)
Balance at 31 March	(899)	(428)

(vii) Accumulated Absences Account

The Accumulated Absences 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.

	2015/16 £000	2014/15 £000
Balance at 1 April	(112)	(83)
Settlement or Cancellation of Accrual made at the end of the preceding year	112	83
Amounts accrued at the end of the current year	(79)	(112)
Balance at 31 March	(79)	(112)

NOTES TO THE CORE FINANCIAL STATEMENTS

25 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	Council 2015/16 £000	Council 2014/15 £000	Group 2014/15 £000
(Deficit)/surplus on Provision of Services	(5,159)	(59,196)	(59,157)
Adjustments in respect of non-cash movements			
Share of surplus/(deficit) on provision of services of associates and joint ventures	-	-	(80)
Share of other comprehensive loss/(income) of associates and joint ventures	-	-	-
Depreciation of property, plant and equipment	2,944	4,839	4,872
Revaluation losses charged to net cost of services	236	3,320	3,320
Amortisation of intangible assets	454	449	449
Balances removed by disposal of subsidiary	-	-	1,167
Decrease/(Increase) in short-term debtors	845	1,248	1,580
Increase in short-term creditors	(443)	(2,275)	(3,777)
Decrease/(Increase) in long-term debtors	116	164	164
(Increase)/decrease in inventories	59	84	84
(Decrease) in provisions	104	802	802
Carrying amount of non-current assets and non-current assets held for sale sold	478	125,501	125,501
Net book value of property, plant and equipment of subsidiary de-consolidated	-	-	-
Adjustment in respect of pension fund deficit	(27)	(895)	(895)
	4,766	133,237	133,187
Adjustment for items that are investing and financing activities			
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(519)	(71,431)	(71,431)
Premiums Paid	3,575	-	-
Capital Grants credited to CIES	(840)	(1,548)	(1,548)
	2,216	(72,979)	(72,979)
Net Cash flows from Operating Activities	1,823	1,062	1,051
The cash flows from operating activities include the following items:			
Interest received	84	49	76
Interest paid	(548)	(2,505)	(2,505)

26 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	Council 2015/16 £000	Council 2014/15 £000	Group 2014/15 £000
Purchase of property, plant and equipment, investment property and intangible assets	(3,650)	(14,719)	(14,719)
Purchase of short-term and long-term investments	-	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	519	34,482	34,482
Proceeds from short-term and long-term investments	-	(8,007)	(8,007)
Capital Grants Received	477	1,751	1,751
Net cash flows from investing activities	(2,654)	13,507	13,507

27 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	Council 2015/16 £000	Council 2014/15 £000	Group 2014/15 £000
Cash receipts of short- and long-term investments	8,181	24,955	24,955
Premium Paid	(3,575)	-	-
Repayments of short- and long-term borrowing	(28,710)	(15,151)	(15,151)
Net cash flows from financing activities	(24,104)	9,804	9,804

NOTES TO THE CORE FINANCIAL STATEMENTS

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 Service Reporting Code of Practice, however, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. 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 pensions contributions) rather than current service cost of benefits accrued in the year.

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

(i) Directorate Income and Expenditure 2015/16

	CORPORATE AND DEMOCRATIC CORE	CENTRAL SERVICES	CULTURAL, ENVIRON, PLAN SERVICES	HIGHWAYS, ROADS, TRANS SERVICES	HOUSING REVENUE ACCOUNT	HOUSING SERVICES	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(494)	(1,264)	(7,871)	(2,385)	-	(1,086)	(13,100)
Government grants	-	(144)	(101)	-	-	(44,638)	(44,883)
Total Income	(494)	(1,408)	(7,972)	(2,385)	-	(45,724)	(57,983)
Employee expenses	339	2,753	4,987	123	-	967	9,169
Other service expenses	1,606	9,800	18,053	2,164	-	45,177	76,800
Support service recharges	(747)	(8,134)	(810)	-	-	(123)	(9,814)
Total Expenditure	1,198	4,419	22,230	2,287	-	46,021	76,155
Net Expenditure	704	3,011	14,258	(98)	-	297	18,172

(ii) Directorate Income and Expenditure 2014/15

	CORPORATE AND DEMOCRATIC CORE	CENTRAL SERVICES	CULTURAL, ENVIRON, PLAN SERVICES	HIGHWAYS, ROADS, TRANS SERVICES	HOUSING REVENUE ACCOUNT	HOUSING SERVICES	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(176)	(1,613)	(7,053)	(2,540)	(18,569)	(998)	(30,949)
Government grants	-	(108)	(29)	-	-	(46,018)	(46,155)
Total Income	(176)	(1,721)	(7,082)	(2,540)	(18,569)	(47,016)	(77,104)
Employee expenses	794	3,329	4,841	200	133	1,004	10,301
Other service expenses	1,391	9,597	17,273	2,255	21,345	47,167	99,028
Support service recharges	(782)	(7,266)	(1,509)	-	31	(108)	(9,634)
Total Expenditure	1,403	5,660	20,605	2,455	21,509	48,063	99,695
Net Expenditure	1,227	3,939	13,523	(85)	2,940	1,047	22,591

(iii) Group Income and Expenditure 2015/16

	Directorate Analysis	Subsidiaries Analysis	Total
	£000	£000	£000
Fees, charges & other service income	(13,100)	-	(13,100)
Government grants	(44,883)	-	(44,883)
Total Income	(57,983)	0	(57,983)
Employee expenses	9,169	-	9,169
Other service expenses	76,800	-	76,800
Support service recharges	(9,814)	-	(9,814)
Total Expenditure	76,155	0	76,155
Net Expenditure	18,172	0	18,172

(iv) Group Income and Expenditure 2014/15

	Directorate Analysis	Subsidiaries Analysis	Total
	£000	£000	£000
Fees, charges & other service income	(30,949)	386	(30,563)
Government grants	(46,155)	-	(46,155)
Total Income	(77,104)	386	(76,718)
Employee expenses	10,301	3,656	13,957
Other service expenses	99,028	(4,160)	94,868
Support service recharges	(9,634)	-	(9,634)
Total Expenditure	99,695	(504)	99,191
Net Expenditure	22,591	(118)	22,473

NOTES TO THE CORE FINANCIAL STATEMENTS

28 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (Continued)

(v) Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement		
This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.		
	31/03/2016	31/03/2015
	£000	£000
Net expenditure in the Directorate Analysis	18,172	22,591
Add Services not included in main analysis	-	1
Add amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(13,013)	36,604
Less amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	-	-
Cost of Services in Comprehensive Income and Expenditure Statement	5,159	59,196

(vi) Reconciliation of Group Income and Expenditure to Group Cost of Services in the Comprehensive Income and Expenditure Statement		
	31/03/2016	31/03/2015
	£000	£000
Net expenditure in the Group Analysis	18,172	22,473
Add Services not included in Group Analysis	-	1
Add amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(13,013)	36,683
Less amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	-	-
Cost of Services in Comprehensive Income and Expenditure Statement	5,159	59,157

NOTES TO THE CORE FINANCIAL STATEMENTS

29 RECONCILIATION TO SUBJECTIVE ANALYSIS

29 (i) Reconciliation to Subjective Analysis-Council

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

2015/16								
	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(13,100)	-	-	-	-	(13,100)	-	(13,100)
Interest and investment income	-	-	-	-	-	-	(1,630)	(1,630)
Income from council tax,	-	-	-	-	-	-	(6,658)	(6,658)
Government grants and contributions	(44,883)	-	-	-	-	(44,883)	(11,047)	(55,930)
Total Income	(57,983)	-	-	-	-	(57,983)	(19,335)	(77,318)
Employee expenses	9,169	-	-	-	-	9,169	-	9,169
Other service expenses	76,800	-	-	-	-	76,800	-	76,800
Support service recharges	(9,814)	-	-	-	-	(9,814)	-	(9,814)
Losses arising on revaluation of non-current assets	-	-	-	-	-	-	236	236
Repayment of capital grants	-	-	-	-	-	-	-	-
Interest payments	-	-	-	-	-	-	5,884	5,884
Precepts & Levies	-	-	-	-	-	-	243	243
Payment to housing capital receipts pool	-	-	-	-	-	-	-	-
Gain or Loss on disposal of non-current assets	-	-	-	-	-	-	(41)	(41)
Gain or Loss on disposal of HRA assets	-	-	-	-	-	-	-	-
Total expenditure	76,155	-	-	-	-	76,155	6,322	82,477
Surplus or deficit on the provision of services	18,172	-	-	-	-	18,172	(13,013)	5,159

2014/15 Comparative Figures

2014/15								
	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(30,949)	-	-	-	-	(30,949)	-	(30,949)
Interest and investment income	-	-	-	-	-	-	(1,567)	(1,567)
Income from council tax,	-	-	-	-	-	-	(6,455)	(6,455)
Government grants and contributions	(46,155)	-	-	-	-	(46,155)	(11,892)	(58,047)
Total Income	(77,104)	-	-	-	-	(77,104)	(19,914)	(97,018)
Employee expenses	10,301	-	-	-	-	10,301	-	10,301
Other service expenses	99,028	-	-	-	-	99,028	1	99,029
Support service recharges	(9,634)	-	-	-	-	(9,634)	-	(9,634)
Losses arising on revaluation of non-current assets	-	-	-	-	-	-	3,320	3,320
Repayment of capital grants	-	-	-	-	-	-	(8)	(8)
Interest payments	-	-	-	-	-	-	5,074	5,074
Precepts & Levies	-	-	-	-	-	-	227	227
Payment to housing capital receipts pool	-	-	-	-	-	-	209	209
Gain or Loss on disposal of non-current assets	-	-	-	-	-	-	345	345
Gain or Loss on disposal of HRA assets	-	-	-	-	-	-	47,351	47,351
Total expenditure	99,695	-	-	-	-	99,695	56,519	156,214
Surplus or Deficit on the Provision of Services	22,591	-	-	-	-	22,591	36,605	59,196

NOTES TO THE CORE FINANCIAL STATEMENTS

29 RECONCILIATION TO SUBJECTIVE ANALYSIS (Continued)

29 (ii) Reconciliation to Subjective Analysis - Group

2015/16			
	Directorate Analysis	Subsidiaries Analysis	Total
	£000	£000	£000
Fees, Charges & Other Service income	(13,100)	-	(13,100)
Interest and Investment income	(1,630)	-	(1,630)
Income from council tax	(6,658)	-	(6,658)
Government Grants and Contributions	(55,930)	-	(55,930)
Total Income	(77,318)	-	(77,318)
Employee expenses	9,169	-	9,169
Other service expenses	76,800	-	76,800
Support service recharges	(9,814)	-	(9,814)
Losses arising on revaluation of non-current assets	236	-	236
Repayment of capital grants	-	-	-
Interest Payments	5,884	-	5,884
Precepts & Levies	243	-	243
Payments to Housing Capital Receipts Pool	-	-	-
Gain or Loss on Disposal of non-current assets	(41)	-	(41)
Gain or Loss on disposal of HRA assets	-	-	-
Total expenditure	82,477	-	82,477
Surplus or deficit on the provision of services	5,159	-	5,159

2014/15 Comparative Figures

2014/15			
	Directorate Analysis	Subsidiaries Analysis	Total
	£000	£000	£000
Fees, Charges & Other Service income	(30,949)	386	(30,563)
Income from council tax	(1,567)	(5)	(1,572)
Interest and Investment income	(6,455)	-	(6,455)
Government Grants and Contributions	(58,047)	-	(58,047)
Total Income	(97,018)	381	(96,637)
Employee expenses	10,301	3,656	13,957
Other service expenses	99,029	(4,160)	94,869
Support service recharges	(9,634)	-	(9,634)
Impairments arising on revaluation of non-current assets	3,320	-	3,320
Repayment of capital grants	(8)	-	(8)
Interest Payments	5,074	84	5,158
Precepts & Levies	227	-	227
Payments to Housing Capital Receipts Pool	209	-	209
Gain or Loss on Disposal of non-current assets	345	-	345
Gain or Loss on disposal of HRA assets	47,351	-	47,351
Total expenditure	156,214	(420)	155,794
Surplus or Deficit on the Provision of Services	59,196	(39)	59,157

30 ACQUIRED, DISCONTINUED AND TRANSFERRED OPERATIONS

There have been no acquired or discontinued or transferred operations during 2015/16. The Authority transferred its council housing stock and related functions to Gloucester City Homes in 2014/15.

NOTES TO THE CORE FINANCIAL STATEMENTS

31 TRADING OPERATIONS

The council operates a number of services on a trading basis including the commercial estates and markets. The income and expenditure relating to these operations are shown below.

	2015/16			2014/15		
	£000	£000	£000	£000	£000	£000
	Income	Expenditure	Net	Income	Expenditure	Net
City Estates	1,726	386	(1,340)	1,584	212	(1,372)
St.Oswald's Park	10	-	(10)	10	-	(10)
Eastgate Market	329	261	(68)	353	194	(159)
Other markets	78	37	(41)	100	73	(27)
Lettings & Catering Services	364	342	(22)	317	225	(92)
Total	2,507	1,026	(1,481)	2,364	704	(1,660)

The expenditure of these operations is allocated or recharged to headings in the Comprehensive Income and Expenditure Statement.

	2015/16 £000	2014/15 £000
Net Deficit/(surplus) on Trading Operations	(1,481)	(1,660)
Services to the public included in Expenditure of Continuing Operations	-	-
Support services recharged to Expenditure of Continuing Operations	434	346
Net Deficit credited to Other Operating Expenditure	(1,047)	(1,314)

32 AGENCY SERVICES

The Council provides creditor services for Aspire Sports and Cultural Trust. Charges are made based on a service level agreement.

	2015/16 £000	2014/15 £000
Expenditure incurred in providing creditor services to Aspire Sports and Cultural Trust	13	14
Management fee payable by Aspire	(13)	(14)
Net Surplus arising on the agency arrangement	-	-

33 MEMBERS' ALLOWANCES

The Authority paid the following amounts to members of the council during the year.

