

# Statement of Accounts **2012-13**



2012-13

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## Foreword by Strategic Finance Director and Section 151 Officer

This document presents the published accounts of Gloucestershire County Council for the financial year ending 31<sup>st</sup> March 2013. The format and content of the accounts are laid down by the Code of Practice on Local Authority Accounting issued by CIPFA, the professional body of public sector accountants. The Council is legally required to follow this Code of Practice. Explanatory notes are included to assist in the interpretation of the accounts, which are unavoidably technical and complex.

Following significant changes to the Code of Practice over the previous two years, including the introduction of the International Financial Reporting Standards (IFRS), this year's Code does not include any major changes, although it does clarify the treatment of Carbon Reduction Commitment CRC Energy Efficiency Scheme allowances. There are no significant changes to the financial statements.

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the accounts.

### *Financial Statements*

The objectives of financial statements are to provide information about the Council's financial position, financial performance and cash flows, and to demonstrate accountability for the Council's resources.

A complete set of Financial Statements for the period comprise:

- *Movement in Reserves Statement*  
This statement shows the movement in the year on the different reserves held by the Council. The Provision of Services line shows the true economic cost of providing services, more details of which can be seen in the Comprehensive Income & Expenditure Statement.
- *Comprehensive Income & Expenditure Statement*  
This statement shows the accounting cost in the year of providing services in accordance with accepted accounting practices, rather than the amount to be funded from taxation. The taxation position is shown in the Movement in Reserves Statement.
- *Balance Sheet as at end of the period*  
The Balance Sheet shows the value of the Council's assets and liabilities as at the Balance Sheet date. Reserves are reported as either "usable reserves" or "other reserves". The Council cannot use "other reserves" to provide services.
- *Cash Flow Statement*  
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by 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. At 31<sup>st</sup> March 2013 the Council had cash and cash equivalents valued at £71m.
- Notes which summarise significant accounting policies and other explanatory information.

The Gloucestershire Pension Fund accounts, although included in this publication, are separate from the accounts of the Council and are subject to a separate audit opinion. In addition, the accounts of the Fire Pension Fund are included.

Although the Annual Governance Statement is included in this document, the Code makes it clear that it is not formally part of the Statement of Accounts and is not covered directly by the Chief Finance Officer's certification or the audit report. The 2012 Code requires the Statement to include a specific statement on whether a Council's financial and management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. There is also a requirement that this Statement, which is signed by the Leader, Chief Executive and Strategic Finance Director (S151 Officer), is considered by the Audit & Governance Committee.

The Strategic Finance Director (S151 Officer) is required to certify that the accounts present a true and fair view.

### ***Summary of the 2012/13 Financial Year***

The accounts distinguish between revenue and capital expenditure. Revenue spending generally relates to items that are used within a year. Capital spending is expenditure on the acquisition of new assets, or which add value to existing assets or extend the life of the asset beyond one year, and where it is appropriate to spread the costs across the tax payers who will be receiving benefits over more than one year.

Using its capital and revenue resources the Council provides a wide range of services e.g. care and support for older people, people with learning disabilities or mental health problems, support and care for children and families, the Fire and Rescue service, repairing and improving roads, to name a few.

Some of our key achievements and successes over the last year have been:

- Achieving "Meeting the Challenge" savings of £65m over the two years 2011/12 and 2012/13, and being on track to deliver a further £32m savings in 2013/14.
- Achieving an end of year under-spend of £4.8 million after approved transfer to reserves during the year for 2012/13.
- Gloucestershire communities benefiting from a multi-million pound 'Fastershire' Broadband project.
- Gloucestershire has been identified as an Early Years demonstrator site.
- Being awarded £500,000 by the South West for our Gloucestershire Dementia Challenge Bid.
- Ofsted judged the education provision for ill and very vulnerable pupils in Gloucestershire to be 'outstanding'.
- Gloucestershire's Local Authority Mortgage Scheme to help first time buyers has proved to be one of the most successful in the country.
- Gloucestershire County Council received a national award for introducing a new and improved payroll system which saved £250,000.
- A new Healthwatch Gloucestershire service has been launched.

## **Revenue Budget**

The original revenue budget for 2012/13 was £392.203 million. As in the previous year, within the constraints of the limited funds available the Council sought to move resources into the higher priority areas, taking account of key priorities maintaining low Council Tax levels, minimising service reductions and eliminating wasted resources.

The detailed budget for 2012/13 contained adequate provision to fund the increased costs of demand led services, particularly the care of older and vulnerable people, where the budget was protected, and to cover other cost pressures, including contractually committed inflation costs, fuel and energy cost increases. The budget also provided sufficient provision to fund all of the new 2012/13 capital schemes totalling £56.2 million and the Fire and Rescue Service Private Finance Initiative scheme, without the need to take on additional long term borrowing. This additional investment, together with the loss of Government grant (£12.7 million), was funded by additional Council Tax freeze grant of £6.1 million and savings of nearly £30 million, many of which were a continuation of Meeting the Challenge (MtC) initiatives that started in 2011.

Within the 2012/13 budget the Council started a two year economic stimulus package covering a number of initiatives including Rural Broadband (£7.5 million), the under writing of deposits for first time house buyers under the Local Authority Mortgage Scheme (£2 million) and the introduction of a range of proposals to improve skills for economic growth centred on apprenticeships (£1 million).

For the second year the Council choose to freeze Council Tax in 2012/13 and consequently had the resultant loss to the tax base funded through Government grant, at a rate of 2.5% or £6.1 million.

