



## Audit and Governance Committee

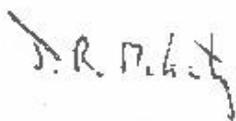
**Meeting: Monday, 18th September 2017 at 6.30 pm in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP**

<b>Membership:</b>	Cllrs. Gravells (Chair), Melvin (Vice-Chair), Stephens, Morgan, Wilson, H. Norman and Smith
<b>Contact:</b>	Atika Tarajiya Democratic and Electoral Services Officer 01452 396127 Atika.tarajiya@gloucester.gov.uk

### AGENDA

<b>1.</b>	<b>APOLOGIES</b>  To receive any apologies for absence.
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>  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.
<b>3.</b>	<b>MINUTES (Pages 5 - 10)</b>  To approve as a correct record the minutes of the meeting held on 19 <sup>th</sup> June 2017.
<b>4.</b>	<b>PUBLIC QUESTION TIME (15 MINUTES)</b>  To receive any questions from members of the public provided that a question does not relate to: <ul style="list-style-type: none"> <li>• Matters which are the subject of current or pending legal proceedings, or</li> <li>• Matters relating to employees or former employees of the Council or comments in respect of individual Council Officers</li> </ul>
<b>5.</b>	<b>PETITIONS AND DEPUTATIONS (15 MINUTES)</b>  To receive any petitions and deputations provided that no such petition or deputation is in relation to: <ul style="list-style-type: none"> <li>• Matters relating to individual Council Officers, or</li> <li>• Matters relating to current or pending legal proceedings</li> </ul>
<b>6.</b>	<b>AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN (Pages 11 - 12)</b>  To consider the Action Plan.
<b>7.</b>	<b>STATEMENT OF ACCOUNTS 2016/17 (Pages 13 - 98)</b>

	To consider the Statement of Accounts, presented by the Head of Policy and Resources.
<b>8.</b>	<b>KPMG EXTERNAL AUDIT REPORT 2016/17 (ISA 260 REPORT TO THOSE CHARGED WITH WITH GOVERNANCE)</b> (Pages 99 - 130)  To consider the report presented by KPMG.
<b>9.</b>	<b>ANNUAL GOVERNANCE STATEMENT 2016/17</b> (Pages 131 - 164)  To consider the statement, prepared by the Head of Policy and Resources, which summarises the City Council's governance arrangements during 2016/17.
<b>10.</b>	<b>INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2017/18</b> (Pages 165 - 194)  To consider the report of the Head of Audit Risk Assurance informing the Committee of the Internal Audit Risk activity progress in relation to the approved Internal Audit Plan 2016/17.
<b>11.</b>	<b>STREETCARE CONTRACT MANAGEMENT 6 MONTHLY MANAGEMENT UPDATE</b> (Pages 195 - 198)  To consider the report of the Corporate Director providing an update of activity to implement the recommendations arising from the Streetcare Contract Audit.
<b>12.</b>	<b>DISCRETIONARY RATE RELIEF SCHEME</b> (Pages 199 - 204)  To consider the report of the Cabinet Member for Performance and Resources outlining the additional Discretionary Rate Relief Scheme.
<b>13.</b>	<b>AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME</b> (Pages 205 - 208)  To consider the Work Programme.
<b>14.</b>	<b>DATE OF NEXT MEETING</b>  20 <sup>th</sup> November 2017 at 6:30pm in the Civic Suite, North Warehouse.



**Jon McGinty**  
Managing Director

**Date of Publication: Friday, 8 September 2017**

## 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**

Agendas and reports can be viewed on the Gloucester City Council website: [www.gloucester.gov.uk](http://www.gloucester.gov.uk) and are available to view five working days prior to the meeting date.

For further details and enquiries about this meeting please contact Atika Tarajiya, 01452 396127, [atika.tarajiya@gloucester.gov.uk](mailto: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](mailto:democratic.services@gloucester.gov.uk).

If you, or someone you know cannot understand English and need help with this information, or if you would like a large print, Braille, or audio version of this information please call 01452 396396.

### **Recording of meetings**

Please be aware that meetings may be recorded. There is no requirement for those wishing to record proceedings to notify the Council in advance; however, as a courtesy, anyone wishing to do so is advised to make the Chair aware before the meeting starts.

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, 19th June 2017

**PRESENT** : Cllrs. Gravells (Chair), Stephens, Morgan, H. Norman and Coole

### **Others in Attendance**

Jon McGinty, Managing Director  
Jonathan Lund, Corporate Director and Monitoring Officer  
Anthony Hodge, Head of Place  
Andrew Cummings, Finance  
Stephanie Payne, Group Manager, Audit, Risk and Assurance  
Atika Tarajiya, Democratic and Electoral Services Officer  
David Rice, Democratic and Electoral Services Officer

**APOLOGIES** : Cllrs.

### **1. APPOINTMENT OF CHAIR AND VICE-CHAIR**

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

### **2. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **3. MINUTES**

Councillor Stephens asked for an update on the progress of arrangements with Marketing Gloucester (MGL). The Monitoring Officer responded that the Memorandum of Articles & Association and Contract for Services had been signed and that the Performance Framework would be ready to share with Members after Monday 26<sup>th</sup> June. He noted that discussions relating to staff on secondment to MGL were on-going. Councillor Stephens shared his view that the loan to MGL should be called in for repayment.

### **RESOLVED:**

That the minutes of the last meeting held on the 13<sup>th</sup> March 2017 to be confirmed as a correct record.

**AUDIT AND GOVERNANCE COMMITTEE**  
**19.06.17**

**4. PUBLIC QUESTION TIME (15 MINUTES)**

There were no public questions.

**5. PETITIONS AND DEPUTATIONS (15 MINUTES)**

There were no petitions or deputations.

**6. DECISION OF THE OFFICE OF THE INFORMATION COMMISSIONER**

The Chair expressed concern that the Committee was first informed of the issue via the media rather than by officers.

The Managing Director stated that Members were informed together as soon as was possible. He explained that the Office of the Information Commissioner (ICO) had issued a notice of intent just before the Bank Holiday Weekend (29<sup>th</sup> May) and had allowed 48 hours for a response. He advised that the Council had made representation to the ICO appealing the penalty on the basis that the Council had taken appropriate action when they had become aware of the system failure. He further explained that the fact of the penalty having been applied was only discovered when the press release had been issued by the ICO. He commented that there had been no advance notice other than the aforementioned notice of intent, and a conversation with the Local Government Association concerning this conduct of the ICO was currently being held.

The Managing Director clarified the steps taken by the City Council after the incident in 2014. He confirmed that the Council believed that it had taken timely and robust action to remedy the vulnerability within the IT system and disputed the ICO's finding that the Council had not taken reasonable steps. He explained that the request to apply the necessary software to remedy the vulnerability had been lodged on the 10<sup>th</sup> April 2014, via the IT help desk, the day it became available and the contractor had confirmed that it had been applied. He noted that it was not until July 2014 when the Council became aware that the software had not in fact been patched. He further noted that when the incident was reported the police began an investigation, a news blackout had been requested, and that as far as the Council were aware a criminal investigation was still on-going. He further explained that communication started with the IOC in December 2016 when a draft notice of intent to fine £175,000 was issued which was contested. He noted that the May notice of intent had reduced the fine by £75,000 but the evidence submitted by the Council appeared to have been disregarded without explanation. He informed the Committee that legal advice into the possibility of an appeal was being considered, acknowledging that the Council would forfeit the option for a further reduced fine if they proceeded with the appeal.

The Chair expressed disappointment that Members were not kept informed of developments during this period and noted that the Committee undertook its responsibility seriously.

Councillor Stephens noting that Councillor Pullen had been approached by the media on this issue commented that there was discrepancy in the dates for the supposed application of the patch software between the Council's response and ICO's

**AUDIT AND GOVERNANCE COMMITTEE**  
**19.06.17**

findings. He further questioned why a process was not in place to monitor the contractor's actions. He stated that as the contractor was at fault they should be made liable for the cost, noting that legal action could incur additional costs. He suggested that an independent review of Council's patch application checking procedures be looked into by the Council's external auditors to ensure that it was sufficiently robust and report back to Members.

The Managing Director responded that the ICO statement was factually incorrect as far as the contravention was concerned as the Council believed it had taken the required action on 10<sup>th</sup> April 2014. He explained that it would not be reasonable to check the work of IT professionals without specialist expertise. He reassured Members that a checking procedure with the current contractors was now in place.

Councillor Stephens commented that the patch not having been applied, no check made, and the time gap before final resolution would make it difficult to successfully challenge the ICO in court, commenting that early payment of the penalty may save the Council money.

In response to a query from Councillor Wilson as to whether there was a record of the request to the IT Service Desk, the Managing Director confirmed that the Council had a record of having requested the patch and this had been supplied to the ICO.

The Chair commented that some of the Committee were present at the time of the incident and recalled the atmosphere of confusion as the police investigation continued. In response to his query regarding the implications of the police investigations, the Managing Director responded that he was unsure if Gloucestershire Police were actively pursuing the investigation and resolved to make representations to them to ascertain the current status on the enquiry.

Councillor Morgan reported that if the contractor responsible was well-respected in the sector it would not want to risk reputational damage to their business if their failures were advertised. He questioned whether application of software patches was a common or exceptional occurrence. The Managing Director stated that software patch applications were a common occurrence, and that looking into the contractor's actions was under consideration. He commented that the dispute with the ICO concerned a difference of opinion as to what constituted 'reasonable steps'. Councillor Stephens reiterated that the Council did not have a procedure to check the actions of the contractor and that an external auditor would advise on whether the Council's processes were reasonable.

The Chair thanked the Managing Director.

**RESOLVED that:**

1. External auditors be asked to review the Council's patch application checking processes at the time of the incident and the discrepancies between the Council's and ICO's statements
2. Representations be made to the police to determine the status of the police investigation into the incident.

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**7. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN**

The Committee considered the Action Plan and made no comment.

**8. POSITION STATEMENT ON STATEMENT OF ACCOUNTS**

The Management Accountant provided a verbal update. He commented that this has been a more challenging year than usual due to a new system and the implementation of Together Gloucester (organisational change programme). He stated that the accounts were intended to be completed and signed off by the Head of Policy and Resources this week. He informed the Committee that KPMG would begin their audit on 26<sup>th</sup> June 2017 with the report to be presented in September 2017.

**9. ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY 2016/17**

The Group Manager Audit, Risk and Assurance noted that the report closes the 2016-17 reporting period and meets all four relevant requirements of the Public Sector Internal Auditing Standards. She gave a verbal summary of the key findings in the report.

Councillor Stephens commented that he was pleased to see the report and congratulated the authors on its quality. He expressed concern regarding the results of the Human Resources Shared Service audit, especially in regard to Together Gloucester, and that there would be significant organisational risk if the service was not delivered as expected.

The Monitoring Officer reassured the Committee that the Council was looking carefully at all services shared with the County Council. He commented that Together Gloucester has identified both strengths and weaknesses in the shared service arrangements currently in place and that the HR service had been strengthened by the process.

The Monitoring Officer stated that since the finalisation of the report in March, considerable progress had been made with Together Gloucester. She assured Councillor Stephens that it would be possible to provide feedback at the next meeting.

The Head of Regeneration and Economic Development pointed out that the Gloucester Supports Business Grants internal audit report recommendations with respect to HR have been responded to and mechanisms are in place to deal with the issues raised in the report.

**RESOLVED:**

1. That the performance of Audit Risk Assurance meets the required standards be noted.

**AUDIT AND GOVERNANCE COMMITTEE**  
**19.06.17**

2. That reasonable assurance be taken that the internal control environment at the City Council is operating effectively.
  
3. That confirmation be provided that actions arising from the HR Shared Service Audit have been implemented and steps taken to address the recommendations.

**10. AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2016/17**

The Committee considered the report of the Chair of the Audit and Governance Committee.

**RESOLVED:**

That the report of the Chair of the Audit and Governance Committee be approved and recommended to Council.

**11. DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17 (INCLUDING REVISED CODE OF CORPORATE GOVERNANCE)**

The Management Accountant provided a verbal summary of the draft statement, described the key actions and was thanked by the Chair.

The Cabinet Member for Performance and Resources (Councillor Norman) reminded the Committee that the organisation was at an early stage of the necessary significant transformation, with the Together Gloucester process currently settling personnel arrangements, and despite any potential change in central government priorities, the Committee must continue to make the governance arrangements fit for purpose.

**RESOLVED:**

That the Draft Annual Governance Statement be approved.

**12. TREASURY MANAGEMENT SIX MONTHLY UPDATE 2017/18**

The Management Accountant provided a verbal update particularly noting a pleasing investment performance, that there was no new long-term borrowing and that the short-term borrowing was a good deal.

The Chair thanked the Management Accountant for an important report.

**RESOLVED:**

That the contents of the Treasury Management Six Monthly Update 2017/18 be noted.

**13. REVIEW OF BENEFIT AUDIT ACCURACY RATE AND MONITORING OF BENEFIT SOFTWARE**

**AUDIT AND GOVERNANCE COMMITTEE**  
**19.06.17**

The Committee considered the report of the Head of Policy and Resources. Councillor Wilson noted a typing error in paragraph 3.3.

The Management Accountant referred to a question arising from the last meeting concerning royalty payments and informed the Committee that an invoice for £20,000 had been issued and confirmation had been received from Civica that this would be paid. He reminded the Committee that as the contract year varied from the financial year, the current year's figures are not yet available.

**RESOLVED that:**

The Housing Benefit accuracy rate as outlined in the report of the Head of Finance be noted.

**14. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME**

The Committee noted the Audit and Governance Committee Work Programme 2017.

**RESOLVED that:**

The Audit and Governance Committee Work Programme be adopted.

**15. DATE OF NEXT MEETING**

Monday 18<sup>th</sup> September 2017 at 6.30pm in the Civic Suite, North Warehouse.

**Time of commencement: 6.30 pm hours**

**Time of conclusion: 7.32 pm hours**

**Chair**

**AUDIT AND GOVERNANCE COMMITTEE – 8 SEPTEMBER 2017**

**ACTION PLAN**

MINUTE NO.	MATTER	CURRENT STATUS	RAG	TARGET DATE	OWNER
<b><u>Actions arising from meeting held on 21 November 2016:</u></b>					
45	Report back to the Committee on the outcome of the claim to the Election Claims Unit in respect of the EU Referendum and the additional spend over the maximum recoverable amount.	Notice of settlement in relation to EU Referendum received 22/05/2017. It is believed PCC election account has been settled as no further correspondence since 20/06/2017. Monies, when received, will be accounted for in year 2016/17.	<b>G</b>	<del>March 17</del> <del>? April 2017</del> Potentially <del>September 2017</del> Completed	<del>JL</del> JT/AC JT
<b><u>Actions arising from meeting held on 23 January 2017:</u></b>					
56	Provide Committee with details of the operational and strategic KPIs agreed with Amey.  Clarification on which ward records are being stored centrally and if and how Members are able to access this information.	City Improvement and Environment Manager to provide the Committee with a written response detailing the agreed KPIs	<b>G</b>	Six month management update scheduled for September 17	MB
<b><u>Actions arising from meeting held on 13 March 2017:</u></b>					
71	Provide formal clarification on the purpose and terms of agreement for the loan to MGL.	Finance Team in association with Council Solicitor to provide a written response.	<b>G</b>	<del>Prior to June 2017</del> <del>Committee meeting</del> Completed	JT/AC /SW

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Agenda Item 6

**Actions arising from meeting held on 19 June 2017:**

6	External audit be requested to review audit of Council's procedures in 2014 and subsequently relevant to the statements issued by the Office of the Information Commissioner	Update on position to Sept 17 Committee meeting.	A	September 2017 Committee Meeting	JL
6	Provide clarification of the current status of the police investigation into the IT security incident of 2014	Managing Director liaised with Gloucestershire Constabulary and report back to Chair of the Committee on 22 <sup>nd</sup> August 2017.	G	<del>Prior to September 2017 Committee Meeting</del> Completed	JM
9	Provide an update on actions arising from the HR Service Audit and steps taken to address recommendations	Response circulated to Committee on 31 <sup>st</sup> August 2017	G	<del>Prior to September 2017 Committee Meeting</del> Completed	AB

**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.

## GLOUCESTER CITY COUNCIL 2016/17 STATEMENT OF ACCOUNTS

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# INTRODUCTION

## **Gloucester City Council**

### **Welcome to the Statement of Accounts 2016/17**

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 £0.590m for 2016/17 which is around 4% of the original budget. Our updated Medium Term Financial Plan (Money Plan) provides a clear strategic direction for the Council finances through to 2021/22. We are confident of achieving the challenging savings targets we have set ourselves for 2017/18 of £1.695m 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 £185.42 for 2016/17. This represents around 12% of an average bill of £1,529.74. 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 2016/17 statement of accounts will be published in September 2017.

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 Policy and Resources (Section 151 Officer)

Gloucester City Council	T 01452 396242
Herbert Warehouse	F 01452 396212
The Docks	E <a href="mailto:financeservices@gloucester.gov.uk">financeservices@gloucester.gov.uk</a>
Gloucester, GL1 2EQ	<a href="http://www.gloucester.gov.uk">www.gloucester.gov.uk</a>

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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 2017. 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 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 2017.

## 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.

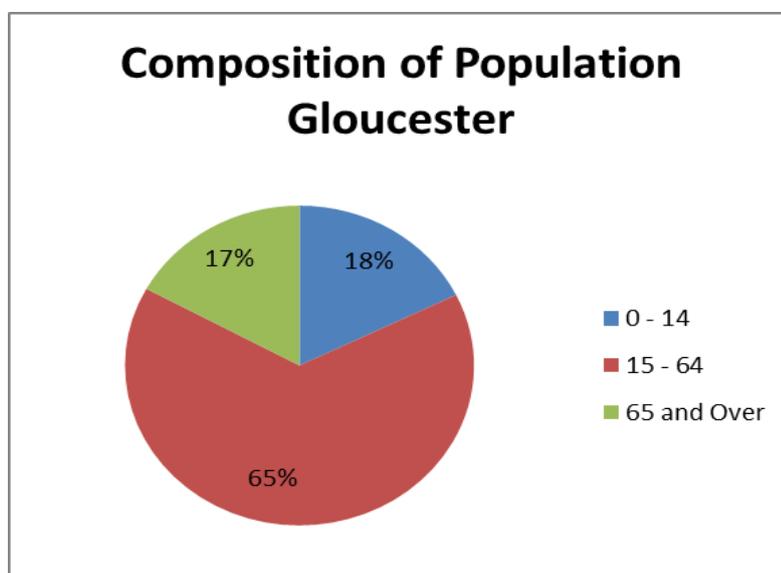
It has one of the richest heritage offerings in the country, from its time as a Roman colony, to one of the three most important medieval cities in England, then its development into an industrial centre. It is home to one of the finest medieval buildings in the country: the breath-taking cathedral which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

The famous Kingsholm stadium, home of Gloucester Rugby Club, is renowned for hosting world class rugby with the club one of the leading clubs in the country and part of the premiership. 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, Bakers Quay, 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 2015 reported that Gloucester's estimated population was 127,158 with the age profile as presented below.



# 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.

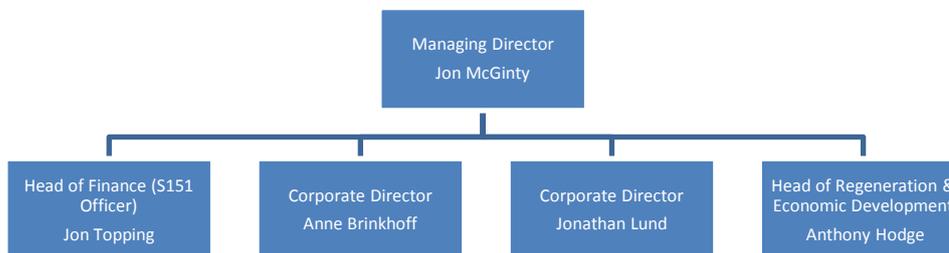
In 2016/17 Gloucester had 18 wards. Residents of the City were represented by 39 Councillors during 2016/17 post the election in May 2015, the Council hold elections every 4 years.

The political make up of the Council for 2016/17 was:

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

Overall control of the Council sits with the Conservative party with a majority of 4 seats. Representatives from Conservative, Labour and Liberal Democrat hold seats on the Council.

The Council employs a work force of approximately 185 staff to manage and deliver services to residents under the direction of the Senior Management Team. During the course of 2015/16 two current Directors in post left to new appointments and the Council successfully recruited in February 2016, with both posts commencing in May 2016. The senior management structure in place during 2016/17 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 2016/17:

### Mayor and Deputy Mayor in the 2016/17 Municipal Year

Mayor - Councillor N Hampson  
Sheriff and Deputy Mayor - Councillor S Hansdot

# **NARRATIVE REPORT**

## **3. About Gloucester City Council (Cont.)**

### **Cabinet in 2016/17**

Leader of the Council and Cabinet Member for Regeneration - Councillor P James  
Deputy Leader of the Council - Councillor J Watkins  
Cabinet Member Performance and Resources - Councillor D Norman MBE  
Cabinet Member Communities and Neighbourhoods - Councillor J Watkins  
Cabinet Member Housing, Health and Leisure - Councillor C Organ  
Cabinet Member Environment - Councillor J Porter (until August 2016)  
Cabinet Member Environment - Councillor R Cook (from September 2016)  
Cabinet Member for Culture - Councillor L Noakes

### **Chair of Committees in 2016/17**

Licensing Committee - Councillor H Norman  
Overview and Scrutiny Committee - Councillor T Coole  
General Purposes Committee - Councillor S Morgan  
Planning Committee - Councillor G Taylor  
Audit and Governance Committee - Councillor A Gravells

### **Chief Officers in 2016/17**

Managing Director - Mr J McGinty  
Corporate Director (from May 2016) - Mrs A Brinkhoff  
Corporate Director (from May 2016) - Mr J Lund  
Head of Finance (Section 151 Responsible Officer) - Mr J Topping

## **4. A summary of Financial Performance**

The 2016/17 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 £16.449m was approved by Cabinet and Council in February 2016. The Money Plan ([www.gloucester.gov.uk/council/performance-and-spending/budget-and-finance/Pages/5-Year-Money-Plan.aspx](http://www.gloucester.gov.uk/council/performance-and-spending/budget-and-finance/Pages/5-Year-Money-Plan.aspx)) identified targeted reductions in 2016/17 of £0.607m. The Money Plan included an increase in Council Tax of £5 the first in six years which resulted in an income from Council Tax of £6.720m.

In producing the Money Plan for 2016-17 to 2020-21 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.

# NARRATIVE REPORT

## 4. A summary of Financial Performance

The net revenue budget approved by Council in February was £16.448m. The actual net expenditure for the year was £16.760m increasing to £17.450m following approved transfer to and from earmarked reserves £0.690m.

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	2016/17	Year End	Reserves	Variance
	Budget	Outturn	Mvmt	
Planning	474	608	30	164
Legal and Democratic Services	1,128	1,127		(1)
Communications	125	96		(29)
Housing Services	413	543	13	143
HR	314	325		11
Guildhall and Museums	431	638	(35)	172
Aspire	428	427		(1)
Internal Audit	177	202		25
Neighbourhood Services	4,914	4,992	181	259
Environmental Planning and the Countryside Unit	117	103		(14)
Voluntary Sector	315	265	40	(10)
Shopmobility	6	57		51
Cem and Crem	(964)	(1,210)		(246)
Markets	(249)	(61)		188
Contact Centre	691	683		(8)
TIC	163	169	4	10
Public Protection	1,298	1,064		(234)
Financial Services	1,091	1,282	(53)	138
Revenues and Benefits	663	611		(52)
IT	1,418	1,621		203
Asset Management	(609)	(478)	75	206
Economic Development	402	315	20	(67)
Parking	(825)	(936)		(111)
Marketing Gloucester	464	457	(5)	(12)
Senior Management	375	347		(28)
<b>Total Service Expenditure</b>	<b>12,760</b>	<b>13,247</b>	<b>270</b>	<b>757</b>

As identified in the table below a final position of an underspend of £0.020m compared to a budgeted overspend of £0.060m.

Service	2016/17	Year End	Variance
	Budget	Outturn	
Interest Income	(45)	(46)	(1)
Interest Expenditure	467	146	(321)
Minimum Revenue Provision	660	460	(200)
Capital Financing Charge	27	27	0
Corporate Pension Contribution	2,579	2,926	347
<b>Total Corporate Costs</b>	<b>3,688</b>	<b>3,513</b>	<b>(175)</b>

<b>Transfer to / (from) Corporate Earmarked Reserves</b>	<b>0</b>	<b>420</b>
<b>Transfer to / (from) General Fund</b>	<b>(60)</b>	<b>20</b>

# NARRATIVE REPORT

## 4. A summary of Financial Performance (cont.)

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

Service	2016/17 Budget	Year End Position	Variance
Council Tax Funding	(6,816)	(6,816)	0
Retained Business Rates	(4,000)	(4,951)	(951)
Revenue Support Grant	(1,870)	(1,875)	(5)
New Homes Bonus	(3,823)	(3,830)	(7)
<b>Total Funding</b>	<b>(16,509)</b>	<b>(17,472)</b>	<b>(963)</b>

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

1. Delays in achieving savings targets in relation to Amey
2. The non-delivery of savings targets by Guildhall and Museums services
3. Cost in providing temporary accommodation in support of homelessness.
4. Planning costs incurred in relation to Joint Core Strategy and planning appeal
5. Increased income from crematorium
6. Reduced income from the markets service
7. Reduced business rates levy payment

The gross cost of service provision amounts to £101.543m and this has been analysed by type as shown in the table below:

Expenditure Type	2016/17 £000	2015/16 £000
Employee Expenses	8,546	9,169
Other Service Expenses	55,330	76,800
Support Service Recharges	13,074	(9,814)
Non-distributed costs	-	-
Exceptional items	-	-
Other Operating Expenditure	1,962	1,191
Capital charges and investment property expenditure	4,914	5,788
Business rates expenditure	17,717	17,658
<b>Gross Cost of Services</b>	<b>101,543</b>	<b>100,792</b>

The Council received gross income of £97.001m and this is analysed in the table below:

Income Type	2016/17 £000	2015/16 £000
Government Grants	44,267	44,883
Income from Council Tax and non-specific grant income	36,623	35,363
Fees, Charges & Other Service Income	13,481	13,100
Interest and Investment property income and other operating income	2,630	2,287
	<b>97,001</b>	<b>95,633</b>

# NARRATIVE REPORT

## 4. A summary of Financial Performance (cont.)

The capital budget was approved by Cabinet and Council in February 2016, with subsequent approvals bringing the final capital budget to £15.533m for 2016/17. Capital expenditure for 2016/17 was £7.876m

There was an underspend on the revised capital budget compared to budgeted expenditure of £7.657m, these underspends will be carried forward into 2017/18 capital programme to meet on going capital commitments.

A summary of the capital expenditure is shown below. Of the £7.876m spend, £7.520m 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 2016/17 are also shown below:

<b>Capital Expenditure</b>	<b>£000</b>
Housing	308
Eastgate Rooftop Car Park	713
Kings Quarter	2,400
IT Upgrade	200
Recycling Vehicles	2,655
Other including S106 and infrastructure	1,600
	<b>7,876</b>

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

<b>Source of Funding</b>	<b>£000</b>
Section 106	55
Usable Capital receipts	2,655
Grants	505
Borrowing	4,661
	<b>7,876</b>

## 5. Accounting Issues and Developments

### Pension Fund Deficit

The Council's share of the deficit on the Pension Fund, as at 31 March 2017, has increased from £58.381m to £68.629m see note 42 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

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 2016/17 include:

- Commencement of work on the City's impressive new bus station
- Key enabling role in the securing and implementation of the Bakers Quay scheme
- Securing land to enable the delivery of the Kings Quarter scheme
- Progression of a Local Development Order for the Blackfriars area of Gloucester
- Securing a developer for nearly 300 new student apartments on the Barbican site
- Partnership working with the University of Gloucestershire to secure the Business School and shared community sports facilities at St Oswalds Campus and Plock Court
- Introduction of a new pay on foot with Automatic Number Plate Recognition (ANPR) to support city centre retailers and improve dwell time
- Assisting in the unlocking of Project Pilgrim at Gloucester Cathedral through parking provision
- Acquiring a site adjacent to the railway station to provide an additional 250 space car park to free up potential public realm improvements in front of the station, funded by third parties, valued at nearly £3 million
- Instrumental role in setting up the Gloucester Culture Board to develop culture in our City
- Installation of a new high quality CCTV system has helped the police identify criminals and keep out streets safe
- Introduction of a new and enhanced recycling service that is more cost effective and will result in less waste being sent to landfill
- Clean for Queen spring clean campaign in 2016 resulting in a significant volume of litter being collected and partnerships being developed
- Implementation of the Street Aware initiative with the support of businesses, residents and partners, aimed at finding sustainable solutions to issues such as street begging and street drinking
- Launch of the Gloucester Lottery in 2017 providing an opportunity for local groups and causes to raise funds
- Successful use of asset based community development to encourage more people to take an active role in their community and recognition for the important role of community builders in bringing communities together and promoting health and wellbeing
- Being granted Housing Zone status by the Government to assist in delivering new housing on brownfield sites in and around the City centre
- Improved efficiency and reduced costs through shared services with the County Council and neighbouring District Councils.