	2015/16 £000	2014/15 £000
Allowances	313	290
Expenses	4	1
Total	317	291

Details of the allowances paid to each individual councillor are published in the Gloucester Citizen newspaper and on the Council's website - www.gloucester.gov.uk

NOTES TO THE CORE FINANCIAL STATEMENTS

34 OFFICERS' REMUNERATION

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

Senior Officer	Managing Director * (from July 2015)		Corporate Director of Services & Neighbourhoods (until Dec 2015)		Corporate Director (until March 2016)	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
Salary, fees & allowances	84,617	-	£64,387	£94,109	£82,612	6,702
Bonuses	-	-	-	-	-	-
Expenses allowance	-	-	-	-	-	-
Compensation for loss of employment	-	-	-	-	-	-
Employer's pension contribution	12,706	-	£10,024	£14,116	£12,392	1,005
Any other emoluments	-	-	-	-	-	-
Total	£97,323	£0	£74,411	£108,225	£95,004	£7,708

Senior Officer continued	Corporate Director of Resources Section 151 Officer (until June 2014)		Head of Finance - Section 151 Officer	
	2015/16	2014/15	2015/16	2014/15
Salary, fees & allowances	-	£22,523	£69,752	55,476
Bonuses	-	-	-	-
Expenses allowance	-	-	-	-
Compensation for loss of employment	-	-	-	-
Employer's pension contribution	-	£3,778	£10,463	8,321
Any other emoluments	-	-	-	-
Total	£0	£26,301	£80,215	£63,798

* The Managing Director role is split between the City and County Councils, the remuneration paid is split equally between both organisations

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

Remuneration Band	Number of Employees	
	2015/16	2014/15
£50,000 to £54,999	3	1
£55,000 to £59,999	1	2
£60,000 to £64,999	-	-
£65,000 to £69,999	-	1
£70,000 to £74,999	1	1

35 EXTERNAL AUDIT COSTS

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

	2015/16 £'000	2014/15 £'000
Fees payable to KPMG LLP for		
- External audit services	63	86
- Certification of grant claims and returns	9	9
- Additional audit services	-	1
Total audit fees	72	96

NOTES TO THE CORE FINANCIAL STATEMENTS

36 GRANT INCOME

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

	2015/16 £'000	2014/15 £'000
<i>Credited to Taxation and Non-Specific Grant Income</i>		
Revenue Support Grant	(2,734)	(3,800)
Capital Grants	(840)	(1,560)
Council Tax Freeze	(74)	(74)
New Homes Bonus	(3,096)	(2,543)
Business Rates Section 31 Grant	(885)	(691)
Transparency Grant	(8)	(6)
	(7,637)	(8,674)
<i>Credited to Services</i>		
Homelessness and other housing	(3)	(26)
Mandatory Rent Allowances, Council Tax Benefits and Administration	(44,522)	(34,455)
Rent Rebates	(218)	(11,563)
Community Grants	(61)	(68)
Other	(321)	(135)
	(45,125)	(46,247)
Total grants	(52,762)	(54,921)

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the donor. The balances at the year-end are as follows:

Long-term Liabilities

	31/03/2015 £'000	31/03/2014 £'000
Capital Grants Received in Advance		
Bodium Avenue	35	35
Coney Hill South	56	56
Cotswold View	271	271
Flood income	25	25
Green Farm	81	81
British Energy	150	150
Hempsted Grange	143	143
Hammersons	55	90
Railway Triangle	2	2
St Oswalds	56	95
Travis Perkins	451	451
Tolsey Gardens	31	31
Davies & Partners	-	375
Other contributions	780	694
Total	2,136	2,499

There are no capital grants received in advance that are classified as current liabilities. At 31 March 2016 revenue grants received in advance were £512k and these are included in short-term creditors.

NOTES TO THE CORE FINANCIAL STATEMENTS

37 RELATED PARTIES

The Council is required to disclose material transactions with related parties – defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has significant influence over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits etc.). Grants received from Government departments are set out in the subjective analysis in Note 29 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2016 are shown in Note 36.

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 is shown in Note 33. During 2015/16 works and services to the value of £2.091 million (2014/15: £18.732 million) were commissioned from companies in which 15 members had an interest. Contracts were entered into in full compliance with the Council's standing orders.

Officers

During 2015/16 works and services to the value of £0.901 million (2014/15: £17.761 million) were commissioned from companies in which 4 officers had an interest. Those entities include Gloucestershire County Council and Marketing Gloucester (detailed in the table below).

Contracts were entered into in full compliance with the Council's standing orders and the relevant officers did not take part in any discussion or decision relating to these payments.

	2015/16			2014/15		
	Number of Related Parties	Payments Made or Due £'000	Income Rec'd £'000	Number of Related Parties	Payments Made or Due £'000	Income Rec'd £'000
Central Government						
Revenue Support Grant	1	-	(2,734)	1	-	(3,800)
Other Government grants	1	-	(4,374)	1	-	(3,463)
Council Tax and Housing Benefit grants	1	-	(44,814)	1	-	(46,005)
NNDR	1	26,334	-	1	25,885	-
Other Local and Police Authorities						
Precepts	2	46,358	-	2	50,191	-
Gloucestershire County Council inc Pension Fund contributions	10	4,251	-	7	4,756	-
Gloucestershire Airport Limited						
Loan interest and rents	4	-	(65)	5	-	(48)
Quedgeley Parish Council	1	243	-	1	227	-
Others						
Gloucester Law Centre	1	-	-	1	103	-
Abbeyle Community Association	1	-	-	1	2	-
Zurich Municipal	1	91	-	-	-	-
Gloucester City Homes	2	428	-	6	17,557	(223)
Marketing Gloucester Limited	2	394	-	2	204	-
Aspire Sports and Cultural Trust	2	670	(418)	2	868	(497)

Amounts due to or from related parties included in debtors and creditors as at 31 March 2016:

	2015/16 £'000	2014/15 £'000
Short-term Debtors	2,298	2,832
Short-term Investments	-	97
Long-term Debtors	983	1,074
Short-term Creditors	2,039	2,926
Short-term Borrowings	10,012	13,503

NOTES TO THE CORE FINANCIAL STATEMENTS

38 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and contracts), 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.

	2015/16	2014/15
	£000	£000
Opening Capital Financing Requirement	22,837	80,875
Capital investment		
- Property, Plant and Equipment, heritage assets and assets held for sale	3,257	14,643
- Investment Properties	68	51
- Intangible Assets	325	25
- Long Term Loans	-	10
- Revenue Expenditure Funded from Capital under Statute (REFCUS)	592	1,381
	27,079	96,985
Sources of finance		
- Usable Capital Receipts	(2,668)	(2,142)
- Capital Grants and Contributions	(1,021)	(906)
- Major Repairs Reserve	-	(2,022)
- Revenue Financing	-	(4,783)
Housing Stock Transfer	-	(62,750)
Repayment of prior year CFR	(1,359)	-
Capital receipts to repay prior year HRA CFR	-	(1,035)
Revenue Provision (including Minimum Revenue Provision)	(550)	(510)
Closing Capital Financing Requirement	21,481	22,837
Explanation of movements in year		
Increase in underlying need to borrow for capital investment:		
- Supported by Government financial assistance	-	-
- Unsupported by Government financial assistance	553	6,257
Amounts 'set aside' for debt repayment	(1,909)	(1,545)
Housing Stock Transfer	-	(62,750)
Increase / (Decrease) in Capital Financing Requirement	(1,356)	(58,038)

39 LEASES

(i) GCC as Lessor

Finance Leases

The Council has two finance leases. The rental for both leases was paid at inception with the exception of an annual rental of £1 per annum. Accordingly there are no minimum lease payments outstanding at 31 March 2016.

The Council does not have any other finance leases as lessor.

Operating Leases

The Council leases out property under operating leases for the following purposes:

- The provision of community services such as sport and recreation facilities, tourism services and community centres; and
- For economic development purposes to provide suitable accommodation for local businesses.

Rentals received during the year and included in the net cost of services were £1.656 million (2014/15:£1.536 million). The future minimum lease payments receivable under non-cancellable leases in future years are as follows:

	2015/16	2014/15
	£'000	£'000
Not later than 1 year	1,521	1,657
Later than 1 year and not later than 5 years	4,912	5,615
Later than 5 years	121,777	170,466
Total	128,210	177,738

NOTES TO THE CORE FINANCIAL STATEMENTS

39 LEASES (Continued)

(ii) GCC as Lessee

Operating Leases

The Council has a number of operating leases in respect of buildings and car parks and items of property, plant and equipment.

Total lease payments were £0.496 million in 2015/16 (2014/15 :£0.500 million) made up as follows:

	2015/16	2014/15
	£'000	£'000
Minimum lease payments	496	500
Contingent rentals	-	-
Sub-lease payments receivable	-	-
Total	496	500

The Council has the following commitments representing the minimum lease payments in respect of operating leases:

	2015/16	2014/15
	£'000	£'000
Not later than 1 year	473	492
Later than 1 year and not later than 5 years	1,768	1,770
Later than 5 years	32,439	32,922
Total	34,680	35,185

Finance Leases

The Council has one finance leases as lessee. Total lease payments were £3,000 in 2015/16 (2014/15: £0). The Council has the following commitments representing the minimum lease payments in the respect of finance leases:

	2015/16	2014/15
	£'000	£'000
Not later than 1 year	3	-
Later than 1 year and not later than 5 years	3	-
Later than 5 years	-	-
Total	6	-

40 REVALUATION LOSSES

The Code requires disclosure by class of assets of the amounts for revaluation losses and reversals charged or credited to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Notes 11,12, 13 and 14 reconciling the movement over the year in the Property, Plant and Equipment, Investment Property, Heritage assets and Intangible Asset balances.

41 CAPITALISATION OF BORROWING COSTS

No borrowing costs were capitalised during the year.

42 TERMINATION BENEFITS

Details of termination benefits paid in 2015/16 are as follows:

	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
	Number	Number	Number	Number	Number	Number	£'000	£'000
Less than £20,000	1	-	-	2	1	2	2	20
Between £20,000 and £40,000	1	2	2	3	3	5	100	134
Between £40,000 and £60,000	-	-	-	-	-	-	-	-
Between £60,000 and £80,000	-	-	-	1	-	1	-	62
Between £80,000 and £100,000	-	-	-	-	-	-	-	-
Between £100,000 and £150,000	-	-	-	-	-	-	-	-
Total	2	2	2	6	4	8	102	216

NOTES TO THE CORE FINANCIAL STATEMENTS

43 DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

The Council participates in the Gloucestershire County Council Pension Fund which is a defined benefit statutory pension scheme administered by the County Council in accordance with the Local Government Pension Scheme (LGPS) Regulations 1997 (as amended). It is contracted out of the State Second Pension. It is also a Funded scheme, meaning that the Council and employees pay contributions into a Fund, set at a level intended to balance pension liabilities with investment assets.

Further information can be found in the Gloucestershire County Council LGPS Annual Report which is available (from November each year) from:

Business Management Directorate
Gloucestershire County Council
Shire Hall
Westgate Street
Gloucester
GL1 2TG

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions, however, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out 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:

	2015/16 £000	2014/15 £000
Comprehensive Income and Expenditure Account		
<i>Net Cost of Services :</i>		
Current service cost (apportioned across services)	1,730	1,543
Effects of settlements	-	(131)
Settlements and Curtailments (included in Non-Distributed costs)	-	-
<i>Financing and Investment Income and Expenditure</i>		
Net interest expense	1,987	2,448
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	3,717	3,860
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
<i>Remeasurement of the net defined benefit liability comprising:</i>		
-Return on plan assets (excluding the amount included in the net interest expense)	(2,347)	7,077
-Actuarial gains/(losses) arising from changes in demographic assumptions	-	-
-Actuarial gains/(losses) arising from business combination and disposal	-	(1,214)
-Actuarial gains/(losses) arising from changes in financial assumptions	9,027	(11,791)
-Other	-	1,351
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	10,397	(717)
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	(3,717)	(3,860)
Actual amount charged against the General Fund Balance for pensions in the year:		
- employer's contributions payable by the general fund to the scheme	3,744	4,756
- retirement benefits payable to pensioners	-	-
	10,424	179

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2016 is a net deficit of £40.086 million (2014/15 :£45.552 million).

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded liabilities: Local Government Pension Scheme	
	2015/16 £000	2014/15 £000
Opening balance at 1 April	144,406	128,297
Current service cost	1,730	1,543
Effect of Settlements	-	(639)
Interest cost	4,429	5,164
Contributions by scheme participants	399	405
Effects of business combinations and disposals	-	4,941
Remeasurement gains and losses:		
-Actuarial (gains)/losses arising from changes in demographic assumptions	-	-
-Actuarial (gains)/losses arising from changes in financial assumptions	(9,027)	11,791
-Other	-	(1,351)
Losses/(gains) on curtailments	-	-
Benefits paid	(5,255)	(5,745)
Closing balance at 31 March	136,682	144,406

NOTES TO THE CORE FINANCIAL STATEMENTS

43 DEFINED BENEFIT PENSION SCHEMES (Continued)

Reconciliation of fair value of the scheme (plan) assets

Local Government Pension Scheme

	2015/16 £000	2014/15 £000
Opening balance at 1 April	79,318	66,890
Interest income	2,442	2,716
<i>Remeasurement gain/(loss):</i>		
The return on plan assets, excluding the amount included in the net interest expense	(2,347)	7,077
Effect of Settlements	-	(508)
Effect of business combinations and disposals	-	3,727
Employer contributions	3,744	4,756
Contributions by scheme participants	399	405
Benefits paid	(5,255)	(5,745)
Closing balance at 31 March	78,301	79,318

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History

	31-Mar-16 £'000	31-Mar-15 £'000
<i>Present value of liabilities:</i>		
Local Government Pension Scheme	(136,682)	(144,406)
<i>Fair value of assets:</i>		
Local Government Pension Scheme	78,301	79,318
Deficit in the scheme	(58,381)	(65,088)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment retirement benefits.

The total net liability of £58.381 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, however, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. 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 made to the Local Government Pension Scheme by the Council for the year ended 31 March 2016 was £3.744 million (2014/15: £4.756 million).

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.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2015/16	2014/15
Mortality assumptions:		
Longevity at 65 for current pensioners:		
- Men	22.5 years	22.5 years
- Women	24.6 years	24.6 years
Longevity at 65 for future pensioners:		
- Men	24.4 years	24.4 years
- Women	27 years	27 years
Rate of increase in salaries	3.60%	3.50%
Rate of increase in pensions	2.10%	2.10%
Rate for discounting scheme liabilities	3.40%	3.10%
Take-up of option to convert annual pension into Retirement lump sum	75%	75%

NOTES TO THE CORE FINANCIAL STATEMENTS

43 DEFINED BENEFIT PENSION SCHEMES (Continued)

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined 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 method and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation	
	Approximate % Increase in Liability	Approximate Monetary Amount £000
0.5% Decrease in real discount rate	9%	12,276
1 year increase in member life expectancy	3%	4,100
0.5% Increase in the salary increase rate	2%	2,270
0.5% Increase in the pension increase rate	7%	9,934

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

Asset Category	2015/16				2014/15			
	Quoted prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets	Quoted prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets
	£'000	£'000	£'000	%	£'000	£'000	£'000	%
Equity Securities								
Consumer	4,819	-	4,819	6%	4,256	-	4,256	5%
Manufacturing	2,360	-	2,360	3%	1,892	-	1,892	2%
Energy & Utilities	1,420	-	1,420	2%	2,012	-	2,012	3%
Financial Institutions	3,784	-	3,784	5%	3,766	-	3,766	5%
Health & Care	615	-	615	1%	754	-	754	1%
Information Technology	424	-	424	1%	-	-	-	0%
Other	1,625	-	1,625	2%	1,902	-	1,902	2%
Debt Securities								
Corporate Bonds (investment grade)	4,037	-	4,037	5%	4,027	-	4,027	5%
Corporate Bonds (non-investment grade)	304	-	304	0%	303	-	303	0%
UK Government	7,155	-	7,155	9%	7,467	-	7,467	9%
Other	1,078	-	1,078	1%	1,299	-	1,299	2%
Private Equity								
All	-	230	230	0%	-	237	237	0%
Real Estate								
UK Property	4,271	1,538	5,809	7%	3,934	1,362	5,295	7%
Overseas Property	-	401	401	1%	-	408	408	1%
Investment Funds and Unit Trusts								
Equities	2,615	33,480	36,095	46%	2,619	34,608	37,227	47%
Bonds	3,427	201	3,628	5%	3,439	211	3,649	5%
Hedge Funds	-	-	-	0%	-	-	-	0%
Commodities	-	-	-	0%	-	-	-	0%
Infrastructure	-	-	-	0%	-	-	-	0%
Other	-	3,666	3,666	5%	-	3,630	3,630	5%
Derivatives								
Inflation	-	-	-	0%	-	-	-	0%
Interest Rate	-	-	-	0%	-	-	-	0%
Foreign Exchange	-	-	-	0%	-	-	-	0%
Other	(7)	-	(7)	0%	(5)	-	(5)	0%
Cash and Cash Equivalents								
All	859	-	859	1%	1,200	-	1,200	1%
Totals	38,785	39,516	78,301	100%	38,864	40,454	79,318	100%

NOTES TO THE CORE FINANCIAL STATEMENTS

43 DEFINED BENEFIT PENSION SCHEMES (Continued)

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers contributions at as constant a rate as possible. The County Council has agreed a strategy with the schemes actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2017.