Inherent within the budget were the following factors:

- Account was taken of current spending trends and, where known, costs were built into the 2012/13 budget, including the explicit consideration of budget risks.
- The highest risk areas were demand led services, especially care for elderly and vulnerable people and looked after children, where numbers of clients are continually rising, and waste management to ensure that the Council meets landfill targets and thereby avoids large financial penalties in the future.
- Although additional resources were invested in some areas under the budget, robust and regular budget monitoring was, again, essential.
- The single highest risk area was in relation to the external care of older people and adults with physical disabilities and learning difficulties. This was an area which required detailed, and continuous, monitoring and reporting during 2012/13, with corrective action being taken as necessary.
- Provision was made for pension increases and inflationary pressures.
- Balancing the Council's budget over this period of financial constraint requires a series of major changes and inevitably some residual risk. Adequate reserves are necessary to meet any significant variations from budget.
- The reserves held are invested and the interest received supports the Council's budget.

Due to the introduction of the Local Services Support Grant (LSSG) our revenue budget for 2012/13 was subsequently increased by £1.369 million, giving a revised budget of £393.572 million.

### ***Council Revenue Expenditure During 2012/13***

The Council's actual expenditure in 2012/13, net of income after approved transfers to reserves during the year, totalled £388.826 million, giving an under spend of £4.746 million against the revised budget of £393.572 million. Following Cabinet decisions in June, this under spend was reduced to a balanced position with the £4.746 million being utilised for the following purposes:

- Carry forward funding specifically for social care training and capacity building, development of ICT solutions to improve efficiencies and to fund transition costs for Children's Centres and Youth Support (£1.513 million).
- Carry forward funding for additional investment in highways (£1.0 million).
- Carry forward funding for Grow Gloucestershire (£0.5 million).
- Utilise £1.7m for additional debt redemption.

Uncommitted general balances at 31<sup>st</sup> March 2013 were £19.72 million compared to £18.50 million at the start of the year. The level of balances is now 4.6% of the net revenue budget for 2013/14, i.e. in the middle of the target range of between 4% and 6% of the net revenue budget.

It is important to note that the Statement of Accounts and the Service Area spend/management accounts are prepared on different bases. The Service Area outturn against revised budget 2012/13, after transfer to reserves, is a balanced position compared to the reported income and expenditure deficit of £2.286 million. The statement below reconciles the two positions.

### ***Reconciliation between reported Outturn and Statement of Accounts for 2012/13.***

	£'000	£'000
<b>County Fund</b>		
Balance as at 31 <sup>st</sup> March 2012	18,497	
Balance as at 31 <sup>st</sup> March 2013	19,721	
<u>Increase in County Fund balance</u>		1,224
<b>Outturn</b>		
Budgeted Contribution to General Fund	1,224	
Reported Outturn	4,746	
Proposed Reserve Movements	-4,746	
		1,224
<b>Statement of Accounts</b>		
Reported Income and Expenditure figure	28,494	
Reported movement on General Fund balance	-41,627	
Transfers from County Fund to earmarked reserves	11,909	
		-1,224

In accordance with the format required by the Accounting Code of Practice, the Comprehensive Income and Expenditure Statement shows the total income and expenditure for the year. For 2012/13 the Comprehensive Income and Expenditure Statement indicates a net deficit for the year of £104.27 million compared to a net deficit in 2011/12 of £69.46 million. The 2012/13 figure reflected a deficit on the provision of services of £28.494 million from a deficit in 2011/12 of £2.556 million.

The deficit on “Other Comprehensive Income and Expenditure” of £75.77 million was mainly due to a £74.01 million actuarial loss on pension assets/liabilities (£72.70 million loss in 2011/12), together with a loss on the revaluation of non-current assets of £1.78 million, (a gain in 2011/12 of £5.96 million).

Losses incurred following disposal of non-current assets within the Comprehensive Income and Expenditure Statement of £59.33 million in 2012/13 and £52.35 million in 2011/12 mainly reflect the transfer of assets to academy schools.

The deficit on the accounting cost of providing services of £28.494 million moves to a net surplus for the year of £1.224 million, as shown in the Movement of Reserves Statement on page 39, after taking account of additional items required under regulations (as outlined in the Code of Practice and Note 1 within the accounts).

### ***Balance Sheet Position***

Our net worth has reduced from a £199.68 million surplus to a £95.41 million surplus between 2011/12 and 2012/13. The gains and losses in our net worth are shown in the Movement of Reserves Statement and the Balance Sheet.

Change in net worth on the Balance Sheet is mainly due to a £74.01 million loss on Pension Fund assets and liabilities revaluation and a £1.78 million loss on the revaluation of assets, offset by a £2.29 million surplus on the provision of services.

The increase in the net pension fund liability reflects deteriorating market conditions. The Pension Fund deficit does not place an immediate burden on the Council’s reserves but simply provides a snapshot (at 31<sup>st</sup> March 2013). The deficit on the fund will be actively managed and addressed by increased contributions over the remaining working life of employees. The level of employer contributions will be reviewed by the actuary on a regular basis.

While these deficits have adversely affected the net worth of the Council, as recorded in the Balance Sheet, arrangements for managing the Pension Fund deficit mean that the Council’s overall financial position essentially remains the same, which is in a relatively healthy and stable position.

### ***Capital Expenditure***

For Council services the forecast payments for 2012/13 totalled £60.5 million. The actual spend was £56.2 million, giving an under-spend against forecast of £4.3 million. This expenditure was financed by a combination of grants, capital contributions and revenue contributions.

The Council’s underlying need to borrow is measured by the Capital Financing Requirement, which at 31<sup>st</sup> March 2013 was £396.6 million. The current debt portfolio (principal amounts only) is £328.3 million external loan and £22.4 million PFI liabilities leaving an internally borrowed position of £45.9 million. This figure is maintained through the use of balances and reserves, and is continually monitored to ensure that it is sustainable.