The Council is currently changing its corporate non-financial performance indicator system and a new system Covalent has been procured to deliver future indicators. The Council still fully monitors across service areas.

# **NARRATIVE REPORT**

## **7. Significant Changes in Accounting Policies**

There have been no significant changes to accounting policies in the financial year. There have been some changes to the presentation of the accounts. The service breakdown included in the Comprehensive Income and Expenditure Statement is now broken down by the Council's own portfolio structure. Within the core financial statements there is now an Expenditure and Funding analysis which provides a reconciliation between the figures in the Income and Expenditure Statement to the Council's own Outturn Report.

### **Further Information**

Further details of the accounts can be obtained from the Head of Policy & Resources, 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 76-79.

Jon Topping  
Head of Policy & Resources (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 Policy and Resources).

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.

**Comprehensive Income and Expenditure Statement including the Expenditure and Funding Analysis** shows the cost of providing services in the year in accordance with International Financial Reporting Standards. The Expenditure and Funding Analysis reconciles this to the amount chargeable to the General Fund reserve in the year.

**Balance Sheet** shows the Council's financial position on 31 March 2017. 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 Policy & Resources (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 Policy & Resources (Section 151 Officer)**

The Head of Policy & Resources (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 Policy & Resources (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 2017 and its income and expenditure for the year ended on that date.

Signed .....

Dated .....

**Jon Topping**

**Head of Policy & Resources (Section 151 Officer)**

Signed .....

Dated .....

**Andrew Gravells**

**Chair of Audit Committee**

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# **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 2016/17 financial year and its financial position at 31 March 2017. 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 2016/17 and the Service Reporting Code of Practice 2016/17, 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 2.5% 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;
  - Unitised 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 service segments in accordance with the authority's arrangements for accountability and financial performance.

## **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 (2015/16 £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 2016/17 valuation identified no assets meeting the component accounting thresholds. The same position was found for 2015/16.

### **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 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 (except certain items that are shown at fair value) in accordance with the Financial Reporting Standard 102 (FRS102).

Since Investment Property and Property, Plant and Equipment (PPE) assets held by the airport have been valued at fair value no adjustments are required to the value of non-current assets on consolidation with the Council's accounts.

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# CORE FINANCIAL STATEMENTS

## CORE FINANCIAL STATEMENTS

### GLOUCESTER CITY COUNCIL MOVEMENT IN RESERVES STATEMENT For the years ended 31 March 2016 & 2017

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

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2015</b>	4,002	9,772	2,539	16,313	(1,425)	14,888
<b><i>Movement in Reserves during 2015/16</i></b>						
Total Comprehensive Income and Expenditure	(5,159)	-	-	(5,159)	7,840	2,681
Adjustments between accounting basis and funding basis under regulation (Note 6)	6,368	(7,060)	(181)	(873)	873	-
<b><i>Increase/(Decrease) in 2015/16</i></b>	<b>1,209</b>	<b>(7,060)</b>	<b>(181)</b>	<b>(6,032)</b>	<b>8,713</b>	<b>2,681</b>
<b>Balance at 31 March 2016</b>	<b>5,211</b>	<b>2,712</b>	<b>2,358</b>	<b>10,281</b>	<b>7,288</b>	<b>17,569</b>
<b><i>Movement in Reserves during 2016/17</i></b>						
Total Comprehensive Income and Expenditure	(4,542)	-	-	(4,542)	(4,060)	(8,602)
Adjustments between accounting basis and funding basis under regulation (Note 6)	5,253	(792)	1,316	5,777	(5,777)	-
<b><i>Increase/(Decrease) in 2016/17</i></b>	<b>711</b>	<b>(792)</b>	<b>1,316</b>	<b>1,235</b>	<b>(9,837)</b>	<b>(8,602)</b>
<b>Balance at 31 March 2017</b>	<b>5,922</b>	<b>1,920</b>	<b>3,674</b>	<b>11,516</b>	<b>(2,549)</b>	<b>8,967</b>

## CORE FINANCIAL STATEMENTS

### GLOUCESTER CITY COUNCIL GROUP MOVEMENT IN RESERVES STATEMENT For the years ended 31 March 2016 & 2017

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	
<b>Balance at 1 April 2015 Restated</b>	<b>16,313</b>	<b>1,585</b>	<b>17,898</b>	<b>(1,425)</b>	<b>9,791</b>	<b>8,366</b>	<b>26,264</b>
<b><i>Movement in Reserves during 2015/16</i></b>							
Total Comprehensive Income and Expenditure	(5,159)	(8)	(5,167)	7,840	394	8,234	3,067
Adjustment between company reserves	-	-	-	-	-	-	-
Adjustments between accounting basis and funding basis under regulation	(873)	-	(873)	873	-	873	-
<b><i>Increase/(Decrease) in 2015/16</i></b>	<b>(6,032)</b>	<b>(8)</b>	<b>(6,040)</b>	<b>8,713</b>	<b>394</b>	<b>9,107</b>	<b>3,067</b>
<b>Balance at 31 March 2016 Restated</b>	<b>10,281</b>	<b>1,577</b>	<b>11,858</b>	<b>7,288</b>	<b>10,185</b>	<b>17,473</b>	<b>29,331</b>
<b><i>Movement in Reserves during 2016/17</i></b>							
Total Comprehensive Income and Expenditure	(4,542)	(2,883)	(7,425)	(4,060)	2,816	(1,244)	(8,669)
Adjustment between company reserves	-	-	-	-	-	-	-
Adjustments between accounting basis and funding basis under regulation	5,777	-	5,777	(5,777)	-	(5,777)	-
<b><i>Increase/(Decrease) in 2016/17</i></b>	<b>1,235</b>	<b>(2,883)</b>	<b>(1,648)</b>	<b>(9,837)</b>	<b>2,816</b>	<b>(7,021)</b>	<b>(8,669)</b>
<b>Balance at 31 March 2017</b>	<b>11,516</b>	<b>(1,306)</b>	<b>10,210</b>	<b>(2,549)</b>	<b>13,001</b>	<b>10,452</b>	<b>20,662</b>

The Group's comparative financial information has been restated as a result of the Airport's conversion to new UK GAAP (FRS 102). See note 46.

# CORE FINANCIAL STATEMENTS

## GLOUCESTER CITY COUNCIL EXPENDITURE AND FUNDING ANALYSIS

For the year ended 31 March 2017

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent payers how the funding available to the authority (government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and Expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16					EXPENDITURE AND FUNDING ANALYSIS	2016/17				
General Fund Outturn excluding earmarked reserve movement	Adjusted for Movement on Earmarked Reserves	Net Expenditure Chargeable to the General Fund Balance	Adjustment between the funding and accounting basis (note 28)	Net Expenditure in the Comprehensive Income and Expenditure Statement		General Fund Outturn excluding earmarked reserve movement	Adjusted for Movement on Earmarked Reserves	Net Expenditure Chargeable to the General Fund Balance	Adjustment between the funding and accounting basis (note 28)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
1,021	(5)	1,026	(819)	1,840	Communities and Neighbourhoods	1,009	40	969	(1,007)	1,976
2,342	-	2,342	(2,301)	4,643	Culture	1,654	(36)	1,690	(1,880)	3,570
4,955	710	4,245	(2,570)	7,525	Environment	4,189	181	4,008	(2,829)	6,837
1,464	13	1,451	(2,469)	3,933	Housing and Planning	2,045	43	2,002	(2,967)	4,969
4,188	341	3,847	3,085	1,103	Performance and Resources	5,338	(53)	5,392	3,572	1,820
786	197	589	402	187	Regeneration and Economy	(719)	95	(814)	(844)	30
14,756	1,256	13,500	(4,672)	19,231	Net Cost of Services	13,516	270	13,247	(5,955)	19,202
(14,509)	200	(14,709)	(1,697)	(13,013)	Other Income and Expenditure	(13,536)	420	(13,958)	702	(14,660)
<b>247</b>	<b>1,456</b>	<b>(1,209)</b>	<b>(6,369)</b>	<b>6,218</b>	(Surplus) or Deficit	<b>(20)</b>	<b>690</b>	<b>(711)</b>	<b>(5,253)</b>	<b>4,542</b>
		4,002			Opening General Fund balance including earmarked reserves at 1st April			5,211		
		1,209			Add surplus / (deficit) in year			711		
		<b>5,211</b>			Closing General Fund balance including earmarked reserves at 31 March			<b>5,922</b>		

## CORE FINANCIAL STATEMENTS

### GLOUCESTER CITY COUNCIL COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT For the year ended 31 March 2017

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	2016/17			2015/16
	Gross Expenditure	Gross Income	Net Expenditure	Restated Net Expenditure
	£000	£000	£000	£000
<b>Communities and Neighbourhoods</b>	2,455	479	1,976	1,845
<b>Culture</b>	5,097	1,527	3,570	4,643
<b>Environment</b>	10,955	4,118	6,837	6,815
<b>Housing and Planning</b>	6,420	1,451	4,969	3,920
<b>Performance and Resources</b>	48,872	47,052	1,820	762
<b>Regeneration and Economy</b>	3,151	3,121	30	187
<b>(Surplus) / Deficit on Operations</b>	<b>76,950</b>	<b>57,748</b>	<b>19,202</b>	<b>18,172</b>
<b>Other Operating Expenditure (Note 8)</b>	1,962	394	1,568	1,191
<b>Financing and investment income and expenditure (Note 9)</b>	4,914	2,236	2,678	3,501
<b>Taxation and Non-specific Grant Income (Note 10)</b>	17,717	36,623	(18,906)	(17,705)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>101,543</b>	<b>97,001</b>	<b>4,542</b>	<b>5,159</b>
<i>Items that will not be reclassified to the (surplus) or deficit on the provision for services</i>				
<b>(Gains) / Losses on revaluation of Property, Plant and Equipment assets</b>	(6,754)	-	(6,754)	(1,160)
<b>Re-measurement of the net defined benefit liability (Note 24)</b>	10,814	-	10,814	(6,680)
<b>Other Comprehensive Income and Expenditure</b>	<b>4,060</b>	-	<b>4,060</b>	<b>(7,840)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>105,603</b>	<b>97,001</b>	<b>8,602</b>	<b>(2,681)</b>

## CORE FINANCIAL STATEMENTS

### GLOUCESTER CITY COUNCIL GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

For the year ended 31 March 2017

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	2016/17			Restated
	Gross Expenditure	Gross Income	Net Expenditure	2015/16
	£000	£000	£000	Net Expenditure £000
<b>Communities and Neighbourhoods</b>	2,455	479	1,976	1,845
<b>Culture</b>	5,097	1,527	3,570	4,643
<b>Environment</b>	10,955	4,118	6,837	6,815
<b>Housing and Planning</b>	6,420	1,451	4,969	3,920
<b>Performance and Resources</b>	48,872	47,052	1,820	762
<b>Regeneration and Economy</b>	3,151	3,121	30	187
<b>(Surplus)/Deficit on Operations</b>	<b>76,950</b>	<b>57,748</b>	<b>19,202</b>	<b>18,172</b>
<b>Other Operating Expenditure (Note 8)</b>	1,962	394	1,568	1,191
<b>Financing and investment income and expenditure (Note 9)</b>	4,914	2,236	2,678	3,501
<b>Taxation and Non-specific Grant Income (Note 10)</b>	17,717	36,623	(18,906)	(17,705)
<b>Deficit on Provision of Services</b>	<b>101,543</b>	<b>97,001</b>	<b>4,542</b>	<b>5,159</b>
<b>Share of the (Surplus)/Deficit on the provision of Services</b>				
Joint Ventures			94	61
<b>Share of Tax Expenses</b>				
Joint Ventures			(129)	(35)
<b>Group Deficit</b>			<b>4,507</b>	<b>5,185</b>
<i>Items that will not be reclassified to the (surplus) or deficit on the provision for services</i>				
<b>(Gains) / Losses on revaluation of Property, Plant and Equipment assets</b>			(6,754)	(1,160)
<b>Actuarial (Gains) / Losses on pension assets / liabilities</b>			10,814	(6,680)
<b>Share of Other Comprehensive Income and Expenditure</b>				
Joint Ventures			102	(412)
<b>Group Other Comprehensive Income and Expenditure</b>			<b>4,162</b>	<b>(8,252)</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>8,669</b>	<b>(3,067)</b>

The Group's comparative financial information has been restated as a result of the Airport's conversion to new UK GAAP (FRS 102). See note 46.

## CORE FINANCIAL STATEMENTS

### GLOUCESTER CITY COUNCIL BALANCE SHEET

As at 31 March 2017

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	31/03/2017 £000	31/03/2016 £000
Property, Plant & Equipment	11	63,639	55,958
Investment Property	12	22,817	24,424
Heritage Assets	13	6,127	6,127
Intangible Assets	14	749	952
Long Term Investments	15,46	435	437
Long Term Debtors	15,19(i)	892	1,083
<b>Long Term Assets</b>		<b>94,659</b>	<b>88,981</b>
Short Term Investments	15	-	16
Assets held for Sale	16	-	606
Inventories	17	44	41
Short Term Debtors	15,19	7,875	8,443
Cash and Cash Equivalents	20	2,696	1,621
<b>Current Assets</b>		<b>10,615</b>	<b>10,727</b>
<b>Total Assets</b>		<b>105,274</b>	<b>99,708</b>
Short Term Borrowing	15,21(i)	(14,764)	(10,287)
Short Term Creditors	15,21	(3,459)	(5,132)
Provisions (<1yr)	22	(1,347)	(1,006)
<b>Current Liabilities</b>		<b>(19,570)</b>	<b>(16,425)</b>
Provisions	22	(197)	(197)
Long Term Borrowing	15,21(ii)	(5,000)	(5,000)
Capital Grants Received in Advance	35	(2,911)	(2,136)
Other Long Term Liabilities	42	(68,629)	(58,381)
<b>Long Term Liabilities</b>		<b>(76,737)</b>	<b>(65,714)</b>
<b>Net Assets</b>		<b>8,967</b>	<b>17,569</b>
Usable Reserves	23	11,516	10,281
Unusable Reserves	24	(2,549)	7,288
<b>Total Reserves</b>		<b>8,967</b>	<b>17,569</b>

## CORE FINANCIAL STATEMENTS

<b>GLOUCESTER CITY COUNCIL GROUP BALANCE SHEET</b>				
<b>As at 31 March 2017</b>				
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.				
	Note	31/03/2017 £000	31/03/2016 £000 Restated	1/04/2015 £000 Restated
Property, Plant & Equipment	11	63,639	55,958	55,204
Investment Property	12	22,817	24,424	24,729
Heritage Assets	13	6,127	6,127	6,222
Intangible Assets	14	749	952	1,081
Long Term Investments	15,46	-	2	60
Long Term Debtors	15,19(i)	892	1,083	1,199
Investment in Joint Venture		12,130	12,197	11,811
<b>Long Term Assets</b>		<b>106,354</b>	<b>100,743</b>	<b>100,306</b>
Short Term Investments	15	-	16	8,139
Assets held for Sale	16	-	606	129
Inventories	17	44	41	100
Short Term Debtors	15,19	7,875	8,443	9,289
Cash and Cash Equivalents	20	2,696	1,621	26,556
<b>Current Assets</b>		<b>10,615</b>	<b>10,727</b>	<b>44,213</b>
<b>Total Assets</b>		<b>116,969</b>	<b>111,470</b>	<b>144,519</b>
Short Term Borrowing	15, 21(i)	(14,764)	(10,287)	(13,997)
Short Term Creditors	15,21	(3,459)	(5,132)	(5,572)
Provisions (<1yr)	22	(1,347)	(1,006)	(866)
<b>Current Liabilities</b>		<b>(19,570)</b>	<b>(16,425)</b>	<b>(20,435)</b>
Provisions	22	(197)	(197)	(233)
Long Term Borrowing	15,21(ii)	(5,000)	(5,000)	(30,000)
Capital Grants Received in Advance	35	(2,911)	(2,136)	(2,499)
Other Long Term Liabilities	42	(68,629)	(58,381)	(65,088)
<b>Long Term Liabilities</b>		<b>(76,737)</b>	<b>(65,714)</b>	<b>(97,820)</b>
<b>Net Assets</b>		<b>20,662</b>	<b>29,331</b>	<b>26,264</b>
Usable Reserves	23	10,210	11,858	17,898
Unusable Reserves	24	10,452	17,473	8,366
<b>Total Reserves</b>		<b>20,662</b>	<b>29,331</b>	<b>26,264</b>

The Group's comparative financial information has been restated as a result of the Airport's conversion to new UK GAAP (FRS 102). See note 46.

## CORE FINANCIAL STATEMENTS

### GLOUCESTER CITY COUNCIL CASH FLOW STATEMENT For the year ended 31 March 2017

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. No separate group cash flow is presented as there are no differences between the group and council cash flow.

	Notes	2016/17 £000	2015/16 £000
<b>Deficit on the provision of services</b>		<b>(4,542)</b>	<b>(5,159)</b>
Adjustments in respect of non-cash movements		7,868	4,766
Adjustments in respect of items that are investing and financing activities		(3,746)	2,216
<b>Net Cash Flows from Operating Activities</b>	<b>25</b>	<b>(420)</b>	<b>1,823</b>
<b>Net Cash Flows from Investing Activities</b>	<b>26</b>	<b>(2,981)</b>	<b>(2,654)</b>
<b>Net Cash Flows from Financing Activities</b>	<b>27</b>	<b>4,476</b>	<b>(24,104)</b>
<i>Net Increase/(Decrease) in cash and cash equivalents</i>		1,075	(24,935)
<b>Cash and cash equivalents at the beginning of the year</b>		1,621	26,556
<b>Cash and cash equivalents at the end of the year</b>		<b>2,696</b>	<b>1,621</b>

	2016/17 £000	2015/16 £000
<b>The Balance of Cash and Cash Equivalents and Bank Overdraft</b>		
Cash and Cash Equivalents	2,696	1,621
<b>Balance at 31st March</b>	<b>2,696</b>	<b>1,621</b>



# **NOTES TO THE CORE FINANCIAL STATEMENTS**

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT ADOPTED

For 2016/17 the following accounting standards have been issued but not yet adopted:

Amendment to the reporting of pension fund scheme transaction costs

Amendment to the reporting of pension fund investment concentration

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 2016/17 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 2017 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 £70k 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 £13.58 million. The assumptions, however, interact in complex ways. During 2016/17 the Council's actuaries advised that the net pensions liability had increased by £25.635 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 £102k would have to be set aside.
Arrears	At 31 March 2017, the Council had a balance of sundry debtors of £1.784 million. A review of the aged debt profile and recovery percentages suggested that a provision for doubtful debts of approximately 20.5% 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 £18k.

### 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 £2.459 million. The revaluation includes £(1.691) 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 42.

### 5 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Council's Audit Committee on 18th September 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

As at 18th September 2017 (Audit Committee approval) no post balance sheet events have been identified.

# 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)

### 2016/17 Information

	Usable Reserves £'000		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
<b>Adjustments to the Revenue Resources</b>			
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>			
Pension Costs (transferred to or from Pensions Reserve)	566	-	-
Charges for depreciation of non-current assets	(3,801)	-	-
Revaluation losses on Property Plant and Equipment and assets held for sale	(1,710)	-	-
Movement in the fair value of investment property	(2,032)	-	-
Capital Grants and Contributions	1,886	-	(1,886)
Revenue expenditure funded from capital under statute	(357)	-	-
Council tax and NNDR net deficit transferred to the Collection Fund Adjustment Account	(678)	-	-
Holiday Pay transferred to the Accumulated Absences Account	17	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	(1,467)	-	-
<b>Total adjustments to Revenue Resources</b>	<b>(7,576)</b>	<b>-</b>	<b>(1,886)</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	1,861	(1,861)	-
Administrative costs of non-current asset disposals funded by capital receipts	-	-	-
Statutory and voluntary provision for the repayment of debt transferred to the Capital Adjustment Account	461	-	-
<b>Total adjustments between Revenue and Capital Resources</b>	<b>2,322</b>	<b>(1,861)</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance new capital expenditure	-	2,655	-
Application of capital grants and contributions to fund Capital expenditure	-	-	570
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	(2)	-
<b>Total adjustments to Capital Resources</b>	<b>-</b>	<b>2,653</b>	<b>570</b>
<b>Total Adjustments</b>	<b>(5,253)</b>	<b>792</b>	<b>(1,316)</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

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

### 2015/16 Information

	Usable Reserves £'000		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
<b>Adjustments to the Revenue Resources</b>			
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>			
Pension Costs (transferred to or from Pensions Reserve)	27	-	-
Financial Instruments (transferred to the Financials Instruments Adjustment Account)	413	-	-
Charges for depreciation of non-current assets	(3,398)	-	-
Revaluation losses on Property Plant and Equipment and assets held for sale	(989)	-	-
Movement in the fair value of investment property	753	-	-
Capital Grants and Contributions	840	-	(840)
Revenue expenditure funded from capital under statute	(592)	-	-
Council tax and NNDR net deficit transferred to the Collection Fund Adjustment Account	(471)	-	-
Holiday Pay transferred to the Accumulated Absences Account	33	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	(478)	-	-
<b>Total adjustments to Revenue Resources</b>	<b>(3,862)</b>	<b>-</b>	<b>(840)</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to Capital Receipts Reserve	519	(519)	-
Administrative costs of non-current asset disposals funded by capital receipts	-	-	-
Statutory and voluntary provision for the repayment of debt transferred to the Capital Adjustment Account	550	-	-
Capital expenditure financed from revenue balances transferred to the Capital Adjustment Account	-	-	-
Repayment of prior year CFR	-	1,359	-
Amortisation of premiums and discounts	(3,575)	3,575	-
<b>Total adjustments between Revenue and Capital Resources</b>	<b>(2,506)</b>	<b>4,415</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance new capital expenditure	-	2,668	-
Application of capital grants and contributions to fund Capital expenditure	-	-	1,021
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	(23)	-
Capital Grants and loans repaid	-	-	-
<b>Total adjustments to Capital Resources</b>	<b>-</b>	<b>2,645</b>	<b>1,021</b>
<b>Total Adjustments</b>	<b>(6,368)</b>	<b>7,060</b>	<b>181</b>

## 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 2016/17.

Reserve No.		Balance at	Transfers	Transfers	Balance at	Balance at	Transfers	Transfers	Balance at
		31/03/2016	Out 2016/17	In 2016/17	31/03/2017	31/03/2015	Out 2015/16	In 2015/16	31/03/2016
		£000	£000	£000	£000	£000	£000	£000	£000
<b>General Fund:</b>									
1	3 Choirs Reserve	5	5	-	-	5	-	-	5
2	Historic Buildings Reserve	53	-	-	53	53	-	-	53
3	Portfolio Reserves	35	-	13	48	22	-	13	35
4	Members Allocation Reserve	9	5	-	4	14	5	-	9
5	Shopmobility Reserve	29	-	-	29	29	-	-	29
6	Regeneration Reserve	510	-	42	552	313	-	197	510
7	Insurance Reserve	10	-	-	10	10	-	-	10
8	Land Adoption Reserve	710	-	171	881	-	-	710	710
9	VAT Shelter Reserve	291	-	222	513	-	-	291	291
10	Business Rates Reserve	200	-	420	620	-	-	200	200
11	Trading Development Reserve	50	-	-	50	-	-	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
15	Community Builder Reserve	-	-	30	30	-	-	-	-
16	Planning Grant Reserve	-	-	30	30	-	-	-	-
17	Economic Development Reserve	-	-	20	20	-	-	-	-
18	Flooding Works Reserve	-	-	10	10	-	-	-	-
19	Meet and Greet Reserve	-	-	4	4	-	-	-	-
20	Police Contribution Reserve	-	-	15	15	-	-	-	-
<b>Total</b>		<b>3,577</b>	<b>285</b>	<b>977</b>	<b>4,269</b>	<b>2,121</b>	<b>5</b>	<b>1,461</b>	<b>3,577</b>

#### 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 2016/17 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.
- 15 **Community Builder Reserve**  
A reserve to fund a second post for a Community Builder.
- 16 **Planning Grant Reserve**  
A reserve to hold funder to meet the costs of the required Self Build and Brownfield registers
- 17 **Economic Development Reserve**  
The Council has put aside some funding to meet the costs of business grants given.
- 18 **Flooding Works Reserve**  
This reserve holds fund which the Council will use on future flood prevention capital projects
- 19 **Meet and Greet Reserve**  
The reserve holds the remainder of the funding that the Council has put to one side to fund the Coach Meet and Greet Scheme
- 20 **Police Contribution Reserve**  
This reserve holds funding committed to fund a joint study, with the Police, into the impacts of participatory budgeting.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 8 OTHER OPERATING INCOME AND EXPENDITURE

	GCC	GCC	Group	Group
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Precepts and Grants paid to parish councils	252	243	252	243
Repayment of capital grants	-	-	-	-
(Gains) / Losses on disposal of non current assets	(394)	(41)	(394)	(41)
Revaluation losses arising on revaluation of non-current assets	1,710	989	1,710	989
<b>Total</b>	<b>1,568</b>	<b>1,191</b>	<b>1,568</b>	<b>1,191</b>

### 9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	GCC	GCC	Group	Group
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Interest payable and similar charges	242	3,897	242	3,897
Interest and Investment property income	(2,236)	(2,287)	(2,236)	(2,287)
Pensions Interest and Expected Return on pensions assets	1,941	1,987	1,941	1,987
Expenditure on investment properties	699	657	699	657
Changes in fair value of investment properties	2,032	(753)	2,032	(753)
<b>Total</b>	<b>2,678</b>	<b>3,501</b>	<b>2,678</b>	<b>3,501</b>

### 10 TAXATION AND NON-SPECIFIC GRANT INCOME

	GCC	GCC	Group	Group
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Income from the collection fund - Council Tax income	(7,042)	(6,658)	(7,042)	(6,658)
Collection Fund (Surplus) / Deficit	678	471	678	471
Business rates tariff	16,882	16,744	16,882	16,744
Business rates levy	157	443	157	443
Retained Business Rates	(21,249)	(21,067)	(21,249)	(21,067)
Revenue Support Grant (RSG)	(1,856)	(2,734)	(1,856)	(2,734)
Council tax freeze	-	(74)	-	(74)
New homes bonus	(3,831)	(3,096)	(3,831)	(3,096)
Business rates Section 31 grant	(741)	(885)	(741)	(885)
Other Grants	(18)	(9)	(18)	(9)
Capital Grants	(1,886)	(840)	(1,886)	(840)
<b>Total</b>	<b>(18,906)</b>	<b>(17,705)</b>	<b>(18,906)</b>	<b>(17,705)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 11 PROPERTY, PLANT AND EQUIPMENT Movements on Balances

Movements in 2016/17	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
<b>Cost or Valuation</b>							
<b>At 1 April 2016</b>	54,588	8,618	13,456	9,064	80	418	86,224
Additions	1,466	2,826	280	459	1,049	-	6,080
Revaluation increases/(decreases) recognised in the Revaluation Reserve	6,176	-	-	-	-	578	6,754
Revaluation increases/(decreases) recognised in Surplus/Deficit on the Provision of Services	(1,367)	-	-	-	-	(18)	(1,385)
Derecognition – Disposals	-	-	-	-	-	-	-
Assets Impairment	(324)	-	-	-	-	-	(324)
Other movements in cost or valuation	(82)	-	-	-	-	82	-
<b>At 31 March 2017</b>	<b>60,457</b>	<b>11,444</b>	<b>13,736</b>	<b>9,523</b>	<b>1,129</b>	<b>1,060</b>	<b>97,349</b>
<b>Accumulated Depreciation and Impairment</b>							
<b>At 1 April 2016</b>	17,572	5,598	5,221	1,868	-	7	30,266
Depreciation Charge	1,754	823	475	384	-	8	3,444
Derecognition – Disposals	-	-	-	-	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-
<b>At 31 March 2017</b>	<b>19,326</b>	<b>6,421</b>	<b>5,696</b>	<b>2,252</b>	<b>-</b>	<b>15</b>	<b>33,710</b>
<b>Net book value as at 31 March 2017</b>	<b>41,131</b>	<b>5,023</b>	<b>8,040</b>	<b>7,271</b>	<b>1,129</b>	<b>1,045</b>	<b>63,639</b>
<b>Net book value as at 1 April 2016</b>	<b>37,016</b>	<b>3,020</b>	<b>8,235</b>	<b>7,196</b>	<b>80</b>	<b>411</b>	<b>55,958</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

#### Comparative Figures 2015/16

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
<b>Cost or Valuation</b>								
<b>At 1 April 2015</b>	334	53,511	7,120	12,859	8,778	0	0	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 reclassifications	-	-	-	-	-	-	-	-
Movements in cost or valuation as part of reclassification	(334)	148	14	14	-	-	418	260
<b>At 31 March 2016</b>	-	<b>54,588</b>	<b>8,618</b>	<b>13,456</b>	<b>9,064</b>	<b>80</b>	<b>418</b>	<b>86,224</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2015</b>	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	-
<b>At 31 March 2016</b>	-	<b>17,572</b>	<b>5,598</b>	<b>5,221</b>	<b>1,868</b>	-	<b>7</b>	<b>30,266</b>
<b>Net book value as at 31 March 2016</b>	-	<b>37,016</b>	<b>3,020</b>	<b>8,235</b>	<b>7,196</b>	<b>80</b>	<b>411</b>	<b>55,958</b>

# 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:

- 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 2017.