The Council is anticipated to pay £3.765m contributions to the scheme in 2016/17.

The weighted average duration of the defined benefit obligation for scheme members is 16.2 years for 2015/16.

44 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2016:

NOTES TO THE CORE FINANCIAL STATEMENTS

45 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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.

Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

This arises from deposits with banks and building societies and from credit exposure to the Council's customers. Deposits are not made with banks or building societies unless such institutions have independently assessed credit ratings at least equivalent to Fitch F1 short term and A- long term or, in the case of non-rated UK building societies, have total assets in excess of £500 million. Limits are placed on the amount and length of loans to individual institutions according to their respective credit rating or asset size.

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria and it is considered that the risk of default remains low. See below for commentary on the Council's deposit with Heritable Bank.

The Council's maximum exposure to credit risk in relation to its short-term investments and deposits with banks and other financial institutions of £1.633million (2014/15:£34.689 million) 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 it is rare for such entities to be unable to meet their commitments and, along with short-term investments with other public sector bodies, are considered to have a low credit risk.

Full details of long-term investments are disclosed in note 46. Long-term debtors, as detailed in note 19(i), include the loans to Gloucestershire Airport Limited totalling £0.816 million (2014/15:£1.004 million) and are considered to have a low credit risk.

The Council does not generally allow credit for customers and £810k, of the debtors balance of £8.444 million (see Note 15) is past its due date for payment as follows:

	£'000
Less than 4 months	201
4 months- 1 year	145
More than 1 year	464
Total	810

The Council has set aside provisions for unrecoverable or doubtful debts based on experience of uncollectability, and it is estimated uncollectible amounts will be able to be met from these.

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The maturity analysis of financial liabilities is as follows:

Long term loans - period until repayment	Maximum	Actual 31/03/2016
	%	%
Less than 1 year	50	0%
1 - 2 years	50	0%
2 - 5 years	50	0%
5 - 10 years	80	0%
Over 10 years	100	100%
		100%

Full details of the maturity analysis in respect of long-term borrowings are included in note 21(ii). All trade and other payables and short-term borrowings are due to be paid in less than one year.

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure 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 the liabilities 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

45 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

The Council has a number of strategies for managing interest rate risk.

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. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide 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 update the budget quarterly 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:

	Average amount Outstanding	Actual Interest rate	Actual Interest Paid/(Receivable)	Projected Interest Rate	Projected Interest Paid/Receivable	Variation
	£000s	%	£000s	%	£000s	£000s
Borrowings						
Long-term-fixed rate	17,500	1.66%	291	2.66%	466	175
Short-term-variable	12,142	0.23%	28	1.23%	149	121
	29,642		319			296
Investments						
Short-term-variable	4,078	0.83%	(34)	1.83%	(75)	(41)
Net loss/(gain) on deficit/(surplus) for the year						255

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 quoted shares and the shares it owns are not carried at fair value. As a result the Council is not exposed to movements in market prices. For the impact on the pension scheme, see Note 43.

Foreign exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

46 LONG-TERM INVESTMENTS

Long term investments are investments repayable in (or intended to be held for) more than 1 year and are shown at cost.

They consist of the following:

	GCC		Group	
	31-Mar-16 £'000	31-Mar-15 £'000	31-Mar-16 £'000	31-Mar-15 £'000
Share capital - Gloucestershire Airport Ltd	435	435	-	-
Government Stock	2	2	2	2
Heritable Bank	-	58	-	58
Total	437	495	2	60

The shares in Gloucestershire Airport Limited have been eliminated on consolidation from the group accounts and replaced by the Council's share of the net asset value of the company of £15.6m. The net asset value has been determined after taking into account the revaluation of the assets of Gloucestershire Airport Limited at 31 March 2012.

The Government stock is held on behalf of John Ward Charity and represents external investment of part of the money deposited by the Trust with the Council.

NOTES TO THE CORE FINANCIAL STATEMENTS

47 NOTES TO THE GROUP ACCOUNTS

The Council's group accounts combine the Council's accounts with those of Gloucestershire Airport Limited in which the Council has a 50% shareholding (the remaining 50% of the shares are owned by Cheltenham Borough Council). Gloucestershire Airport is accounted for as a joint venture.

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

The following entities in which the Council has an interest have not been included in the Group accounts as the Council's share of income and net assets is considered to be immaterial and that their inclusion would have an insignificant impact on the group:

	Council Share
GL1 Sports Limited	100%
Marketing Gloucester Limited	100%
Gloucester Law Centre	36%
Linking Communities	29%
Race Equality Council for Gloucestershire	31%

Gloucestershire Airport Limited has been categorised as a joint venture company as the decisions regarding the operating and financial policies of the company require the consent of all parties. For the purposes of the group accounts Gloucestershire Airport has been treated as a jointly controlled entity (joint venture) and has been consolidated in accordance with IAS 31.

Gloucestershire Airport Limited (GAL)

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

The registered name of the airport company is Gloucestershire Airport Ltd (Registered Number 2774189). The draft accounts of the company for the year ended 31 March 2016 reflected the following:

	2015/16 £000	2014/15 £000
After tax operating (loss)/profit	679	144
Net assets	1,378	244

For the purposes of the accounts the Airport has been classified as a Joint Venture as it is jointly owned by two local authorities, neither of which has overall control. These show the full value of the Council's investment within its financial statements, since the value of the Council's shares do not fully reflect the value of the airport land.

NOTES TO THE CORE FINANCIAL STATEMENTS

47 NOTES TO THE GROUP ACCOUNTS (continued)

The Group Balance Sheet has been prepared by combining the Council's 50% share of the Airport's assets and liabilities as a long-term investment, eliminating the share capital. Since the Airport's accounts show fixed assets at historic cost, they were re-valued at 31 March 2012 and shown in the group balance sheet at fair value, to bring them in line with the Council's accounting policies:

- Operational assets added at leasehold existing use value (50% share) total £9.468 million (31 March 2015:£9.468million).
- Non-operational assets added at leasehold market value (50% share) total £6.556 million (31 March 2015:£6.556 million).

This upward revaluation results in an increase in Unusable Reserves compared to the Council's own accounts of £15.051 million, of which £9.5 million relates to operational property (so included in the Revaluation Reserve) and £6.5 million investment property (so included in the Capital Adjustment Account). If the Airport charged depreciation on the operational element of the re-valued assets the charge would be around £0.5 million, based on a life of 30 years.

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

In the autumn of 2009, the Council agreed to facilitate borrowing to finance the runway safety project at Gloucestershire Airport, to provide a safer runway with a computerised instrument landing system (ILS) which was completed in the 2012/13 financial year. The Council loaned £1.550million (2014/15:£1.550m) to the Airport to help fund this project. In 2013/14 the loan was converted from an indefinite period loan to two interest-bearing loans, one for £350k repayable over 5 years and one for £1.2m repayable over 10 years. (Refer to note 19(i) for details).

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

	Gloucestershire Airport Limited	Gloucester City Council's Share	Gloucestershire Airport Limited	Gloucester City Council's Share
	£ 2015/16 £000	£ 2015/16 £000	£ 2014/15 £000	£ 2014/15 £000
Turnover	5,001	2,500	4,651	2,326
Profit on ordinary activities before taxation	841	421	205	103
Tax on profit on ordinary activities	(163)	(81)	(45)	(23)
Profit for the financial year after taxation	679	339	160	80
Fixed Assets	4,830	2,415	4,986	2,493
Current Assets	1,693	847	860	430
Liabilities due within one year	1,665	833	1,170	585
Liabilities due after one year	1,631	816	2,005	1,003
Net pension liability	1,775	888	2,329	1,165

The net assets of Gloucestershire Airport Limited are valued at cost (in accordance with company accounting rules) and may not therefore reflect their market value. The value of the Airport company could vary to that suggested by the stated net assets of the company or the share capital issued.

The Airport did not pay any dividend for the year ended 31st March 2016 (2015: £Nil).

The accounts of GAL for the year ending 31 March 2016 can be obtained from the Airport Company Secretary at the company's registered office

- The Terminal Building, Staverton, Nr Cheltenham, Glos, GL51 6SR.

NOTES TO THE CORE FINANCIAL STATEMENTS

47 NOTES TO THE GROUP ACCOUNTS (continued)

ADJUSTMENTS BETWEEN GROUP ACCOUNTS AND GCC ACCOUNTS

Long term Investments

The group long term investment amount differs from that reflected in the Council's single-entity accounts by the investment in shares in Gloucestershire Airport Limited of £0.435 million which has been replaced in the group accounts by an investment in joint ventures of £15.486 million.

Adjusting for Intra-group Transactions and Balances

Adjustments have been made in respect of inter-group debtors and creditor balances between the Council and its subsidiaries. Inter-group transactions relating to services and other charges have also been eliminated on consolidation. This adjustment has been made in accordance with the Code.

Usable and Unusable Reserves

Transfers have been made between usable reserves and unusable reserves in respect of the classification of the pension reserves in subsidiary companies which are, effectively, included in retained earnings. In the group accounts these have been transferred from usable reserves to unusable reserves to ensure consistency of treatment with the Council's accounts.

SUPPLEMENTARY FINANCIAL STATEMENTS

COLLECTION FUND

COLLECTION FUND INCOME AND EXPENDITURE STATEMENT					
For the year ended 31 March 2016					
	Note	2015/16			2014/15
		£'000	£'000	£'000	£'000
		Council Tax	Business Rates	Total	Total
INCOME					
Non Domestic Rates					
Collectable from Business Ratepayers	2,4	-	(52,985)	(52,985)	(51,558)
Council Tax					
Collectable from Council Tax Payers	1	(53,760)	-	(53,760)	(52,548)
		(53,760)	(52,985)	(106,745)	(104,105)
EXPENDITURE					
Non-Domestic Rates					
Payment to Gloucester City Council		-	21,501	21,501	20,708
Payment to Central Government		-	26,877	26,877	25,885
Payment to Gloucestershire County Council		-	5,375	5,375	5,177
Council Tax Precepts					
Gloucester City Council		6,610	-	6,610	6,455
Gloucestershire County Council		38,647	-	38,647	37,811
Police and Crime Commissioner for Gloucestershire		7,362	-	7,362	7,203
Write-Offs		133	615	748	1,649
Change in bad debt provisions		110	(54)	56	(1,294)
Change in Provision for NNDR Appeals		-	909	909	213
Cost of NNDR Collection		-	180	180	179
Distribution of previous years' estimated Collection Fund surplus/(deficit)		397	(1,086)	(689)	141
		53,259	54,317	107,576	104,126
(Increase)/Decrease in Fund		(501)	1,332	831	21
Balance of Fund at beginning of year		(661)	1,269	608	587
Balance of Fund at 31 March		(1,162)	2,601	1,439	608

COLLECTION FUND

The Collection Fund 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 authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-domestic rates.

1 COUNCIL TAX

The figure shown is net of Council Tax benefits and transitional relief which are paid for by the Council's general fund.

Council tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by setting the amount of income required to be taken from the collection fund by the City and County Councils and Gloucestershire Police Authority for the forthcoming year (the precepts) and dividing this by the Council Tax base. The tax base is the total number of properties in each band (adjusted by discounts) converted to a band D equivalent. This basic amount Council Tax for a band D property is multiplied by the proportion specified for the particular band to give an individual amount due.

The Council Tax base for the year (to the nearest whole equivalent) was calculated as follows:

Band	Estimated No. of taxable properties after effect of discounts	Ratio	Band D equivalent dwellings
A	60	5/9	33
A	13,751	6/9	9,167
B	13,839	7/9	10,763
C	11,923	8/9	10,598
D	5,209	9/9	5,209
E	3,320	11/9	4,057
F	782	13/9	1,130
G	142	15/9	237
H	3	18/9	5
Total	49,029		41,199
Less: Council Tax Support Scheme			(5,312)
Less adjustment for collection rates and for anticipated changes during the year for successful appeals against valuation banding, new properties, demolitions, disabled persons relief and exempt properties (1.25% of total band D equivalent dwellings)			(552)
Add contributions in lieu of government properties			104
Council Tax Base for 2015/16			35,439
Council Tax Base for 2014/15			34,673

The Council Tax Base for 2015/16 multiplied by the Average Band D Council Tax Charge gives the Total of Precepts and Demands for the Year:

Tax Base	35,439
	X
Average Band D Charge	1,478.65
Precepts and Demands (£000s)	52,402

Properties within the boundaries of Quedgeley Parish Council pay an additional Council Tax sum to fund the activities of the Parish Council. For the 2015/16 year this was as follows.

Tax Base	5,799
	X
Average Band D Charge	37.19
Precept	216

COLLECTION FUND

2 INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate (the Multiplier) set by the Government. Certain reliefs are available and the figure shown as collectable is net of these reliefs.

The total non-domestic rateable value at 31 March 2016 was £126.989 million (£127.02 million at 31 March 2015) and the national non-domestic multiplier for 2015/16 was 49.3p (2014/15 :48.2p), resulting in net income after transitional, small property, empty property and mandatory reliefs of £52.985 million.

The Business Rates Retention scheme splits rate income between central government and local authorities according to a set percentage split in each area. For the Gloucester City Council area 50% of income goes to Central Government, 40% to Gloucester City Council and 10% to Gloucestershire County Council. The Collection Fund Statement shows the sums received by each organisation for Business Rates in 2016/17.

As part of the scheme Central Government established a baseline funding level for every authority. A system of tariffs, paid by authorities who have gained, and top ups, paid to those who have lost out, ensures that each authority receives their baseline funding. The tariff paid by Gloucester City Council from its general fund in 2015/16 was £16.744 million.

3 FUND BALANCE

The balance of the fund is shared between the Council and its major precepting authorities in the following year. The billing authority has to estimate the surplus/deficit for the end of each financial year by January 15 of that year.

This Council Tax balance is shared by the City and County Councils and Gloucestershire Police Authority according to the proportion that their precept constitutes of the total for precepts for that year.

The surplus/deficit will be shared out in its entirety between the Council and County Council and Police Authority. The County Council and Police Authority share will be carried as creditors/debtors and the Council's share will be credited to the Comprehensive Income and Expenditure Account. The Collection Fund Adjustment Account is then needed to reconcile the net credit made to the Comprehensive Income and Expenditure Account for Council Tax to the statutory amount in the Statement of General Fund Movement.

The closing surplus for 2015/16 is £1.162 million (2014/15 surplus £0.661 million). This is apportioned as follows:

	2015/16 £'000	2014/15 £'000
Gloucestershire County Council	(856)	(488)
Police and Crime Commissioner for Gloucestershire	(163)	(93)
Gloucester City Council	(143)	(80)
Total	(1,162)	(661)

The fund surplus is to be partly distributed to the respective parties in 2016/17 as a surplus of £0.8 million was declared in January 2016.

Any balance on the collection fund for NNDR is shared between Central Government, The City Council and the County Council in the proportions of 50%, 40% and 10% respectively. As with Council Tax, the County Council and Police Authority share is carried as a creditor and the Council's share was debited to the Comprehensive Income and Expenditure Statement. The Collection Fund Adjustment Account is used to reconcile the net debit made to the Comprehensive Income and Expenditure Account for NNDR to the statutory amount in the Movement in Reserves Statement.

The collection fund relating to NNDR recorded an in year deficit of £1.332 million in 2015/16 (£0.894 million in 2014/15). The closing deficit is apportioned between the relevant bodies as follows.

Apportionment of Net Deficit relating to NNDR	2015/16 £'000	2014/15 £'000
Gloucestershire County Council	260	127
Central Government	1,301	635
Gloucester City Council	1,040	508
Total	2,601	1,269

The fund deficit is to be partly recovered from the respective parties in 2016/17 as a deficit of £1.612 million was declared in January 2016. The remaining deficit will be reclaimed in future years

4 NON-DOMESTIC RATES APPEALS

When the new arrangements for the retention of business rates came into effect on 1 April 2013, local authorities assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

This will include amounts that were paid over to Central Government in respect of prior years. Previously, such amounts would not have been recognised as income by the local authorities, but would have been transferred to DCLG.