### ***Pension Liabilities***

The liability shown in connection with the defined benefit pension schemes has increased by £75 million. Further information can be found in Note 39 and the Pension Fund Accounts.

## **Investment Activity**

During 2012/13 treasury management has been conducted according to the Policy Statement approved by the County Council in February 2012. The approved 2012/13 strategy continued to be one of minimising risk and ensuring liquidity above investment returns in line with revised investment guidance. 210 transactions took place during the year, at a value of £1.058 billion. The opening balance of in-house investments held at 1<sup>st</sup> April 2012 was £131.457 million, and the value of investments held at 31<sup>st</sup> March 2013 was £168.675 million. Total interest earned on in house deposits was £1.7 million. In addition the Council has over £20 million placed with an external fund manager.

## **The Future**

The Council's vision, values, aims and medium term priorities are brought together in a single Council Strategy. The Council Strategy sets out the longer term aims and ambitions for Gloucestershire and outlines the priorities and programmes which underpin these aims. A copy of the Strategy can be found on our website [www.goucestershire.gov.uk](http://www.goucestershire.gov.uk) .

The Council has already experienced Central Government funding reductions in 2011/12 and 2012/13, and further changes to the way local government is funded are being introduced from April 2013.

The main changes are:

- Overall reductions to the Council's grant funding from Government, which will decrease in cash terms by £19.53 million or 4.6% between 2012/13 and 2013/14. Although the amount of Government funding is shrinking the Council is being given more freedom over how the funding can be used, with fewer specific grants for particular services.
- Council Tax billing authorities have responsibility for designing their own rules and system for reducing council tax for those who cannot afford to pay it in full. The Council has worked with the District Councils to support the implementation of a new scheme, which the Government assumes can be run more efficiently by local government, and so is expected to achieve significant local savings compared with the existing scheme.
- Along with our District Councils, the Council will receive a share of any extra income generated through growth in business rates.
- Further reforms to school funding mean that some of the funding previously used to meet the cost of overseeing the local education system and supporting schools will be paid directly to schools.
- Responsibility for public health passes to the County Council, along with a "ring-fenced" budget.

For the third year running, council tax has been frozen for 2013/14. The council tax income foregone by the Council (equivalent to £4.4 million) will be replaced by a Government grant of £2.5 million and additional savings of £1.9 million.

The Council knows that restraints on public spending will continue for the foreseeable future and will continue to plan for a challenging financial future. Balancing the Council's budget over this period of financial constraint will require a series of major changes. Whilst robust programme management plans are being put into place to deliver these savings there is inevitably some residual risk. Adequate reserves will be necessary to meet any significant shortfalls.

## **Conclusion**

The financial statements reflect the Council's careful management of resources and a reasonable level of reserves being maintained, leaving the Council in a sound financial position to cope with future challenges.

The preparation of these financial statements is the culmination of a great deal of effort by many people over a number of months. I would like to express my sincere thanks to members and officers of the Council who have done so much to achieve this major exercise and who continue to secure the financial health of the Council.

**Jo Walker**  
**Strategic Finance Director & Section 151 Officer**

## **Statement of Accounting Policies**

### **General Principles**

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31<sup>st</sup> March 2013. The accounts have been prepared in accordance with the *Code of Practice on Local Council Accounting in the United Kingdom* 2012/13 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) (referred to as "the Code" in the following notes) and the *Accounts and Audit Regulations 2011*. 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.

### **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. Such sums due or payable at year-end are included as debtors and creditors and are estimated where the exact amount is not known. Exceptionally, in some cases actual payments are brought into account as they arise rather than being strictly apportioned between financial years e.g. electricity and gas charges. The effect on the Income and Expenditure Account is not material. Non Cheque Book Schools are accounted for on a cash basis.

### **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 highly liquid investments that are readily converted to known amounts of cash within a short timescale and are available to meet short term cash commitments. Those investments that will mature within three months from the date of acquisition are treated as cash equivalents.

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.

### **Carbon Reduction Commitment Scheme**

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its introductory phase, which will last until April 2014. The Council is required to purchase and surrender allowances (£/tonne CO<sub>2</sub>), currently retrospectively, on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## **Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current 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 insufficient accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible non-current assets attributable to the service.

The Council is not allowed 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. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, known as the Minimum Revenue Provision (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **Events after the Balance Sheet Date**

Balance sheet events have been considered up to the time the Statement of Accounts was authorised for issue.

Adjustment will be made for events after the balance sheet date that provides evidence of the conditions that existed at the balance sheet date. Adjustment will not be made for events that occurred after the balance sheet date that is indicative of conditions that arose after the balance sheet date. However, if the non-adjusting event would have a material effect, disclosure will be made in the notes to the accounts describing the nature of the event and the estimated financial effect.

## **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 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 earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination Benefits are amounts payable as a result of 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. These payments are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the Pension Fund or 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

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until the employee retires, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

Employees of the Council are members of four separate pension schemes:

- The Local Government Pensions Scheme,
- The Firefighter's Pensions Scheme,
- The New Firefighter's Pension Scheme, and
- The Teachers' Pension Scheme.

### Local Government Pension Scheme

The Gloucestershire Local Government Pension Scheme for civilian employees is administered by the Council. The assets of the scheme are separately held in a Committee Administered Fund with the Council acting as trustees. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 1997 and 2007/08, as amended and a separate annual audit is carried out by the appointed external auditors.

The scheme is contracted out of the State Second Pension and is a funded, defined benefit, final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. Retirement benefits are determined independently of the investment of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits.