All assets are owned freehold unless otherwise stated.

Operational assets	Non-operational assets
<p><b>Other Operational land and buildings</b>                      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)                      Oxstalls Tennis Centre                      Hempsted Market                      Grosvenor House                      Kings House</p> <p><b>Community &amp; Heritage assets</b>                      Various Parks and open spaces                      Works of art                      Museum Exhibits                      Civic regalia</p> <p><b>Vehicles plant and equipment</b>                      Vehicles and items of plant                      Computer equipment                      Sports and playground facilities in parks</p> <p><b>Infrastructure assets</b>                      Street furniture                      Public Conveniences                      CCTV                      Lighting</p>	<p><b>Investment properties</b>                      Eastgate market and shopping centre                      Bearland Lodge                      Kings Square / Kings Walk shopping centre                      Kings Theatre                      Bus station                      Gala Club                      16 Shops                      13 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)                      Land Northgate Street                      Various Garages</p>

### Capital Commitments

At 31 March 2017 the Council did not have any outstanding commitments with regards to capital contracts. Similar commitments at 31 March 2016 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	
	2016/17	2015/16
	£000	£000
Rental income from investment property	(2,191)	(2,229)
Direct operating expenses arising from investment property	699	657
<b>Net gain</b>	<b>(1,492)</b>	<b>(1,572)</b>

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	
	2016/17	2015/16
	£000	£000
Balance at beginning of the year	24,424	24,729
Additions:		
- Purchases	882	68
- Subsequent expenditure	404	-
Net gains/(losses) from fair value adjustments	(2,032)	549
Adjustment		
Transfers:		
- To/From Property, Plant and Equipment / Surplus Assets	-	(260)
- To/From assets for sale	32	(223)
Disposals	(893)	(439)
<b>Balance at end of the year</b>	<b>22,817</b>	<b>24,424</b>

## 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 2017 are as follows:

	GCC and Group	
	2016/17 £'000	2015/16 £'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	2,304
<b>Total</b>	<b>6,127</b>	<b>6,127</b>
<b>At valuation</b>	<b>5,843</b>	<b>5,843</b>
<b>At cost</b>	<b>284</b>	<b>284</b>
<b>Total</b>	<b>6,127</b>	<b>6,127</b>

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

	GCC and Group	
	2016/17 £000	2015/16 £000
Balance at beginning of the year	6,127	6,222
Revaluation surplus/(deficit)	-	(104)
Reclassified to investment property	-	-
Additions	0	9
Balance at end of the year	<b>6,127</b>	<b>6,127</b>

## 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.

Movements in intangible assets during the year are shown below:

	Computer Software	
	2016/17 £'000	2015/16 £'000
<b>Gross book value at the beginning of the year</b>	4,299	3,974
Additions	154	325
<b>Gross book value at the end of the year</b>	<b>4,453</b>	<b>4,299</b>
<b>Amortisation at the beginning of the year</b>	<b>3,347</b>	<b>2,893</b>
Amortised during year	357	454
<b>Amortisation at the end of the year</b>	<b>3,704</b>	<b>3,347</b>
<b>Net book value at the end of the year</b>	<b>749</b>	<b>952</b>

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

	2016/17	2015/16
	£000	£000
<b>Balance at the beginning of the year:</b>		
- Gross carrying amounts	4,299	3,974
- Accumulated amortisation	3,347	2,893
- Net carrying amount	952	1,081
<b>Movement in 2016/17</b>		
Additions:	154	325
Amortisation for the period	357	454
<b>Net carrying amount at the end of the year</b>	<b>749</b>	<b>952</b>
Comprising:		
- Gross carrying amounts	4,453	4,299
- Accumulated amortisation	3,704	3,347
	<b>749</b>	<b>952</b>

## 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	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Investments</b>								
Loans and receivables	435	437	-	16	-	2	-	16
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Unquoted equity investment at cost	-	-	-	-	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-	-
<b>Total Investments</b>	435	437	-	16	-	2	-	16
<b>Debtors</b>								
Loans and receivables	892	1,083	7,875	8,443	892	1,083	7,875	8,443
Financial assets carried at contract amounts	-	-	-	-	-	-	-	-
<b>Total Debtors</b>	892	1,083	7,875	8,443	892	1,083	7,875	8,443
<b>Borrowings</b>								
Financial liabilities at amortised cost	(5,000)	(5,000)	(14,764)	(10,287)	(5,000)	(5,000)	(14,764)	(10,287)
<b>Total borrowings</b>	(5,000)	(5,000)	(14,764)	(10,287)	(5,000)	(5,000)	(14,764)	(10,287)
<b>Creditors</b>								
Financial liabilities at amortised cost	-	-	(3,459)	(5,132)	-	-	(3,459)	(5,132)
Financial liabilities carried at contract amount	-	-	-	-	-	-	-	-
<b>Total creditors</b>	-	-	(3,459)	(5,132)	-	-	(3,459)	(5,132)

#### Income, Expenses, Gains and Losses-GCC

	2016/17					2015/16				
	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	242	-	-	-	242	3,897	-	-	-	3,897
Losses on derecognition	-	-	-	-	-	-	-	-	-	-
Increases/(Reductions) in fair value	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-
Fee expense	-	-	-	-	-	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	242	-	-	-	242	3,897	-	-	-	3,897
Interest income	-	45	-	-	45	-	58	-	-	58
Interest income accrued on impaired financial assets	-	-	-	-	-	-	-	-	-	-
Increases/(Reductions) in fair value	-	-	-	-	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-	-	-	-	-
Fee income	-	-	-	-	-	-	-	-	-	-
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	-	45	-	-	45	-	58	-	-	58
Gains on revaluation	-	-	-	-	-	-	-	-	-	-
Losses on revaluation	-	-	-	-	-	-	-	-	-	-
<b>Net gain/(loss) for the year</b>	-	-	-	-	-	-	-	-	-	-

# 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 2017 are 0.83% to 2.60% for loans from the PWLB and 2.19% to 2.62% 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:

	2016/17		2015/16	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Financial liabilities</b>				
Long-term Borrowings	(5,000)	(5,826)	(5,000)	(5,826)
Short-term Borrowings	(14,764)	(14,764)	(10,287)	(10,287)
Short-term Creditors	(3,459)	(3,459)	(5,132)	(5,132)

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.

	2016/17		2015/16	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Financial Assets</b>				
Long-term Investments	435	435	437	437
Short-term Investments	-	-	16	16
Long-term Debtors	892	892	1,083	1,083
Short-term Debtors	7,875	7,875	8,443	8,443

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	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Balance at the beginning of the year	606	129	-	-
Additions	-	50	-	-
Disposals	(574)	-	-	-
Gain / Loss on revaluation	-	204	-	-
Assets transferred to / from held for sale				
-Investment property	(32)	223	-	-
Balance at the end of the year	-	606	-	-

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 17 INVENTORIES

	2016/17	2015/16
	£000	£000
<b>Consumable stores</b>		
Balance outstanding at start of year	41	100
Purchased	7	4
Consumed	(4)	(63)
<b>Balance outstanding at year-end</b>	<b>44</b>	<b>41</b>

### 18 CONSTRUCTION CONTRACTS

At 31 March 2017 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	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
Central government bodies	464	542	464	542
Other Local authorities	622	1,118	622	1,118
Other entities and individuals	6,789	6,783	6,789	6,783
<b>Total debtors</b>	<b>7,875</b>	<b>8,443</b>	<b>7,875</b>	<b>8,443</b>

#### 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	
	2016/17	2015/16
	£'000	£'000
Loans to vulnerable people for house renovations	62	64
Loans to Marketing Gloucester	97	97
Loans to Gloucestershire Airport Ltd-see below	627	816
Other loans	106	106
<b>Total</b>	<b>892</b>	<b>1,083</b>

Gloucestershire Airport loan details :-

	Current Interest Rate (%)	GCC and Group	
		2016/17	2015/16
		£'000	£'000
<b>10 Year loan</b>			
Balance at 31 March	1.8	746	864
Less: Amount repayable within twelve months included in short-term debtors		(119)	(118)
		627	746
The loan bears interest at 1.8% and is repayable in 6-monthly instalments of £65,831 including interest.			
<b>5 Year loan</b>			
Balance at 31 March	1.5	70	140
Less: Amount repayable within twelve months included in short-term debtors		(70)	(70)
		-	70
The loan bears interest at 1% above base rate and is repayable in monthly instalments of £5,833 per month excluding interest.			
<b>Total</b>		<b>627</b>	<b>816</b>

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	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
Cash held by the Council	4	4	4	4
Bank current accounts	2,692	1,617	2,692	1,617
<b>Total Cash and Cash Equivalents</b>	<b>2,696</b>	<b>1,621</b>	<b>2,696</b>	<b>1,621</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 21 SHORT-TERM CREDITORS

	GCC		Group	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Central Government Bodies	357	1,167	357	1,167
Other Local Authorities	435	750	435	750
Other Entities & Individuals	76	211	76	211
Council Taxpayers	160	143	160	143
Business Ratepayers	916	423	916	423
Sundry creditors	1,515	2,438	1,515	2,438
<b>Total</b>	<b>3,459</b>	<b>5,132</b>	<b>3,459</b>	<b>5,132</b>

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	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Aspire Sports and Cultural Trust	3	3	3	3
Charity deposits	151	176	151	176
Short-term borrowings with other local authorities	14,500	10,000	14,500	10,000
Accrued interest on short-term and long-term borrowings	110	108	110	108
	<b>14,764</b>	<b>10,287</b>	<b>14,764</b>	<b>10,287</b>

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 (%)	2016/17 Amortised Cost £000	2016/17 Fair Value £000	2015/16 Amortised Cost £000	2015/16 Fair Value £000
BAE Systems	3.95	5,000	7,331	5,000	5,826
<b>Total</b>		<b>5,000</b>	<b>7,331</b>	<b>5,000</b>	<b>5,826</b>

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.

	2016/17 £000	2015/16 £000
Between 1 and 2 years	-	-
Between 2 and 5 years	-	-
Between 5 and 10 years	-	-
More than 10 years	5,000	5,000
	<b>5,000</b>	<b>5,000</b>

## 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 Compensa tion Claims	Total
	£000	£000
Balance at 1 April 2016	197	197
Additional provisions made in 2016/17	102	102
Amounts utilised in 2016/17	(102)	(102)
<b>Balance at 31 March 2017</b>	<b>197</b>	<b>197</b>
Consists of:		
Insurance claims provision	197	197
<b>Balance at 31 March 2017</b>	<b>197</b>	<b>197</b>

#### **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 2016	883	123	1,006
Additional provisions made in 2016/17	1,172	142	1,314
Amounts used in 2016/17	(868)	(105)	(973)
<b>Balance at 31 March 2017</b>	<b>1,187</b>	<b>160</b>	<b>1,347</b>
Consists of:			
NNDR Appeals	1,187	-	1,187
Legal Services provision	-	98	98
Accumulated Absence provision	-	62	62
<b>Balance at 31 March 2017</b>	<b>1,187</b>	<b>160</b>	<b>1,347</b>

#### **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 2017. 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.

# 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
	2016/17 £000	2016/17 £000	2015/16 £000	2015/16 £000
Revaluation Reserve	26,998	37,289	20,921	29,998
Pensions Reserve	(68,629)	(69,667)	(58,381)	(59,269)
Capital Adjustment Account	40,670	44,418	45,673	51,960
Deferred Capital Receipts Reserve	51	51	53	53
Financial Instruments Adjustment Account	-	-	-	-
Collection Fund Adjustment Account	(1,577)	(1,577)	(899)	(899)
Short-term Accumulating Compensated Absences Account	(62)	(62)	(79)	(79)
<b>Total Unusable Reserves</b>	<b>(2,549)</b>	<b>10,452</b>	<b>7,288</b>	<b>21,764</b>

### (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.

	2016/17 £000	2016/17 £000	2015/16 £000	2015/16 £000
	General	Total	General	Total
Balance at 1 April	20,921	20,921	20,401	20,401
Upward revaluation of assets	6,766	6,766	1,160	1,160
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(12)	(12)	-	-
<b>Surplus on revaluation of assets</b>	<b>27,675</b>	<b>27,675</b>	<b>21,561</b>	<b>21,561</b>
Difference between fair value depreciation and historical cost depreciation	(677)	(677)	(644)	(644)
Amount written off to the Capital Adjustment Account	-	-	4	4
<b>Balance at 31 March</b>	<b>26,998</b>	<b>26,998</b>	<b>20,921</b>	<b>20,921</b>

### (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	
	2016/17 £000	2015/16 £000
Balance at 1 April	45,673	44,139
Reversal of items relating to capital expenditure debited or credited to the CIES		
Charges for depreciation and impairment of non current assets	(3,444)	(2,944)
Revaluation losses on Property, Plant and Equipment and assets held for sale	(1,710)	(989)
Amortisation of intangible assets	(357)	(454)
Revenue expenditure funded from capital under statute	(356)	(592)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(1,467)	(478)
	<b>38,339</b>	<b>38,682</b>
Adjusting amounts written out of the Revaluation Reserve	677	640
Net written out amount of the cost of non-current assets consumed in the year	<b>39,016</b>	<b>39,322</b>
<b>Capital financing applied in the year:</b>		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,655	2,668
Repayment of prior year CFR	-	1,359
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	570	1,021
Direct Revenue Financing	-	-
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	461	550
	<b>42,702</b>	<b>44,920</b>
Movements in the market value of Investment Properties debited or credited to the CIES	(2,032)	753
<b>Balance at 31 March</b>	<b>40,670</b>	<b>45,673</b>

## 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.

	2016/17 £000	2015/16 £000
<b>Balance at 1 April</b>	<b>0</b>	<b>(413)</b>
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
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
<b>Balance at 31 March</b>	<b>0</b>	<b>0</b>

#### (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.

	2016/17 £000	2015/16 £000
<b>Balance at 1 April</b>	<b>(58,381)</b>	<b>(65,088)</b>
Re-measurement of the net defined benefit liability	(10,814)	6,680
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	(3,412)	(3,717)
Employer's pensions contributions and direct payments to pensioners payable in the year	3,978	3,744
<b>Balance at 31 March</b>	<b>(68,629)</b>	<b>(58,381)</b>

## 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.

	2016/17 £000	2015/16 £000
<b>Balance at 1 April</b>	53	76
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	(2)	(23)
<b>Balance at 31 March</b>	<b>51</b>	<b>53</b>

#### (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.

	2016/17 £000	2015/16 £000
<b>Balance at 1 April</b>	(899)	(428)
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	(678)	(471)
<b>Balance at 31 March</b>	<b>(1,577)</b>	<b>(899)</b>

#### (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.

	2016/17 £000	2015/16 £000
<b>Balance at 1 April</b>	(79)	(112)
Settlement or Cancellation of Accrual made at the end of the preceding year	79	112
Amounts accrued at the end of the current year	(62)	(79)
<b>Balance at 31 March</b>	<b>(62)</b>	<b>(79)</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 25 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	Council 2016/17 £000	Council 2015/16 £000
(Deficit)/surplus on Provision of Services	(4,542)	(5,159)
<b>Adjustments in respect of non-cash movements</b>		
Depreciation of property, plant and equipment	3,444	2,944
Revaluation losses charged to net cost of services	3,743	236
Amortisation of intangible assets	356	454
Balances removed by disposal of subsidiary		
Decrease/(Increase) in short-term debtors	567	845
Increase in short-term creditors	(1,672)	(443)
Decrease/(Increase) in long-term debtors	191	116
(Increase)/decrease in inventories	(3)	59
(Decrease) in provisions	341	104
Carrying amount of non-current assets and non-current assets held for sale sold	1,467	478
Adjustment in respect of pension fund deficit	(566)	(27)
	<b>7,868</b>	<b>4,766</b>
<b>Adjustment for items that are investing and financing activities</b>		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,860)	(519)
Premiums Paid	-	3,575
Capital Grants credited to CIES	(1,886)	(840)
	<b>(3,746)</b>	<b>2,216</b>
<b>Net Cash flows from Operating Activities</b>	<b>(420)</b>	<b>1,823</b>
<b>The cash flows from operating activities include the following items:</b>		
Interest received	60	84
Interest paid	(245)	(548)

## 26 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	Council 2016/17 £000	Council 2015/16 £000
Purchase of property, plant and equipment, investment property and intangible assets	(7,520)	(3,650)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,863	519
Proceeds from short-term and long-term investments	16	
Capital Grants Received	2,660	477
<b>Net cash flows from investing activities</b>	<b>(2,981)</b>	<b>(2,654)</b>

## 27 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	Council 2016/17 £000	Council 2015/16 £000
Cash receipts of short- and long-term investments	-	8,181
Premium Paid	-	(3,575)
Repayments of short- and long-term borrowing	4,476	(28,710)
<b>Net cash flows from financing activities</b>	<b>4,476</b>	<b>(24,104)</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 28 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS FOR THE EXPENDITURE AND FUNDING ANALYSIS

The expenditure and funding analysis (EFA), documents the adjustments made to the Comprehensive Income and Expenditure Statement to get back to the funding position. The following note splits out the detail of the adjustments made between the two positions.

### (i) Adjustments between accounting basis and funding basis 2016/17

	Adjustments for Capital Items	Adjustments for Pensions	Inter Service Recharges	Other Adjustments	TOTAL
	£000	£000	£000	£000	£000
Communities and Neighbourhoods	(71)	(74)	(875)	13	(1,007)
Culture and Leisure	(830)	(82)	(966)	(2)	(1,880)
Environment	(1,083)	(89)	(1,658)	1	(2,829)
Housing and Planning	(311)	(152)	(2,504)	-	(2,967)
Performance and Resources	(642)	82	4,037	95	3,572
Regeneration and Economy	(1,094)	(104)	1,966	(1,613)	(844)
<b>Net Cost of Services</b>	<b>(4,031)</b>	<b>(419)</b>	<b>-</b>	<b>(1,506)</b>	<b>(5,955)</b>
Other Income and Expenditure	(1,588)	984	-	1,306	702
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit</b>	<b>(5,619)</b>	<b>565</b>	<b>-</b>	<b>(200)</b>	<b>(5,253)</b>

### (ii) Adjustments between accounting basis and funding basis 2015/16

	Adjustments for Capital Items	Adjustments for Pensions	Inter Service Recharges	Other Adjustments	TOTAL
	£000	£000	£000	£000	£000
Communities and Neighbourhoods	(7)	(100)	(712)	-	(819)
Culture and Leisure	(1,027)	(109)	(1,170)	5	(2,301)
Environment	(1,059)	(148)	(1,369)	7	(2,569)
Housing and Planning	-545	-175	-1758	9	(2,469)
Performance and Resources	(508)	(182)	3,759	15	3,084
Regeneration and Economy	(715)	(130)	1,250	(3)	402
<b>Net Cost of Services</b>	<b>(3,861)</b>	<b>(844)</b>	<b>-</b>	<b>33</b>	<b>(4,672)</b>
Other Income and Expenditure	517	869	-	(3,083)	(1,697)
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit</b>	<b>(3,344)</b>	<b>25</b>	<b>-</b>	<b>(3,050)</b>	<b>(6,369)</b>

## 29 ACQUIRED, DISCONTINUED AND TRANSFERRED OPERATIONS

There have been no acquired or discontinued or transferred operations during 2016/17.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 30 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.

	2016/17			2015/16		
	£000	£000	£000	£000	£000	£000
	Income	Expenditure	Net	Income	Expenditure	Net
City Estates	1,702	191	(1,511)	1,726	386	(1,340)
St.Oswald's Park	4	-	(4)	10	-	(10)
Eastgate Market	269	255	(14)	329	261	(68)
Other markets	68	24	(44)	78	37	(41)
Lettings & Catering Services	398	355	(43)	364	342	(22)
<b>Total</b>	<b>2,441</b>	<b>825</b>	<b>(1,616)</b>	<b>2,507</b>	<b>1,026</b>	<b>(1,481)</b>

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

	2016/17 £000	2015/16 £000
Net Deficit/(surplus) on Trading Operations	(1,616)	(1,481)
Services to the public included in Expenditure of Continuing Operations	-	-
Support services recharged to Expenditure of Continuing Operations	483	434
<b>Net Deficit credited to Other Operating Expenditure</b>	<b>(1,133)</b>	<b>(1,047)</b>

## 31 AGENCY SERVICES

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

	2016/17 £000	2015/16 £000
Expenditure incurred in providing creditor services to Aspire Sports and Cultural Trust	13	13
Management fee payable by Aspire	(13)	(13)
<b>Net Surplus arising on the agency arrangement</b>	<b>-</b>	<b>-</b>

## 32 MEMBERS' ALLOWANCES

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

	2016/17 £000	2015/16 £000
Allowances	331	313
Expenses	1	4
<b>Total</b>	<b>332</b>	<b>317</b>

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](http://www.gloucester.gov.uk)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 33 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)	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Salary, fees & allowances	115,721	84,617	-	£64,387	-	82,612
Bonuses	-	-	-	-	-	-
Expenses allowance	-	-	-	-	-	-
Compensation for loss of employment	-	-	-	-	-	-
Employer's pension contribution	18,958	12,706	-	£10,024	-	12,392
Any other emoluments	-	-	-	-	-	-
<b>Total</b>	<b>£134,679</b>	<b>£97,323</b>	<b>£0</b>	<b>£74,411</b>	<b>£0</b>	<b>£95,004</b>

Senior Officer continued	Corporate Director (from May 2016)		Corporate Director (from May 2016)		Head of Finance - Section 151 Officer	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Salary, fees & allowances	74,025	-	69,658	-	£72,255	69,752
Bonuses	-	-	-	-	-	-
Expenses allowance	-	-	-	-	-	-
Compensation for loss of employment	-	-	-	-	-	-
Employer's pension contribution	11,104	-	10,449	-	£10,838	10,463
Any other emoluments	-	-	-	-	-	-
<b>Total</b>	<b>£85,129</b>	<b>£0</b>	<b>£80,107</b>	<b>£0</b>	<b>£83,093</b>	<b>£80,215</b>

\* 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	
	2016/17	2015/16
£50,000 to £54,999	2	3
£55,000 to £59,999	1	1
£60,000 to £64,999	-	-
£65,000 to £69,999	-	-
£70,000 to £74,999	-	1
£75,000 to £79,999	1	-

### 34 EXTERNAL AUDIT COSTS

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

	2016/17 £'000	2015/16 £'000
Fees payable to KPMG LLP for		
- External audit services	63	63
- Certification of grant claims and returns	10	9
- Additional audit services	-	-
<b>Total audit fees</b>	<b>73</b>	<b>72</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 35 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17:

	2016/17 £'000	2015/16 £'000
<b><i>Credited to Taxation and Non-Specific Grant Income</i></b>		
Revenue Support Grant	(1,856)	(2,734)
Capital Grants	(1,886)	(840)
Council Tax Freeze	-	(74)
New Homes Bonus	(3,831)	(3,096)
Business Rates Section 31 Grant	(741)	(885)
Transition Grant	(10)	
Transparency Grant	(8)	(8)
	(8,332)	(7,637)
<b><i>Credited to Services</i></b>		
Homelessness and other housing	(10)	(3)
Mandatory Rent Allowances	(42,752)	(44,522)
Rent Rebates	(379)	(218)
Community Grants	(35)	(61)
Other	(600)	(321)
	(43,776)	(45,125)
<b>Total grants</b>	<b>(52,108)</b>	<b>(52,762)</b>

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

	31/03/2016 £'000	31/03/2015 £'000
<b>Capital Grants Received in Advance</b>		
Bodiam Avenue	35	35
Coney Hill South	56	56
Cotswold View	271	271
Flood income	30	25
Green Farm	81	81
British Energy	150	150
Hempsted Grange	143	143
Hammersons	55	55
Railway Triangle	2	2
St Oswalds	56	56
Travis Perkins	450	451
Tolsey Gardens	31	31
Davies & Partners	-	-
Other contributions	1,551	780
<b>Total</b>	<b>2,911</b>	<b>2,136</b>

There are no capital grants received in advance that are classified as current liabilities.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 36 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.). Grant receipts outstanding at 31 March 2017 are shown in Note 35.

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.

	2016/17			2015/16		
	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	-	(1,856)	1	-	(2,734)
Other Government grants	1	-	(5,235)	1	-	(4,374)
Council Tax and Housing Benefit grants	1	-	(43,131)	1	-	(44,817)
NNDR	1	27,367	-	1	26,334	-
Other Local and Police Authorities						
Precepts	2	48,719	-	2	46,358	-
Gloucestershire County Council inc Pension Fund contributions	8	3,978	-	10	4,251	-
Gloucestershire Airport Limited Loan interest and rents	2	-	(51)	4	-	(65)
Quedgeley Parish Council	1	252	-	1	243	-
<b>Others</b>						
Gloucester Law Centre	1	76	-	1	-	-
Abbeydale Community Association	-	-	-	1	-	-
Zurich Municipal	-	-	-	1	91	-
Gloucester City Homes	-	-	-	2	428	-
Gloucester Wildlife Trust	1	35	-	-	-	-
Marketing Gloucester Limited	1	419	-	2	394	-
Aspire Sports and Cultural Trust	1	463	351	2	670	(418)

Amounts due to or from related parties included in debtors and creditors as at 31 March 2017:

	2016/17 £'000	2015/16 £'000
<b>Short-term Debtors</b>	582	2,298
<b>Short-term Investments</b>	-	-
<b>Long-term Debtors</b>	724	983
<b>Short-term Creditors</b>	1,437	2,039
<b>Short-term Borrowings</b>	14,500	10,012

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 37 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.