The new arrangements give rise to the need to make a provision for the future cost of these appeals. The estimate made for the likely future value of appeals as at 31 March 2016 was £2.205 million. This has been split amongst the three recipients of Business Rates Income according to their respective share.

	2015/16 £'000	2014/15 £'000
Central Government	1,103	648
Gloucester City Council	882	518
Gloucestershire County Council	221	130
Total	2,205	1,296

GLOSSARY OF FINANCIAL TERMS

GLOSSARY OF FINANCIAL TERMS

To help you understand Gloucester City Council's accounts, some of the terms used are briefly explained below :

Accounting Period

The period of time covered by the accounts, normally a period of twelve months, commencing on 1st April for local authority accounts.

Account

A generic term for statements setting out details of income and expenditure or assets and liabilities or both, in a structured manner. Accounts may be categorised by the type of transactions they record, e.g. management accounts, balance sheets.

Accruals

Sums included in the final accounts to cover income or expenditure attributable to the accounting period but for which payment has not been made/received at the balance sheet date.

Amortised Cost

The original cost less any depreciation or impairment (if applicable).

Bad or Doubtful Debts

It is common practice for an organisation to create a provision for bad debts representing the estimated amount of debt existing at the 31 March which is deemed to be irrecoverable.

Balances

Also known as 'working balances', these are 'contingency' reserves not set aside for any specific purpose but to cover possible unforeseen and unavoidable expenditure.

Budget

The Council's aims and policies in financial terms. Also referred to as 'Estimate'.

Capital Expenditure

Expenditure on capital assets which have a long term value to the authority e.g. land, buildings and equipment (known as fixed assets) or the payment of grants to other people for the purchase or improvement of capital assets e.g. house renovation grants (known as deferred charges).

Capital Financing

The raising of money to pay for capital expenditure. In the past the cost of capital assets was often met by borrowing, but capital expenditure may also be financed by other means such as contributions from revenue accounts, the proceeds from the sale of capital assets, capital grants, and contributions from developers or others.

Capital Financing Costs

Principal and interest repayments relating to loans.

Capital Grants

Grants from the Government, the National Lottery and developers towards capital expenditure on a specific service or project.

Capital Receipts

Proceeds arising from the sale of capital assets or from the repayment to the Council of capital grants and loans. Capital receipts may be used to finance additional capital spending.

Collection Fund

The collection fund brings together income from council tax and business ratepayers. From this fund the City, County Council and Police Authority precept for their annual net expenditure.

GLOSSARY OF FINANCIAL TERMS

Community assets

Assets that the local authority intends to hold in perpetuity, and that have no determinable useful life. Examples of community assets are parks and historic buildings.

Contingent Liability

A liability which exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events, for example the default by a borrower on a loan from a third party for which the authority has given a guarantee.

Contingent Asset

As with contingent liability, only an asset.

Creditors

Amounts owed by the authority for work done, goods received or services rendered within an accounting period, but for which payment was not made at the balance sheet date.

Current Assets

Assets which can be expected to be consumed or realised during the next accounting period.

Current Liabilities

Amounts which will become due or could be called upon during the next accounting period.

Revenue expenditure funded from capital under statute

Expenditure which may be financed from capital resources but which does not result in tangible assets, for example on house renovation grants.

Depreciation

The cost of the "wearing out" of a fixed asset.

Debtors

Amounts owed to the authority but for which payment was not made at the balance sheet date.

Employee Costs

These include salaries, wages and related national insurance and pension costs payable by the City Council, together with training expenses and charges relating to the index - linking of the pensions of former employees.

Fair Value

The value at which a liability (eg a loan) may be settled or extinguished.

Final Accounts

Accounts prepared for an accounting period, usually in a summarised form. These accounts show the net surplus (profit) or deficit (loss) on individual services together with a balance sheet. They are produced as a record of stewardship and are available to interested parties. Local authorities are required to publish each year a Statement of Accounts (final accounts and balance sheet) as specified in the Accounts and Audit Regulations (England) Regulations 2011.

Finance Lease

A lease whereby at the end of the lease period the Council receives part of the proceeds arising from the sale of the asset.

Financial Year

The local authority financial year commences 1st April and finishes 31st March the following year.

Fixed assets

Assets that yield benefits to the local authority for a period of more than one year.

GLOSSARY OF FINANCIAL TERMS

General Fund

The Council's main account which includes all services except Council Housing. The net expenditure on the account is financed from Government Revenue Support Grant.

Government Grants

Payments by Central Government towards local authority expenditure. They may be specific e.g. Housing Benefits, or general e.g. Revenue Support Grant.

Gross Book Value

The historical cost or current value of a fixed asset.

Gross Expenditure

The total cost of providing services before any income is deducted.

Impairment

A reduction in market value of an asset as a result for example of damage or reduction in market price.

Improvement Grants

Statutory or discretionary payments that local authorities make to tenants or owners of houses lacking basic amenities to enable them to bring dwellings up to modern standards. The maximum amounts payable are determined by government, which reimburses the authority for part of the cost it incurs in providing the grants.

Infrastructure Assets

A type of fixed asset, for example highways and footpaths.

Interest

An amount received or paid for the use of a sum of money when it is invested or borrowed.

Investment Properties

Interest in land and/or buildings which is held for its investment potential.

Minimum Revenue Provision

The minimum amount which must be charged to an authority's revenue accounts for repayment of debt. It is calculated by applying a prescribed percentage to outstanding debt less certain allowances.

National Non Domestic Rates (NNDR)

An NNDR multiplier is set annually by central government and the rates due, calculated by multiplying the rate by a business property's rateable value, is collected by charging authorities and paid into a central pool maintained by the Government.

The proceeds are redistributed by the government between local authorities according to a formula.

Net Book Value

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Expenditure

Gross expenditure less any related income.

Non-Distributed Costs

Costs which are not attributable to any specific service, and are therefore retained at the corporate centre.

Operating Lease

A lease whereby at the end of the lease period the Council does not receive any proceeds arising from the sale of the asset.

Precept

The amount which a Precepting Authority (i.e. a County Council) requires from a Charging Authority (district council) to meet its expenditure requirements.

Provision

An amount set aside in a separate account to cover known or likely losses. An example of a provision is the Insurance Provision.

GLOSSARY OF FINANCIAL TERMS

Reserve

An amount set aside in a separate account for future use. Reserves may be capital (can only be used for capital purposes) or revenue (can be used by revenue accounts). Reserves can be earmarked for a specific purpose or classified as general i.e. not earmarked for a particular purpose, for example the general fund revenue balance.

Revenue Account

Accounts covering income and expenditure relating to the day to day running of Council services.

Revenue Support Grant

A general grant paid to all authorities to help finance the cost of services.

Revised Budget

An estimate of likely actual expenditure, made towards the end of the financial year. Also referred to as 'Revised Estimate'.

Stock

Items of raw materials and stores an authority has purchased to use on a continuing basis which are not used at the year end.

Value For Money

An expression describing the benefit obtained (not just in financial terms) for a given input of cash. The phrase is widely used within public bodies, but there are many difficulties in its use because value is a subjective measure and there are rarely supporting objective measures. The Audit Commission is required to consider value for money with the three objectives of economy of input, efficiency of operation and effectiveness of output in service provision.

**Annual
Governance
Statement**

RISK LEADERSHIP
INFORMATION ASSURANCE

PUBLIC COMMUNICATION

FINANCIAL MANAGEMENT

TRANSPARENCY OF DECISION MAKING
CULTURE

SKILLS

RESPONSIBILITY

PARTNERSHIPS
ENGAGEMENT

ACCOUNTABILITY

ALTERNATIVE
DELIVERY MODELS

ENVIRONMENT

PERFORMANCE

Contents

Report section	Description	Page number(s)
Sections 1 to 17	Annual Governance Statement	84 to 100
Appendix 1	Progress on 2014/15 Governance Improvement Actions	101
Appendix 2	Improvement Plan – 2015/16 Governance Improvement Actions	102 to 105

Annual Governance Statement

1.0 Scope of responsibility

- 1.1 Gloucester City 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. Gloucester City 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, Gloucester City Council is responsible for putting in place proper arrangements for the governance of its affairs, to facilitate the effective exercise of its functions.
- 1.3 Gloucester City 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*. A copy of the Code is on our website at www.gloucester.gov.uk, is included in the Council's Constitution (Part 5 – Codes and Protocols), or can be obtained from the Council's Head of Audit Risk Assurance or the Monitoring Officer. This statement explains how Gloucester City 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 Gloucester City 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 Gloucester City 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:



- Core Principle 1: Gloucester City Council aims to focus on its purpose and on outcomes for the community, creating and implementing a vision for the local area with partners.
- Core Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Core Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Core Principle 4: Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk.
- Core Principle 5: Developing the capacity and capability of Members and officers to be effective.
- Core Principle 6: 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.

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 were detailed in the Council Plan. This is a four year Plan (2014–2017) designed as a framework for delivering Gloucester's future, reflecting the unique nature of the city's character and the challenges faced by the Council. A copy of the Council Plan 2014-2017 can be found on the Council's website www.gloucester.gov.uk

4.2 The Council Plan 2014-2017 contains four key priorities which are underpinned by a number of objectives, as detailed below:

- Priority 1: Prosperity – Growing Gloucester’s Economy:
 - Attracting investment, nurturing and encouraging enterprise
 - A City with skills and job opportunities
 - A thriving centre and regeneration of the City
- Priority 2: People – Working with our communities
 - Listening to our residents
 - An active, healthy and safe city for all to enjoy
 - A City for Everyone
- Priority 3: Place – Pride in Our City and improving our environment
 - A greener Gloucester
 - A distinctive cultural offer for the City
 - Affordable and decent housing for all
- Priority 4: Performance – Sound finances and strong performance
 - Sound Finances
 - Improving performance

4.3 Up to mid-year 2015/16, in order to ensure that progress had been made against the aims and objectives detailed in the Corporate Plan, monthly performance reports were produced to highlight achievements and address any challenges. These reports were reviewed during the year by the Senior Management Team (SMT) and Members, and published on the Council’s website www.gloucester.gov.uk

4.4 Following Council organisational change within 2015/16 (including the appointment of the joint role of Managing Director for the City Council and a Joint Strategic Commissioning Director for Gloucestershire County Council, and recruitment for the two Corporate Director posts), the Council’s corporate performance management and reporting approach has been identified as an area for review – to enable performance management to reflect organisational change and meet the needs of the Council. The review is targeted for completion within 2016/17 (see **Appendix 2**).

4.5 The Forward Plan contains matters which will be the subject of a ‘key decision’ and ‘decisions relating to the Budget and Policy Framework’. In the interests of transparency, it also includes matters which are non-key decisions. Proposals relevant to the Budget and Policy Framework are subject to a period of consultation and the Overview and Scrutiny Committee has the opportunity to respond in relation to the consultation process. Forward Plans are prepared by the Leader of the Council, and cover a rolling period of twelve months. The plans are reviewed regularly within year, to ensure they are up to date and complete. A copy of the Forward Plan is also published on the Council’s website www.gloucester.gov.uk

- 4.6 In order to provide services to meet the needs of the community, the Council needs to obtain the views of those being served. This will allow the Council to obtain sound evidence for the decisions that are made, as well as supporting redirection of resources where necessary. The GovMetric system is used by the Council for consultation exercises (e.g. budget consultation 2015/16) and to aid the gathering of customer feedback on service delivery at the point of interaction (e.g. through the feedback request on the Council web site www.gloucester.gov.uk). Wider use of GovMetric will be considered within the review of the Council's corporate performance management approach (see **Appendix 2**).

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, Executive and Committees.
- 5.2 The relationship between Councillors and Officers is essential to the successful working of the Council. This relationship within the authority is characterised by mutual respect and trust. The Council has adopted a 'Councillor – Officer Relations' protocol to help councillors and officers perform effectively by giving guidance on their respective roles, expectations and relationship with each other.
- 5.3 During 2014/2015 Members of both Gloucester City Council and Gloucestershire County Council endorsed the appointment of a joint role of Managing Director for the City Council and a Joint Strategic Commissioning Director for Gloucestershire County Council. The fundamental role of this new position was for the progression and development of both Councils' strategic objectives by ensuring the essential links are in place across both organisations through understanding the needs and capacity of our community. Following a recruitment and selection process in March 2015 an appointment was made and the position was filled with effect from 6th July 2015.
- 5.4 The Council has adopted a Scheme of Delegation detailing the delegation of responsibilities and functions to the Council, Cabinet, individual Cabinet Members, Committees, and officers.
- 5.5 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 scheme of payments at the City Council is based on the recommendations of the independent Members' Allowances panel. The last detailed review of Members Allowances took place in 2010 when a small increase to the Basic Allowance was proposed by the Panel and agreed by the Council, along with a small number of other amendments. Since that time the Panel has recommended that allowances be frozen at the 2010/11 levels each year and the Council has recommended the Panel's recommendations on each occasion.
- 5.6 The current review of the scheme of payments for Members has recently been concluded by the independent Members' Allowances panel. The recommendation for a revised Members Allowance Scheme for 2015/16 was approved by Council at its meeting on 22nd January 2015.

- 5.7 Under Section 38 of the Localism Act 2011, the Council must approve and publish a senior pay policy statement before the start of the financial year to which it applies. The Council is expected to keep the statement under review and publish a new version each year. The Senior Pay Policy Statement for 2015/16 was approved by Council at its meeting on 18th 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 was amended during 2012/13 to take account of changes required by the Localism Act 2011. The revised Member Code of Conduct was approved by Council in July 2012. Within 2015/16, the Monitoring Officer received 2 formal complaints against Members. One complaint was held to be unfounded and the other complaint was resolved informally, in line with the Council's relevant standards. This has been confirmed within the Standards Report presented to Audit and Governance Committee as at 18th January 2016 (covering the period 1st April 2015 to the date of Committee). A verbal update by the Council Monitoring Officer, to summarise the full 2015/16 position, is scheduled for Audit and Governance Committee on 20th June 2016.
- 6.2 Staff are also expected to maintain high standards of behaviour at all times. The standards of behaviour and other related matters are set out in an Officer Code of Conduct which is based on a national model. A copy of this Code is contained in the Council's Constitution. The Council's Constitution also contains a number of protocols in respect of Member/Officer and Member/Member relations, and a whistle-blowing policy for employees.
- 6.3 The Council has a complaints procedure that enables dissatisfied members of the public to raise concerns. The Complaints Policy was last revised and agreed by Council in September 2014. The Council views all comments, whether they are complaints or compliments, as a valuable way of collecting continual feedback about services and identifying how it can improve the services it provides. Complainants may also refer matters to the local government ombudsman for investigation once they have been through the Council's complaint system if they are dissatisfied with the Council's response. Two complaints were upheld by the Ombudsman within 2015/16 (both were council tax liability disputes) and were reported to Audit and Governance Committee on 18th January 2016. In both cases the Ombudsman decision was there was fault by the Council, however the Ombudsman considered that the steps taken by the Council to rectify the situations were satisfactory and that no further action was required in either case.
- 6.4 The Council's Audit and Governance Committee receives an annual report on complaints and compliments monitoring - the 2015/16 report is due to be presented to Audit and Governance Committee at the June 2016 meeting.
- 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 In accordance with the statutory requirement, the Council has established an Overview and Scrutiny function. The Overview and Scrutiny function is a central element of the Council's aims and objectives and a key part of the democratic structure. The Overview and Scrutiny Committee meets in public to discuss and make recommendations on the development of policies and to hold the Cabinet and Cabinet Members to account for both their actions and performance.
- 7.3 The Council's Democratic Services team maintains the up to date Register of Members' Interests on behalf of the Monitoring Officer and also ensures that Members are reminded at least annually to update their record. Declarations of Interest are a standard agenda item for each main Committee meeting. The requirement for staff to declare interests is included in the 'Officers' Code of Conduct' – Council Constitution Part 5, Codes and Protocols.
- 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 all aspects of business risk must be managed. The Council has a Risk Management Strategy, the purpose of which is to provide a framework for the effective management of risks within the authority. It contains Strategy objectives, linked to the Council's key aims, and guidance on the application of risk management principles and practice, including the risk management cycle and a standardised approach for the scoring of risks. The Strategy was last reviewed and approved by Members in January 2015, by Audit and Governance Committee and Cabinet. Officer review of the Strategy was completed in 2015/16 and confirmed no Strategy update was required. A planned action is in place for review of the Risk Management Strategy against expected new standards within 2016/17 (see **Appendix 2**).
- 7.6 The Senior Management Team and Members (through Audit and Governance Committee and Cabinet) are responsible for reviewing the Council's Strategic Risk Register. The Strategic Risk Register has been a regular agenda item for 2015/16 SMT meetings to ensure any risks associated with the Council's aims and objectives have been identified and are being managed. The last Member review of the Strategic Risk Register was undertaken by Audit and Governance Committee in November 2015 and Cabinet in December 2015.
- 7.7 The Council has established an Audit and Governance Committee. The Terms of Reference for this Committee are in accordance with the best practice guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) entitled "Audit Committees – practical guidance for Local Authorities and Police", 2013 Edition.