### Firefighter's Pension Scheme and the New Firefighter's Pension Scheme

The two Firefighter schemes are unfunded defined benefit final salary schemes administered by the Council. There are no assets built up to meet the pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due. Annual pension costs are met from defined employee contributions and charges to the Fire and Rescue Service revenue account. The accounting for both these schemes complies with the Code and the IAS19 adjustments are detailed in the notes to the accounts.

### Teachers Pension Scheme

The Teachers Pension Scheme is an unfunded, multi-employer pension scheme. The Council is unable to identify its share of the underlying assets and liabilities of the scheme. In compliance with the Code, the Council is reporting the Scheme as if it were a defined-contribution scheme.

### **Financial Instruments**

A Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term financial instrument covers both financial assets and liabilities.

All financial instruments held by the Council are reviewed in accordance with the Code. Arrangements to establish the subsequent carrying value and recognition of any gains and losses, and accounting entries are made as applicable. All adjustments are detailed in the notes to the accounts.

### Financial Liabilities

Financial liabilities are initially measured at fair value and 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 interest rate for the instrument. 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 in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing 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 or settlement. Where repurchase has taken place as part of a restructuring of a 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, in previous periods, 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 a period of 10 financial years except for the pre 2007/08 gains/losses where they are spread over the term remaining on the loan against which the premium was payable or the discount receivable. 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: and
- 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 initially measured at fair value and are carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for the interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For 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). Interest receivable that has accrued in year is credited to the Comprehensive Income and Expenditure Statement.

### Non-Current Assets Held for Sale

Available for sale assets 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 the interest receivable are based on the amortised amount of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain or loss is recognised in the surplus or deficit on the revaluation of available for sale financial asset. The exception is where impairment losses have been incurred. These are debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the 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, or fair value falls below cost, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

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 as cost less any impairment losses.

### **Foreign Currency Translation**

The Council does not generally deal in transactions denominated in a foreign currency but when transactions do take place in foreign currency they are converted into sterling at the exchange rate applicable when the transaction took place. Any assets or liabilities held in foreign denominations at the balance sheet date are reconverted at the spot rate applicable at the balance sheet date. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Government Grants and Contributions**

Revenue grants received are credited to the Comprehensive Income and Expenditure Statement and are accounted for on an accruals basis when the conditions for their receipt have been met, and there is reasonable assurance that the grant or contribution will be received. Specific grants are credited to the Cost of Services, whilst grants received to cover general expenditure are credited to the Taxation and Investment Income line of the Comprehensive Income and Expenditure Statement.

Monies advanced as grants and contributions where conditions attached 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 or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where the Council has met all conditions attached to capital grants and contributions, the income is credited to the Comprehensive Income and Expenditure Statement. This income is reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **Inventories and Work in Progress**

All stocks recognised in the Balance Sheet are held at the lower of historical cost or net realisable value. Certain stocks have not been valued (e.g. office stationery).

### **Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income and expenditure related to the activity of the operation.

## **Overheads and Support Service Costs**

These costs are charged to service areas using a variety of apportionment bases appropriate to the particular service provided, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice for Local Authorities 2012/13 (SeRCOP). The two cost categories identified under SeRCOP that are not charged out to service are Corporate and Democratic Core Costs, and Non Distributed Costs. These are accounted for under separate headings within the Comprehensive Income and Expenditure Statement.

## **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 start of the lease (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

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

### *Operating Leases*

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

The Balance Sheet does not include the value of vehicles and equipment held under operating leases since they do not pass into the ownership of the Council. Annual lease rentals have been charged to service revenue accounts.

### *The Council as Lessor*

#### *Finance Leases*

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

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. 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.

## **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.

### *Measurement*

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Revaluation of all the Council's property, plant and equipment is undertaken using a five-year rolling programme. Valuations are carried out internally by the Council's valuers in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

### *Impairment*

Assets are assessed at 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 in the following way:

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

### *Depreciation and Amortisation*

All property, plant and equipment with a finite useful life (determined at the time of purchase or revaluation) are reduced in value (depreciated) using the straight line method according to the following rates:

<i>Buildings</i>	Permanent	Up to 70 years
	Temporary	20-25 years
	Leased	Period of lease
<i>Infrastructure</i>	Roads and street lighting	25 years
	Bridges	120 years
	Footpaths and footbridges	7 years
	Vehicles, plant, furniture and equipment	5 – 10 years

Intangible assets are amortised over their useful economic lives using the straight-line method as shown below:

Purchased Software Licences	Up to 20 Years
Internally Developed Software	Up to 10 Years

Depreciation is calculated on the following basis:

- Assets which are bought from a third party are depreciated for a full year in the year of purchase. All other assets created as a result of capital expenditure during the year are depreciated for a full year where appropriate.
- Land is not depreciated.
- Community Assets are comprised totally of land (e.g. parks, picnic places) and are not depreciated.
- Assets under construction, being capital works in progress where the uncompleted asset does not have a material benefit to the County Council, are not depreciated.
- Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item (de-minimus of £1m per asset), the components are depreciated separately. The Council has identified 4 component groups that are used as a standard template to carry out valuations as shown below:
  - Land – No depreciation,
  - Host (frame, floors, roof, windows, walls and doors), depreciate over 41 years,
  - Services (internal water installations, sanitary ware, heating, ventilation, electrical, lifts, sprinklers and communications), depreciate over 22 years,
  - Externals (drainage, roads, pavements, fences and external utility pipes), depreciate over 39 years.
- Revaluation gains are 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.
- Surplus Assets, held for disposal (10-99 years) are not depreciated.

## **Accounting for Schools**

*Community Schools:* The Council is normally the freeholder of Community School premises and has a significant role in the running of the school. The school premises are therefore recognised under Property, Plant and Equipment.