	2016/17	2015/16
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>21,481</b>	<b>22,837</b>
Capital investment		
- Property, Plant and Equipment, heritage assets and assets held for sale	6,080	3,257
- Investment Properties	1,286	68
- Intangible Assets	154	325
- Long Term Loans	-	-
- Revenue Expenditure Funded from Capital under Statute (REFCUS)	356	592
	<b>29,357</b>	<b>27,079</b>
Sources of finance		
- Usable Capital Receipts	(2,655)	(2,668)
- Capital Grants and Contributions	(570)	(1,021)
- Revenue Financing	-	-
Repayment of prior year CFR		(1,359)
Revenue Provision (including Minimum Revenue Provision)	(461)	(550)
<b>Closing Capital Financing Requirement</b>	<b>25,671</b>	<b>21,481</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow for capital investment:		
- Supported by Government financial assistance	-	-
- Unsupported by Government financial assistance	4,661	553
Amounts 'set aside' for debt repayment	(461)	(1,909)
Capital Grant repaying expenditure financed by borrowing in prior year	(10)	
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<b>4,190</b>	<b>(1,356)</b>

### 38 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 2017.

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:

- a) The provision of community services such as sport and recreation facilities, tourism services and community centres; and
- b) 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 £1.747 million (2015/16:£1.656 million). The future minimum lease payments receivable under non-cancellable leases in future years are as follows:

	2016/17	2015/16
	£'000	£'000
Not later than 1 year	1,529	1,521
Later than 1 year and not later than 5 years	5,299	4,912
Later than 5 years	124,969	121,777
<b>Total</b>	<b>131,797</b>	<b>128,210</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 38 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 £0.490 million in 2016/17 (2015/16 :£0.496 million) made up as follows:

	2016/17	2015/16
	£'000	£'000
Minimum lease payments	490	496
Contingent rentals	-	-
Sub-lease payments receivable	-	-
<b>Total</b>	<b>490</b>	<b>496</b>

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

	2016/17	2015/16
	£'000	£'000
Not later than 1 year	476	473
Later than 1 year and not later than 5 years	1,772	1,768
Later than 5 years	31,997	32,439
<b>Total</b>	<b>34,245</b>	<b>34,680</b>

### 39 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.

### 40 CAPITALISATION OF BORROWING COSTS

No borrowing costs were capitalised during the year.

### 41 TERMINATION BENEFITS

Details of termination benefits paid in 2016/17 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	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	Number	Number	Number	Number	Number	Number	£'000	£'000
Less than £20,000	1	1	4	-	5	1	34	2
Between £20,000 and £40,000	1	1	-	2	1	3	22	100
Between £40,000 and £60,000	-	-	-	-	-	-	-	-
Between £60,000 and £80,000	-	-	-	-	-	-	-	-
Between £80,000 and £100,000	-	-	-	-	-	-	-	-
Between £100,000 and £150,000	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>6</b>	<b>4</b>	<b>56</b>	<b>102</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 42 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:

<b>Comprehensive Income and Expenditure Account</b>	<b>2016/17 £000</b>	<b>2015/16 £000</b>
<i>Net Cost of Services :</i>		
Current service cost (apportioned across services)	1,448	1,730
Effects of settlements	(15)	-
Settlements and Curtailments (included in Non-Distributed costs)	38	-
<i>Financing and Investment Income and Expenditure</i>		
Net interest expense	1,941	1,987
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>3,412</b>	<b>3,717</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
<i>Remeasurement of the net defined benefit liability comprising:</i>		
-Return on plan assets (excluding the amount included in the net interest expense)	12,173	(2,347)
-Actuarial gains/(losses) arising from changes in demographic assumptions	926	-
-Actuarial gains/(losses) arising from business combination and disposal	-	-
-Actuarial gains/(losses) arising from changes in financial assumptions	(23,913)	9,027
-Other	-	-
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(7,402)</b>	<b>10,397</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(3,412)	(3,717)
Actual amount charged against the General Fund Balance for pensions in the year:		
- employer's contributions payable by the general fund to the scheme	3,978	3,744
- retirement benefits payable to pensioners	-	-
	<b>(6,836)</b>	<b>10,424</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2017 is a net deficit of £50.900 million (2015/16: £40.086 million).

### Assets and Liabilities in Relation to Post-employment Benefits

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

	<b>Funded liabilities: Local Government Pension Scheme</b>	
	<b>2016/17 £000</b>	<b>2015/16 £000</b>
Opening balance at 1 April	<b>136,682</b>	<b>144,406</b>
Current service cost	1,448	1,730
Effect of Settlements	(82)	-
Interest cost	4,578	4,429
Contributions by scheme participants	368	399
Effects of business combinations and disposals	-	-
Remeasurement gains and losses:		
-Actuarial (gains)/losses arising from changes in demographic assumptions	(926)	-
-Actuarial (gains)/losses arising from changes in financial assumptions	23,913	(9,027)
-Other	-	-
Losses/(gains) on curtailments	38	-
Benefits paid	(5,585)	(5,255)
<b>Closing balance at 31 March</b>	<b>160,434</b>	<b>136,682</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 42 DEFINED BENEFIT PENSION SCHEMES (Continued)

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

Local Government Pension Scheme

	2016/17 £000	2015/16 £000
<b>Opening balance at 1 April</b>	<b>78,301</b>	<b>79,318</b>
Interest income	2,637	2,442
<i>Remeasurement gain/(loss):</i>		
The return on plan assets, excluding the amount included in the net interest expense	12,173	(2,347)
Effect of Settlements	(67)	-
Effect of business combinations and disposals	-	-
Employer contributions	3,978	3,744
Contributions by scheme participants	368	399
Benefits paid	(5,585)	(5,255)
<b>Closing balance at 31 March</b>	<b>91,805</b>	<b>78,301</b>

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-17 £'000	31-Mar-16 £'000
<i>Present value of liabilities:</i>		
Local Government Pension Scheme	(160,434)	(136,682)
<i>Fair value of assets:</i>		
Local Government Pension Scheme	91,805	78,301
<b>Deficit in the scheme</b>	<b>(68,629)</b>	<b>(58,381)</b>

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 £68.629 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 2017 was £3.978 million (2015/16: £3.744 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 2017.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2016/17	2015/16
Mortality assumptions:		
Longevity at 65 for current pensioners:		
- Men	22.4 years	22.5 years
- Women	24.6 years	24.6 years
Longevity at 65 for future pensioners:		
- Men	24.0 years	24.4 years
- Women	26.4 years	27 years
Rate of increase in salaries	2.70%	3.60%
Rate of increase in pensions	2.40%	2.10%
Rate for discounting scheme liabilities	2.50%	3.40%
Take-up of option to convert annual pension into Retirement lump sum	68%	75%

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 42 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	8%	13,580
0.5% Increase in the salary increase rate	1%	1,010
0.5% Increase in the pension increase rate	8%	12,441

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	2016/17				2015/16			
	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	%
<b>Equity Securities</b>								
Consumer	4,453	-	4,453	5%	4,819	-	4,819	6%
Manufacturing	2,387	-	2,387	3%	2,360	-	2,360	3%
Energy & Utilities	1,747	-	1,747	2%	1,420	-	1,420	2%
Financial Institutions	3,690	-	3,690	4%	3,784	-	3,784	5%
Health & Care	1,476	-	1,476	2%	615	-	615	1%
Information Technology	228	-	228	0%	424	-	424	1%
Other	2,783	-	2,783	3%	1,625	-	1,625	2%
<b>Debt Securities</b>								
Corporate Bonds (investment grade)	4,307	-	4,307	5%	4,037	-	4,037	5%
Corporate Bonds (non-investment grade)	331	-	331	0%	304	-	304	0%
UK Government	6,650	-	6,650	7%	7,155	-	7,155	9%
Other	1,009	-	1,009	1%	1,078	-	1,078	1%
<b>Private Equity</b>								
All	-	233	233	0%	-	230	230	0%
<b>Real Estate</b>								
UK Property	4,474	1,435	5,909	6%	4,271	1,538	5,809	7%
Overseas Property	-	498	498	1%	-	401	401	1%
<b>Investment Funds and Unit Trusts</b>								
Equities	3,646	41,444	45,090	49%	2,615	33,480	36,095	46%
Bonds	5,551	515	6,066	7%	3,427	201	3,628	5%
Hedge Funds	-	-	-	0%	-	-	-	0%
Commodities	-	-	-	0%	-	-	-	0%
Infrastructure	-	-	-	0%	-	-	-	0%
Other	-	3,551	3,551	4%	-	3,666	3,666	5%
<b>Derivatives</b>								
Inflation	-	-	-	0%	-	-	-	0%
Interest Rate	-	-	-	0%	-	-	-	0%
Foreign Exchange	52	-	52	0%	-	-	-	0%
Other	19	-	19	0%	(7)	-	(7)	0%
<b>Cash and Cash Equivalents</b>								
All	1,326	-	1,326	1%	859	-	859	1%
<b>Totals</b>	<b>44,129</b>	<b>47,676</b>	<b>91,805</b>	<b>100%</b>	<b>38,785</b>	<b>39,516</b>	<b>78,301</b>	<b>100%</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **42 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 2020.

The Council is anticipated to pay £3.948m contributions to the scheme in 2017/18.

The weighted average duration of the defined benefit obligation for scheme members is 15.8 years for 2016/17.

## **43 CONTINGENT LIABILITIES**

There are no contingent liabilities at 31 March 2017:

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 44 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 £2.692million (2015/16: £1.633million) 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 £0.627 million (2015/16:£0.816 million) and are considered to have a low credit risk.

The Council does not generally allow credit for customers and £1.420 million, of the debtors balance of £7.877 million (see Note 15 ) is past its due date for payment as follows:

	£'000
Less than 4 months	1,121
4 months- 1 year	164
More than 1 year	135
<b>Total</b>	<b>1,420</b>

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
	%	31/03/2017
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%
		<b>100%</b>

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

### 44 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 2017, 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
<b>Borrowings</b>						
Long-term-fixed rate	5,000	3.80%	190	4.80%	240	50
Short-term-variable	12,469	0.42%	52	1.42%	177	125
	17,469		242			175
<b>Investments</b>						
Short-term-variable	8	0.25%	17	1.25%	17	-
<b>Net loss/(gain) on deficit/(surplus) for the year</b>						<b>175</b>

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.

### 45 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-17 £'000	31-Mar-16 £'000	31-Mar-17 £'000	31-Mar-16 £'000
Share capital - Gloucestershire Airport Ltd	435	435	-	-
Government Stock	-	2	-	2
<b>Total</b>	<b>435</b>	<b>437</b>	<b>-</b>	<b>2</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 46 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:

	<b>Council Share</b>
GL1 Sports Limited	Dormant company 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 2017 reflected the following:

	<b>2016/17 £000</b>	<b>Restated 2015/16 £000</b>
After tax operating (loss)/profit	71	(51)
Net assets	24,260	24,393

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

## 46 NOTES TO THE GROUP ACCOUNTS (continued)

The Group Balance Sheet has been prepared by combining the Council's 50% share of the Airport's net assets as a long-term investment, eliminating the share capital. Since FRS102 requires Investment Property (and allows Property, Plant and Equipment at 'deemed cost') to be measured at fair value, the revaluation adjustments previously applied to bring the airport's accounts into line with the Council's accounting policies are no longer required. For the purposes of the airport's accounts its non-current assets were revalued at fair value as at 31st March 2015, 2016 and 2017 by an external valuer.

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 (2015/16:£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 Restated	Gloucester City Council's Share Restated
	£ 2016/17 £000	£ 2016/17 £000	£ 2015/16 £000	£ 2015/16 £000
Turnover	4,428	2,214	4,410	2,205
Profit on ordinary activities before taxation	(187)	(94)	(120)	(61)
Tax on profit on ordinary activities	258	129	69	35
Profit for the financial year after taxation	71	35	(51)	(26)
Fixed Assets	33,241	16,621	32,580	16,290
Current Assets	990	495	1,693	847
Liabilities due within one year	2,007	1,004	1,665	833
Liabilities due after one year	5,887	2,944	6,440	3,220
Net pension liability	2,077	1,039	1,775	888

The Airport has adopted new UK GAAP (FRS 102) in its individual financial statements for this year, which has resulted in certain balances being restated. In particular, the Airport has recognised deferred tax balances in relation to the revaluation of the company's non-current assets; these deferred tax balances were not recognised under the previous accounting framework (the FRSSSE). The group accounts have been restated to reflect the change in the Council's share of the net assets and liabilities of the Airport. As the Airport is treated as a joint venture in the Council's group accounts, this restatement only impacts on a small number of lines in the Group accounts.

The full impact of this restatement on the group's comparative periods on each impacted line of the Comprehensive Income & Expenditure Statement and Balance sheet is as follows:

	Previously reported 2015/16 £000	Restated 2015/16 £000		
<b>Group Comprehensive Income &amp; Expenditure Statement:</b>				
Share of (surplus)/deficit of Joint Venture	(421)	61		
Share of Tax expenses of Joint Ventures	81	(35)		
Group (surplus) or Deficit	4,820	5,254		
Share of Other comprehensive Income and Expenditure of Joint Ventures	(220)	(481)		
Other Comprehensive (Income) and Expenditure	(8,060)	(8,321)		
Total Comprehensive (Income) and Expenditure	(3,240)	(3,067)		
	Previously reported at 31st March 2015 £000	Restated 31st March 2015 £000	Previously reported at 31st March 2016 £000	Restated 31st March 2016 £000
<b>Group Balance Sheet:</b>				
Investment in Joint Ventures	15,494	11,811	16,053	12,197
<b>Net Assets</b>	<b>29,947</b>	<b>26,264</b>	<b>33,187</b>	<b>29,331</b>
Usable Reserves	17,173	17,898	11,423	11,858
Unusable Reserves	12,774	8,366	21,764	17,473
<b>Total Reserves</b>	<b>29,947</b>	<b>26,264</b>	<b>33,187</b>	<b>29,331</b>

The Airport did not pay any dividend for the year ended 31st March 2017 (2015: £Nil).

The accounts of GAL for the year ending 31 March 2017 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

## 46 NOTES TO THE GROUP ACCOUNTS (continued)

### ADJUSTMENTS BETWEEN GROUP ACCOUNTS AND GCC ACCOUNTS

#### **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.

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# **SUPPLEMENTARY FINANCIAL STATEMENTS**

## COLLECTION FUND

COLLECTION FUND INCOME AND EXPENDITURE STATEMENT					
For the year ended 31 March 2017					
	Note	2016/17			2015/16
		£'000	£'000	£'000	£'000
		Council Tax	Business Rates	Total	Total
<b>INCOME</b>					
<b>Non Domestic Rates</b>					
Collectable from Business Ratepayers	2,4	-	(52,852)	(52,852)	(52,985)
<b>Council Tax</b>					
Collectable from Council Tax Payers	1	(56,709)	-	(56,709)	(53,760)
		<b>(56,709)</b>	<b>(52,852)</b>	<b>(109,561)</b>	<b>(106,745)</b>
<b>EXPENDITURE</b>					
<b>Non-Domestic Rates</b>					
Payment to Gloucester City Council		-	21,894	21,894	21,501
Payment to Central Government		-	27,367	27,367	26,877
Payment to Gloucestershire County Council		-	5,473	5,473	5,375
<b>Council Tax Precepts</b>					
Gloucester City Council		6,945	-	6,945	6,610
Gloucestershire County Council		41,097	-	41,097	38,647
Police and Crime Commissioner for Gloucestershire		7,622	-	7,622	7,362
Write-Offs		141	29	170	748
Change in bad debt provisions		83	455	538	56
Interest on NNDR refunds		-	10	10	-
Change in Provision for NNDR Appeals		-	761	761	909
Cost of NNDR Collection		-	179	179	180
Distribution of previous years' estimated Collection Fund surplus/(deficit)		800	(1,611)	(811)	(689)
		<b>56,688</b>	<b>54,557</b>	<b>111,245</b>	<b>107,576</b>
<b>(Increase)/Decrease in Fund</b>		<b>(21)</b>	<b>1,705</b>	<b>1,684</b>	<b>831</b>
Balance of Fund at beginning of year		(1,162)	2,601	1,439	608
<b>Balance of Fund at 31 March</b>		<b>(1,183)</b>	<b>4,306</b>	<b>3,123</b>	<b>1,439</b>

# 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	13,924	6/9	9,283
B	14,034	7/9	10,915
C	12,108	8/9	10,763
D	5,258	9/9	5,258
E	3,357	11/9	4,103
F	779	13/9	1,125
G	141	15/9	235
H	3	18/9	5
<b>Total</b>	<b>49,664</b>		<b>41,720</b>
Less: Council Tax Support Scheme			(4,928)
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)
<b>Council Tax Base for 2016/17</b>			<b>36,240</b>
<b>Council Tax Base for 2015/16</b>			<b>35,439</b>

The Council Tax Base for 2016/17 multiplied by the Average Band D Council Tax Charge gives the Total of Precepts and Demands for the Year:

Tax Base	36,240
	X
Average Band D Charge	1,529.74
Precepts and Demands (£000s)	55,438

Properties within the boundaries of Quedgeley Parish Council pay an additional Council Tax sum to fund the activities of the Parish Council. For the 2016/17 year this was as follows.

Tax Base	6,046
	X
Average Band D Charge	37.19
Precept	225

# 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 2017 was £126.007 million (£126.989 million at 31 March 2016) and the national non-domestic multiplier for 2016/17 was 49.7p (2015/16 :49.3p), resulting in net income after transitional, small property, empty property and mandatory reliefs of £52.852 million (£52.985 million in 2015/16).

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 2016/17 was £16.882 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 2016/17 is £1.183 million (2015/16 surplus £1.162 million). This is apportioned as follows:

	2016/17 £'000	2015/16 £'000
Gloucestershire County Council	(876)	(856)
Police and Crime Commissioner for Gloucestershire	(161)	(163)
Gloucester City Council	(146)	(143)
<b>Total</b>	<b>(1,183)</b>	<b>(1,162)</b>

The fund surplus is to be partly distributed to the respective parties in 2017/18 as a surplus of £0.75 million was declared in January 2017.

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 £1.705 million in 2016/17 (£1.332 million in 2015/16). The closing deficit is apportioned between the relevant bodies as follows.

Apportionment of Net Deficit relating to NNDR	2016/17 £'000	2015/16 £'000
Gloucestershire County Council	430	260
Central Government	2,153	1,301
Gloucester City Council	1,723	1,040
<b>Total</b>	<b>4,306</b>	<b>2,601</b>

The fund deficit is to be partly recovered from the respective parties in 2016/17 as a deficit of £3.012 million was declared in January 2017. The remaining deficit will be reclaimed in future years and The City Council has a reserve in place to cover its share.

## 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 2017 was £2.966 million. This has been split amongst the three recipients of Business Rates Income according to their respective share.

	2016/17 £'000	2015/16 £'000
Central Government	1,483	1,103
Gloucester City Council	1,186	882
Gloucestershire County Council	297	221
<b>Total</b>	<b>2,966</b>	<b>2,205</b>

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# **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.



# 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 2017 on pages 26 to 74. 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 2016/17.

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 Policy & Resources and auditor

As explained more fully in the Statement of the Head of Policy & Resources Responsibilities, the Head of Policy & Resources 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 Policy & Resources; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement 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 2017 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 2016/17.

## 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 which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' (CIPFA/SOLACE 2016 Edition); 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 its 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 2016, 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 2017.

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 2016, 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 2017.

**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*

66 Queen Square

Bristol BS1 4BE



# External audit report 2016/17

**Gloucester City Council**

—

5 September 2017



# Summary for Audit Committee

## **Financial statements**

This document summarises the key findings in relation to our 2016-17 external audit at Gloucester City Council ('the Authority').

This report focusses on our on-site work which was completed in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 5.

Our report also includes additional findings in respect of our control work which we have identified.

**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.**

**We have identified two audit adjustments with a total value of £1,091 million of which one adjustment of £0,833 million remains unadjusted in the accounts. Whilst this difference is significant in value, it does not exceed our materiality level and therefore we are content with management's decision not to adjust it in the financial statements on the basis of its immateriality, and instead to address through next year's accounts. This will be confirmed through the representation letter we have requested. See page 25 for details.**

Based on our work, we have raised 1 recommendation. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit.

## **Use of resources**

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**We therefore anticipate issuing an unqualified value for money opinion.**

See further details on page 15-21.

## **Acknowledgements**

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

**We ask the Audit Committee to note this report.**

# Contents

## The key contacts in relation to our audit are:

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This report is addressed to Gloucester City Council (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](http://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 [andrew.sayers@kpmg.co.uk](mailto: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](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

**Section one**

# Financial Statements



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a deficit on the provision of services of £4.5m. This has resulted in an increase in the General Fund of £0.7m following various adjustments between the Council's accounting basis and funding basis, such as the reversal of depreciation and other capital transactions, adjustments to pensions costs and recognition of a statutory borrowing provision.



# Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
<p><b>1. Significant changes in the pension liability due to LGPS Triennial Valuation</b></p>	<p><b>Why is this a risk?</b></p> <p>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the <i>Local Government Pension Scheme (Administration) Regulations 2013</i>. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Gloucestershire County Council, who administer the Pension Fund.</p> <p><b>Our work to address this risk</b></p> <p>We have reviewed the process used to submit relevant payroll data to the Pension Fund and have found no issues to note. We have obtained assurance from the scheme auditor in relation to data provided by the administering council. We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note.</p> <p>Alongside this, our KPMG actuarial specialists have reviewed the assumptions of the GCC scheme actuary and found them to be reasonable.</p>
<p><b>2. New core financial system implementation</b></p>	<p><b>Why is this a risk?</b></p> <p>The Council implemented a new accounting system, Civica financials, during the financial year. This implementation replaces the Council's current general ledger, fixed asset register, accounts receivable and accounts payable modules.</p> <p>The new system is managed by Malvern Hills District Council (MHDC) within a shared services arrangement. MHDC already has an existing arrangement to manage the Civica system on behalf of another district, so Gloucester is joining an existing arrangement. The whole year's transactions were transferred from the existing e-Financials system to the new financial system.</p> <p>There is a risk that the data does not transfer correctly or completely, or that the Council's feeder systems (e.g. Revenues and Benefits) do not correctly interface with the new system.</p> <p><b>Our work to address this risk</b></p> <p>Additional work was performed over the system migration process as well as over key reconciliations, especially between the general ledger and the Council's existing systems such as Civica Revenues &amp; Benefits.</p> <p>As internal audit did a specific review in this area, we initially reviewed the extent and results of the internal audit work and used our IT specialists within our audit team to perform necessary top-up work following the review of IA work. We have also held enquiries with the Council, the Malvern Hills team and IA regarding the project.</p> <p>No issues were noted in our testing.</p>

## Considerations required by professional standards

### 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 2016/17* 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 audit focus

We identified three areas of audit focus. These are not considered as significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
<p><b>1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS</b></p>	<p><b>Background</b></p> <p>CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):</p> <ul style="list-style-type: none"> <li>— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and</li> <li>— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the previous segmental reporting note.</li> </ul> <p>The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p><b>What we have done</b></p> <p>For the restatement, we obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority’s general ledger and found no issues to note.</p> <p>We made some suggestions to improve the note to facilitate easier reconciliation to the Council’s final outturn statement; these suggestions have been built into the final accounts by the Council.</p>
<p><b>2. Valuation of property</b></p>	<p><b>Background</b></p> <p>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.</p> <p><b>What we have done</b></p> <p>We have reviewed the appropriateness of the valuation methodology and considered the expertise of the valuers performing the exercise, and in addition reviewed the Council’s consideration of the accuracy of the year-end carrying value of properties not revalued at the balance sheet date. We have tested a sample of revaluations to confirm accurate treatment and accounting.</p> <p>No issues were identified in our testing.</p>
<p><b>3. Restructuring programme</b></p>	<p><b>Background</b></p> <p>The Council has undergone a restructuring programme, Together Gloucester, during the year. This will be considered in relation to VFM on page 20, but there is also an impact on the financial statements in terms of potential provisions required for restructuring (e.g. redundancy costs) and disclosures of redundancy payments.</p> <p><b>What we have done</b></p> <p>An understanding was obtained around the progress of the programme and the potential costs required, this included a review of any provisions/accruals and disclosures within the accounts in relation to the project. We have raised an audit adjustment in order to recognise a provision in relation to the redundancy costs resulting from the project (see page 26).</p>

# Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
<b>Provisions (excluding NDR appeals)</b>	4	3	<p>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.</p> <p>The Council also holds some immaterial provisions in relation to injury and damage compensation claims.</p> <p>We consider the provision level to be appropriate with the exception of the immaterial audit adjustment we have raised in relation recognising a provision for the restructuring scheme (see page 26).</p>
<b>NDR appeal provisions</b>	3	3	<p>This provision covers the estimated cost to the Council resulting from appeals by ratepayers against their rateable value; the provision has increased by £0.3m this year. We consider the provision level to be appropriate.</p>
<b>Pensions</b>	3	3	<p>Assumptions are set in calculating the liability amount discounted at a rate of 2.5% (PY 3.4%), for the current year the life expectancy decreased for both current pensioners and future pensioners and the inflation rate was set at 2.4% (PY 2.1%). Key assumptions are in the middle of KPMG’s acceptable range.</p>
<b>Property, Plant and Equipment (valuations / asset lives)</b>	4	4	<p>Property, plant and equipment is made up of 67% Land and Buildings, 14% Infrastructure assets, 11% Community assets and 8% 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.</p> <p>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.</p>

## Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 18 September 2017.

## 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 3 for more information on materiality) level for this year's audit was set at £1.6m million for the Authority's accounts and £1.75m for the Group accounts. Audit differences below £0.080 million are not considered significant.

Our audit identified a total of two significant audit differences, which we set out in Appendix 2. Management did not wish to correct the misstatement identified around the restructuring provision as it will not have a material effect on the financial statements.

The tables on the right illustrate the total impact of audit differences (adjusted and unadjusted audit differences) on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2017.

As the one corrected misstatement only impacts on the way tax flow through the group accounts with no impact on general fund, it is not included in the tables, and as such, the tables illustrate the balances which would be recognised if management corrected the unadjusted difference relating to the restructuring provision as set out on page 26.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). We understand that the Authority will be addressing these where significant.

Movements on the general fund 2016/17			
£m	Pre-audit	Post-audit <sup>1</sup>	Ref
Deficit on the provision of services	(4,542)	(5,375)	Page 26
Adjustments between accounting basis and funding basis under Regulations	5,253	6,086	-
Transfers to/from earmarked reserves	692	692	-
<b>Movement in General Fund</b>	<b>1,403</b>	<b>1,403</b>	Page 26

Balance sheet as at 31 March 2017			
£m	Pre-audit	Post-audit <sup>1</sup>	Ref
Property, plant and equipment	63,639	63,639	-
Other long term assets	31,020	31,020	-
Current assets	10,616	10,616	-
Current liabilities	(19,570)	(20,403)	Page 26
Long term liabilities	(76,738)	(76,738)	-
<b>Net worth</b>	<b>8,967</b>	<b>8,134</b>	Page 26
General Fund	5,922	5,922	Page 26
Other usable reserves	5,594	4,761	-
Unusable reserves	(2,549)	(2,549)	-
<b>Total reserves</b>	<b>8,967</b>	<b>8,134</b>	Page 26

<sup>1</sup> This represents the impact of correcting the one unadjusted difference of £833k. The final post-audit accounts presented to members have no adjustments to general fund and balance sheet compared to the draft approved prior to our audit.

## Section one: financial statements

### Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

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

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

### Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

We have noted that while there is a list of non-financial achievements detailed in the Report, there are no non-financial Key Performance Indicators, as the Council is still in the process of revising its KPI system. The Accounts and Audit Regulations 2015 include this specific requirement and, whilst they are not explicit in what this requires, we believe the Council should consider for future years how it can expand on the information included in the Narrative report to fulfil the requirements from the Regulations.

Our VFM section includes more detail on this area.

# Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

## Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

The Authority has strengthened its financial reporting by finalising the accounts in a slightly shorter timescale despite its financial system migration exercise and restructuring exercise in the final quarter increasing pressures on finance staff. This puts the Authority in a good position to meet the new 2017/18 deadline. Nonetheless, there is scope to improve the process, in particular in relation to dealing with outstanding audit evidence and accounts changes after the audit evidence, as the deadlines next year will be significantly tighter.

We consider the Authority's accounting practices to be appropriate.

## Completeness of draft accounts

We received a complete set of draft accounts in advance of 30 June 2017, which is the statutory deadline.

## Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request), which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. This has generally resulted in mostly good-quality working papers with clear audit trails, and hopefully the process should be easier next year with only one system to audit.

## Response to audit queries

Officers generally dealt with our audit queries swiftly although we experienced some delays in certain areas, in particular queries relating the payroll data provided by the outsourced payroll provider, and reconciliations of data extracts from the old financial system.

There is still room for improvement in this area, in particular to ensure there is sufficient audit responsibility spread around the finance team to avoid delays due to requests building up with key individuals from multiple auditors, which are a risk when the deadlines are shortened and our audit visit will require more staff over a shorter period.



## Section one: financial statements

### Group audit

To gain assurance over the Authority's group accounts, we performed a desktop review over the group's only other entity, the Airport company which is a joint venture with Cheltenham BC.