- 7.8 Prior to the 1st April 2015, the Head of Legal and Policy Development and Monitoring Officer identified any forthcoming relevant legislation and together with the relevant Director, was responsible for ensuring that the Cabinet was appraised of the implications and what action the Council might need to take. From the 1st April 2015, this role has been undertaken by One Legal, the Council's legal services provider, following the introduction of a formal shared service agreement.
- 7.9 The Council has an agreed Whistleblowing policy which applies to all employees, contractors working for the Council on Council premises, suppliers and those providing services under a contract with the Council in their own premises. A review of the Whistleblowing policy, together with all the other Council anti-fraud policies was undertaken in March 2015.
- 7.10 New guidance has been issued within 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 within 2016/17 (including 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 is developing a Workforce and Organisational Development Strategy, which includes a refresh of the Council values. Approval of the Strategy is targeted for within 2016/17 (see **Appendix 2**) and coverage is planned to include (but not be exclusive to):
- Communication – The inclusion of all staff. Clear and concise messages. We want our employees to have access to the information they need at the right time and in the right way.
 - Staff Engagement – Increase motivation, increase morale and reduce absences. We want employees to feel listened to, consulted and involved in the decision making and our culture and values to be understood and demonstrated throughout the Council.
 - Leadership and Management - To develop management and leadership capacity. To build confidence in managers to lead changes and develop new behaviours for themselves and staff. We want our leaders and managers to demonstrate our values and portray the behaviours and characteristics that both support and motivate our employees whilst leading, driving forward, challenging and taking responsibility for continuous improvement through innovation and the ability to think 'out of the box'.
 - Workforce - To build capability through developing the right skills to be a successful organisation. We want a committed and motivated workforce which is skilled and flexible, which can adapt to the changing needs of both our customers and the Council, and which feels valued and empowered.
 - Resourcing and Talent Management - To attract and retain staff and maximise productive output. Succession planning. We want the right people,

with the right skills at the right time, in the right place to be delivering excellent service.

8.2 Access to Member Development is a key element of the Local Code of Corporate Governance. In January 2016, the Member Development Working Group, with cross party membership, was formed to review Member development. The terms of reference for this Group were as follows:

- Provide a Councillor-led strategic approach to councillor development;
- Provide a high-quality and relevant Member induction programme;
- Monitor, advise and promote internal and external Councillor learning and development activities;
- Ensure that Member development activities are in line with the Council's objectives and address forthcoming local government and legislative changes;
- Champion Councillor learning and development opportunities in the respective groups; and
- Evaluate the investment in Councillor learning and development to assess achievement and improve future effectiveness.

8.3 Member training in 2015/16 included the following:

- Compulsory new Member training – covering the Council's Democratic process; the Standards and Code of Conduct; and Access to and management of information – Members' rights and responsibilities;
- Licensing and the Committees;
- Planning and the Committee; and
- Audit and Governance Committee training.

8.4 An output of the Member Development Working Group was a detailed Member Induction Timetable 2016/17 for new and returning Members. This training will be delivered following the May 2016 elections.

9.0 Core Principle 6: Engage with local people and other stakeholders to ensure robust public accountability

9.1 Council, Cabinet and Committee meetings are open to the public with agendas and minutes being publicly available. Members of the public are able to ask questions at such meetings and, with effect from 27 March 2014, the Council decided to allow the public to record its public meetings. A protocol setting out the Council's rules on recording has been adopted and is contained in the Council's Constitution.

9.2 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. A comprehensive annual budget consultation process is also undertaken with residents, voluntary sector groups and local businesses.

9.3 The Council has agreed and published a petitions scheme that details guidance and procedures for the way in which it deals with petitions from members of the public. This may include a debate at Council or the matter being considered by the Cabinet, appropriate Committee, or a Forum.

- 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 City Council's annual accounts and the Senior Pay Policy Statement for 2015/16 (see AGS para 5.7).
- 9.5 The Council has a strong track record of partnership working with the public, private and voluntary sectors. It has established:
- A charitable trust, Aspire Sports and Cultural Trust, to manage its leisure services.
 - Marketing Gloucester Ltd, to promote the City.
 - Entered into three strategic partnership contracts with the private sector for the provision of:
 - Streetcare services (street cleansing, waste collection, grounds maintenance and public conveniences) (Amey);
 - Revenues and Benefits services (Civica); and
 - IT managed services (Civica).
- 9.6 As a result of the appointment of a joint Managing Director and Commissioning Director (see para.5.3) and a number of formal partnerships being put in place for a small number of back office services, in June 2015, Cabinet approved a High Level Implementation Plan for further partnership working with Gloucestershire County Council.
- 9.7 A Memorandum of Understanding between the City Council and Gloucestershire County Council has been agreed which underpins the commitment of both organisations to work together to improve service delivery. The purpose and scope of the Agreement is to agree and implement a programme that will look at all back office services and appropriate frontline customer services being delivered by Gloucestershire County Council on behalf of Gloucester City Council. As part of this programme, consideration will also be given to exploring and implementing those areas of the business that Gloucestershire County Council could commission from the City Council or assist the City Council in delivering objectives within its Council Plan. Examples of joint working between the two Councils within 2015/16 are:
- The appointment of a joint role of Managing Director for the City Council and a Joint Strategic Commissioning Director for Gloucestershire County Council: approved at Council on 18th March 2015;
 - Internal Audit and Risk Management shared service: approved at Council on 18th March 2015;
 - Human Resources shared service: approved at Council on 17th June 2015; and
 - Payroll service delivery by Gloucestershire County Council through a Service Level Agreement: service provision in place from June 2012 onwards.
- 9.8 Monitoring arrangements for the major partnerships are delivered through a combination of client/contractor meetings, partnerships/shared service boards, the Senior Management Team and Members (Cabinet and/or Overview and Scrutiny Committee).

10.0 Review of effectiveness

- 10.1 Gloucester City 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 arrangements, the annual report of the Head of Audit, Risk and Assurance, and also by reports issued by the Council's external auditors and other review agencies and inspectorates.
- 10.2 The processes that have been applied in maintaining and reviewing the effectiveness of the governance framework are as follows (paragraphs 10 to 16):

11.0 The Council

- 11.1 The Council has adopted a Constitution that controls how the Council is structured and the Council's decision-making procedure, designed to support open and accountable decision-making. During 2015/16 a number of changes were made to the Constitution to ensure it remained up to date, principally to reflect changes required as a result of the departure of the Chief Executive and the sharing of the Head of Paid Service role between the two Corporate Director posts (approach in place up to the appointment of the City Council Managing Director – in post from July 2015). These changes were agreed by Council on 21st May 2015. A copy of the Constitution can be found on the Council's website at www.gloucester.gov.uk
- 11.2 Following further organisational change within 2015/16 and the appointment of the City Council Managing Director, subsequent review of the Council Constitution was completed in quarter 4 2015/16 and led by the Head of Paid Service. The Constitution review purpose was to identify required minor amendments to reflect organisational change; amendments proposed to streamline the Constitution; and amendments to realign decision-making structure to ensure they meet the needs the needs of the Council. The updated Constitution was submitted to Council for review and adoption on 23rd May 2016.

12.0 The Cabinet

- 12.1 The Council determines the budgetary and policy framework. The principal decision-making body is the Cabinet (Executive). The Cabinet took all Key Decisions in 2015/16. Key Decisions are subject to pre-scrutiny by the Overview and Scrutiny Committee.
- 12.2 The key statutory document that sets the agenda for a rolling programme of future key decisions is the Forward Plan; hence this is a critical factor in the Council's overall decision-making process.
- 12.3 Executive decisions taken by Cabinet and individual Cabinet Members are published and may be subject to a call-in process for examination by the Overview and Scrutiny Committee.

13.0 The Audit and Governance Committee

- 13.1 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's

corporate and service objectives. Effective audit committees help raise the profile of 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 Terms of Reference for the audit and governance elements of the Audit and Governance Committee cover the core functions of an audit committee as identified in the CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities and Police'. The Audit and Governance Committee used an annual work programme to manage the business of the Committee during 2015/16.
- 13.3 An Audit and Governance Committee role is to promote and maintain high standards of conduct by Councillors and co-opted Members. The Annual Standards Report was presented to Audit and Governance Committee in January 2016.
- 13.4 In accordance with good practice guidance for audit committees, the 2015/16 Annual Report of the Audit and Governance Committee (which details the work and achievements of the Audit and Governance Committee during 2015/16), is due to be reported to Council on 21st July 2016 (following review and recommendation by Audit and Governance Committee due on 20th June 2016).

14.0 Overview and Scrutiny Committee

- 14.1 As part of the Council's Overview and Scrutiny arrangements, it was agreed that the Overview and Scrutiny Committee would 'provide and co-ordinate the input to an annual report to Full Council on such issues or topics as the Committee saw fit'. The Annual Report setting out the work and achievements of the Council's Overview and Scrutiny function during 2015/16 is due to be reported to Council on 21st July 2016.
- 14.2 The Overview and Scrutiny Committee used an annual work programme to manage the business of the Committee during 2015/16 and there was an agreed programme of reviews to be carried out by Task and Finish Groups, with regular reporting on progress being made to the full Committee.

15.0 Internal Audit

- 15.1 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.*'
- 15.2 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 of the new host authority, the City Council internal audit staff were transferred to Gloucestershire County Council.
- 15.3 The governance arrangements for the new internal audit shared service include a Shared Services Board which consists of 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.

15.4 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.

15.5 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 IPPF. 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.

15.6 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:

'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). 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.'

15.7 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 assignment work undertaken during 2015/16, there are no issues of which I am aware which 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 (Choice Based Lettings), in my view, the weaknesses identified are not deemed to be significant governance issues.'

16.0 External Audit and Other Review/Assurance mechanisms

External Audit

- 16.1 External Audit is part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. The scope of External Audit work covers not only the audit of financial statements but also aspects of corporate governance.
- 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 headlines from the ISA 260 report were that:
- The auditors anticipated issuing an unqualified audit opinion by the 30 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.'*
 - The audit identified a small number of presentational adjustments required to the accounts were compliant with the Code of Practice on Local Authority Accounting in the UK 2014/15, which had subsequently been adjusted by management.
 - The auditors noted a continued improvement in place for the production of the accounts and the supporting working papers.
 - The auditors concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Gloucestershire Airport

- 16.3 The Council is a 50% shareholder of Gloucestershire Airport, which is a company limited by shares, and is subject to the requirements set by the Companies Act. There is a Board of Directors, including a Managing Director and Head of Operations, which monitors the company's performance and is responsible for internal control activities. The statutory accounts are audited each year by a private firm of accountants, and presented to the board and shareholders; they are approved at the AGM. The Council's Head of Finance or designated representative receives regular management accounts for the airport.
- 16.4 The City Council commissioned a strategic review of the airport in 2013. The review findings included recommendations that the shareholding councils should carry out a further review of governance arrangements. A report on the governance arrangements was issued by York Aviation in June 2014 and the recommendations from the report were approved by Council in July 2014. The approved governance recommendations have now been actioned and were in place in 2015/16 – including a quarterly Shareholder Forum and the appointment of a Non-Executive Director.

Head of Finance Statement (Chief Financial Officer - s151 Officer)

- 16.5 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 with the governance requirements of the CIPFA Statement on the Role of the Chief

Financial Officer in Local Government (2010) to ensure an effective system of internal control is maintained and operated in connection with the resources concerned. The Head of Finance has confirmed that the authority's financial management arrangements conform with the CIPFA Statement, and has also made the following comments in paragraphs 16.6 to 16.12 below:

16.6 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.

16.7 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.

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

16.9 During 2015/16 the Council has continued to implement and improve the ownership and accountability for financial management. All budget holders receive regular monthly budget meetings to ensure delivery and value for money. Formalised regular reporting to and subsequent formal scrutiny by members has also been embedded

16.10 The Council has completed its financial statements for the last three consecutive financial years earlier than ever before in the life of the Council. The challenge was to make these changes sustainable. The embedded Financial Services team stability has assisted in delivering improved financial management and reporting for the Council. This has ensured both short term and long term service resilience.

- 16.11 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 strategic 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 Council Plan 2014-2017 have been identified. Regular reviews of service plans and risk registers and the Strategic Risk Register are carried out by SMT supported by the Officer Risk Management Champion.
- 16.12 The Council's governance controls have been strengthened within 2015/16 through the implementation of the:
- Revised Corporate Governance Board: The Group meets bi-monthly with the goal to review the Council's governance framework, identify areas for development and action them accordingly. Actions within 2015/16 have included update of the Constitution (AGS para 11.2) and approval and roll out of the Annual Governance Statement assurance checklist process.
 - New Information Governance Group: The Group meets bi-monthly, is led by the Council's Senior Information Risk Owner and contains representatives from ICT, Legal, Internal Audit and Finance. The Group's remit within 2015/16 has included review and implementation of the Council's policy management system, review and update of core information governance policies (e.g. the Data Protection Policy, IT Acceptable Use Policy and Public Service Network (PSN) Policy), and review of Information Commissioner's Office (ICO) matters.

Other Sources of Assurance

- 16.13 Every Director/Head of Service is responsible for delivering the objectives set out in their service plan. Directors/Heads of Service 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 Director, and nominated Head of Service, is required to assist the preparation of the AGS 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 Head of Service 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. For 2015/16 the statements were then submitted to the Section 151 Officer for review, to provide assurance that appropriate governance arrangements are in place within all services within the Council.
- 16.14 To enable the Council to provide reliable evidence to underpin the assessment of risk and control, each section within the assurance statements / self-assessment checklist provides Management with the opportunity to summarise the key types of assurance they receive and the level of reliance they place on that assurance.
- 16.15 If, having considered the checklists submitted by the Heads of Service, the Section 151 Officer is satisfied that appropriate arrangements are in place in each area, or that any weaknesses identified have a timescale for improvement, he will be able to countersign the statement. Any remedial actions identified are monitored by the

Section 151 Officer to ensure all actions are completed within the specified timescales.

16.16 When the Senior 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 Managing Director, highlighting any improvement areas for final sign off. This is designed to provide final assurance to the Leader and the Managing Director that there are appropriate arrangements in place within all areas under the control of each Director for the proper governance of Council business.