*Voluntary Controlled Schools:* Schools are owned by a charity but the Council is responsible for the running of the school, employing staff and setting and administrating the admissions policy. The Council will sometimes own the freehold of the land and buildings, but the schools buildings are maintained and controlled by the respective charities and the Council's only statutory duty is for the playing fields. The Council holds significant control over the assets and therefore both the land and buildings are recognised under Property, Plant and Equipment.

*Voluntary Aided Schools:* Schools are owned and managed by a charity but the Council partially funds and also provides support services to the school. Although the Council will sometimes own the freehold of the land and buildings, the schools buildings are maintained and controlled by the respective charities and the Council's only statutory duty is for the playing fields. These playing fields are recognised under Property, Plant and Equipment but the building element is not recognised by the Council.

*Foundation Schools:* Schools are owned and managed, including the provision of any support services, by the governing body, although funded by the Council. The Council is required to transfer all land and buildings including the playing fields to the Foundation School. The Council does not hold the land and buildings on the Balance Sheet.

*Academies:* Schools are owned and managed completely independently of the Council with funding provided directly by central government. The Council has granted long leases as part of the Academies transfer which includes a peppercorn rent, the NPV of future minimum lease payments will be nil and the finance lease receivable will be nil. Therefore the buildings or playing fields will not be recognised on the Council's Balance Sheet despite the assets meeting the conditions of a finance lease.

## **Intangible Assets**

Intangible assets are non-financial non-current assets that do not have physical substance but are identifiable and are controlled by the Council through custody or legal rights. The Council's intangible assets consist of purchased software licences which are capitalised at cost.

## **Basis for Redemption of Debt**

The Council finances a proportion of its capital investment by raising loans. In accordance with the Local Authorities Capital Financing and Accounting Regulations 2003 as updated, the Comprehensive Income and Expenditure Statement has been charged with an amount that is sufficient to redeem a specified statutory percentage of outstanding debt. The statutory figure is called the Minimum Revenue Provision (MRP). In accordance with the legislation the Council apply a 4% reducing balance for existing debt, and an asset life methodology for debt from 2008/09 whereby the charge is equal over the life of the asset.

### **Private Finance Initiative (PFI) scheme**

PFI contracts are agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. Where the Council is deemed to control the services in accordance with IFRIC 12 ownership of the property, plant and equipment will pass to Council at the end of the contract. The Council carries the property, plant and equipment used under the contracts on the Balance Sheet. The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

- a) Payment for the fair value of services received, and
- b) Payment for the PFI asset, including finance costs.

The original recognition of the property, plant and equipment is balanced by the recognition of a liability for the amounts due to the scheme operator to pay for the assets. Property, plant and equipment recognised on the Balance Sheet are valued and depreciated in the same way as other assets owned by the Council. Services received under the contract are recorded under the relevant expenditure headings as operating expenses.

### **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. In these instances, services have been charged expenditure in anticipation of the liability having been met. 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 and 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.

A specific bad debt provision had been estimated by considering the probability of recovery of individual debtor invoices. The specific provision is based upon all known information about the debtor including financial position of the debtor, the age of the invoice and current credit control status of the invoice.

### **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 our control. Contingent liabilities also arise 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 our 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.

## **Landfill Allowance Trading Scheme (LATS)**

LATS permits whether allocated by DEFRA or purchased from another waste disposal authority are recognised as current assets and are initially measured at fair value. LATS permits allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value. As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured by the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

## **Reserves**

In addition to its general revenue balances, the Council has maintained specific reserves for future expenditure and to protect against unexpected events. Certain reserves are kept to manage the accounting processes for tangible non-current assets and retirement benefits. These reserves do not represent usable resources to the Council, and are explained further in the appropriate policies and notes to the Accounts.

## **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation or enhancement 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.

## **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.

## **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.

## **Accounting Standards That Have Been Issued but Have Not Yet Been Adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 requires consideration of the impact of standards that have been issued but not yet adopted. This is to enable users to evaluate the risk of these new standards on the Council's current financial position. A number of standards have been issued but are not yet applied, and these are listed below, together with a consideration of the impact on the current year's accounts.

- IAS 1 Presentation of Financial Statements – The changes require authorities to disclose separately the gains or losses reclassifiable into the Surplus or Deficit on the Provision of Services. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.
- Clarifications for the recognition criteria for assets under construction and intangible assets – The Council has considered the impact of the changes under section 4.3 of the 2013/14 Code, however the Council does not have any grantor arrangements under IFRIC 12, so no amendments are necessary.
- IAS 12 Income taxes – This change in the accounting policy is not relevant to the Council as the Council does not prepare Group Accounts.
- IFRS 7 Financial Instruments: Disclosures – The change in accounting policy is in relation to the offsetting of financial assets and liabilities. The Council does not consider this change to have a material impact on the accounts.
- There have been several changes in relation IAS 19 Employee Benefits. The Council's Actuary has taken these changes into account and therefore the impact of this amendment has been adopted by the Council.

## **Critical Judgements in applying Accounting Policies**

In applying the accounting policies set out 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. 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.
- The Council has money deposited with the Icelandic banks that are in administration. A final decision by the courts for Landsbanki and Glitnir Banks has now been reached and the Council has been confirmed to have the status of a preferred creditor. The Council has followed LAAP 82 (as updated), and a separate note detailing expected repayments and the level of impairment is included in the notes to the accounts.

## **Assumptions made about the future and other major sources of estimation uncertainty**

In preparing the accounts there are areas where estimates are used. These include:

- Useful lives and valuations of properties, which are estimated by qualified valuers,
- Provisions, which are estimated using latest available information,
- Bad debt levels, which are estimated using past trends and experience,
- The liability for future pension payments, which are estimated by qualified actuaries.