The focus of this review was on the valuation of properties as the I&E account is immaterial to the Council.

The Council has recognised a prior period adjustment within its group account resulting from the conversion of the Airport company to new UK GAAP accounting standards (FRS 102) which has resulted in the recognition of certain material deferred tax balances. This is detailed in the relevant note to the accounts.

We consider the treatment of this adjustment and we have made some recommendations to improve related disclosures in the accounts.

There are no other specific matters to report pertaining to this review and we are also pleased to report that there were no issues to note in relation to the consolidation process.

### Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work performed, and that performed by Internal Audit where we have relied on their work, we are satisfied that the controls are performing effectively. We are able to place reliance on the Authority's control framework.

# Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 2017, 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 4 in accordance with ISA 260.

## Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

## Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.



**Section two**

# Value for money

Our 2016/17 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 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.

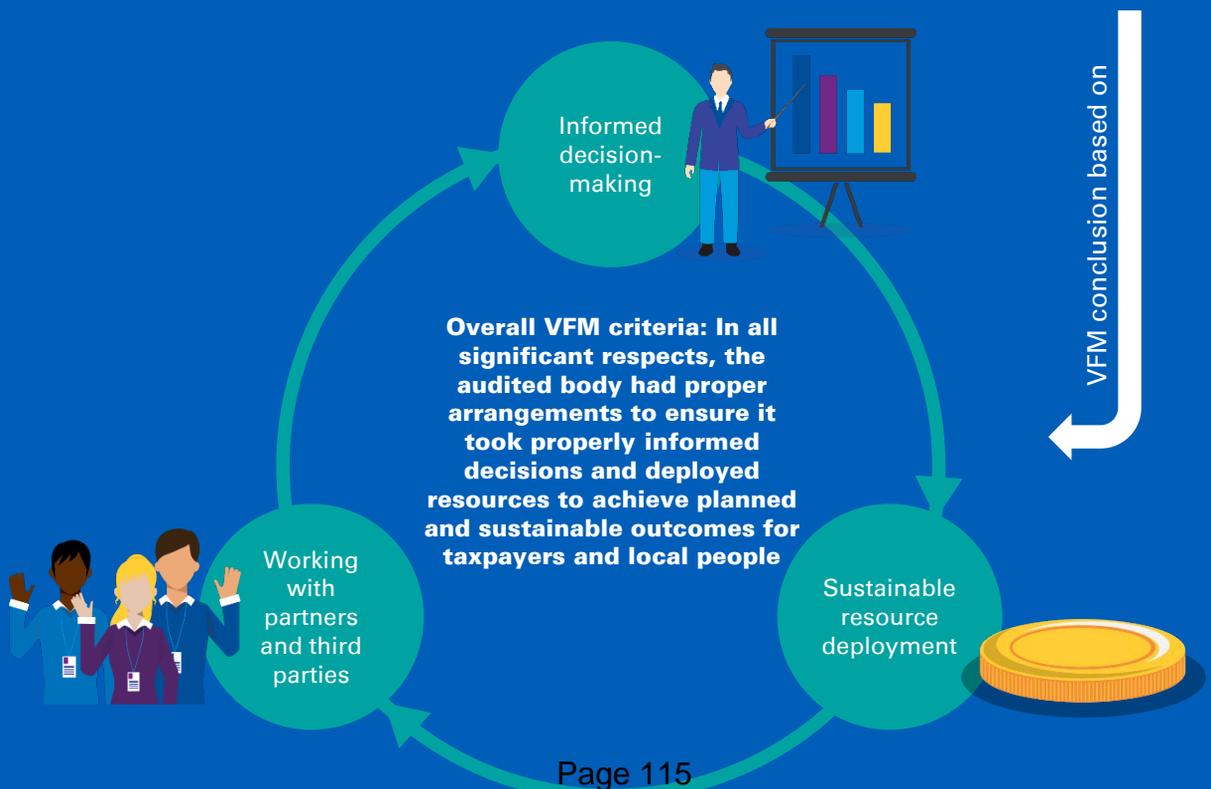
# VFM conclusion

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.'

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

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



## Section two: value for money

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Achievement of savings plan	✓	✓	n/a
2. Together Gloucester Project	✓	✓	n/a
3. Adequacy of contract monitoring	✓	n/a	n/a
4. Performance management reporting	✓	n/a	n/a
<b>Overall summary</b>	✓	✓	n/a

In consideration of the above, we have concluded that in 2016/17, 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.

We do however note that the Council has been developing its new performance management reporting system for over twelve months now, during which time the reporting of KPIs to members has been informal and sporadic.

Although the Council has evidenced that this reporting does still occur, we recommend that this new system is implemented as a matter of urgency now that the new Council structure is finalised, so that members are clearly and regularly informed about the Council's non-financial performance levels.

Further details on the work done and our assessment are provided on the following pages.

# Significant VFM risks

We have identified four significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. 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.

Significant VFM risks	Work performed
<b>1. Financial resilience in the local and national economy</b>	<p><b>Why is this a risk?</b></p> <p>There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances.</p> <p>In February 2017, the Authority published a draft money plan 2017/18 –2021/22 that sets out a balanced budget for 2017/18.</p> <p>From 2018/19, the Authority has identified funding gaps; however it is confident that the targets in the Efficiency Plan are sufficient to bridge the forecast gap in the money plan and are monitored by the management team.</p> <p><b>Summary of our work</b></p> <p>Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.</p> <p>The Authority reported an overall breakeven position on its net expenditure budget for 2016/17 after the net contribution of £4.5 million from the Earmarked General Fund reserve. This enabled the General Fund balance to remain at £5.5 million as of 31 March 2017.</p> <p>The Authority's money plan details a balanced budget for 2017/18 including savings of £1,649,000 in year, all of which have been identified. However, the money plan details the increasingly difficult financial challenges faced each year, with further future savings which have yet to be identified of £1.2m million by 2020/21.</p>

Significant VFM risks	Work performed
<b>2. Together Gloucester Project</b>	<p data-bbox="444 406 1320 551"><b>Why is this a risk?</b></p> <p>The Together Gloucester project will result in a fundamental restructuring of the Council's processes and teams. The project has been ongoing this year using staff from across the Council to reassess the Council's activities and the results were announced to staff in late 2016; the new structure resulting from the project has been implemented by 1 April 2017.</p> <p>Given the fundamental nature of this project and impact on the Council (plus the reliance of the savings plan on the project), there is an inherent VFM risk to be considered, in particular relating to the arrangements to achieve VFM within the project (e.g. governance and clarity of decision making).</p> <p data-bbox="444 696 698 727"><b>Summary of our work</b></p> <p>We have reviewed the approach followed by the Authority in considering restructuring options and providing information to members in order to allow informed decision making.</p> <p>In particular, our review focused on the governance processes followed and understanding whether the savings estimates were robustly calculated, via a discussion with relevant officers and review of relevant documentation.</p> <p>Our work found the governance processes to be reasonable and the information provided to members to be sufficiently detailed to allow informed decision making.</p>
<b>3. Adequacy of contracts monitoring</b>	<p data-bbox="444 1027 651 1058"><b>Why is this a risk?</b></p> <p>A recent internal audit report into the Streetcare contract identified a number of issues relating to the adequacy of contract monitoring, for example around monitoring of elements of cost, lack of strategy or quality related KPIs and accuracy of performance reporting from the contractor.</p> <p>As a result of this report, officers have established an action plan to address the issues raised.</p> <p data-bbox="444 1272 698 1303"><b>Summary of our work</b></p> <p>We took account of Internal Audit's work and the Council's progress against the action plan to consider the significance of the identified issues and the steps being taken to address them.</p> <p>We also considered the Council's other major outsourced contracts via discussion and document review to understand the level of contract monitoring.</p> <p>We found that the two other significant contracts, Civica Housing Benefits and IT, had established monitoring processes and KPIs.</p> <p>Regarding the Streetcare contract, some of the recommendations have yet to be fully implemented or resolved, but there is evidence that the Council has implemented or commencing the implementation of the majority of recommendations in the report.</p> <p>In addition, the Council is currently re-negotiating the KPIs and other performance monitoring controls in the contract in order to enable more robust contract management procedures to be followed (although we note that this will require the agreement of the supplier in the form of a contract variation of extra-contractual agreement).</p> <p>Overall, whilst recognising the need for some improvement, particularly in relation to the Streetcare contract we consider the council's contract monitoring to be sufficient to meet the VFM criteria.</p>

Significant VFM risks	Work performed
<b>4. Performance management reporting</b>	<p data-bbox="444 364 654 389"><b>Why is this a risk?</b></p> <p data-bbox="444 410 1319 493">Within our report to the Committee detailing findings from our 2015/16 audit, we noted that the Council’s historical approach of reporting on service performance to Members was stopped during 2015/16.</p> <p data-bbox="444 513 1329 596">This was a deliberate decision to allow the approach to be reviewed and refined to better meet the needs of the Council, and Members and officers have continued to receive alternative information to allow performance monitoring.</p> <p data-bbox="444 617 1329 700">We noted at the conclusion of last year’s audit that a revised approach was under development by the Council, and that it would be important to introduce the new approach as soon as possible to allow timely and effective monitoring to take place.</p> <p data-bbox="444 721 698 745"><b>Summary of our work</b></p> <p data-bbox="444 766 1296 849">We have discussed the Council’s progress on implementing a new performance management approach with officers and reviewed evidence of alternative arrangements to allow monitoring while the plan is in development.</p> <p data-bbox="444 870 1339 973">The Council has delayed the implementation of a revised KPI package to be reported to members due to changes to the operating and management structure of the Council to be brought about under the Together Gloucester project. As such, there has been no formal reporting of KPIs to members for over 12 months.</p> <p data-bbox="444 994 1296 1077">During this period, there is evidence of monitoring of KPIs at an officer level and periodic reporting of some KPIs to members but this has not been formalised in terms of frequency or level of reporting.</p> <p data-bbox="444 1098 1339 1232">The introduction of the new performance management system, Covalent, in May 2017, is intended to facilitate a new process and more effective and proactive performance management, with monitoring arrangements based on specific key projects, rather than the very extensive package of KPIs previously presented, which members had found difficult to digest due to its size.</p> <p data-bbox="444 1253 1329 1336">Based on our discussions and review of documentation, we consider that there is a level of performance management being performed and it is clear the Council is taking appropriate measures to implement an improved new system.</p> <p data-bbox="444 1357 1339 1440">We recommend that this new system is implemented as a matter of urgency now that the new Council structure is finalised, so that members are clearly and regularly informed about the Council’s non-financial performance levels.</p>

A close-up photograph of a stack of books on a wooden desk. The books are stacked vertically, with a red book visible at the bottom. A silver pen lies horizontally in the foreground, pointing towards the left. The background is softly blurred, showing more books and a warm, golden light. The word 'Appendices' is written in a red, serif font, centered in the upper half of the image, flanked by two vertical red lines.

# Appendices

# Key issues and recommendations

Our audit work on the Authority’s 2016/17 financial statements have identified recommendations that we have listed in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

- 

Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 

Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 

Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary	
Priority	Total raised for 2016/17
High	1
Medium	0
Low	0
<b>Total</b>	<b>1</b>



---

**1. Performance management reporting**

The Council has been developing its new performance management reporting system for over twelve months now, during which time the reporting of KPIs to members has been informal and sporadic.

**Recommendation**

Implement the new performance management system as a matter of urgency, so that Members are clearly and regularly informed about the Council's non-financial performance levels.

The new system should then be drawn upon when considering the range of non-financial performance indicators that could be incorporated into the Narrative Report in the future, in line with the requirements of the Accounts & Audit Regulations 2015.

**Management Response**

Accepted

Implementation of new Performance Management System has commenced and will be completed before end of 2017/18

**Owner**

Head of Policy & Resources

**Deadline**

March 2018

---

# Audit differences

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.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

### Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Gloucester City Council’s financial statements for the year ended 31 March 2017. In addition, a number of presentational improvements were made, the most significant of which related to the new Expenditure and Funding Analysis which was updated to reconcile more clearly to the final outturn presented to members.

Table 1: Adjusted audit differences (£'000)						
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Cr tax expense (£285k)	Dr tax through OCI £285k				<p>The share of income taxes for the joint venture was misstated in the original draft accounts, as the taxation line in the Group Comprehensive Income and Expenditure Statement (CI&amp;ES) was booked as an expense instead of a tax credit to the joint venture (Gloucestershire Airport Limited).</p> <p>The total tax recognised within the Airport CI&amp;ES is actually a tax credit as a result of reversal of deferred tax timing differences in relation to the revaluation of the Airport’s property assets.</p> <p>The other side of the correction was to the deferred tax movement recognized in other comprehensive income (OCI) relating to the defined benefit pension scheme, which was also stated incorrectly as a result of the error.</p> <p>Management adjusted for the difference and updated the accounts to reflect correctly within the Group comprehensive income and expenditure statement.</p>
	(£285k)	285k	-	-	-	<b>Total impact of adjustments</b>

## Appendix 2

### Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of [name of Authority]'s financial statements for the year ended 31 March 2017. These differences are individually below our materiality level of £1.6m. Cumulatively, the impact of these uncorrected audit differences is £833k. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

**Table 2: Unadjusted audit differences (£'000)**

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr staff costs £833k	Cr General fund £833k Dr capital receipts reserve £833k		Cr provisions £833k		No restructuring provision has been recognized for the Together Gloucester project. As the formal plan consultation had been announced to all staff prior to the balance sheet date, which raised an valid expectation in them that the Council would carry the plan out, we consider that the requirement to recognize a restructuring provision under IAS 37 have been met.  This cost is to be funded by capital receipts as agreed and approved by a capitalisation direction by DCLG so our adjustment recognises this within the Movement in reserves statement.
	<b>Dr £833k</b>	<b>-</b>	<b>-</b>	<b>Cr £833k</b>	<b>-</b>	<b>Total impact of uncorrected audit differences</b>

# Materiality and reporting of audit differences

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

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £1.6 million which equates to around 1.6 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Audit 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 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 £0.080 million 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 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 (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 his. These matters should be discussed with the Audit Committee.

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

## **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

## **Auditor declaration**

In relation to the audit of the financial statements of Gloucester City Council for the financial year ending 31 March 2017, 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.

**Non-audit work and independence**

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Housing Benefits	£10,000 (including fee variations for additional testing due to prior year errors)	<p><b>Self-interest:</b> The audit fee scale rates were set independently to KPMG by the PSAA and are not material to the audit fee. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p><b>Self-review:</b> The work is to provide a certification and does not provide any accounting decisions or advice that would require as part of the financial statements audit.</p> <p><b>Management threat:</b> No decisions or advice to be provided as part of this work, as it is an audit related certification.</p> <p><b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work.</p> <p><b>Advocacy:</b> We will not act as advocates for the Authority in any aspect of this work.</p> <p><b>Intimidation:</b> not applicable</p>
<b>Total estimated fees</b>	<b>£10,000</b>	
<b>Total estimated fees as a percentage of the external audit fees</b>	<b>16%</b>	

## Appendix 5

# Audit fees

### Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £63,450 plus VAT, which is the same as the prior year.

However, we have been required to perform additional work compared to the scale fee work in relation to the change in financial system and also in relation to the specific VFM risks which were subject to audit during the year as detailed on page 18 (excluding the savings plan VFM risk which is included in the scale fee). The proposed fee variations in relation total an additional £7,041 plus VAT. These fees have been discussed with the S151 officer and are subject to PSAA determination.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £7,043 plus VAT, although the final fee is likely to be higher as a result of additional testing that is required due to errors identified in previous years' certifications.



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<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>18<sup>th</sup> September 2017</b>
<b>Subject:</b>	<b>Annual Governance Statement (AGS) 2016/17</b>		
<b>Report Of:</b>	<b>Head of Policy and Resources</b> <b>Head of Audit Risk Assurance (Chief Internal Auditor)</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer - Head of Audit Risk Assurance</b>		
	<b>Email:</b>	<b>Tel: 01452 396338</b>	
	<a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a>		
<b>Appendices:</b>	<b>1: Annual Governance Statement (AGS) 2016/17</b>		

**1.0 Purpose of Report**

1.1 To summarise Gloucester City Council’s corporate governance arrangements in place during 2016/2017, via the publication of an AGS, (to be signed by the Leader and the Managing Director), supported by a revised Local Code of Corporate Governance 2016/2017, which is in accordance with the requirements of the Local Government Act 1999, the Accounts and Audit Regulations 2015 and the revised Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authorities Chief Executives (SOLACE) guidance – Delivering Good Governance in Local Government Framework 2016.

**2.0 Recommendation**

2.1 Audit and Governance Committee is asked to **RESOLVE** that the AGS 2016/17, as set out in Appendix 1, be approved.

**3.0 Background and Key Issues**

3.1 In April 2016, CIPFA and SOLACE published ‘Delivering Good Governance in Local Government: Framework 2016 and this applies to annual governance statements prepared for the 2016/2017 financial year. Guidance notes were also published to assist Council Leaders and Chief Executives in reviewing and testing their governance arrangements against the revised seven principles for good governance.

3.2 The key focus of the framework is on sustainability: economic, social and environmental and the need to focus on the longer term and the impact actions may have on future generations.

3.3 In response to the above, we therefore:

- reviewed the existing governance arrangements against the revised principles set out in the Framework;
- developed and implemented a refreshed local code of corporate governance, based on the new principles, including an assurance framework for ensuring ongoing effectiveness; and
- will report publically, via the Annual Governance Statement on compliance with our code on an annual basis, how we have monitored the effectiveness of our governance arrangements in the year and on planned improvement areas.

3.4 The Annual Governance Statement is signed by the Leader and Managing Director (Head of Paid Service) and must accompany the Annual Statement of Accounts

#### **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 There are no alternative options that are relevant to this matter.

#### **6.0 Reasons for Recommendations**

6.1 The Accounts and Audit Regulations 2015 6 (1) (a) requires the Council to conduct an annual review of the effectiveness of the system of internal control required by regulation 3, and (b) to prepare an Annual Governance Statement.

#### **7.0 Future Work and Conclusions**

7.1 The improvement actions identified as part of the annual review and included within the AGS, will be monitored by Senior Management and the Audit and Governance Committee during 2017/2018.

#### **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 effective governance will impact on the ability of the Council to achieve its vision, priorities and key actions. It is important to recognise that the purpose of the AGS is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required.

#### **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:**

Reference and Council website links to supporting reports and documentation are made within the AGS (**Appendix 1**).

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# Annual Governance Statement 2016/17

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# Scope of Responsibility

Gloucester City Council (GCC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The 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.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

GCC acknowledges its responsibility for ensuring that there is effective governance within the Council and as such has developed a Code of Corporate Governance that defines the principles and practices that underpin the governance arrangements operating within the Council.

Page 137 The Code is reviewed and updated annually and is consistent with the seven core principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) guidance 'Delivering Good Governance in Local Government framework - 2016 Edition', the key focus being on sustainability i.e. economic, social and environmental and the need to focus on the longer term and the impact actions may have on future generations.

A copy of the Code can be accessed on the Council's website. However, a summary of the seven core principles upon which it is based can be found on page 9 of this document.

This statement explains how the Council has complied with the Code and also meets the requirements of the Accounts and Audit Regulations 2015, regulation 6(1) (a) and (b), which requires the Council to prepare and publish an Annual Governance Statement (AGS).

The responsibility for leading and directing the annual reviews of the effectiveness of the Council's governance arrangements against the Code and providing ongoing oversight and robust challenge, is the Council's Statutory Officers, comprising, the Managing Director, Chief Financial Officer (S151 Officer) and the Monitoring Officer and when completed, the findings are reported to and improvement actions identified, monitored by the Audit and Governance Committee.

# What is Governance?

Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Good governance leads to effective:

- ❑ leadership and management;
- ❑ performance and risk management;
- ❑ stewardship of public money; and
- ❑ public engagement and outcomes for our citizens and service users.

# What is the purpose of a Governance Framework?

The governance framework comprises the culture, values, systems and processes by which an organisation is directed and controlled. 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 services and value for money. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It assures that in conducting its business, the Council:

- ❑ operates in a lawful, open, inclusive and honest manner;
- ❑ makes sure that public money and assets are safeguarded from inappropriate use, or from loss and fraud, properly accounted for and used economically, efficiently and effectively;
- ❑ has effective arrangements for the management of risk;
- ❑ secures continuous improvement in the way that it operates;
- ❑ enables human, financial, environmental and other resources to be managed efficiently and effectively;
- ❑ properly maintains records and information; and
- ❑ ensures its values and ethical standards are met.

# What is the Annual Governance Statement?

The Council is required by the Accounts and Audit Regulations 2015 to prepare and publish an Annual Governance Statement, in order to report publicly on the extent to which we comply with our own Local Code of Corporate Governance, including how we have monitored the effectiveness of our arrangements in year and on any planned changes to our governance arrangements in the coming year.

In this document the Council:

- ❑ acknowledges its responsibility for ensuring that there is a sound system of governance;
- ❑ summarises the key elements of the governance framework and the roles of those responsible for the development and maintenance of the governance environment;
- ❑ describes how the Council has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period;
- ❑ provides details of how the Council has responded to any issue(s) identified in last year's governance statement; and
- ❑ reports on any key governance matters identified from this review and provides a commitment to addressing them.

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The Annual Governance Statement reports on the governance framework that has been in place at Gloucester City Council for the year ended 31st March 2017 and up to the date of approval of the statement of accounts.

It should be noted however, that any system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The Council's Governance Assurance Framework, which underpins the AGS, has been in place at the Council for the year ended 31st March 2017 and up to the date of approval of the AGS and Statement of Accounts.

# What is a Governance Assurance Framework?

Assurance provides confidence, based on sufficient evidence, that internal controls are in place and are operating effectively and that objectives are being achieved. An Assurance Framework is a structure within which Members and Senior Management identify the principal risks to the Council meeting its key objectives, and through which they map out both the key controls to manage them and how they have gained sufficient assurance about the effectiveness of those controls. The assurance framework underpins the statements made within the Annual Governance Statement.

A governance assurance process is in place to provide a framework for the annual assessment of the effectiveness of the governance arrangements operating within the Council. This includes overview and oversight and robust challenge by the Council's Statutory Officers i.e. the Managing Director, Monitoring Officer and Chief Financial Officer.

Page 140 In addition, 'the three lines of defence assurance model' is in place which helps Members and Senior Management to understand where assurances are being obtained from, the level of reliance they place on that assurance and identify potential gaps in assurance.

## **The Three Lines of Defence in effective Risk Management and Control**

Assurance can come from many sources within the Council. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance.

By defining these sources into three categories i.e. the First Line (functions that own and manage risks e.g. management and supervisory controls), the Second Line (functions that oversee risks e.g. Governance structures and processes such as Audit and Governance Committee, Scrutiny, Boards) and the Third Line (functions that provide independent assurance on the management of risks e.g. HMRC, Information Commissioner, Internal/External Audit), helps the Council understand how each contributes to the overall level of assurance and how best they can be integrated and supported. Please see page 7 below which summarises the Council's governance assurance framework, which is based on the three lines of defence model.

# What is the Council's Governance Assurance Framework?

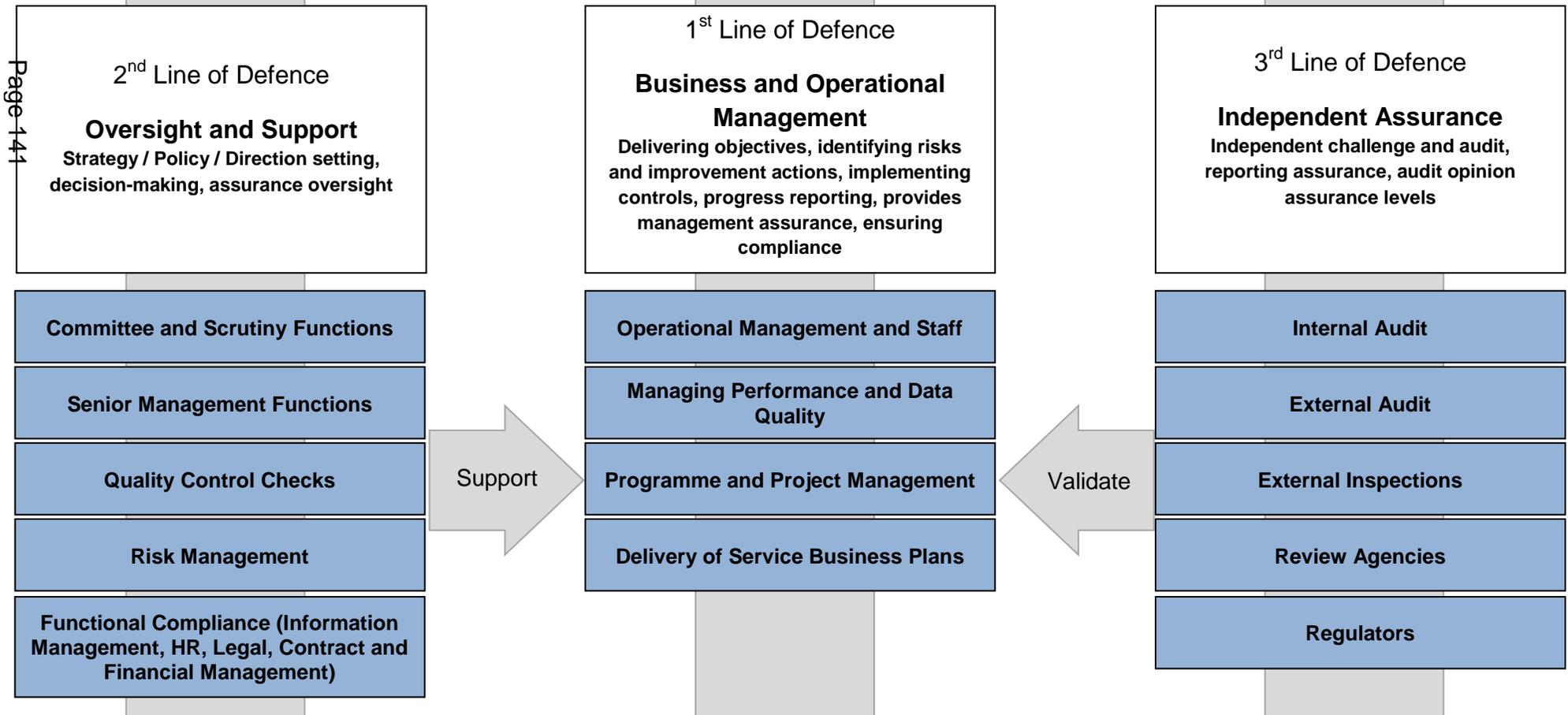
## Annual Governance Statement (AGS)

### Audit and Governance Committee

(AGS Approval Committee)

Leader, Managing Director, Chief Financial Officer, Monitoring Officer, Senior Management Team

(Provides oversight of the 3 lines of defence assurance framework)



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# How has the Annual Governance Statement been prepared?

In preparing the Annual Governance Statement the Council has:

- ❑ reviewed the Council's existing governance arrangements against the revised CIPFA / SOLACE 'Delivering Good Governance in Local Government framework - 2016 Edition' good practice guidance;
- ❑ updated the Council's Local Code of Corporate Governance to reflect this guidance which includes the revised seven principles of good governance and associated required actions and behaviours taken by the Council that demonstrate good governance; and
- ❑ assessed the effectiveness of the Council's governance arrangements against the revised Local Code of Corporate Governance.