16.17 Key themes raised by the Heads of Service Assurance Statements 2015/16 were as follows:

- The Council has had reasonably good governance arrangements in place within 2015/16.
- Governance good practice or development areas actioned within the year:
 - Revised Corporate Governance Board (AGS para 16.12);
 - New Information Governance Group (AGS para 16.12);
 - Enhanced officer/member decision making processes (AGS para 11.2);
 - Review of Constitution (AGS para 11.1 and 11.2);
 - New Members Induction Programme (AGS para 8.4); and
 - Members Development Working Group (AGS para 8.2).
- Governance areas for development and improvement within 2016/17 (see **Appendix 2**):
 - Business Continuity Management;
 - Risk management in partnerships and contracts;
 - Sustainable development – climate change, environmental risk;
 - Anti-fraud and corruption strategy and whistleblowing procedures – new CIPFA Code of Practice released – review and update required; and
 - HR – work force strategy planning.
- Other key areas of consideration (see **Appendix 2**):
 - Devolution – future governance arrangements;
 - Chief Internal Auditor to undertake a self-assessment against new CIPFA guidance on the Annual Governance Statement and its associated assurance framework – action plan to be discussed and agreed at Governance Board.

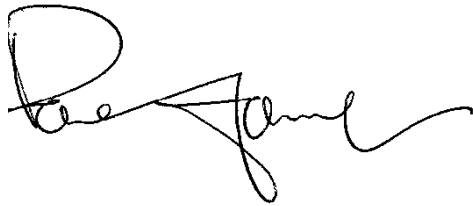
16.18 The Leader and Managing Director of the Council have a responsibility to ensure that the document is supported by an embedded assurance framework, reliable evidence and accurately reflects the Council's governance framework.

17.0 Significant governance issues

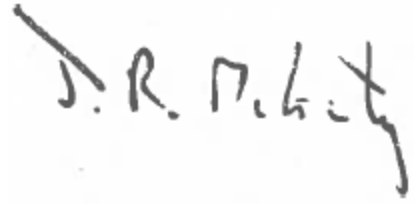
17.1 To the best of our knowledge, the governance arrangements, as defined above and within the Council's Local Code of Corporate Governance, have been effectively

operating 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.

Signed:

A handwritten signature in black ink, appearing to read 'Paul James', with a stylized, flowing script.

Paul James
Leader of the Council

A handwritten signature in black ink, appearing to read 'Jon McGinty', with a stylized, flowing script.

Jon McGinty
Managing Director

Progress on 2014/15 Governance Improvement Actions

The Annual Governance Statement 2014/15, approved by Audit and Governance Committee on 1st July 2015, did not raise specific governance areas for resolution/development and therefore did not include an Improvement Plan – 2014/15 Governance Improvement Actions. Progress review not required.

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	<p>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.</p> <p>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.</p> <p>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 Managing Director. The process will include consultation and engagement with the organisations involved and other stakeholders.</p>	To be determined - depending upon outcome of bid
Revised CIPFA Guidance on Delivering Good Governance 2016	<p>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).</p> <p>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.</p> <p>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.</p>	31st March 2017

Review reference	Action	Target date
Local Code of Corporate Governance Core Principle 3	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	31st March 2017
Annual Governance Statement para 4.4	<p>Corporate performance management:</p> <p>The Council Plan details the priorities and strategic objectives of the local authority. Performance review and management against the Corporate Plan is needed to ensure internal and external (e.g. stakeholder) awareness and understanding of the Council’s progress against the objectives and further action required.</p> <p>Action: The Corporate Director (Partnerships) will undertake a review of the Council’s corporate performance management approach, to ensure that they reflect the needs and the structure of the organisation.</p>	30 th September 2016

Review reference	Action	Target date
Annual Governance Statement para 7.5	<p>Risk Management Strategy 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 (part of the Council Constitution) – 'taking informed and transparent decisions which are subject to effective scrutiny and managing risk'.</p> <p>The Council's Risk Management Strategy 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 Strategy should also support the consideration and auctioning of risk management within Council partnerships and contracts.</p> <p>Action: The Chief Internal Auditor will review the Council's risk management arrangements (including the Risk Management Strategy) against the latest ISO 31000 risk management standard. The review findings will be reported to Audit and Governance Committee and will inform future risk management development at the Council.</p>	31 st March 2017
Annual Governance Statement para 8.1	<p>Workforce and Organisational Development Strategy: Key element for development of the capacity and capability of officers to be effective. A Strategy will mitigate the risk of a lack of competence, probity and professionalism within the authority leading to diminished performance, inappropriate behaviour, and failure to comply with governance arrangements.</p> <p>Action: HR Business Partner and Managing Director to draft the Council Workforce and Organisational Development Strategy, to include a refresh of the Council values. Draft document to be reviewed by Senior Management Team prior to formal approval process and roll out.</p>	31 st March 2017

Review reference	Action	Target date
Annual Governance Statement para 16.17	<p>Manager Assurance Statements: Governance areas for development and improvement within 2016/17 identified by the Managers Assurance Statements should be considered for further action by the Council.</p> <p>Areas identified within the Manager Assurance Statements 2015/16 but not included within the preceding identified 2015/16 Governance Improvement Actions Plan actions :</p> <ul style="list-style-type: none"> • Business Continuity Management; and • Sustainable development – climate change, environmental risk. <p>Action: Senior Management Team to consider the Business Continuity Management and sustainable development themes raised within the 2015/16 Managers Assurance Statements, and identify appropriate actions (with timescales) to aid improvement of the Council's governance arrangements.</p>	31 st March 2017

AUDIT REPORT

Independent auditor's report to the members of Gloucester City Council

We have audited the financial statements of Gloucester City Council for the year ended 31 March 2016 on pages 26 to 76. 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 Head of Finance and auditor

As explained more fully in the Statement of the Responsibilities, the Head of Finance 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 and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2016 and of the Authority's and the Group'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 82 to 105 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 Gloucester City 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 Gloucester City 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 Gloucester City 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, Gloucester City 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, Gloucester City 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 Gloucester City 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

Herbert Warehouse
The Docks, Gloucester GL1 2EQ

KPMG LLP
100 Temple Street
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Date: 19th September 2016

Page: 1 of 6

Dear Darren,

This representation letter is provided in connection with your audit of the financial statements of Gloucester City Council ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2016 and of the Authority's and the Group's expenditure and income for the year then ended;
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, and the Collection Fund and the related notes.

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

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

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i) give a true and fair view of the financial position of the Authority and the Group as at 31 March 2016 and of the Authority's and the Group's expenditure and income for the year then ended;
 - ii) have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
 - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - ii) The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's and the Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

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

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
11. The Authority confirms that:
- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.
 - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.
12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

- c) all significant retirement benefits, including any arrangements that are:

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

have been identified and properly accounted for; and

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

This letter was tabled and agreed at the meeting of the Audit Committee on 19th September 2016.

Yours faithfully,

Councillor Andrew Gravells

Jon Topping

Chair of the Audit Committee

Chief Financial Officer

Appendix to the Representation Letter of Gloucester City Council: Definitions

Financial Statements

A complete set of financial statements comprises:

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

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

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

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

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

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

Material Matters

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

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

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

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

Error

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

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

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

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

Management

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

Related Party and Related Party Transaction

Related party:

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

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

- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

Related party transaction:

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



External Audit Report 2015/16

Gloucester City Council
September 2016



Agenda Item 9

Contents

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	Page
Report sections	
— Introduction	3
— Headlines	5
— Financial statements	8
— VFM Conclusion	15
Appendices	
1. Audit differences	19
2. Materiality and reporting of audit differences	20
3. Declaration of independence and objectivity	21
4. Audit independence	23

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 3PH.



Section one: 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 Gloucester City 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 March 2016, set out the four stages of our financial statements audit process.



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 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 work. 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.



Section two: Headlines



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

Page 162

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	We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting the United Kingdom 2015/16 ('the Code'). The Authority has addressed these where significant.
Key financial statements audit risks	<p>We identified the following key financial statements audit risks in our 15/16 External audit plan issued in February 2016.</p> <ul style="list-style-type: none"> — Management override of controls –Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. <p>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 these key risk areas.</p>
Accounts production and audit process	<p>We received complete draft accounts by 28 June 2016 in accordance with the Accounts and Audit Regulations deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>As in previous years, we will meet 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 anticipate that the audit will commence earlier in preparation for faster closing deadlines in 2017/18, which will require accounts sign-off by 31 July. In particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.</p>



<p>This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.</p> <p>Page 163</p> <p>KPMG</p>	VFM conclusion and risk areas	<p>We identified the following VFM risks in our External audit plan 2015/16 issued in February 2016.</p> <ul style="list-style-type: none"> — In line with all authorities, Gloucester 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. <p>We have worked with officers throughout the year to discuss the VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas.</p> <p>We note that the Council's historical approach of reporting on service performance to Members was stopped during 2015/16. This was a deliberate decision to allow the approach to be reviewed and refined to better meet the needs of the Council and those receiving the reports, which were previously very detailed and lengthy. Members and officers have continued to receive alternative information to allow performance monitoring. We understand that a revised approach is under development by the Council, which it will be important to introduce as soon as possible.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.</p>
	Completion	<p>At the date of this report our audit of the financial statements is substantially complete, subject to final accounts review process.</p> <p>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 the Section 151 Officer 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.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>



Section three: Financial Statements

Proposed opinion and audit differences



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

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements, as contained both in the Authority's Statement of Accounts by 30 September 2016.

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

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 & Governance Committee on 19 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 £1.7 million for the Authority's standalone accounts, and at £1.75 million for the group accounts. Audit differences below £85k are not considered significant.

We did not identify any misstatements over our threshold of £85,000.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

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

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.

Page 166

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.

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



In our External Audit Plan 2015/16, presented to you in February 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 of such areas of audit focus.

Page 167

Area of focus 1

— Fair value of property

The Council holds a significant property portfolio and needs to consider whether the carrying value of property assets are materially stated as at the balance sheet date.

— Findings

Our audit methodology incorporated a review over the appropriateness of the valuation methodology and considered the expertise of the valuers performing the exercise, and in addition we reviewed the Council's consideration of the accuracy of the year-end carrying value of properties not revalued at the balance sheet date. We performed testing of a sample of revaluations and discussed with management any changes in use / surplus properties and how this has been considered in the valuations.

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

Area of focus 2

— Business rates pooling

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 and 2015/16, 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. This has led to Tewkesbury withdrawing from the scheme from 2016/17 onwards.

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 assessed 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 reviewed the Council's accounting for the pool within its accounts and the Collection Fund disclosure account to consider accuracy of the pool transactions.

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



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	£1 million (PY: £0.87million)	The amount of provisions is immaterial. The balance mainly includes a provision for NNDR appeals. This provision covers the estimated cost to the Council resulting from appeals by ratepayers against their rateable value. We consider the provision disclosures to be proportionate.
Debtors provisioning	3	3	£0.36 million (PY: £0.4 million)	The judgement over the provision for bad debts is calculated on long outstanding council tax, Sundry debtors, NNDR balances and a percentage of aging on Housing Benefits. The methodology stayed consistent with the prior year approach taken. We consider the debtor disclosures to be appropriate.
Property, Plant and Equipment (valuations / asset lives)	4	4	£56 million (PY: £55.2 million)	Property, plant and equipment is made up of 66% Land and Buildings, 15% Infrastructure assets, 13% Community assets and 6% Vehicles, plant, furniture and equipment. The property assets are depreciated over their useful lives and valued over a five year period. An in-house valuer assesses 20% of these assets each year across each asset class. 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	£58.4 million (PY: £65.1 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.
Investment Property	3	3	£24.4 million (PY: £24.7 million)	Investment property is initially measured at cost and subsequently measured at fair value on an annual basis according to market conditions.

Accounts production and audit process



The Authority has good quality accounts and supporting working papers.

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

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>The Authority has strong financial reporting process and produces statements of accounts to a good standard.</p> <p>There is scope to improve this further by adding more detail to the summary of non-financial performance in the Narrative report.</p> <p>We consider that accounting practices are appropriate.</p> <p>For the 2016/17 audit, we plan to bring the audit two weeks earlier in preparation for the faster closing deadlines with effect from 2017/18 onwards, which will require accounts sign-off by 31 July.</p>
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2016.
Quality of supporting working papers	The quality of working papers provided was good and met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers resolved audit queries in a reasonable time.

Element	Commentary
Group audit	<p>To gain assurance over the Authority's group accounts, we have performed specific audit procedures for Gloucestershire Airport Ltd.</p> <p>There are no specific matters to report pertaining to the group audit.</p>



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

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 Gloucester City Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Gloucester City 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 Responsible Finance Officer for presentation to the Audit & Governance 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 others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.



Section four: Value for Money



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 in 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.

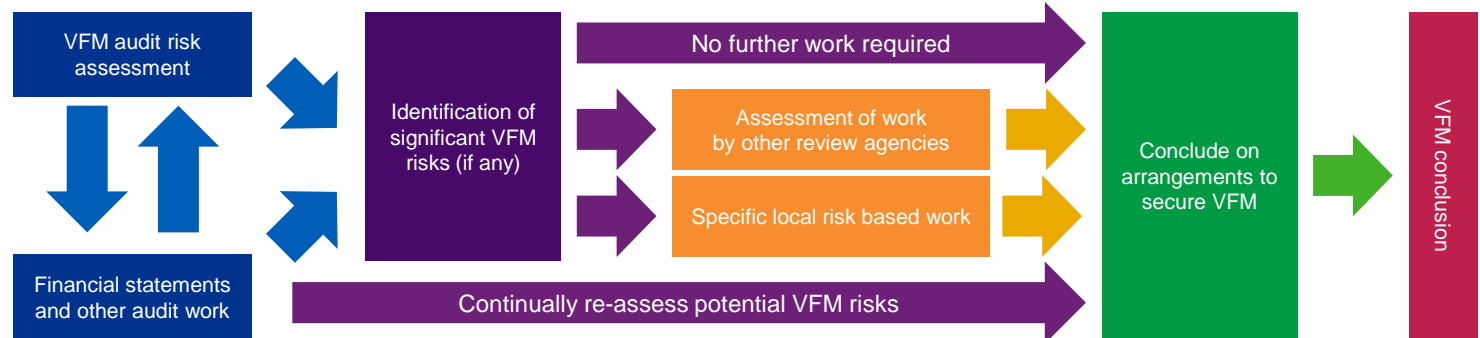
Background

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



Met

Sustainable resource deployment



Met

Working with partners and third parties



Met

Specific VFM Risks



We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate

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
	In line with all authorities, Gloucester 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. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.	<p>We have reviewed the Council's Money Plan, which sets out the Council's strategic approach to the management of its finances and presents indicative budgets and Council Tax levels for the medium term.</p> <p>We have confirmed that the Money Plan accurately reflects the annual budget agreed by Council and that the funding assumptions appear reasonable.</p> <p>A summary of our findings is set out on page 18.</p> <p>Based on this work, we have concluded that proper arrangements are in place relating to achievement of the savings plan.</p>

VFM – Money Plan



Money Plan

Risks have been mitigated by the exclusion of the Tewkesbury Borough Council in the Gloucestershire Business Rates pool. Any growth from pooling will be allocated to a reserve at the end of the financial year once the loss incurred to the general fund at the end of 2014/15 has been recovered.

A 1% pay award has been stated, this is reasonable as it mirrors what happens in the rest of the public sectors. No freeze grant was stated correctly for the 2016/2017 year.

Council tax levels are to be increased by £5 or 2%, whichever is the lowest.

Key capital projects to ensure growth and future prosperity are: The Kings Quarter Development, City Centre Investment, ICT Projects and externally financed housing projects. The majority of capital expenditure will be funded through external grants and borrowing.