## Statement of Responsibilities

The Council is required to:

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

### The Strategic Finance Director Responsibilities

The Strategic Finance Director 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).

In preparing this Statement of Accounts, the Strategic Finance Director has:

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

The Strategic Finance Director has also:

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

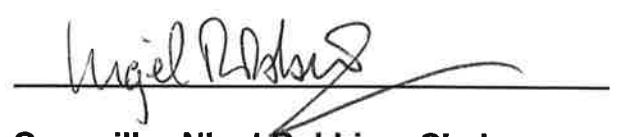
### Certification

I certify that the Statement of Accounts 2012/13 gives a true and fair view of the financial position and Income and Expenditure account of Gloucestershire County Council for the year ended 31<sup>st</sup> March 2013.



Jo Walker CPFA, Strategic Finance Director  
26<sup>th</sup> September 2013

The Audit Committee of the County Council approved the Statement of Accounts on 26<sup>th</sup> September 2013.



Councillor Nigel Robbins, Chairperson  
26<sup>th</sup> September 2013

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLOUCESTERSHIRE COUNTY COUNCIL**

### **Opinion on the Authority financial statements**

We have audited the financial statements of Gloucestershire County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the [Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 50. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Gloucestershire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Strategic Finance Director and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Finance Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

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

## **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

## **Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's

arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

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

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

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

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

### **Conclusion**

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

### **Certificate**

We certify that we have completed the audit of the financial statements of Gloucestershire County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Elizabeth Cave  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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27 September 2013

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLOUCESTERSHIRE PENSION FUND**

### **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements of Gloucestershire Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Gloucestershire Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Strategic Finance Director and auditor**

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

### **Scope of the audit of the pension fund 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Finance Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Opinion on the pension fund financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Stephen Malyн  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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27 September 2013

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLOUCESTERSHIRE COUNTY COUNCIL**

### **Issue of audit opinion on the financial statements**

In our audit report for the year ended 31 March 2013 issued on 27 September 2013 we reported that, in our opinion, the financial statements:

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

### **Issue of audit opinion on the pension fund financial statements**

In our audit report for the year ended 31 March 2013 issued on 27 September 2013 we reported that, in our opinion the pension fund's financial statements:

- gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### **Issue of value for money conclusion**

In our audit report for the year ended 31 March 2013 issued on 27 September 2013 we reported that, in our opinion, in all significant respects, Gloucestershire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

### **Certificate**

In our report dated 27 September 2013, we explained that we could not formally conclude the audit on that date until we had completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We have now completed this work. No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion and value for money conclusion.

We certify that we have completed the audit of the financial statements of Gloucestershire County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Elizabeth Cave  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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25 October 2013

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable 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. The 'Net increase/decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31st March 2011 carried forward</b>	<b>-15,894</b>	<b>-104,971</b>	<b>-</b>	<b>-2,582</b>	<b>-123,447</b>	<b>-145,693</b>	<b>-269,140</b>
<b><u>Movement in reserves during 2011/12</u></b>							
Surplus (-) or Deficit on Provision of Services	2,556	-	-	-	2,556	-	2,556
Other Comprehensive Expenditure and Income	-	-	-	-	-	66,906	66,906
<b>Total Comprehensive Expenditure and Income</b>	<b>2,556</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,556</b>	<b>66,906</b>	<b>69,462</b>
Adjustments between accounting basis & funding basis under regulations (Note 1)	-3,292	-	-	-	-3,292	3,292	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-736</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-736</b>	<b>70,198</b>	<b>69,462</b>
Transfers to/from Earmarked Reserves	-1,867	2,006	-	-139	-	-	-
<b>Increase/Decrease in 2011/12</b>	<b>-2,603</b>	<b>2,006</b>	<b>-</b>	<b>-139</b>	<b>-736</b>	<b>70,198</b>	<b>69,462</b>
<b>Balance at 31st March 2012</b>	<b>-18,497</b>	<b>-102,965</b>	<b>-</b>	<b>-2,721</b>	<b>-124,183</b>	<b>-75,495</b>	<b>-199,678</b>

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31st March 2012 carried forward</b>	<b>-18,497</b>	<b>-102,965</b>	<b>-</b>	<b>-2,721</b>	<b>-124,183</b>	<b>-75,495</b>	<b>-199,678</b>
<b><u>Movement in reserves during 2012/13</u></b>							
Surplus (-) or Deficit on Provision of Services	28,494	-	-	-	28,494	-	<b>28,494</b>
Other Comprehensive Expenditure and Income	-	-	-	-	-	75,777	<b>75,777</b>
<b>Total Comprehensive Expenditure and Income</b>	<b>28,494</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,494</b>	<b>75,777</b>	<b>104,271</b>
Adjustments between accounting basis & funding basis under regulations (Note 1)	-41,627	-	-	-	-41,627	41,627	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-13,133</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-13,133</b>	<b>117,404</b>	<b>104,271</b>
Transfers to/from Earmarked Reserves	11,909	-11,657	-	-252	-	-	-
<b>Increase/Decrease in 2012/13</b>	<b>-1,224</b>	<b>-11,657</b>	<b>-</b>	<b>-252</b>	<b>-13,133</b>	<b>117,404</b>	<b>104,271</b>
<b>Balance at 31st March 2013</b>	<b>-19,721</b>	<b>-114,622</b>	<b>-</b>	<b>-2,973</b>	<b>-137,316</b>	<b>41,909</b>	<b>-95,407</b>

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils 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.