# How does the Council monitor and evaluate the effectiveness of its governance arrangements?

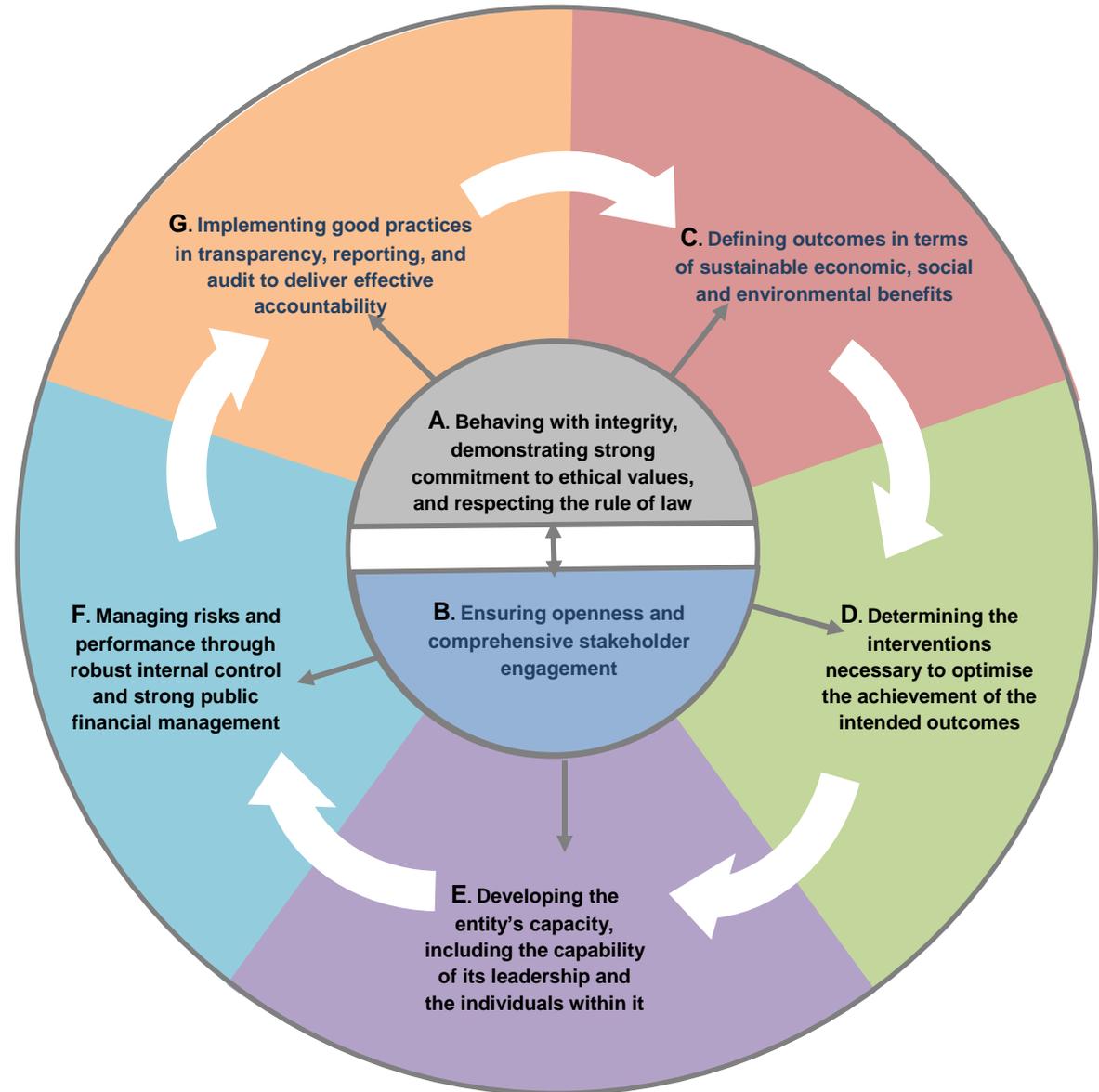
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The Council annually reviews the effectiveness of its governance arrangements. The key sources of assurance that inform this review are outlined below:

- ❑ The development and implementation of a Member / Management governance assurance framework which enables the Council to gain assurance that good governance actions and behaviours are operating within the Council;
- ❑ The work of Members and Senior Officers of the Council who have responsibility for good governance;
- ❑ The Chief Internal Auditor's annual report on Internal Audit Activity 2016/2017, which provides the independent assurance that key risks (financial and non-financial) are being adequately controlled and provides an opinion on the effectiveness of these arrangements;
- ❑ The annual report on Risk Management Activity 2016/2017;
- ❑ Any comments made by the Council's External Auditors; and
- ❑ Any other review agencies and inspectorates.

# What are the key elements of GCC's Governance Framework?

The Council aims to achieve good standards of governance by adhering to the seven core principles below, which form the basis of the Council's Code of Corporate Governance:



The following pages provide a summary of actions and behaviours taken by the Council in relation to each of these seven core principles and associated sub principles.

# Principle A

**Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Supporting Principles:

## Behaving with integrity

## Demonstrating strong commitment to ethical values

## Respecting the Rule of Law

How we do this:

- ❖ The Council has an [Audit and Governance Committee](#) to promote high standards of member conduct. Elected members must follow a [Code of Conduct](#) to ensure high standards in the way they undertake their duties. The Monitoring Officer advises members on the Code of Conduct.
- ❖ Officer behaviour is governed by the Officers' Code of Conduct. The Code has been formulated to provide a set of standards of conduct expected of employees at work.
- ❖ External providers of services acting on behalf of the Council are also required to comply with the Code of Conduct.
- ❖ These Codes are regularly reviewed to ensure they are operating effectively.

- ❖ Arrangements exist to ensure that members and officers are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. These include:
  - Registers of disclosable conflicts of interests;
  - Declarations of disclosable conflicts of interests and disclosable other interests at the start of meetings; and
  - Registers of gifts and hospitality.
- ❖ A corporate complaints procedure exists to receive and respond to any complaints received.
- ❖ Actively seek to deter and prevent fraud and corruption and ensure where irregularity is suspected that it is thoroughly investigated.
- ❖ The required leadership and staff 'behaviours' are embedded into the performance appraisal process.

- ❖ The [Constitution](#) sets out the responsibilities of the Council, the Cabinet, Scrutiny and other Committees, as well as officers, including decision making powers.
- ❖ The Council has a duty to appoint three of its staff to specific roles, these being:
  - The Head of Paid Service (Managing Director), who has overall accountability for the governance arrangements operating within the Council.
  - The Monitoring Officer who has a key role in ensuring that decisions taken by the Council are within the law and the Council complies with the provisions of its Constitution.
  - The Chief Financial Officer is the principal financial adviser to the Council and is responsible for the proper administration of the Council's financial affairs and internal control environment.

## Principle B

### Ensuring openness and comprehensive stakeholder engagement

Supporting Principles:

#### Openness

#### Engaging comprehensively with institutional stakeholders

#### Engaging stakeholders effectively, including individual citizens and service users

How we do this:

- ❖ [Gloucester City Vision 2012-2022](#) statement sets out what we want to achieve for the City over the next ten years.
- ❖ The [Gloucester City Council Plan 2017-2020 Draft](#) sets out our key objectives, actions, projects, measures and targets.
- ❖ Cabinet Member decisions and significant officer decisions are also reported on the Council's website.
- ❖ The Council publishes an annual report on the activity of the Overview and Scrutiny Committee.
- ❖ Data is published in accordance with the [Local Government Transparency Code](#) which enables more power to be placed into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.

- ❖ Elected members are democratically accountable to their local area and this provides a clear leadership role in building sustainable communities.
- ❖ The Council's planning and decision-making processes are designed to include consultation with stakeholders and the submission of views by local people.
- ❖ Formal [Public Consultation](#) arrangements and public meetings held to ascertain stakeholder views prior to developing and implementing key policy changes.
- ❖ Developed and implemented alternative service delivery models to allow for resources to be used more efficiently and effectively.

- ❖ The long-term vision for the Council is set out in the 2012 - 2022 vision statement which is informed by public consultation.
- ❖ Elected members have the opportunity to scrutinise decisions that have been taken by the Members through the 'call-in' mechanism. This allows an opportunity for further consideration of the issue before implemented.
- ❖ Have Your Say: If you have ever wanted to make your views heard, but simply don't have the time to attend public meetings or events, our free email alerts service will help keep you connected and updated on the things that matter to you and will enable you to have your say on a variety of issues and topics within Gloucester. Please sign up here.
- ❖ City Life is the City Council's free quarterly newspaper for the residents of Gloucester.

## Principle C

### Defining outcomes in terms of sustainable, economic, social and environmental benefits

Supporting Principles:

#### Defining outcomes

#### Sustainable economic, social and environmental benefits

How we do this:

- ❖ The Gloucester City Vision 2012-2022 document lays out our key strategic priorities for the City which all public, private and voluntary sector partners will aspire to deliver. The City Vision will provide an overarching framework for all partner's strategic plans including important City Council documents such as the Joint Core Strategy and the Gloucester City Plan.
- ❖ The [Joint Core Strategy](#) (JCS) is a partnership between Gloucester City Council, Cheltenham Borough Council and Tewkesbury Borough Council, supported by Gloucestershire County Council which will set out a strategic planning framework for the three areas.
- ❖ Gloucester City Plan: Gloucester is a transforming, growing and regeneration City. Together with the Joint Core Strategy (JCS), the Gloucester City Plan (GCP) will continue Gloucester's regeneration journey by providing the development framework to guide the City's future growth up to 2031. It covers a timeframe of 15 years between 2016 and 2031.
- ❖ A [Budget and Medium Term Money Plan](#), Capital Programme and annual budget process ensure that financial resources are directed to the Council's priorities and targets. These are reported to and monitored by the Senior Management Team, Overview and Scrutiny Management Committee and Cabinet.

- ❖ Together Gloucester is a savings programme which has identified efficiency savings across the organisation in a systematic and considered manner.
- ❖ The Council aims to ensure that the purchase or commissioning of goods, services or works required to deliver services is acquired under Best Value terms.
- ❖ The Council has developed business continuity plans to ensure that critical service delivery can be maintained or recovered during an emergency.
- ❖ The Council's decision making process requires consideration of the 'sustainability' i.e. economic, social and environmental impacts of policies and plans when taking decisions about service provision.
- ❖ The Council works with partner organisations where there are shared objectives and clear economic benefits from joint working.
- ❖ Programme and project management arrangements require consideration of Political, Environmental, Societal (i.e. increased demand for a service and demographic changes), technological, legislative, economic and efficiency issues, risks and opportunities and value for money.

## Principle D

### Determining the interventions necessary to optimise the achievement of the intended outcomes

Supporting Principles:

#### Determining interventions

#### Planning interventions

#### Optimising achievement of intended outcomes

How we do this:

- ❖ The Council's decision making process ensures that decision makers receive objective and robust analysis of a variety of options indicating how the intended outcomes will be achieved, providing information on the risks and opportunities associated with those options, thus helping to inform those decisions.
- ❖ Public consultation is undertaken to ensure that feedback from citizens and service users are fully considered when making decisions about service improvements / changes.
- ❖ The Council has a complaints procedure to enable our customers to tell us how we are doing, whether good or bad, so we can review what we do and change the way we work to enable us to deliver excellent customer service.

- ❖ The Council has developed annual Service Plans, Service Level Agreements, Shared Service Agreements and contracts with defined outcomes and a balanced set of measures and risks to evaluate performance. These plans are aligned to the Council's Vision, Joint Core Strategy and City Plan objectives.
- ❖ [Performance reporting](#) arrangements are in place analysing trends and latest budget position which are monitored at management and board meetings and mitigation strategies are implemented to manage current and emerging risks.

- ❖ The Council has developed and implemented a Budget and Medium Term Financial Plan.
- ❖ The financial plan demonstrates how the Council's financial resources will be deployed over the next five years to deliver declared aims and priorities.
- ❖ The Money Plan sets out the overall shape of the Council's budget by determining the level of resources that will be available and how these are currently allocated between services.
- ❖ The Council ensures the achievement of 'social value' (i.e. a way of thinking about how scarce resources are allocated and used when awarding a contract) when commissioning services and service planning.

## Principle E

**Developing the entity's capacity, including the capability of its leadership and the individuals within it**

Supporting Principles:

**Developing the Council's capacity**

**Developing the capability of the Council's leadership and other individuals**

How we do this:

- ❖ The Council participates in relevant benchmarking exercises and peer reviews to help inform how the resources are allocated, so that outcomes can be achieved effectively and efficiently.
- ❖ Collaborative working and alternative service delivery models are fully considered as part of the option appraisal process, when looking to determine how the Council's resources are allocated in order to meet our priorities.
- ❖ The Council is currently refreshing its workforce organisational development plan to align with the Council's new structure / operating model.
- ❖ The Council has access to an Occupational Health Service that offers health assessments, health screening, health and well-being advice, ill health retirement advice, rehabilitation advice and advises managers on health related performance or attendance issues and an Employee Assistance Programme which provides staff counselling and advice.

- ❖ The Council's Constitution clearly defines the statutory and distinctive leadership roles of the Leader of the Council and the Managing Director, whereby the Managing Director leads on implementing strategy and managing the delivery of services and other requirements set by members.
- ❖ A Members Development Programme is in operation, which supports continued Member development.
- ❖ The Council's staff performance appraisal process and talent assessment / management arrangements are currently being developed and will be implemented during 2017/2018 in line with the implementation of the new operating model. This provides an opportunity to reflect on how the individual is performing, what is going well and also where the individual may need further support or development as part of their role.
- ❖ The above includes leadership skills and behaviours as these behaviours are essential for the delivery of our key priorities, to continue to support our savings targets, and form part of our on-going commitment to personal and professional development.

# Principle F

## Managing risks and performance through robust internal control and strong public financial management

Supporting Principles:

### Managing Risk

How we do this:

- ❖ The Council has a [Risk Management Policy / Strategy](#) which clearly defines the roles and responsibilities for managing risk, confirming that risk management is an integral part of all our business activities including all aspects of business planning, option appraisals and decision making.
- ❖ Business Continuity arrangements are in place for critical services to ensure they can continue to operate in an emergency.
- ❖ The Audit and Governance Committee monitor the adequacy of the risk identification, monitoring and control of strategic and operational risk within the Council.

### Managing Performance

- ❖ Draft City Council Plan 2017-2020 outlines our priorities which are built on four clear priorities i.e. Growing Gloucester's Economy, Working with our Communities, Creating Pride in our City and Improving our Environment and Strong Finance and Performance.
- ❖ A business planning framework is in operation which sets out our key priorities/ tasks / targets / risks for the day job in order to meet these priorities.
- ❖ Officers hold bi-monthly performance meetings with their relevant Cabinet Portfolio Holder.
- ❖ Priorities are monitored through our performance, programme and project management framework and overseen by, and reported to the relevant Committees and Cabinet.

### Robust internal control

- ❖ There is an Internal Audit (IA) function (100% compliant with Public Sector Internal Audit Standards) which has provided a **satisfactory** independent opinion on the effectiveness of the Council's control environment comprising, risk management, control and governance.
- ❖ The Council takes fraud, corruption and maladministration very seriously and has established policies and processes which aim to prevent or deal with such occurrences. These can be found within the [Anti Fraud and Corruption Policy Statement and Strategy](#).
- ❖ The Audit and Governance Committee is responsible for monitoring and reviewing the above.

### Managing Data

- ❖ Data is managed in accordance with the law. The key information management and security policies in place or being refreshed are: The [Data Protection Policy](#), Freedom of Information [Publication Scheme](#) and Information Security Incident Management Policy.
- ❖ Information Sharing protocols are in place when sharing data with third parties.
- ❖ Policy ownership rests with the Senior Information Risk Officer (SIRO) and the Information Security Board members who are responsible for agreeing, monitoring, promoting and reviewing Policy implementation.

### Strong public financial management

- ❖ Robust budget management arrangements are in place including monitoring and review by the Overview and Scrutiny Management Committee and Cabinet.
- ❖ External Audit review and report on the Council's financial statements (including this Annual Governance Statement), providing an opinion on the accounts and concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).
- ❖ The Audit and Governance Committee monitor the effectiveness of the Chief Financial Officer's responsibility for ensuring an adequate internal / financial control environment.

## Principle G

### Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Supporting Principles:

#### Implementing good practices in transparency

#### Implementing good practices in reporting

#### Assurance and effective accountability

How we do this:

- ❖ Agendas and minutes of Council, Cabinet and Committee meetings including Scrutiny are publically available on the Council's website.
- ❖ The Council has a Freedom of Information Act publication scheme (to ensure the members of the public have access to all recorded information held by the Council).
- ❖ Compliance with the Local Government Data Transparency Code which sets out the minimum data that the Council should be publishing, the frequency it should be published and how it should be published e.g. expenditure exceeding £500, grants to voluntary, community and social enterprise organisations, senior salaries etc. This makes it easier for local people to contribute to the local decision making processes and help to shape public services.

- ❖ The published [Annual Statement of Accounts](#) is the statutory summary of the Council's financial affairs for the financial year. The purpose of the Annual Statement of Accounts is to give clear information on the income and expenditure of the Council and to demonstrate the Council's stewardship of public money for the year.
- ❖ The Council publishes an Annual Governance Statement in order to report how we have monitored the effectiveness of our governance arrangements (self assessed against the seven key principles set out within our Code of Corporate Governance) in year and on any planned changes in the coming year.
- ❖ The Audit and Governance Committee review and approve the Annual Statement of Accounts and Annual Governance Statement.

- ❖ Accountability and decision making arrangements are clearly defined within the Council's Constitution. These accountabilities include arrangements when delivering services with our key partners.
- ❖ The Audit and Governance Committee provide independent assurance to the Council on the adequacy and effectiveness of the governance arrangements and internal control environment operating within the Council.
- ❖ Risk based internal auditing provides ongoing assurance that the key risks material to achieving the Council's objectives are being managed.
- ❖ Peer reviews and benchmarking undertaken to ascertain good practice and implement improvements as identified.

# What are the key roles of those responsible for developing and maintaining the Governance Framework?

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<b>The Council</b>	<ul style="list-style-type: none"> <li>- Approves the Council's Vision Statement.</li> <li>- Approves the Constitution (including Standing Orders and Financial Regulations).</li> <li>- Approves key policies and budgetary framework.</li> </ul>
<b>Cabinet</b>	<ul style="list-style-type: none"> <li>- The main decision-making body of the Council.</li> <li>- Comprises five Cabinet Members (excluding the Leader) who have responsibility for particular portfolios.</li> </ul>
<b>Audit and Governance Committee</b>	<ul style="list-style-type: none"> <li>- Provides independent assurance to The Council on the adequacy and effectiveness of the governance arrangements, risk management framework and internal control environment.</li> <li>- Promotes high standards of member conduct.</li> <li>- Approves the Annual Statement of Accounts and Annual Governance Statement.</li> </ul>
<b>Committees</b>	<ul style="list-style-type: none"> <li>- There are six main Committees (excluding the Audit and Governance Committee) aligned to the Council's corporate priorities.</li> <li>- They hold Officers to account and scrutinise performance.</li> </ul>
<b>Managing Director (MD) Senior Management Team</b>	<ul style="list-style-type: none"> <li>- The Managing Director has overall accountability for the governance framework.</li> <li>- Implements the policy and budgetary framework set by the Council and provides advice to Cabinet and the Council on the development of future policy and budgetary issues.</li> <li>- Oversees the implementation of Council policy.</li> </ul>
<b>Chief Financial Officer (s151)</b>	<ul style="list-style-type: none"> <li>- Accountability for developing and maintaining the Council's governance, risk and control framework.</li> <li>- Contribute to the effective corporate management and governance of the Council.</li> </ul>
<b>Monitoring Officer</b>	<ul style="list-style-type: none"> <li>- To advise the Council on ethical issues, standards and powers to ensure The Council operates within the law and statutory Codes of Practice.</li> <li>- Overall responsibility for the maintenance and operation of the Confidential Reporting Procedure for Employees. (Whistleblowing) and contributes to the effective corporate management and governance of the Council.</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>- Provides independent assurance and annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework.</li> <li>- Delivers an annual programme of risk based audit activity, including counter fraud and investigation activity.</li> <li>- Makes recommendations for improvements in the management of risk.</li> </ul>
<b>External Audit</b>	<ul style="list-style-type: none"> <li>- Audit / review and report on the Council's financial statements (including the Annual Governance Statement), providing an opinion on the accounts and use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).</li> </ul>
<b>Managers</b>	<ul style="list-style-type: none"> <li>- Responsible for developing, maintaining and implementing the Council's governance, risk and control framework.</li> <li>- Contribute to the effective corporate management and governance of the Council.</li> </ul>

# How has the Council addressed the governance improvement actions from 2015/16?

The Annual Governance Statement 2015/16 contained the following key improvement actions. Details of the issue and how it was addressed are provided below:

AGS 2015/16 review reference	Action	Position as at 31 <sup>st</sup> March 2017
Local Code of Corporate Governance Core Principle 1	<p><b>Governance in working with others:</b> 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> <p><b>Target date:</b> To be determined - depending upon outcome of bid.</p>	Devolution bid outcome still to be determined.

AGS 2015/16 review reference	Action	Position as at 31 <sup>st</sup> March 2017
<p>Revised CIPFA Guidance on Delivering Good Governance 2016</p>	<p><b>CIPFA - Delivering Good Governance in Local Government : Framework (2016 Edition):</b> 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><b>Action:</b> 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> <p><b>Target date:</b> 31st March 2017</p>	<p><b>Completed</b></p> <p>The Council's revised Local Code of Corporate Governance, Annual Governance Statement and the associated assurance framework has been developed by the Chief Internal Auditor, which is in accordance with the principles contained within the CIPFA/SOLACE guidance i.e. Delivering Good Governance in Local Government 2016 Edition.</p> <p>The revised governance assurance framework applies to the Annual Governance Statement 2016/2017.</p>

AGS 2015/16 review reference	Action	Position as at 31 <sup>st</sup> March 2017
<p>Local Code of Corporate Governance Core Principle 3</p>	<p><b>Anti-Fraud and Corruption Strategy:</b> 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.</p> <p>The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape.</p> <p><b>Action:</b> 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> <p><b>Target date:</b> 31st March 2017</p>	<p><b>Completed</b></p> <p>A self assessment against the new counter fraud guidance has been undertaken by the Chief Internal Auditor, which has resulted in a refreshed Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy, Anti Money Laundering Policy 2017 – 2019 and Confidential Reporting Procedure (Whistleblowing).</p> <p>Following Senior Management Team approval, the revised policies were approved by the Audit and Governance Committee on 23rd January 2017 and subsequently to Cabinet on 8<sup>th</sup> February 2017 for formal approval.</p>

AGS 2015/16 review reference	Action	Position as at 31 <sup>st</sup> March 2017
Annual Governance Statement para 4.4	<p><b>Corporate performance management:</b></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><b>Action:</b> 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> <p><b>Target date:</b> 30th September 2016</p>	<p><b>Ongoing</b></p> <p>Review is in progress of the Council's corporate performance arrangements, with the objective to embed a 'golden thread' from corporate objectives through to individual accountability so that Members and staff can see a clear link between their work and what the Council is trying to achieve. The Council intends to embed a culture of performance management throughout the organisation, including the embedding of risk management.</p> <p>Purchase of a performance management system which will be developed and implemented during 2017/18.</p>

AGS 2015/16 review reference	Action	Position as at 31 <sup>st</sup> March 2017
Annual Governance Statement para 7.5	<p><b>Risk Management Strategy and approach:</b> 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><b>Action:</b> 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> <p><b>Target date:</b> 31st March 2017</p>	<p><b>Completed</b></p> <p>Risk management arrangements:</p> <p>Self assessment of the Council's risk management arrangements has been completed against the latest ISO 31000 risk management standard. An update and action plan was presented to Audit and Governance Committee on 23rd January 2017.</p> <p>Risk Management Strategy:</p> <p>The update of the Council's Risk Management Policy Statement and Strategy has been led by the Chief Internal Auditor, in consultation with the Senior Management Team. The updated Risk Management Policy Statement and Strategy was approved by the Audit and Governance Committee on 23rd January 2017 and subsequently by Cabinet on 8th February 2017.</p>

AGS 2015/16 review reference	Action	Position as at 31 <sup>st</sup> March 2017
Annual Governance Statement para 8.1	<p><b>Workforce and Organisational Development Strategy:</b> 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><b>Action:</b> HR Business Partner and Managing Director to draft the Council Workforce and Organisational Development Strategy. Draft document to be reviewed by Senior Management Team prior to formal approval process and roll out.</p> <p><b>Target date:</b> 1st September 2017</p>	<p><b>Ongoing</b></p> <p>Workforce and Organisational Development Strategy actions have been progressed to provide the Council with clear organisational values and a set of supporting staff behaviours. Work is continuing to embed these within organisational processes e.g. appraisals, talent management.</p> <p>Access to management and staff development has and continues to be achieved through access to Brilliant Basics training modules and the Aspiring Leaders Network and the Council has successfully recruited seven apprentices as part of its annual Apprenticeship Programme.</p> <p>Due to the current organisational redesign, the formal Strategy implementation target date has been extended to 1st September 2017.</p>

AGS 2015/16 review reference	Action	Position as at 31 <sup>st</sup> March 2017
Annual Governance Statement para 16.7	<p><b>Manager Assurance Statements:</b> 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"> <li>➤ Business Continuity Management; and</li> <li>➤ Sustainable development – climate change, environmental risk.</li> </ul> <p><b>Action:</b> 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> <p><b>Target date:</b> 31st March 2017</p>	<p><b>Completed</b></p> <p>Business continuity management:</p> <p>The Audit and Governance Committee approved Risk Based Internal Audit Plan 2016/17 included an IT Disaster Recovery and Business Continuity internal audit.</p> <p>The internal audit has been deferred for consideration within the 2017/18, due to an in-house review of the area within 2016/17 led by Council senior management. The in-house review is due to include both IT and operational themes.</p> <p>Sustainable development:</p> <p>The updated Council Risk Management Policy Statement and Strategy and associated toolkits to support the application of risk management principles, includes sustainable development risk themes, for officer consideration when assessing the potential risks and opportunities present in delivery of the Council's objectives.</p>

# What are the key 2016/17 Governance matters identified?

The review of the effectiveness of the Council's governance framework has identified the following actions that will need to be addressed during 2017/18.

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
AGS Assurance Framework	<p><b>Future Financial Sustainability / Efficiency Savings</b></p> <p>The Money Plan 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. It also comments on the significant financial risks facing the Council in the forthcoming years and explains what the Council is doing to reduce those risks. The Money Plan forecasts indicate the need for a continued delivery of savings in each year of the Plan. In February 2016, Council approved the implementation of the target savings for the Money Plan 2016-21. In addition to savings in previous years further savings of £514m in 2016/17 were included. With the inclusion of settlement figures for 2017/18 and the assumption of further formula grant reductions over the life of the plan, further savings will be required. The financial gap is £1.475m in 2017/18 which rises to £2.861m by 2021/22.</p> <p>Due to the high levels of further savings required, the Council put in place a transformation programme called 'Together Gloucester' to deliver required efficiencies in line with the Council's Money Plan. Together Gloucester has been tasked to design organisational transformation while delivering the efficiencies the Council needs to deliver. Together Gloucester has been targeted to deliver £1m of savings in 2017/18.</p> <p><b>Actions:</b> Close monitoring of budgets will be carried out in each financial year. Continuous monitoring of service pressures and ongoing focus on preventative support.</p>	31st March 2018	Chief Financial Officer

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
AGS Assurance Framework	<p><b>Governance Arrangements – New Operating Model</b></p> <p>During 2016 the Council embarked upon an organisational transformation programme called Together Gloucester. The process was subject to widespread consultation and reports were made to Cabinet and Overview and Scrutiny Committee in addition to group leader briefings. Staff and Trade Unions were consulted and specific workstreams were established to deal with HR and Communications, ICT, office accommodation, benefits realisation and governance.</p> <p><b>Actions:</b> To develop and implement the new governance arrangements in relation to the City Council's new operating model.</p>	1 <sup>st</sup> June 2017	Managing Director

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
General	<b>Data Protection Issues</b>		
Data Protection Regulation (GDPR) 2016	<p>The Information Commissioners Office (ICO) issued a monetary penalty notice against Gloucester City Council on the 12th June 2017. The fine relates to a hacking incident that took place in summer 2014. [In April 2014 a vulnerability called 'Heartbleed' was identified and a patch issued by the software provider. The ICO decision concluded that the Council did not take remedial action quickly enough to prevent a breach of the Data Protection Act 1998 security requirements]</p> <p><b>Actions:</b></p> <ul style="list-style-type: none"> <li>➤ Since 2014 the Council has made significant investment in IT security and equipment. The Council has Public Services Network (PSN) certificate of compliance and continues to work to ensure that all equipment is fully protected;</li> <li>➤ Develop a GDPR implementation action plan;</li> <li>➤ Commence work to implement the GDPR action plan; and</li> <li>➤ Complete implementation work.</li> </ul>	<p>Completed</p> <p>Completed</p> <p>May 2017</p> <p>25<sup>th</sup> May 2018</p>	<p>Head of Policy and Resources</p> <p>Head of Policy and Resources</p> <p>As above</p> <p>As above</p>

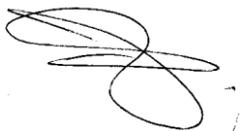
Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
Corporate Director's Assurance Statement	<p><b>Corporate Performance / Risk Management:</b></p> <p>The Council Plan details the priorities and strategic objectives of the Authority.</p> <p>Performance review and management against the Council 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>The Council has embarked upon a significant review and refresh of its approach to performance measurement, management and reporting. Investment has been made in a new Performance Management Software system (COVALENT) and following the implementation of Together Gloucester the Council will implement a comprehensive service planning process which will map the resources, priorities, projects and programmes, risk, deliverables, interdependencies, milestones and outcomes and establish effective performance management measures. The proposed process will involve review at one-to-one level with Heads of Service, strategic review at Senior Management Team and political review via Portfolio Holders and Overview and Scrutiny Committee. The refreshed process will be implemented during Summer 2017.</p> <p><b>Action:</b> The review and subsequent implementation of the Council's corporate performance / risk management approach will ensure that they reflect the needs and the structure of the organisation.</p>	30 <sup>th</sup> September 2017	Corporate Director

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
AGS Assurance Framework	<p><b>Workforce and Organisational Development Plan:</b> A 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><b>Actions:</b> Corporate Director and HR Business Partner to finalise the Council's current draft Workforce and Organisational Development Strategy. Draft document to be reviewed by Senior Management Team prior to formal approval process and roll out.</p> <p>The associated staff performance appraisal and talent management process is due to be implemented with effective from 1<sup>st</sup> June 2017 in line with the implementation of the New Operating Model.</p>	June – September 2017	Corporate Director / HR Business Partner

# Certification

I can confirm that the Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2016.