The savings requirements in the plan are for £547,000 in 2016/17, £1,095 million in 2017/18, £692,000 in 2018/19, £442,000 in 2019/20 and £59,000 in 2020/21 as per the below diagram illustrated. The chart demonstrates that the 2017/18 savings target will be the most challenging for the Council to deliver. There are however plans to identify further savings to bridge this gap.

Page 174





Appendices

Appendix 1: Audit differences

Appendix 2: Materiality and reporting audit differences

Appendix 3: Independence and objectivity declaration

Appendix 4: Audit Independence

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

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

Page 176

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 Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.7 million for the Authority's accounts.

We have reported all audit differences over £85,000 for the Authority's accounts.

Page 177

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 reassessed materiality for the Authority at the start of the final accounts audit based on the figures in the financial statements presented for audit.

Materiality for the Authority's accounts was set at £1.7 million for the Authority's standalone accounts, and at £1.75 million for the group accounts, which equates to around 1.7 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit & Governance 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 & Governance 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 £85 thousand 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 & Governance Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

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

Page 178

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 & Governance 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.

Page 179

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 Gloucester City Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Gloucester City 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 was £63,450 plus VAT (£84,600 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our scale fee for certification for the HBCOUNT is £8,523 plus VAT (£9,390 in 2014/15), with no other fees for other grants and claims. This work is ongoing and the final fee will be presented to a future audit committee.

Non-audit services

We have been engaged to provide any non-audit services.

Page 180



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Meeting:	Audit and Governance Committee	Date:	19th September 2016
	Council		1 December 2016
Subject:	Changes to the arrangements for appointment of External Auditors		
Report Of:	Head of Finance (Section 151 Officer)		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Jon Topping - Head of Finance		
	Email: jon.topping@gloucester.gov.uk		Tel: 01452 396242
Appendices:	None		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 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.
- 1.2 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.

2.0 Recommendations

- 2.1 **Audit and Governance Committee** is asked to **RESOLVE** to endorse and **RECOMMEND** to Council the option to opt-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.
- 2.2 **Council** is asked to **RESOLVE** to opt-in to the PSAA as the SLB for the appointment of the Council's External Auditors from 2018/19.

3.0 Background and Key Issues

Background

- 3.1 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.

- 3.2 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, savings from closure of the Audit Commission and Council led improvements to internal year end processes and controls. The indicative scale fee for the audit of Gloucester City Council is £63,450 for both 2015/16 and 2016/17, which is a reduction in audit fee of 25% when compared to the 2014/15 audit fee of £84,600. In addition, the fee for the certification of claims and returns is approximately £12,500.
- 3.3 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.
- 3.4 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.
- 3.5 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:
- 3.6 Preferred option: Opt-in to a SLB
- 3.6.1 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.

3.6.2 *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.

3.6.3 *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.

3.6.4 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.

3.6.5 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.

4.0 **Asset Based Community Development (ABCD) Considerations**

4.1 There are no ABCD implications as a result of the recommendation made in this report.

5.0 **Alternative Options Considered**

5.1 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.

5.2 Alternative option 1: To make a stand-alone appointment

5.2.1 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.

5.2.2 *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.

5.2.3 *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.

5.3 Alternative option 2: Local joint procurement arrangements

5.3.1 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.

5.3.2 *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.

5.3.3 *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 paragraph 3.6.

6.0 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 It is recommended that the Committee endorses the preferred option (detailed within paragraph 3.6) 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.

7.0 Future Work and Conclusions

- 7.1 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.
- 7.2 The Council has been asked by the LGA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to Councils.

8.0 Financial Implications

- 8.1 The LGA considers that current external fees levels are likely to increase when the current contracts end in 2018.
- 8.2 The cost of establishing a local or joint auditor panel (a requirement of the section 5 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.

- 8.3 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.

(Financial Services have been consulted in the preparation this report).

9.0 Legal Implications

- 9.1 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.
- 9.2 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.
- 9.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State.
- 9.4 The Local Audit (Appointing Person) Regulations 2015 (SI 192) gives the Secretary of State the ability to enable a SLB to become the appointing person and confirms the decision to opt-in must be made by the authority meeting as a whole (i.e. Full Council).

(One Legal have been consulted in the preparation this report).

10.0 Risk and Opportunity Management Implications

- 10.1 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.
- 10.2 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.

11.0 People Impact Assessment (PIA):

- 11.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

- 12.1 There are no 'Community Safety' implications arising out of the recommendations in this report.

Sustainability

- 12.2 There are no 'Sustainability' implications arising out of the recommendations in this report.

Staffing & Trade Union

- 12.3 There are no 'Staffing and Trade Union' implications arising out of the recommendations in this report.

Background Documents: The Local Audit and Accountability Act 2014
LGA generic report on External Auditor appointments

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Meeting:	Audit and Governance Committee	Date:	19 th September 2016
	Constitution Working Group		5 th October 2016
	General Purposes Committee		18 th October 2016
	Council		1 December 2016
Subject:	Update to the Audit and Governance Committee Terms of Reference		
Report Of:	Head of Audit Risk Assurance (Chief Internal Auditor)		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Theresa Mortimer - Head of Audit Risk Assurance		
	Email:	Tel: 01452 396338	
	Theresa.Mortimer@gloucester.gov.uk		
Appendices:	1: Proposed Audit and Governance Committee Terms of Reference		
	2: Current Audit and Governance Committee Terms of Reference		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 The purpose of this report is to present the proposed revised Audit and Governance Committee's Terms of Reference, which reflects the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police – 2013, the Public Sector Internal Audit Standards (PSIAS) 2016 and further clarity around the Committee's Governance role.
- 1.2 The Audit and Governance Committee is a key component of corporate governance. It provides a high-level focus on assurance and the organisation's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

2.0 Recommendations

- 2.1 **Audit and Governance Committee** is asked to **RECOMMEND** that, subject to any further amendments, the Terms of Reference as set out in Appendix 1 be approved.
- 2.2 **Constitution Working Group** is asked to **RECOMMEND** that, subject to any further amendments, the Terms of Reference as set out in Appendix 1 be approved.

2.3 **General Purposes Committee** is asked to **RECOMMEND to Council** that, subject to any further amendments, the Terms of Reference as set out in Appendix 1 be approved.

2.4 **Council** is asked to **RESOLVE** that the Terms of Reference as set out in Appendix 1 be approved.

3.0 Background and Key Issues

3.1 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 requires *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.*

These standards define the way in which the Internal Audit Service should be established and undertakes its functions, including the functional reporting requirements to the governance group charged with providing independent assurance on the adequacy of the control environment, comprising risk management, control and governance.

3.2 To ensure conformance with the CIPFA Audit Committees good practice guidance and the PSIAS, the Audit and Governance Committee's Terms of Reference have been revised for consideration and approval.

4.0 Asset Based Community Development (ABCD) Considerations

4.1 There are no ABCD implications as a result of the recommendation made in this report.

5.0 Alternative Options Considered

5.1 No other options have been considered as there is a requirement to have an effective Committee to advise on the adequacy and effectiveness of the Council's corporate governance arrangements and internal control environment in accordance with relevant legislation, standards, codes of practice and Audit Committee good practice guidelines.

6.0 Reasons for Recommendations

6.1 To update the Audit and Governance Committee's Terms of Reference to ensure conformance with the PSIAS and CIPFA Audit Committees good practice guidance.

7.0 Future Work and Conclusions

7.1 In accordance with the requirements of the Constitution, the proposed Terms of reference will be reviewed and considered by the Audit and Governance Committee, Constitution Working Group and General Purposes Committee, prior to be presented to Council for formal approval.

8.0 Financial Implications

8.1 There are no financial implications arising out of this report.

(Financial Services have been consulted in the preparation this report).

9.0 Legal Implications

9.1 The new Terms of Reference are compliant in accordance with the legislation referred to, which seeks to define internal auditing, setting out a Code of Ethics and International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

9.2 The Council's Constitution will need to be amended to reflect the new Terms of Reference.

(One Legal have been consulted in the preparation this report).

10.0 Risk and Opportunity Management Implications

10.1 Failure to provide an effective Committee to advise on the adequacy and effectiveness of the Council's corporate governance arrangements and internal control environment 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.

11.0 People Impact Assessment (PIA)

11.1 A requirement of the CIPFA Audit Committees good practice guidance and the PSIAS is for the Council to deliver an effective Committee to advise on the adequacy and effectiveness of the Council's corporate governance arrangements and internal control environment. The Audit and Governance Committee fulfils this requirement. Equality is demonstrated by the Committee being subject to, and complying with, the Council's equality policies.

11.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

12.1 There are no 'Community Safety' implications arising out of the recommendations in this report.

Sustainability

12.2 There are no 'Sustainability' implications arising out of the recommendations in this report.

Staffing & Trade Union

12.3 There are no 'Staffing and Trade Union' implications arising out of the recommendations in this report.

Background Documents:

- CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013;
- Public Sector Internal Audit Standards (PSIAS) 2016;
- CIPFA Local Government Application Note (guidance for the UK Public Sector Internal Audit Standards); and
- Gloucester City Council's Internal Audit Charter. (The Charter formally defines Internal Audit's statutory role, responsibility, status and authority within Gloucester City Council, which conforms to the PSIAS).

Audit and Governance Committee	
To advise on the adequacy and effectiveness of the Council's corporate governance arrangements and internal control environment.	
Governance, Risk and Control	
1.	<p>Monitor the adequacy and effectiveness of the Council's governance arrangements including:</p> <ul style="list-style-type: none"> • Monitoring the effectiveness of the Chief Officer's responsibility for ensuring an adequate internal control environment; • Monitoring the arrangements for the identification, monitoring and control of strategic and operational risk within the Council; • Monitoring the adequacy and effectiveness of the arrangements in place for combating fraud and corruption; • Providing an annual report to Council that its systems of governance are operating effectively, which includes the Committee's performance in relation to the terms of reference; • Reviewing and approving the annual Statement of Accounts, Annual Governance Statement and its associated assurance framework; • Considering the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements; • Ensuring that the Chief Internal Auditor has the right of independent access to the Committee and its Chair; • Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice; • Considering and advising changes to the Council's Constitution in respect of Contract Standing Orders and Financial Regulations; • Formulating and keeping under review a Code of Conduct to promote high ethical standards amongst Officers and doing anything that is considered to promote and maintain high standards of conduct by Officers; • Formulating and keeping under review the Council's 'whistle-blowing' policy; and • Formulating and keeping under review the Council's arrangements for handling complaints and investigations by the Local Government Ombudsman.
Ethics and Behaviours	
2.	<p>To promote, maintain and assist the achievement of high standards of conduct by Councillors and co-opted members in accordance with the Council's Code of Conduct for Members.</p> <ul style="list-style-type: none"> • To monitor the operation of the Code of Conduct for Members; • To advise the Council on any amendment or revision of the Code; • To secure adequate and appropriate training of Councillors and co-opted Members on the Code of Conduct for Members; • To give general guidance and advice to Councillors on Members' interests and keep under review the Register of Members' Interests maintained by the Monitoring Officer; and

	<ul style="list-style-type: none"> To give general guidance and advice to Councillors and employees on gifts and hospitality.
External Audit	
3.	<p>Monitor the adequacy and effectiveness of the Council's external audit service and respond to its findings. Specifically:</p> <ul style="list-style-type: none"> Considering the appointment, nature and scope of the external audit of the Council's services and functions; Receiving and considering all external audit reports including the annual plan, annual audit letter and governance report; and Monitoring management's response to the external auditor's findings and the implementation of external audit recommendations.
Internal Audit	
4.	<p>Monitor the adequacy and effectiveness of the Internal Audit service. Specifically:</p> <ul style="list-style-type: none"> Approving the internal audit charter; Approving the annual risk based internal audit plan; Receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion; Receiving and considering major Internal Audit findings and recommendations; Monitoring management's response to Internal Audit findings and the implementation of the recommendations; Making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; Agreeing the scope and form of the external assessment as part of the quality assurance and improvement plan; Receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance with professional standards; and Approving significant consulting services not already included in the audit plan, prior to acceptance of the engagement, if this materially impacts on core assurance activity.
Constitution	
5.	<p>To grant dispensations to Councillors and co-opted Members related to interests specified in the Code of Conduct for Members following written requests to the proper officer (Chief Executive) by a Member or Co-opted Member under section 33 of the Localism Act 2011, when the Council:</p> <ul style="list-style-type: none"> Considers that without the dispensation, the number of persons prohibited by section 31(4) from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business;

	<ul style="list-style-type: none"> • Considers that without the dispensation the representation of different political groups on the body transacting any particular business would be upset as to alter the likely outcome of any vote relating to the business; • Considers that granting the dispensation is in the interests of persons living in the authority's area; • Considers that without the dispensation each member of the authority's executive would be prohibited by section 31(4) from participating in any particular business to be transacted by the authority's executive, or • Considers that it is otherwise appropriate to grant a dispensation; and • Considers appeals against decisions made by the Monitoring Officer in exercise of their dispensation powers.
Hearings Panel	
6.	<p>To establish a Sub-Committee known as the Hearings Panel and to make recommendations to Council on the appointment of an Independent Person to hear allegations that Members have failed to comply with the Member's Code of Conduct. Specifically to:</p> <ul style="list-style-type: none"> • Assess and review allegations of Member misconduct; and • Determine allegations of Member misconduct.
Powers	
7.	<ul style="list-style-type: none"> • The Committee has the right to require the attendance of any Council officers and/or members in order to respond directly to any issue under consideration; • To review any issues referred to it by the Head of Paid Service, a Corporate Director or any Council body; and • The power to call expert witnesses from outside the Council to give advice on matters under review or discussion.

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Audit and Governance Committee	
Governance, risk and control	
1	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
2	To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
3	To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
4	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
5	To monitor the effective development and operation of risk management in the Council.
6	To monitor progress in addressing risk-related issues reported to the Committee.
7	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
8	To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
9	To monitor the counter-fraud strategy, actions and resources.
Internal Audit	
10	To approve the internal audit charter.
11	To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
12	To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
13	To approve significant interim changes to the risk-based internal audit plan and resource requirements.
14	To make appropriate enquiries of both management and the Head of internal audit to determine if there are any inappropriate scope or resource limitations.
15	To consider reports from the Head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: <ul style="list-style-type: none"> (a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. (b) Regular reports on the results of the Quality Assurance and Improvement Programme. (c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
16	To consider the Head of internal audit's annual report: <ul style="list-style-type: none"> (a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement. The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with a summary of the work supporting the opinion.
17	To consider summaries of specific internal audit reports as requested.
18	To receive reports outlining the action taken where the Head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to

	the authority or there are concerns about progress with the implementation of agreed actions.
19	To contribute to the Quality and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
20	To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
21	To support the development of effective communication with the Head of internal audit.
External Audit	
22	To consider the external auditor's annual letter, relevant reports, and the report of those charged with governance.
23	To consider specific reports as agreed with the external auditor.
24	To comment on the scope and depth of external audit work and to ensure it gives value for money.
25	To commission work from internal and external audit.
26	To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
27	To consider the external auditor's annual letter, relevant reports, and the report of those charged with governance.
28	To consider specific reports as agreed with the external auditor.
29	To comment on the scope and depth of external audit work and to ensure it gives value for money.
30	To commission work from internal and external audit.
31	To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
Financial reporting	
32	To review the statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
33	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
Accountability arrangements	
34	To report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
35	To report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.
Constitution and Standards	
36	To consider and review changes to the Council's constitution in respect of Contract Standing Orders, Financial Regulations, and Codes of Conduct and behaviour.
37	To monitor the operation of the Council's codes and protocols (see Part 5 of this Constitution) and the Council's complaints process and to advise the Council on the adoption or revision of such codes.
38	To consider the Council's compliance with its own published standards and controls.
39	To review any issues referred to it by the Head of Paid Service, a Corporate Director or any Council body.
40	To receive allegations and any accompanying report from the Monitoring Officer and to refer the allegation to the Monitoring Officer for formal investigation or informal resolution.