31 <sup>st</sup> March 2012			31 <sup>st</sup> March 2013		
Expenditure £'000	Income £'000	Net £'000	Expenditure £'000	Income £'000	Net £'000
<b>Gross Expenditure, Gross Income and Net Expenditure of Continuing Operations</b>					
3,526	-1,612	1,914	Central Services to the Public	2,882	-1,489
10,716	-1,008	9,708	Cultural and Related Services	8,696	-1,125
24,739	731	25,470	Environmental and Regulatory Services	29,536	-2,651
4,109	-1,046	3,063	Planning Services	4,489	-1,755
461,939	-358,662	103,277	Education and Children's Services	378,403	-303,327
60,125	-6,895	53,230	Highways and Transport Services	58,095	-6,016
513	-336	177	Other Housing Services	0	-434
244,746	-89,011	155,735	Adult Social Care	248,689	-85,459
22,033	-1,390	20,643	Fire Services	24,328	-5,005
4,873	-297	4,576	Corporate and Democratic Core	6,425	-18
-12,427	-146	-12,573	Non Distributed Costs	2,134	-155
4,136	-4,798	-662	Other Operating Income & Expenditure	7,725	-4,343
8,766	-	8,766	Exceptional Items (Note 49)	1,465	-
837,794	-464,470	373,324	<b>Cost Of Services</b>	<b>772,867</b>	<b>-411,777</b>
268	-	268	Levies Payable	378	-
52,353	-	52,353	Gain/Loss on disposal of non current assets	59,337	-
52,621	-	52,621	<b>Other Operating Expenditure</b>	<b>59,715</b>	<b>-</b>
17,469	-	17,469	Interest Payable on Debt	17,905	-
-	-	-	Premium on Early Repayment of Debt	-	-
455	-	455	Impairment of Financial Instruments	-25	-
16,241	-	16,241	Pension Interest Cost & Expected Return on Pension Assets (Note 39)	19,501	-
-	-2,187	-2,187	Investment Interest income	-	-1,999
34,165	-2,187	31,978	<b>Financing and Investment Income and Expenditure</b>	<b>37,381</b>	<b>-1,999</b>
-	-	-	<b>Profit or Loss on Discontinued Operations</b>	-	-
-	-57,822	-57,822	Recognised Capital Grants and Contributions	-	-34,375
-	-245,384	-245,384	Council Tax	-	-246,999
-	-105,290	-105,290	National Non Domestic Rates	-	-128,700
-	-32,546	-32,546	Revenue Support Grant	-	-2,495
-	-14,325	-14,325	Non Service Related Government Grants	-	-15,124
-	-455,367	-455,367	<b>Taxation and Non-Specific Grant Income (Note 4)</b>	-	<b>-427,693</b>
924,580	-922,024	2,556	<b>Surplus (-) or Deficit on Provision of Services</b>	<b>869,963</b>	<b>-841,469</b>
-	-5,962	-5,962	Revaluation Gains (-)/Losses (Note 17)	1,732	-
-	-	-	Transfer of Services	-	-
166	-	166	Surplus or Deficit on Revaluation of Available for Sale Financial Assets (Note 17)	32	-
72,702	-	72,702	Actuarial Gains/Losses on Pension Assets/Liabilities (Note 39)	74,013	-
72,868	-5,962	66,906	<b>Other Comprehensive Income and Expenditure</b>	<b>75,777</b>	<b>-</b>
997,448	-927,986	69,462	<b>Total Comprehensive Income and Expenditure</b>	<b>945,740</b>	<b>-841,469</b>
					<b>104,271</b>

## Balance Sheet

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. 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 are 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 within the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	As at 1 <sup>st</sup> April 2012 £'000		Notes	As at 31 <sup>st</sup> March 2013 £'000
1,000,686	Property Plant and Equipment		5	941,445
894	Heritage Assets		6	894
8,113	Assets under Construction		5	2,307
281	Intangible Assets		8	216
1,052	Long Term Investments		9	5,592
51	Long Term Debtors		9	1,277
<b>1,011,077</b>	<b>Long Term Assets</b>			<b>951,731</b>
43,706	Short Term Investments		9	122,441
152	Assets held for Sale		14	2,272
-	Landfill Allowance Trading Scheme		45	452
928	Inventories		10	1,154
37,797	Short Term Debtors		12	39,188
115,455	Cash and Cash Equivalents		13 & 18	70,707
<b>198,038</b>	<b>Current Assets</b>			<b>236,214</b>
-	Landfill Allowance Trading Scheme		45	-452
-46,329	Short Term Borrowing		9	-50,034
-64,150	Short Term Creditors & Revenue Receipts in Advance		15	-57,967
-5,993	Short Term Provisions		16	-6,835
-71,133	Capital Grants and Contributions Receipts in Advance		31	-79,153
-9,743	Provision for Accumulated Absences		16	-7,928
<b>-197,348</b>	<b>Current Liabilities</b>			<b>-202,369</b>
-2,692	Deferred Liability		47	-2,648
-2,139	Long Term Provisions		16	-1,581
-301,225	Long Term Borrowing		9	-304,331
-506,033	Liability Related to Defined Benefit Pension Scheme		38 & 39	-581,609
<b>-812,089</b>	<b>Long Term Liabilities</b>			<b>-890,169</b>
<b>199,678</b>	<b>Net Assets</b>			<b>95,407</b>
	<b>Usable Reserves</b>			
2,721	Capital Grants Unapplied Reserve		2	2,973
18,497	General Fund Balance		2	19,721
102,965	Earmarked Reserves		2	114,622
	<b>Unusable Reserves</b>			
-9,743	Short Term Accumulated Absences Account		17	-7,928
471,513	Capital Adjustment Account		17	452,767
122,673	Revaluation Reserve		17	97,810
2,143	Council Tax Collection Fund Adjustment Account		17 & 48	1,987
-178	Available for Sale Revaluation Reserve		17	-210
-4,880	Financial Instrument Adjustment Account		17	-4,726
-506,033	Defined Pension Fund Reserve		38 & 39	-581,609
<b>199,678</b>	<b>Total Reserves</b>			<b>95,407</b>

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by 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.