Signed:



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Jon Topping  
Chief Financial Officer (S151 Officer)  
1<sup>st</sup> September 2017

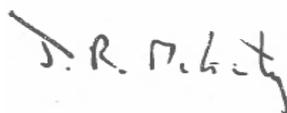
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Date:

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To the best of our knowledge, the governance arrangements, as defined above and within the Council's Code of Corporate Governance, have been effectively operating during the year with the exception of those areas identified on pages 25 – 28 above. 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 during the year and as part of our next annual review.

Signed:



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Paul James  
Leader of the Council  
1<sup>st</sup> September 2017

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Jon McGinty  
Managing Director  
1<sup>st</sup> September 2017

Date



<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>18<sup>th</sup> September 2017</b>
<b>Subject:</b>	<b>Internal Audit Activity Progress Report 2017/18</b>		
<b>Report Of:</b>	<b>Head of Audit Risk Assurance (Chief Internal Auditor)</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer - Head of Audit Risk Assurance</b>		
	<b>Email:</b>	<b>Tel: 01452 326338</b>	
	<a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a>		
<b>Appendices:</b>	<b>A: Internal Audit Activity Progress Report 2017/18</b>		

**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 2017/18.

**2.0 Recommendations**

2.1 Audit and Governance Committee is asked to **RESOLVE** to:

- (1) Accept the progress against the Internal Audit Plan 2017/18;
- (2) Accept 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) Request senior management attendance at the next meeting of the Committee to provide an update on the actions taken in relation to the recommendations made in the limited assurance report on Officers' Code of Conduct; and
- (4) Note the outcomes of the Marketing Gloucester Ltd follow up internal audit and the Value for Money review (including the proposal for Internal Audit to undertake a follow up Value for Money review within 2018/19, to enable independent assurance to be provided once the revised governance arrangements have been fully embedded).

**3.0 Background and Key Issues**

3.1 Members approved the Internal Audit Plan 2017/18 at 13<sup>th</sup> March 2017 Audit and Governance Committee meeting. In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS), this report (through **Appendix 1**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.

3.2 The Internal Audit Activity Progress Report 2017/18 at **Appendix 1** summarises:

- The progress against the 2017/18 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 2017 to September 2017;
- Special investigations/counter fraud activity; and
- The outcomes of the Marketing Gloucester Ltd follow up internal audit and the Value for Money review.

3.3 The report is the first progress report in relation to the Internal Audit Plan 2017/18.

#### **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 2017/18 are scheduled to be presented to the Audit and Governance Committee at the November 2017, January, March and June 2018 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 2017/18  
PSIAS  
CIPFA Local Government Application Note for the UK PSIAS

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# Internal Audit Activity Progress Report

2017-2018



## **(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 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertake 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 2017/18 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 2017 to September 2017;
- Special investigations/counter fraud activity; and

- The outcomes of the Marketing Gloucester Ltd (MGL) follow up internal audit and the Value for Money review.

#### (4) Progress against the 2017/18 Internal Audit Plan, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2017/18 audits which have not previously been reported to the Audit and Governance Committee.

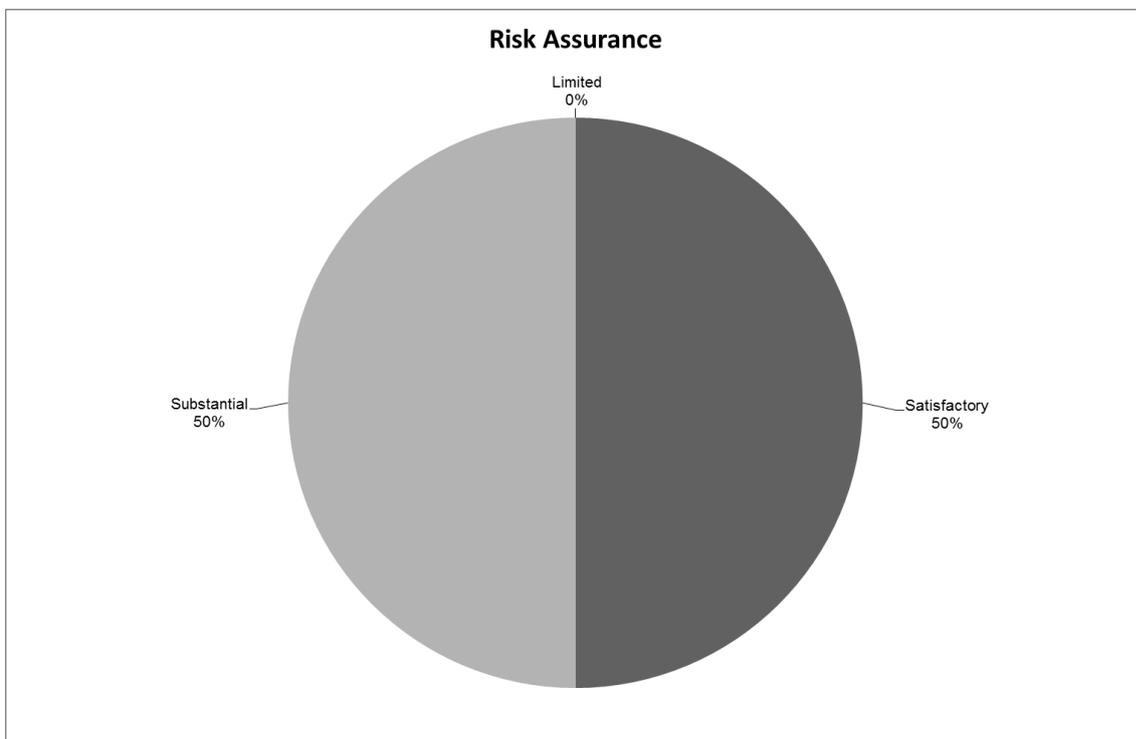
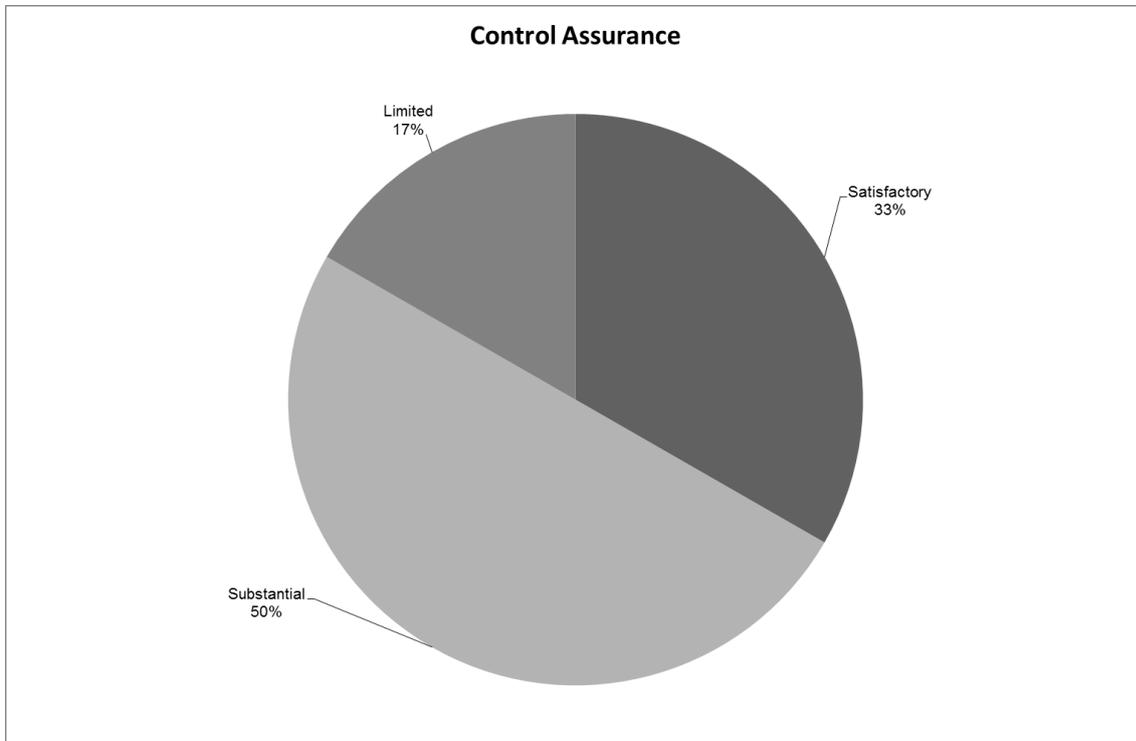
**Attachment 2** includes the summary of the MGL follow up review (original audit completed in 2015/16) and the MGL Value for Money review.

The schedule provided at **Attachment 3** contains a list of all of the 2017/18 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 in the below table.

Assurance Levels	Risk Identification Maturity	Control Environment
<b>Substantial</b>	<p><b>Risk Managed</b> 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.</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>• Control Application – Controls are applied continuously or with minor lapses</li> </ul>
<b>Satisfactory</b>	<p><b>Risk Aware</b> 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.</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>• Control Application – Controls are applied but with some lapses</li> </ul>
<b>Limited</b>	<p><b>Risk Naïve</b> 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.</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>• Control Application – Significant breakdown in the application of control</li> </ul>

#### (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 2017/18 audit activity undertaken up to September 2017.



#### **(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 at 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 2017 to September 2017, one audit review has been provided with a limited assurance opinion on control which relates to the Officers' Code of Conduct.

It is important to note that whilst a limited assurance opinion has been provided in this instance, management have responded positively to the recommendations made and actions are being taken to address them.

#### **(4d) Satisfactory Control Assurance Opinions**

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

#### **(4e) Internal Audit Recommendations**

During the period June 2017 to September 2017 Internal Audit made, in total, **12** recommendations to improve the control environment, **3** of these being high priority recommendations i.e. **9** 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 2017 to September 2017, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2017/18 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be provided with the Internal Audit report(s) to enable the prioritisation of risk management support.

## Completed Internal Audit Activity during the period June 2017 to September 2017

### Summary of Limited Assurance Opinions on Control

**Service Area: Council Wide**

**Audit Activity: Officers' Code of Conduct**

#### **Background**

The purpose of the Officers' Code of Conduct (the Code/Code of Conduct) is to give all employees guidance on how the City Council and the public in general expect them to behave. If the Code is followed then staff should not find themselves in a situation where their conduct could create an impression of conflict of interest or corruption in the minds of the public.

Compliance with the Code is essential particularly during periods of significant change, such as the Together Gloucester restructure. The Together Gloucester project also introduced an Employee Behaviours Framework, which the Code should align with in order to support and develop a positive workplace culture.

In the wider context, one of the Council's key Corporate Governance Principles (Principle A within the Council's Code of Corporate Governance, which is based upon the CIPFA / SOLACE publication entitled "Delivering Good Governance in Local Government: Framework 2016 Edition"), states the Council will "behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law" and will have appropriate systems and process in place to enable this.

#### **Scope**

The audit objectives were to provide reasonable assurance that:

- The Council maintains a current and appropriate Code of Conduct, with appropriate links to the wider governance framework; and
- Council employees are aware of the Code of Conduct, are able to refer to it, and understand its contents and their own responsibilities in applying it.

The audit considered the current arrangements in place only.

**Risk Assurance – Satisfactory**

**Control Assurance – Limited**

## Key Findings

The Council's Code of Conduct is part of the Constitution and has remained largely unchanged since 2010.

The majority of expected content was present in the Code of Conduct. However, some phrasing within the Code of Conduct may be open to interpretation and some sections do not provide a sufficient level of detail when compared to neighbouring authorities.

Many of the policies referenced within the Code of Conduct are out of date and not readily available to staff.

New starters are not provided with the correct Code of Conduct, and may therefore be unaware of its existence or requirements.

A survey of sampled employees found that staff are not generally aware of where to find the Code of Conduct for reference.

The Council's approach to registering gifts and hospitality is fragmented, and the stated process in the Code of Conduct is applied inconsistently between services. No central oversight of officer gifts and hospitality exists.

In scenarios of being offered gifts or hospitality, surveyed staff generally showed caution and indicated they would decline any offers from third parties, although this is not a requirement of the Code of Conduct.

No Register of Officer Interests for conflicts of interest exists, although there is mitigation for officers at a senior level through the process for declaring related party transactions. The stated processes in the Code of Conduct, Contract Rules and Financial Procedure Rules are not in place.

## Conclusions

There is no guidance from central government on content to include within a public sector officer code of conduct. Analysis confirmed that many topics, drawn from internal audit and governance best practice, where officers are expected to act with integrity have been addressed by this Council.

However, comparison against neighbouring authorities in the Gloucestershire area found that this Council's Code of Conduct may benefit from the additional detail and depth in setting out the Council's expectations. Opportunities were found to clarify wording and update some sections of the Council's governance framework that support the Code of Conduct.

Consideration was given to how the Council's culture, which is fundamental to setting a "tone from the top" and establishing good officer conduct, is perceived by staff. The staff survey undertaken by Internal Audit was necessarily limited in the numbers of staff interviewed, but showed a generally good perception of the Council and management, with some specific areas of feedback that may be used to inform management in future developments.

There were however some areas where governance was weak, and management need to take action against some longstanding practices that are detrimental to good governance.

The Council's new starter process was found to need immediate correction, which the HR Business Partner actioned during the audit process, as the Code of Conduct issued to new employees is for a different Council and does not provide the right guidance on this Council's expectations.

The staff survey showed that in general employees have confidence in the Council's ethical stance. However, there was uncertainty around certain expectations and procedures, including the location of the Code of Conduct itself, leading to a tendency towards caution and reliance on line managers in ethical conduct.

There is also a need to overhaul the existing approach to registering potential conflicts of interests, registering gifts and hospitality, and update the Code of Conduct and associated policy documents accordingly. The design and implementation of the registers has resulted in reduced corporate oversight, and it is anticipated that the Together Gloucester programme and its associated links to ethical behaviour will provide a strong opportunity for management to re-establish effective arrangements.

Overall, the cautious approach exemplified in the staff surveyed signifies that the Council should take comfort that employees are conscious of the need to demonstrate correct and ethical behaviour. Taking all elements into consideration, the risk opinion has been assessed as satisfactory. However, the ongoing absence of established procedures to record officer conflict of interests, the need to bring the different methods of recording gifts and hospitality together into a single approach, the need to update core governance policies, and the absence of a current system to provide governance documents to staff have resulted in a control opinion of limited assurance.

### **Management Actions**

Management have responded positively to the audit findings and have agreed an action plan to address all issues raised from this review.

**Whilst Internal Audit will monitor the implementation of the recommendations, it is recommended that senior management attend the next meeting of the Audit and Governance Committee and is requested to provide an update on the action taken in relation to each recommendation made.**

## Summary of Satisfactory Assurance Opinions on Control

**Service Area: Policy and Resources**

**Audit Activity: New Financial Management System**

### Background

The Council's Cabinet approved a change of the Council's financial system from Advanced Business Solutions (ABS) Financials to Civica Financials. As set out in the Cabinet report dated June 2015 the purpose of the change was the need to:

- Contribute to a saving requirement for the financial services team;
- Enable enhanced management reporting;
- Improve resilience; and
- Meet the needs of the Council.

The change of financial management system was delivered via a Project Board led by the financial services team and involving Malvern Hills District Council (MHDC) and Civica representatives, who were responsible for coordinating the integration of the new software into the Council's IT infrastructure.

The new system financial modules went live in accordance with the following schedule:

- February 2017: General Ledger;
- February 2017: Accounts Payable (Creditors);
- February 2017: Accounts Receivable (Debtors); and
- May 2017: Non-current Asset Register.

Data for the full 2016/17 financial year at the point of transfer was migrated from the legacy ABS Financials system to Civica Financials, with data for previous years archived.

The new system is hosted on the Council's IT Infrastructure, which is supported by Civica under a separate contract, and replicates hosting arrangements currently in place with ABS Financials. The system administration for Civica Financials is delivered by Malvern Hills District Council through a S101 Agreement.

### **Scope**

The purpose of this audit was to provide assurance that key financial controls supporting the Council's financial statements and reporting are in place within the new financial system. This audit scope was developed following discussions with Finance and the External Auditor.

The objectives for this audit were:

- Objective 1: System Design ensures that transactions are recorded in a form suitable for use in financial statements;
- Objective 2: System Access controls prevent unauthorised creation, deletion or amendment to financial information;
- Objective 3: Data Migration ensures that data transferred from the legacy to new financial system is complete and accurate; and
- Objective 4: System Interfaces and Reconciliations are drawn from accurate and reliable data.

Following discussions with Finance, this audit did not review the project management arrangements, staff training, or benefits realisation associated with the Civica Financials system.

### **Risk Assurance – Satisfactory**

### **Control Assurance – Satisfactory**

### **Key Findings**

This audit reviewed 68 controls across five functional themes: general ledger, budget, non-current assets, accounts payable and accounts receivable. Consequently findings have been summarised against each of the main objectives below:

#### **Objective 1: System Design ensures that transactions are recorded in a form suitable for use in financial statements**

The system was seen to have adequate controls in place to prevent inappropriate deletion of transactions, to allocate transaction reference codes and prefixes according to logic, and to allocate transaction numbers sequentially. Consequently a unique reference for each transaction, supplier and customer is present.

An audit trail is in place, and checks within the system for creditor and debtor accounts flag potential duplicates at the point of entry.

**Objective 2: System Access controls prevent unauthorised creation, deletion or amendment to financial information**

The system was reviewed to determine its access functionality, and the users assigned to roles. Roles were seen to have been mapped directly from the old financial system, although review found that a small number were leavers and should therefore have been removed. Functionality was generally sound, although a control mapped from the legacy debtors system for credit note authorisation was found to have potential for improvement.

High level access was restricted to senior finance officers, and the staff responsible for administering the financial system. Generic user roles were kept to a minimum.

**Objective 3: Data Migration ensures that data transferred from the legacy to new financial system is complete and accurate**

A substantial volume of transactional data relating to the 2016/17 financial year, plus the non-current asset register, accounts payable and accounts receivable databases were migrated in a staggered approach as part of the new system implementation.

The migration was evidenced as completed in full, with a reconciliation undertaken by the Finance Team verified as accurate by Internal Audit. Transactional data was verified by Internal Audit and although one minor error was seen in the migration of budgets all other areas were seen to have migrated accurately and in full.

**Objective 4: System Interfaces and Reconciliations are drawn from accurate and reliable data**

Reliance on difference sources of information entered into or matching against the financial system is a key consideration in providing assurance that the financial information available to the Council is of high quality.

Review of the general ledger and banking software confirmed that transactions are being managed appropriately, and information from both systems recorded in daily and monthly reconciliations is based on accurate parameters. Cash receipting transactions are currently imported manually pending a solution from the cash receipting software supplier to correct an issue with the export/import file, and although some delays are apparent walkthrough testing found the interim process to be accurate and complete.

Reconciliations against Council Tax and National Non Domestic Rates (NNDR) records have been completed with all variances accounted for. At the time of testing the reconciliation of the general ledger to Housing Benefits was part-completed, with discussions between Finance and Civica underway.

The general ledger also contains links to other modules of the system: the non-current asset register, accounts receivable, and accounts payable. Transactions tested between these modules were found to be appropriate and accurate.

### **Conclusions**

Overall, the majority of the arrangements expected in transferring and securing data in the new Financial Management System were found to be in place.

### **Management Actions**

No High Priority actions were identified during the course of this audit. Management have responded positively to the audit findings and have agreed an action plan to address all issues raised from this review.

## **Summary of Substantial Assurance Opinions on Control**

### **Service Area: Policy and Resources**

#### **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 have 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 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 three year period.

The period tested comprised activities to prepare the service function for the 2017/18 financial year. The initial review will provide assurance that staff verify that the appropriate 2017/18 system parameters for Housing Benefit and Council Tax Support Scheme calculations have been entered and authorised completely and correctly.

**Risk Assurance – Substantial**

**Control Assurance – Substantial**

**Key Findings**

- Evidence was available to confirm that the nationally-set Housing Benefit and Council Tax Support Scheme uprating parameters have been applied by Civica and checked by the Council to confirm accuracy.
- The 2017/18 Local Council Tax Support Scheme was approved by the Council and evidence was available to confirm that amendments were applied by Civica and checked by the Council to confirm accuracy and completeness.
- Civica staff sampled claims to verify accuracy of Housing Benefit and Council Tax Support Scheme. A sample of the checks carried out by Civica was also reviewed by the Council to provide additional assurance and verify accuracy.

**Conclusions**

Internal Audit undertook testing to confirm that the parameter changes applicable to the 2017/18 year have been set correctly, and that internal procedures had been followed within Civica and the Council to verify the changes to the parameters before implementation.

Internal Audit can confirm that findings demonstrated that the expected controls were in place to prepare the benefits system for the 2017/18 uprating and that the controls functioned effectively; the assurance opinion provided is therefore substantial.

**Management Actions**

None required.

**Service Area: Policy and Resources**

**Audit Activity: Council Tax – Setting the Base 2017/18**

**Background**

Gloucester City Council is responsible for setting and collecting a level of residents' Council Tax to meet its budget requirement. It is also responsible for collecting the charges set by other public bodies within the administrative area, including Gloucestershire County Council and the Police and Crime Commissioner (PCC).

The Council Tax requirement for the Council's own purposes, as a source of Council finance in 2017/18 is £6.99million.

### **Scope**

The External Auditor has identified the Council Tax system as an area where key financial controls exist.

The period tested comprised of activities to prepare the service function for the 2017/18 financial year. The review provided assurance that staff verify that Council Tax bills are based on approved levels, have been calculated correctly, and have been billed to relevant properties in accordance with statute.

High level controls only were reviewed, due to previous audit findings of no reportable areas for improvement.

### **Risk Assurance – Substantial**

### **Control Assurance – Substantial**

### **Key Findings**

Internal Audit found:

- Evidence was available to confirm that the process for the calculation of Council Tax Base (CTB) figures for Gloucester City Council (the Council) and the Parish of Quedgeley (Quedgeley) have been followed inline with guidelines. These CTB figures were used to calculate the Council and Quedgeley band 'D' charges correctly.
- The Council Tax charges, including precepts by the County Council, the PCC and Quedgeley were formally approved at the full Council meeting held 23 February 2017.
- Evidence was available to confirm that the billing system parameters have been subjected to review by Civica's Service Delivery Manager and the Council's Senior Client Officer prior to annual billing to confirm accuracy and completeness.
- Civica performed reconciliations upon the number of properties, the gross charge, and the total amount billed. The reconciliation carried out was documented and satisfactorily concluded.

## Conclusions

Internal Audit review confirms that the calculation of the CTB has been completed in accordance with statute and appropriately approved. Parameter changes applicable to 2017/18 billing had been set correctly and internal processes had been followed within Civica and the Council to verify the changes to the parameter before implementation.

Internal Audit found the expected controls were in place to ensure that Council Tax charges had been appropriately set and properties within Gloucester had been appropriately billed; the assurance opinion provided is substantial.

## Management Actions

None required.

## Service Area: Policy and Resources

### Audit Activity: National Non-Domestic Rates (NNDR) Multipliers 2017/18

#### Background

NNDR, also known as Business Rates, are charged to non-domestic properties as a contribution towards local services. The calculation is based on the combination of a property's rateable value and a nationally-set multiplier.

Non-domestic properties in the UK pay business rates to local authorities. Business rate liabilities are based on each property's assigned 'rateable value'. This is multiplied by a 'multiplier' or 'poundage' to arrive at the property's annual liability. The two multipliers for 2017/18 are 47.9p (0.479) non-domestic rating multiplier and 46.6p (0.466) small business non-domestic rating multiplier.

In 2017/18 there is a Rateable Value (RV) of £125million within the City Council's area; the Business Rates due to be raised locally is £56million.

Under the Business Rates Retention Arrangements introduced from 1 April 2013, local authorities keep a proportion of the Business Rates paid locally (50%). The remaining revenue collected from Business Rates is sent to Central Government for re-allocation back to each local authority on the basis of per head of population. In 2019/20 the Business Rates Retention Arrangements will change, moving to a system where local authorities will retain 100% of the business rates raised locally.

## Scope

The External Auditor has identified the NNDR system as an area where key financial controls exist.

The period tested comprised of activities to prepare the service function for the 2017/18 financial year. The review provided assurance that staff verify that NNDR bills are based on approved levels, have been calculated correctly, and have been billed to relevant hereditaments in accordance with statute.

High level controls only shall be reviewed, due to previous audit findings of no reportable areas for improvement.

## Risk Assurance – Substantial

## Control Assurance – Substantial

## Key Findings

Internal Audit found:

- Evidence was available to confirm that the input of the NNDR parameters for 2017/18 and transitional arrangements onto the Open Revenue billing system had been subjected to review by the Council's Senior Client Officer prior to annual billing, to provide independent assurance that parameters had been accurately transferred onto the system; and
- Civica performed a reconciliation between the number of hereditaments within the billing system and Valuation Office records to provide assurance they were correctly aligned. Checks were also performed to compare the total value of the bills extracted for printing to the Financial Control Report run prior to billing to provide assurance that expected bills would be printed. The checks carried out were documented and satisfactorily concluded.

## Conclusions

Internal Audit testing found the expected controls were in place to ensure that NNDR is based on approved levels and business hereditaments within Gloucester and Quedgeley are appropriately billed; the assurance opinion provided is therefore substantial.

## Management Actions

None required.

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

### Service Area: Policy and Resources

### Audit Activity: Blackfriars Priory Turnover Certification

#### Background

In March 2012 the Council entered into a lease with English Heritage for the use of the Blackfriars Priory site. The Council's main objectives for the venue were to open it as a visitor attraction, provide educational visits, develop a wide-ranging events programme (both commercial and non-commercial), run and facilitate workshops and develop a meetings and conference trade. There is now also a developed service as a wedding venue.

The lease allowed a peppercorn rent for the first two years of operation, with the following three years' rental to be a percentage of Gross Turnover, as defined in the lease agreement.

The Council is required to provide English Heritage with a Turnover Certificate signed by a professionally competent auditor, certifying the amount of Gross Turnover for the relevant year.

#### Scope

To provide assurance that, in all significant respects, the Gross Turnover values for 2016/17 provided to English Heritage by Finance are accurate and in accordance with the requirements of the lease agreement.

To provide assurance that a certificate confirming the Gross Turnover for the Turnover Period may be signed.

#### Key Findings

Provisional Gross Turnover figures were provided by Accountancy based on the net balances of income account codes across the two cost centres in use for Blackfriars Priory. This identified income of £121,622 in 2016/17.

Detailed review identified a number of minor adjustments necessary in order to align the recorded figures to the requirements of the lease agreement. This has resulted in a Revised Gross Turnover figure of £115,376.

## **Conclusions**

Following acceptance of the Revised Gross Turnover figures Internal Audit is able to provide assurance that the requirements of the lease agreement have been met. As a result, the Turnover Certificate has been signed by the Group Manager – Audit Risk Assurance.