41	To set up, where necessary, a Hearings Panel to consider any alleged breach of the Members' Code of Conduct.
42	To promote and maintain high standards of conduct by Councillors and co-opted Members.
43	To assist Councillors and co-opted Members to observe the Members' Code of Conduct.
44	To advise the Council on the adoption, revision of, or publicity on the Members' Code of Conduct.
45	To advise, train or arrange to train Councillors and co-opted Members on matters relating to the Members' Code of Conduct.
46	To grant dispensations to Councillors and co-opted Members from the requirements relating to interests set out in the Members' Code of Conduct or other Council codes and protocols where: (a) the Committee considers that the dispensation is in the interests of persons living in the Council's area; or (b) the Committee considers that it is otherwise appropriate to grant a dispensation.
47	To consider appeals against decisions made by the Monitoring Officer in exercise of their dispensation powers;
48	To set up, where necessary, a Sub-Committee to shortlist and interview candidates for the role of Independent Person and to make recommendations to Council regarding the appointment of Independent Persons.
49	To provide such advice and assistance as appropriate regarding the appointment of the Independent Person as required under Part 7 of the Localism Act 2011.
50	To set the allowances and expenses payable to the Independent Person and Reserve Independent Persons.
51	The ability to require the Leader and Cabinet Members to attend and be questioned on audit, risk management and corporate governance matters relating to their roles and responsibilities.
52	The ability to require the Head of Paid Service, and Corporate Directors to attend and be questioned on audit, risk management and corporate governance matters relating to their roles and responsibilities.
53	The power to call expert witnesses from outside the Council to give advice on matters under review or discussion.
54	To discharge powers under section 101 of the Local Government Act 1972 acting as a Sub-Committee of the Council for Statement of Auditing Standards (610) purposes.
55	To approve the Statement of Accounts and the Annual Governance Statement.
56	To approve the Internal Audit Periodic Plan, receive reports on progress and as a consequence approve any material changes to the plan.
Audit and Governance (Hearings Panel)	
57	To receive reports from the Monitoring Officer following investigations into complaints and all other steps associated with that function.
58	To conduct standards hearings and all other steps associated with that function, including taking into account the advice of the Independent Person.
59	To conduct a pre-meeting if it considers it will assist the expeditious resolution of business including identifying areas of agreement / disagreement, how the evidence shall be adduced, and which parts of the hearing, or any documents, shall be private.

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Meeting:	Audit & Governance	Date:	19 September 2016
Subject:	Business Rates Pooling Report 2015-16		
Report Of:	Cabinet Member for Performance and Resources		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Jon Topping, Head of Finance		
	Email: jon.topping@gloucester.gov.uk	Tel: 396242	
Appendices:	None		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 The Gloucestershire Business Rates Pool was set up to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership.
- 1.2 2015/16 was the third year of operation of the Pool and this report sets out the outturn position for the year.

2.0 Recommendations

- 2.1 Audit & Governance is asked to **RESOLVE** that the 2015/16 outturn position and performance of the Gloucestershire Business Rates Pool be noted.

3.0 Background and Key Issues

- 3.1 The Business Rates Retention Scheme was introduced on 1st April 2013. Under the Scheme, the Council retains some of the business rates raised locally.
- 3.2 The Gloucestershire Business Rates Pool governance arrangements determine how surpluses and deficits are distributed or recovered.
- 3.3 Gloucester City Council has been a member of the Gloucestershire Business Rates Pool since the inception of the retained Business Rates scheme in April 2013. Pool governance arrangements were put in place and the scheme commenced in the 2013/14 financial year.
- 3.4 The position for 2015/16 is that the pool declared a surplus and additional funding of approximately £800k which will be retained in Gloucestershire and returned to the member authorities. This is a contrast to the 2014/15 situation where the large deficit at Tewkesbury Borough Council had the impacted of all pool authorities

making additional payments from the General Fund. The surplus returned to Gloucester City Council is £173k and was included in the sums being transferred to the Business rates reserve as part of the Councils outturn for 2015-16. As stated in the outturn report for 2014/15 any surplus from pooling going forward would in the first instance repay the General Fund against the deficit payment made of £345k for 2014-15.

- 3.5 The pool is to continue in 2016/17 with a different membership. Tewkesbury have withdrawn from the pool as their risk profile, after the reduction in their largest ratepayer, means that not only do they not currently benefit from pool membership but they expose the remaining pool members to additional risk and reduce the pool surplus.
- 3.6 Government were notified of this by the statutory deadline of 31st October 2015 by Stroud District Council (pool lead authority), and the pool was re-established without Tewkesbury Borough Council for 2016/17.
- 3.7 Table 1 sets out the finances for the Gloucestershire Business Rates Pool for the year ended 2015/16.

Table 1 - Pooling Distribution 2013/14, 2014/15 (NNDR3) and 2015/16 (NNDR3)

	2013/14 Outturn (£)	2014/15 Outturn (£)	2015/16 Outturn
Retained Business Rates (outside pool)	81,602,905	82,218,871	84,949,749
Retained Business Rates (within pool)	82,377,767	79,882,443	85,827,697
Total Amount to Distribute	774,862	(2,336,563)	877,948
Share of gains/losses			
Cheltenham	52,824	(284,955)	142,927
Cotswold	25,326	(228,988)	114,855
Forest of Dean	47,687	(267,340)	134,091
Gloucester	72,954	(345,190)	173,139
Stroud	37,547	(273,831)	137,347
Tewkesbury	67,573	(225,077)	0
County	75,978	(411,182)	175,589
Reserve Movement	300,000	(300,000)	0
SEDF Contribution	94,972		0
Total Gain/Loss (Distributed)	774,861	(2,336,563)	877,948

- 3.8 The forecast position for 2016/17 is possible further retention for Gloucester City. The final outturn position will not be known until May 2017 when the NNDR3 is completed.

3.9 The withdrawal of Tewkesbury Borough Council from the Gloucestershire Business Rates Pool on a temporary basis was recommended to protect both Gloucester City Council and the members of the Pool from the full effect of further successful appeals or single assessment requests of Virgin Media in Tewkesbury Borough Council.

4.0 Asset Based Community Development (ABCD) Considerations

4.1 There are no ABCD implications as a result of this report.

5.0 Alternative Options Considered

5.1 There are no alternative options

6.0 Reasons for Recommendations

6.1 To review the performance of the Gloucestershire Business Rates Pool in 2015/16.

7.0 Financial Implications

7.1 Contained in the body of the report.

(Financial Services have been consulted in the preparation this report.)

8.0 Legal Implications

8.1 There are no legal implications from this report

(One Legal have been consulted in the preparation this report.)

9.0 Risk & Opportunity Management Implications

9.1 Contained in the body of the report

10.0 People Impact Assessment (PIA):

10.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, there a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

11.1 Nil

Sustainability

11.2 Nil

Staffing & Trade Union

11.3 Nil

Background Documents: None



Meeting:	Audit and Governance Committee	Date:	19 September 2016
Subject:	Local Government Ombudsman Decisions		
Report Of:	Monitoring Officer		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Jonathan Lund, Monitoring Officer		
	Email: jonathan.lund@gloucester.gov.uk		
	Tel:01452 396276		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To consider reports of the Ombudsman in respect of two recent Ombudsman investigations, one resulting in a finding of fault or injustice on the part of the Council and the other where the case was not pursued.

2.0 Recommendations

- 2.1 Audit and Governance Committee is asked to **RESOLVE** that:
 - (1) The contents of the report be noted;
 - (2) It is satisfied that appropriate steps have been taken to address the findings and that no further action needs to be taken by the Council.

3.0 Background and Key Issues

- 3.1 The Local Government Ombudsman investigates and reports on complaints from members of the public who claim to have sustained injustice as a result of maladministration. Maladministration can encompass a number of failings by a local authority, including inattention, neglect and delay. Where the Ombudsman decides that injustice has been caused by an authority's maladministration, the authority concerned must consider the Ombudsman's report. The Ombudsman's final reports on the cases referred to in this report were published on 28 July 2016 and 11 August 2016.
- 3.2 The Council has 3 months from the publication of the final report to notify the Ombudsman of the action that has been taken or will be taken in response to the report.

Complaint by Mr X – 16 000 988

- 3.3 In this case, Mr A complained, on behalf of the Golf Club that he manages, that the Council was at fault for not awarding business rate relief due to flooding between 1 April 2013 and 21 March 2014.
- 3.4 The Ombudsman found that the Council was not at fault in refusing Mr A's application for business rate relief because the guidance issued to the Council was non-statutory and the Council was entitled to exercise its discretion about whether or not to make a payment. However, the Council took 11 months to determine the application and the Ombudsman acknowledged that the delay in responding was excessive and the Council was at fault because of the delay.
- 3.5 However, the Ombudsman concluded that the delay had not resulted in enough injustice to warrant a remedy, as there was no relief due to the Club.

Complaint by Ms B – 16 004 924

- 3.7 Ms B complained about the Council's decision to recover an unpaid business rates debt from 2013. Ms B claimed that the bill was for the whole of the premises when, in reality, she was occupying part, only for two months and was sharing with another person. She also complained that the use of enforcement agents was intimidating and added significant costs to the bill.
- 3.8 The Ombudsman found that Ms B had received a bill for occupation of the whole floor. When she challenged the basis of the bill Ms B was advised that the Council was the billing authority and she should pursue the matter with the Valuation Office Agency (VOA) as the body responsible for setting the payable rates. Ms B did contact the VOA but she was not present at the property on two occasions when the VOA called to make a revaluation inspection.
- 3.9 Ms B made no payments towards the bill and took no further action despite the Council issuing a summons and obtaining a court order in respect of the debt. As a consequence the Council passed the matter to enforcement agents and this prompted Ms B to action. Ms B new about the debt in 2014 but did nothing more until enforcement action was taken. The Council was the billing authority and there was no evidence of fault in the procedure which the Council followed.
- 3.9 The Ombudsman's decision was that she will not exercise her discretion to investigate Ms B's complaint which has been made outside of the normal 12 month period because there is not enough evidence of fault to warrant an investigation.

4.0 Alternative Options Considered

- 4.1 There are no alternative options relevant to this matter.

5.0 Reasons for Recommendations

- 5.1 There is a statutory requirement to respond to an Ombudsman report that identifies maladministration and a need for the Council to consider what action needs to be taken as a result of the report.

- 5.2 Audit and Governance Committee is responsible for reviewing the Council's corporate governance arrangements and for monitoring the operation of the Council's codes and protocols and the Council's complaints process and to advise the Council on the adoption or revision of such codes.

6.0 Future Work and Conclusions

- 6.1 In respect of Case 16 000 988, procedures have been reviewed and staff have been briefed to ensure that unacceptable delays are avoided. A letter has been issued acknowledging the fault and offering an apology.
- 6.2 In respect of Case 16 004 924 no further action is proposed.

7.0 Financial Implications

- 7.1 None

(Financial Services have been consulted in the preparation this report.)

8.0 Legal Implications

- 8.1 The Local Government and Housing Act 1989 places a duty on the Monitoring Officer to report the Ombudsman's findings to the Council.
- 8.2 The Ombudsman's reports are available for members of the public to inspect.
- 8.3 The Ombudsman's recommendations are not legally enforceable although it is extremely unusual for an authority not to accept them. If the Ombudsman is not satisfied with the action proposed, she can publish a further report and can compel an authority to publicise her views.

(One Legal have been consulted in the preparation of this report)

9.0 Risk & Opportunity Management Implications

- 9.1 The findings highlight the need thoroughly consider all aspects of a complaint to ensure that all relevant factors are taken into account before any action is taken.

10.0 People Impact Assessment (PIA):

- 10.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

- 11.1 There are no community safety implications.

Sustainability

- 11.2 There are no sustainability implications.

Staffing & Trade Union

11.3 There are no staffing implications.

Background Documents: None.

Gloucester City Council
Audit and Governance Work Programme 2016-2017
(Updated 06 September 2016)

Item	Format	Committees	Lead Officer	Comments
19 September 2016:				
1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item
2. ISA 260 Report to those Charged with Governance	Written report	Audit and Gov	KPMG	Standing agenda item requested by the Committee
3. Statement of Accounts 2015/16	Written Report	Audit and Gov	Head of Finance	Part of the Committee's annual work programme
4. Business Rates Pooling Annual Report	Written Report	Audit and Gov	Head of Finance	Part of the Committee's annual work programme
5. Internal Audit Plan 2016/17 – Progress Report	Written Report	Audit and Gov	Head of IA&RM	Part of the Committee's annual work programme
6. Local Government Ombudsman Decisions	Written Report	Audit and Gov	Monitoring Officer	Part of the Committee's annual work programme
7. Changes to the arrangements for appointment of External Auditors	Written report	Audit and Gov Council	Head of Finance	Requested by the Head of Finance
8. Update to the Audit and Governance Committee Terms of Reference	Written report	Audit and Gov CEWG General Purposes Council	Head of IA&RM	Addition to the work programme - action confirmed within the Committee minutes from June 16.
9. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item
21 November 2016				

1. Audit and Governance Committee Action Plan	Timetable	Audit and Gov	-----	Standing agenda item requested by the Committee
2. Benefit Audit Update on Accuracy Rate	Written Report			Part of the Committee's annual work programme
3. Annual Audit Letter 2015/16	Written Report	Audit and Gov	KPMG	Part of the Committee's annual work programme
4. Zurich Risk Management Standards Assessment report	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
5. Treasury Management Performance 2016/17 Six monthly update	Written Report	Audit and Gov	Head of Finance	Part of the Committee's annual work programme
6. Regulation of Investigatory Powers Act 2000 (RIPA) – Annual Review of Procedural Guide	Written Report	Cabinet Audit and Gov Council	Corporate Director	Part of the Committee's annual work programme
7. Strategic Risk Register Update	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
8. Risk Management Review Update	Written report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
9. KPMG Technical Update	Written report	Audit and Gov	KPMG	Part of the Committee's annual work programme
10. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item

23 January 2017

1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee
2. KPMG Grants Audit Report	Written Report	Audit and Gov	KPMG	Part of the Committee's annual work programme
3. Internal Audit Plan 2016/17 – Progress Report (Including Amey Audit Report)	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
4. Draft Contract Standing Orders	Written Report	Audit and Gov	Monitoring Officer/ Head of Finance	Part of the Committee's annual work programme
5. Review of Risk Management	Written report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
6. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item

13 March 2017				
1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee
2. KPMG – External Audit Plan 2016/17	Written Report	Audit and Gov	KPMG	Part of the Committee's annual work programme
3. Benefit Audit Update on Accuracy Rate	Written Report			Part of the Committee's annual work programme
4. KPMG – External Audit Technical Update	Written Report	Audit and Gov	KPMG	Part of the Committee's annual work programme
5. Treasury Management Strategy	Written Report	Audit and Gov Cabinet Council	Head of Finance	Part of the Committee's annual work programme
6. Annual Risk Management Report	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
7. Internal Audit Plan 2016/17 – Monitoring Report	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
8. Internal Audit Plan 2017/18	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
9. KPMG Grants Audit Report	Written report	Audit and Gov	KPMG	Part of the Committee's annual work programme
1. Anti-Fraud Corruption Strategy Review.	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
2. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item

FUTURE AUDIT & GOVERNANCE COMMITTEE AGENDA ITEM – DATE TO BE AGREED:

- Update report on Peer Review visit
- Review of Benefit Audit Accuracy Rate (June 2017)

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