## **Management Actions**

Not applicable

## **Summary of Special Investigations/Counter Fraud Activities**

### **Current Status**

Four referrals have been received by Internal Audit for investigation during 2017/18 to date. Two of these cases have been closed, with a third (relating to potential perjury) having been referred to the Police through One Legal, although recent feedback received shows that the matter will not be taken further due to it not passing the public interest test. However, the intelligence received from Internal Audit will be used for other possible offences not concerning the Council. The fourth case is still under investigation.

Of the two cases closed one involved a whistle blowing allegation of abuse of position by senior staff. There was no evidence of fraud; however procedural issues were identified which have subsequently been addressed through Internal Audit reporting procedures.

The other closed case involved a potential email scam received from overseas. It was identified that this was a scam and as a consequence no further communications were made with originator of the email. This matter was also reported to the National Anti-Fraud Network (NAFN), and has subsequently been issued as an alert to all members.

The outcome of the fourth case will be provided to the Audit and Governance Committee once concluded.

Any fraud alerts received by Internal Audit from NAFN are passed onto the relevant service areas within the Council, to alert staff to the potential fraud.

### **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 data collections were collected throughout October 2016 and reports have now been received for further investigation. 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.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the City Council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.

## Outcomes from the Marketing Gloucester Limited (MGL) follow up internal audit and the Value for Money review

### Background

The original MGL internal audit was completed in 2015/16 and resulted in an unsatisfactory assurance opinion (GAAP assurance level for internal control). A follow up audit was then completed in 2016/17 and presented to Audit and Governance Committee on 13th March 2017, confirming:

- 'The Corporate Director (as lead officer) has a clear strategy to regularise the Council's relationship with MGL and to further strengthen the governance arrangements (including performance and financial monitoring).'
- 'Actions are still in progress at the point of the follow-up.'

Audit and Governance Committee have requested that both a Value for Money (VFM) review and a further follow up review is completed on providing an update as to the progress made with the original internal audit report recommendations.

This is documented within the Audit and Governance Committee 2017/18 work programme and confirms the requirement for the outcomes to be presented to 18th September 2017 Audit and Governance Committee meeting.

### Outcomes

**Service Area: Cultural and Trading**

**Audit Activity: MGL follow up review**

**Risk Assurance – Satisfactory**

**Control Assurance – Satisfactory**

The follow up audit review has resulted in a satisfactory assurance opinion, regards the Council's position against the 2015/16 MGL internal audit report recommendations.

The findings from this follow up review confirm that the Council has actioned six of the original seven internal audit recommendations, through regularising of the Council's relationship with the Company and strengthening the base of governance arrangements in place - via updated legal agreements; review and decision regards secondments; and transparent performance criteria and a performance monitoring approach.

Due to the timing of the audit follow up, the audit was able to review the audit trail from one Partnership Performance Review Meeting (26th June 2017) only. This confirmed Council quarterly performance management report review and challenge, however could not confirm that the performance monitoring requirements set by the Company and Council as at 9th March 2017 have been fully embedded at the point of audit follow up.

Implementation of the remaining recommendation (low priority GAAP ranking) has been postponed to ensure appropriate consideration and update of the Council’s performance review approach, with direct input from the new Head of Cultural and Trading Services (the new Head of Service appointed through the Together Gloucester project, with responsibility for delivery of MGL outcomes).

The Corporate Director has confirmed that the Council (through the Corporate Director and the new Head of Cultural and Trading Services) target is to further review and embed the performance monitoring arrangements within 2017/18.

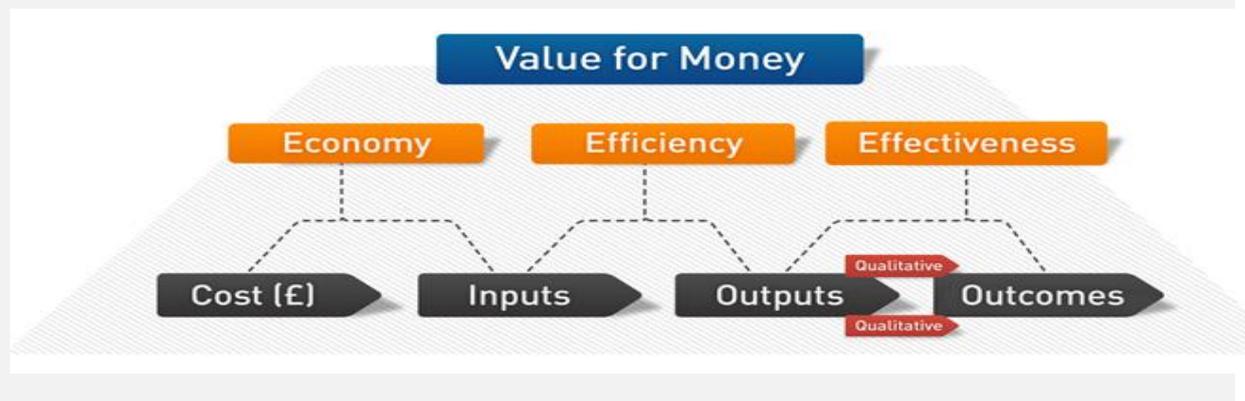
**Service Area: Cultural and Trading**

**Audit Activity: MGL Value for Money (VFM) review**

**Review Scope**

VFM is a term used to assess whether an organisation has obtained the maximum benefit from the goods and services it procures and provides within the constraint of available resources. It is often described and assessed in terms of the ‘three Es’ and the relationship between them:

- Economy: cost of the inputs needed to provide a service;
- Efficiency: productivity/performance measure of the outputs achieved from the service inputs; and
- Effectiveness: a measure of the outcomes/objectives achieved (quantitative and/or qualitative).



VFM promotes the best use of public money, to ensure services are provided of the right quality, level and cost that reflect the needs of the organisation and its stakeholders. It is also a key consideration within the current Council Plan 2014/17, which contains the priority of *'Sound finances and strong performance - with a reduced budget it is even more important than ever to get the most out of the resources we have, and to ensure our financial position is sound'*.

The objective of the VFM review was to apply the 'three Es' (Economy, Efficiency and Effectiveness) to determine whether the Council obtains VFM from its funding arrangements in place with MGL (the Company) at the point of the VFM review.

### **Background**

MGL was established in 2008 by the Council as an independent organisation with *'the primary purpose of representing, supporting and advising business and public leaders on economic and regeneration growth, leisure and tourism, and promotion of them in the City of Gloucester.'*

The original Funding and Management Agreement (FMA) between the Company and the Council was signed on 19<sup>th</sup> December 2008. It confirmed that *'the Company require(d) pump prime funding in order to establish itself as an independent private company'* and that the Council *'agreed to provide this limited assistance'* based on the FMA terms and conditions.

More recently, the Council's Corporate Director defined a clear strategy to regularise the Council's relationship with the Company and to further strengthen the governance arrangements in place. This was actioned through the 9<sup>th</sup> March 2017 Council and Company signed:

- Memorandum and Articles of Association of Marketing Gloucester Limited;
- Contract for Services (between the Council and Company); and
- Members Agreement (between the Council and Company).

### **Key Findings/VFM Assessment Table**

See table below.

Value For Money	<b>Economy</b>	<b>Cost</b>	<p>The Council's Five Year Money Plan confirms a £200k reduction to the Company management fee phased over two years. This is in line with the Contract for Services annual charge amounts. The pump prime element of Company funding arising from the original FMA has now been replaced by the new management documents, which confirm an annual charge in return for the delivery of an agreed schedule of services.</p> <p>Company liabilities to the Council at the point of VFM: Loan of £97,000 from the Council to the Company is repayable on demand; stone bench crowd funding (£5,030 net of Company expenses where applicable); and roundabout sponsorship income (£9,000).</p> <p>Additional services (outside of the 9<sup>th</sup> March 2017 agreements) are permitted but require agreement, commissioning and charging in line with the Contract for Services requirements.</p>
		<b>Input</b>	<p>The Council's relationship and governance arrangements with the Company have been strengthened through the 9<sup>th</sup> March 2017 Council and Company signed documents.</p> <p>The 9<sup>th</sup> March 2017 agreements have clear performance reporting and performance management criteria.</p> <p>There is a clear Council decision making process for the Festivals and Events budget and events breakdown, prior to allocation to the Company for delivery.</p>
	<b>Efficiency</b>	<b>Output</b>	<p>There is a clear Council reporting process for the Festivals and Events budget and events delivery, which has had improvements in regard to content within 2017.</p> <p>The performance monitoring requirements set by the Company and Council as at 9<sup>th</sup> March 2017 have not been fully embedded at the point of VFM review, limiting the Council's ability to evidence (through robust substantive audit trail) outputs achieved from the service inputs.</p> <p>Positive grant bid and project outcomes e.g. Rugby World Cup 2015, the Great Places Scheme and the Gloucester Business Improvement District (BID) proposal.</p>
		<b>Outcomes</b>	<p>Positive qualitative outcomes.</p> <p>The performance monitoring requirements set by the Company and Council as at 9<sup>th</sup> March 2017 have not been fully embedded at the point of VFM review, limiting the Council's ability to evidence (through robust substantive audit trail) the objectives achieved from costs and inputs with the Company.</p>
	<b>Effectiveness</b>		

### **Strengths, weaknesses, opportunities and threats (SWOT) analysis results**

SWOT analysis of the Council's current arrangements in place with the Company (based on reviewed available audit trail and discussion with Council officers) has been completed and confirms strengths and positive outcomes achieved through the Council's arrangements in place with the Company to date.

SWOT also highlights a risk to the Council and the Company, due to the Company requirement of the ongoing support of its creditors (including the Council) to pay its liabilities as they fall due. If the position is not managed appropriately by the Company and transparently reported to and considered by the Council in a timely/regular manner (in line with criteria within the Contract for Services and Members Agreement), there is potential reputational and financial risk to the Council. This needs to be appropriately considered within the Council's risk and VFM assessments of the arrangements with the Company.

### **Conclusions**

The VFM review has confirmed that there has been a positive direction of travel over the last year in regards to the Council's overarching arrangements with the Company e.g. through regularising of the Council's relationship with the Company, strengthening the base of governance arrangements in place and agreement of funding for the medium term.

At the point of VFM review, the Council has not fully embedded the performance monitoring arrangements required by 9<sup>th</sup> March 2017 agreements and limited audit trail was available to confirm the overall VFM position.

Embedding of the performance reporting (the Company) and monitoring (the Council) criteria are required, to enable up to date and ongoing risk assessment, VFM assessment and benchmarking.

**It is proposed that Internal Audit undertake a follow up VFM review within 2018/19, to enable independent assurance to be provided, once the revised governance arrangements have been fully embedded.**

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Governance Committee	Comments
Council Wide	Staff Appraisal System	Medium	Planned				Brought Forward from 2016/17 plan
Council Wide	IT Disaster Recovery and Business Continuity	High	Planned				Brought Forward from 2016/17 plan
Council Wide	Cyber Security	High	Draft Report Issued				Brought Forward from 2016/17 plan
Council Wide	Officers' Code of Conduct	High	Final Report Issued	Satisfactory	Limited	18/09/2017	
Council Wide	Complaints Handling	High	Draft Report Issued				
Council Wide	Scheme of Delegation	High	Planned				
Council Wide	Together Gloucester	High	Planned				
Council Wide	Network Access Controls	High	Planned				
Council Wide	Communications Service	High	Planned				
Communities	Choice Based Lettings	High	Audit in Progress				
Communities	Project Solace	High	Audit in Progress				
Communities	Homelessness	High	Planned				Brought Forward from 2016/17 plan
Cultural and Trading	Cemetery and Crematorium Services	High	Audit in Progress				
Cultural and Trading	Marketing Gloucester Ltd (MGL) follow up review	High	Final Report Issued	Satisfactory	Satisfactory	18/09/2017	
Cultural and Trading	Marketing Gloucester Ltd (MGL) Value for Money review	High	Final Report Issued	Not Applicable	Not Applicable	18/09/2017	
Cultural and Trading	Museums	Medium	Planned				
Cultural and Trading	Box office ticketing and shop-café-bar System	High	Audit in Progress				
Cultural and Trading	Online Lottery	Medium	Audit in Progress				
Place	CCTV	Medium	Planned				
Place	Kings Quarter Development	High	Audit in Progress				
Place	Licensing (Business Licenses)	Medium	Planned				
Place	Planning - Processing and Performance	High	Planned				
Place	Planning Appeal	High	Draft Report Issued				New activity
Place	Amey - Streetcare contract follow up	High	Audit in Progress				
Policy and Resources	Accounts Payable	High	Planned				
Policy and Resources	Accounts Receivable	High	Planned				
Policy and Resources	Benefits Uprating	High	Final Report Issued	Substantial	Substantial	18/09/2017	
Policy and Resources	Benefits 2	High	Planned				
Policy and Resources	Blackfriars Priory Turnover Certification	High	Final Report Issued	Not Applicable	Not Applicable	18/09/2017	
Policy and Resources	Capital Accounting	High	Planned				
Policy and Resources	Cash and Bank	High	Planned				
Policy and Resources	Council Tax - Setting the Base 2017/18	High	Final Report Issued	Substantial	Substantial	18/09/2017	
Policy and Resources	Council Tax 2	High	Planned				
Policy and Resources	Councillors' Community Fund	Medium	Audit in Progress				
Policy and Resources	Electoral Service	Medium	Planned				
Policy and Resources	New Financial Management System	High	Final Report Issued	Satisfactory	Satisfactory	18/09/2017	Brought Forward from 2016/17 plan
Policy and Resources	Main Accounting System	High	Planned				
Policy and Resources	National Non Domestic Rates (NNDR) Multipliers 2017/18	High	Final Report Issued	Substantial	Substantial	18/09/2017	
Policy and Resources	National Non Domestic Rates (NNDR) 2	High	Planned				
Policy and Resources	Procurement	High	Planned				
Policy and Resources	Payroll	High	Planned				

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<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>18 September 2017</b>
<b>Subject:</b>	<b>Streetcare Audit Report – 6 Month Follow-up Report</b>		
<b>Report Of:</b>	<b>Corporate Director</b>		
<b>Wards Affected:</b>	<b>All</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Jonathan Lund, Corporate Director</b>		
	<b>Email:</b>	<b>jonathan.lund@gloucester.gov.uk</b>	<b>Tel:</b> <b>396276</b>
<b>Appendices:</b>	<b>None</b>		

**FOR GENERAL RELEASE**

**1.0 Purpose of Report**

1.1 To provide a six-month update on activity to implement the recommendations arising from the Streetcare Contract Audit which was reported to Committee on 23 January 2017

**2.0 Recommendations**

2.1 The Audit and Governance Committee to note the updated report.

**3.0 Background and Key Issues**

3.1 A Streetcare Audit Report was included in the 2016/17 Audit Plan and the findings were reported to the Audit and Governance Committee on 23 January 2017. Seven recommendations were made as a result of the Audit and these were endorsed and adopted by the Committee. It was agreed that the recommendations contained in the Action Plan would be implemented and that appropriate officers would report back to the Committee on progress after 6 months and 12 months. This is the first six-month report.

**Recommendation 1** - Review and revise the purpose, terms of reference, completeness of the Risk Register and arrangements for strategic oversight of the service.

<b>Task</b>	<b>Actioned Y/N</b>	<b>Response Update</b>
Amend Strategic Review Meeting Terms of Reference	Y	Strategic Partnering Board Meeting – renamed as Quarterly Strategic Review Meeting – Cabinet member attendance, Terms of Reference reviewed and adopted.  Strategic Planning & Performance Meeting – renamed as Bi-Monthly Strategic Performance Meeting. Officer attendance.

Risk Register	Y	Implemented
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**Recommendation 2** - Formally document and regularly maintain and review key service conditions, specifications and variations to ensure contract compliance

Task	Actioned Y/N	Response Update
Identify and document all key conditions/specifications.	Y	A full register of Key Contract Requirements have been developed which reflect the relevant contract specification reference/clause numbers.
Confirm and document all identified contract variations on a register	Y	A single Service Change Register is in place in which all changes are being recorded.

**Recommendation 3** - Implement a formal contract change process, reflecting past changes where practical, including a up to date Adopted Land Schedule;

Task	Actioned Y/N	Response Update
Document all changes to service provision	Y	A single Service Change Register is in place in which all changes are being recorded.
Adopted Land schedules for the Kingsway development and other locations	Y	All outstanding Adopted Land Commissioning forms have been signed and the Adopted Land Register updated accordingly.

**Recommendation 4** - Clarify currently undocumented contract charges and ensure that procedures are appropriate to demonstrate “good value for money”;

Task	Actioned Y/N	Response Update
Provision of documentation to support and agree the annual charge of £53,824 for waste bins	Y	Capital expenditure breakdown provided by Amey for the Purchase of Bins which takes into account depreciation value; together with copies of sales invoices provided. Details previously supplied to all Committee Members.
Demonstrate “good value for money”	Y	All purchases are now made using the GCC Procurement Portal where a number of quotations are to be obtained for Goods & Services

**Recommendation 5** - Implement an annually updated Service Plan which documents key service delivery data and in particular costs, staff levels, fleet, H&S, quality measurement, site locations, working methods.

Task	Actioned Y/N	Response Update
Annually update Service Delivery Plan	Y	The 2017 Service Plan was prepared and scrutinised by O&S Committee on 10 July 2016. Discussions currently in place with Amey prior to the provision of their 2018 Service Delivery Plan which will include the information set out in this recommendation.

**Recommendation 6** - Review key performance indicators to include strategic, operational and quality related targets and sanctions for non-compliance; and

Task	Actioned Y/N	Response Update
Review of Strategic & Operational KPI's with appropriate financial sanctions	Y	A draft suite of 33 KPI's were presented to Amey and subsequently discussed and agreed at a meeting on July 5 <sup>th</sup> 2017

**Recommendation 7** - Implement appropriate arrangements to monitor/check and document performance.

Task	Actioned Y/N	Response Update
Checks to be performed on the KPI results produced by Amey	Y	Key Performance Indicators are currently discussed at Monthly Operational Project Group meetings and also questioned and challenged at Strategic meetings
Monitoring of Amey performance of the service provision and documentary evidence in support of this	Y	Monthly Contract Monitoring Forms were introduced in January 2017 which are completed by the Operational Leads of the four Service areas, i.e. Grounds, Waste & Recycling and Street Cleansing, and City Centre Improvement.

#### **4.0 Asset Based Community Development (ABCD) Considerations**

4.1 None

#### **5.0 Alternative Options Considered**

5.1 None

**6.0 Reasons for Recommendations**

6.1 The report provides an update as promised to, and required by, the Committee.

**7.0 Future Work and Conclusions**

7.1 None

**8.0 Financial Implications**

8.1 None

**9.0 Legal Implications**

9.1 None

**10.0 Risk & Opportunity Management Implications**

10.1 None

**11.0 People Impact Assessment (PIA):**

11.1 None

**12.0 Other Corporate Implications**

12.1 None

**Background Documents:** None



<b>Meeting:</b>	<b>Cabinet</b>	<b>13<sup>th</sup> September 2017</b>
	<b>Audit and Governance</b>	<b>18<sup>th</sup> September 2017</b>
<b>Subject:</b>	<b>Discretionary Rate Relief Scheme</b>	
<b>Report Of:</b>	<b>Cabinet Member for Performance &amp; Resources</b>	
<b>Wards Affected:</b>	<b>All</b>	
<b>Key Decision:</b>	<b>Yes</b>	<b>Budget/Policy Framework: No</b>
<b>Contact Officer:</b>	<b>Jon Topping, Head of Policy &amp; Resources</b>	
	<b>Email: jon.topping@gloucester.gov.uk</b>	<b>Tel: 6242</b>
<b>Appendices:</b>	<b>1. Additional Discretionary Rate Relief Scheme</b>	

**FOR GENERAL RELEASE**

**1.0 Purpose of Report**

1.1 To seek approval for the additional Discretionary Rate Relief Scheme as outlined in the report.

**2.0 Recommendations**

2.1 Audit and Governance is asked to **RESOLVE** that the report be noted.

2.2 Cabinet is asked to **RESOLVE** that:

(1) That the policy detailed at Appendix 1 be adopted.

(2) That the Section 151 Officer be delegated decision powers in respect of the relief in 3.1 below. The powers will be used to

- Determine the Percentage of the rates increase for which relief is eligible
- Determine the level of relief to be awarded

**3.0 Background**

**3.1 Discretionary Relief Scheme**

At the Spring Budget, the Government announced the establishment of a £300m discretionary fund over four years from 2017/18 to support businesses in their area. The £300m will cover the four years from 2017/18:

- £175m in 2017/18
- £85m in 2018/19
- £35m in 2019/20
- £5m in 2020/21

DCLG published a consultation of the design of the scheme and draft allocations to billing authorities on 9 March. Allocations were confirmed on 21 April in accordance with those draft allocations published as part of the consultation. On the 28 April a Grant Determination was also circulated. The allocations for Gloucester are as follows;

2017/18 £201k  
2018/19 £98k  
2019/20 £40k  
2020/21 £6k

Individual authorities were required to develop their own discretionary schemes to deliver targeted support to the most hard-pressed ratepayers. Government made it clear the design and administration of schemes is for authorities to decide.

Appendix 1 to this report is the proposed scheme for Gloucester City Council to ensure the allocations are distributed fully and equitably. The proposed scheme has been developed alongside all district councils in Gloucestershire.

### 3.2 Support for Pubs

At the Spring Budget, the Government also announced a new relief scheme for pubs that have a rateable value of below £100,000. Under the scheme, eligible pubs will receive a £1000 discount on their bill. The relief will have effect for 2017/18.

### 3.3 Supporting Small Businesses

At the Spring Budget, the Chancellor announced that a scheme of relief would be made available to those ratepayers facing large increases as a result of the loss of small business or rural rate relief.

On the 16 May a letter was sent to Chief Finance Officers, it included as an annex final guidance on the scheme to authorities about the operation and delivery of this policy for more complex cases. The policy at Appendix 1 incorporates this guidance.

### 3.4 Administration of New Reliefs

The Council is expected to deliver the scheme through the use of their discretionary relief powers under section 47 of the Local Government Finance Act 1988, as amended.

The Council will be compensated through a Section 31 grant for the cost to the authority of granting the relief – up to a maximum amount based on the authority's allocation at paragraph 3.1 above. The grants will be made quarterly in arrears for the duration of the scheme.

## 4.0 **Alternative Options Considered**

4.0 None considered

## 5.0 **Reasons for Recommendation**

5.1 To approve the implementation of additional Discretionary Rate Relief Scheme.

## **6.0 Financial Implications**

- 6.1 As detailed in the report to ensure the distribution of allocation discretionary fund to eligible businesses.

## **7.0 Legal Implications**

- 7.1 The Council has statutory power to award discretionary rate relief under: S44A S47 (as amended by S69 of the Localism Act 2011), S49 of the Local Government Finance Act 1988 and S42A & S42B of the Local Government & Rating Act 1997.
- 7.2. With the exception of S44a relief, the Council cannot grant discretionary relief in respect of 'excepted hereditaments'. An 'excepted hereditament' is one where the Council or precepting authority would be liable to pay the rates. Additionally, case law has established that, where a discretionary power exists, it must be applied fairly and not arbitrarily.

## **8.0 Risk & Opportunity Management Implications**

- 8.1 There are no specific risks or opportunities as a result of this report.

## **9.0 People Impact Assessment (PIA):**

- 9.1 There is no evidence from an initial assessment of an adverse impact on equality in relation to the equality groups.

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## Discretionary Rate relief Scheme for revaluation purposes

### Qualifying conditions:

- Rateable Value below £200,000
  - Increase due to revaluation of 12.5%\* and over on bills between 2016/17 and 2017/18 before reliefs
  - Eligible ratepayer – is the ratepayer on 31.03.2017 and continues to be
  - Anyone falling into an exception category will not be eligible
  - The ratepayer only occupies one property, however if has multiple properties locally in Gloucestershire only then will consider.
- \*This figure is subject to change

### Exceptions:

- Empty Properties
- Excepted hereditaments
- New occupiers on or after 1 April
- Those in receipt of any other relief i.e. Mandatory, CASC, Discretionary, SBR, Pub relief, Supporting small businesses scheme; excluding transitional relief.

### Scheme Details:

- Increase to be worked out by taking the full years charge at 31.03.2017 (RV x SBR multiplier + SBR supplement if applicable) and compare to similar figure for 2017/18. This is a comparison of the net debit.
- RV increases during year – there will be no increase in relief
- RV decreases/splits and mergers during the year – the relief will be stopped from the effective date of the change.
- The amounts given for Years 2-4 will diminish at the same rate as the Government funding, but the ratepayer must have been eligible in Year 1.
- The relief paid in Year 1 will be a percentage (determined by the Section 151 officer) of the amount of increase in the net debit.

Example where all details above have been taken into account:

Net Debit 2016/17	£10,000
Net Debit 2017/18	£11,500
Increase is	£1,500 (15%)
Amount awarded	£750

- Transitional certificates applied for 2016/17 will result in the relief being recalculated
- RV's effective from 1 April – recalculate relief

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**Gloucester City Council**  
**Audit and Governance Work Programme 2017-2018**  
**(Updated 8 September 2017)**

Item	Format	Committees	Lead Officer	Comments
<b>18 September 2017:</b>				
1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item
2. Statement of Accounts 2016/17	Written Report	Audit and Gov	Head of Policy and Resources	Part of the Committee's annual work programme
3. Annual Governance Statement 2016/17	Written Report	Audit and Gov	Head of Policy and Resources	Part of the Committee's annual work programme
4. Internal Audit Activity 2017-18 Progress Report – including MGL review outcomes	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
5. KPMG External Audit Report 2016/17 (ISA 260 Report to those charged with governance)	Written Report	Audit and Gov	KPMG	Part of the Committee's annual work programme
6. Streetcare Contract Management 6 monthly management update	Written Report	Audit and Gov	Head of Place	Item requested by the Committee
7. Review of new Business Rates Relief	Written Report	Audit and Gov	Head of Policy and Resources	Item requested by the Committee
8. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item
<b>20 November 2017</b>				
1. Audit and Governance Committee Action Plan	Timetable	Audit and Gov	-----	Standing agenda item requested by the Committee
2. Annual Audit Letter 2016/17	Written Report	Audit and Gov	KPMG	Part of the Committee's annual work programme
3. Internal Audit Activity 2017/18 – Progress Report	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
4. Strategic Risk Register Update	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme

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5. Regulation of Investigatory Powers Act 2000 (RIPA) – Annual Review of Procedural Guide	Written Report	Audit and Gov Council	Corporate Director	Part of the Committee's annual work programme
6. KPMG Technical Update	Written report	Audit and Gov	KPMG	Part of the Committee's annual work programme
7. Review of Audit Risk Assurance Shared Service	Written report	Audit and Gov	Head of IA&RM Shared Service	Agenda item requested by IA & RM Shared Service
8. Revised Complaints Policy	Written Report	Audit and Gov Council	Customer Service Manager	Item requested by the Customer Service Manager
9. Governance Arrangements on Property Investment Strategy	Written Report	Audit and Gov	Corporate Director	Item requested by the Committee
10. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item
<b>22 January 2018</b>				
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 Activity 2017/18 – Progress Report	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
4. Treasury Management Performance 2016/17 Six monthly update	Written Report	Audit and Gov Cabinet	Head of Policy and Resources	Part of the Committee's annual work programme
5. Streetcare Contract Management 12 monthly management update	Written Report	Audit and Gov	Head of Neighbourhood Services	Item requested by the Committee
6. Review need for new Contract Standing Orders	Written Report	Audit and Gov	Monitoring Officer/ Head of Finance	Part of the Committee's annual work programme
7. Annual Governance Statement Improvement Plan 2016/2017	Written report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's work programme
8. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item
<b>12 March 2018</b>				
1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee

2. KPMG – External Audit Plan 2017/18	Written Report	Audit and Gov	KPMG	Part of the Committee’s annual work programme
3. KPMG – External Audit Technical Update	Written Report	Audit and Gov	KPMG	Part of the Committee’s annual work programme
4. Treasury Management Strategy	Written Report	Audit and Gov  Cabinet  Council	Head of Finance	Part of the Committee’s annual work programme
5. Annual Risk Management Report 2017/18	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee’s annual work programme
6. Internal Audit Activity 2017/18 – progress report.	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee’s annual work programme
7. Internal Audit Plan 2018/19	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee’s annual work programme
8. 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

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