	2011/12 £'000	2012/13 £'000
2,556	Net Surplus (-) or Deficit on the Provision of Services	28,494
-67,696	Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements	-107,521
66,760	Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	45,326
<hr/>		
1,620	Net Cash Flows from Operating Activities	<b>-33,701</b>
<hr/>		
-38,499	Investing Activities (Note 19)	72,039
<hr/>		
14,415	Financing Activities (Note 20)	6,410
<hr/>		
-22,464	Net Increase or Decrease in Cash and Cash Equivalents	<b>44,748</b>
<hr/>		
-92,991	Cash and Cash Equivalents at the beginning of the reporting period	-115,455
<hr/>		
<b>-115,455</b>	<b>Cash and Cash Equivalents at the end of the reporting period (Note 13)</b>	<b>-70,707</b>

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## 1. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2011/12	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Un-applied Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	-34,548	-	-	34,548
Capital grants and contributions applied	56,932	-	-	-56,932
Movement in the Donated Assets Account	575	-	-	
Revenue expenditure funded from capital under statute	-38,433	-	-	38,433
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-52,353	-	-	52,353
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Voluntary Provision for financing of Capital Investment	24,432	-	-	-24,432
Statutory Provision for the financing of Capital Investment	17,485	-	-	-17,485
Capital expenditure charged against the General Fund Balance	8,494	-	-	-8,494
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-9,115	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	9,115	-	-
<b>Adjustments primarily involving the Capital Grants Unapplied Reserve:</b>				
Capital grants and contributions unapplied credited to the Comprehensive income and Expenditure Statement	-	-	57,822	-57,822
Application of grants and contributions to capital financing transferred to capital adjustment account	-	-	-57,683	57,683
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>				
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	153	-	-	-153
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	13,484	-	-	-13,484
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-73	-	-	73
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	560	-	-	-560
<b>Total Adjustments</b>	<b>-3,292</b>	<b>-</b>	<b>139</b>	<b>3,728</b>

2012/13

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Un-applied Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	-43,382	-	-	43,382
Capital grants and contributions applied	33,114	-	-	-33,114
Movement in the Donated Assets Account	1,159	-	-	-1,159
Revenue expenditure funded from capital under statute	-18,269	-	-	18,269
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-59,337	-	-	59,337
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Voluntary Provision for financing of Capital Investment	4,663	11,000	-	-4,663
Statutory Provision for the financing of Capital Investment	17,155	-	-	-17,155
Capital expenditure charged against the General Fund Balance	23,020	-	-	-23,020
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-11,053	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	53	-	-
<b>Adjustments primarily involving the Capital Grants Unapplied Reserve:</b>				
Capital grants and contributions unapplied credited to the Comprehensive income and Expenditure Statement	-	-	-33,366	33,366
Application of grants and contributions to capital financing transferred to capital adjustment account	-	-	33,114	-33,114
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>				
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	154	-	-	-154
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-1,563	-	-	1,563
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-156	-	-	156
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,815	-	-	-1,815
<b>Total Adjustments</b>	<b>-41,627</b>	<b>-</b>	<b>-252</b>	<b>41,879</b>

## 2. Useable Reserves

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

	Balance at 31 <sup>st</sup> March 2012	Transfers Out 2012/13	Transfers In 2012/13	Balance at 31 <sup>st</sup> March 2013
	£'000	£'000	£'000	£'000
<b>Earmarked Reserves</b>				
Capital Fund	15,655	-929	1,304	16,030
Insurance Fund	10,068	-7,503	8,733	11,298
Supporting People	1,558	-	176	1,734
County Elections	489	-3	151	637
Vehicle & Plant Replacement	110	-	-	110
Fire Service Pensions	227	-	-	227
Strategic Waste Reserve	12,577	-	1,000	13,577
Corporate Initiatives	487	-437	3,180	3,230
Fire Joint Training Centre	1,089	-14	-	1,075
Adoption Reserve	-	-	1,000	1,000
Education Funding Risk Reserve	-	-	1,000	1,000
Rates Retention Reserve	-	-	1,900	1,900
Invest to Save	4,826	-351	222	4,697
Transformation Reserve	16,040	-7,261	1,661	10,440
Impairment Reserve	3,237	-504	273	3,006
Economic Stimulus Reserve	3,965	-167	5,620	9,418
Fire PFI Reserve - GFRS	201	-	1,264	1,465
Revenue Grant Reserves	9,068	-10,610	11,525	9,983
Other Reserves	520	-4	1	517
	80,117	-27,783	39,010	91,344
<b>Schools Related</b>				
School Balances	15,413	-16,481	17,755	16,687 *
Dedicated Schools Grant Reserve	5,802	-7,195	7,512	6,119
Standards Fund	1,393	-1,393	-	-
Other Schools Related	240	-50	282	472
	22,848	-25,119	25,549	23,278
<b>Total</b>	<b>102,965</b>	<b>-52,902</b>	<b>64,559</b>	<b>114,622</b>
<b>General Fund Balances</b>	<b>18,497</b>	<b>-</b>	<b>1,224</b>	<b>19,721</b>
<b>Useable Capital Receipts Reserve</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital Grant Unapplied Reserve</b>	<b>2,721</b>	<b>-</b>	<b>252</b>	<b>2,973</b>
<b>Total Useable Reserves</b>	<b>124,183</b>	<b>-52,902</b>	<b>66,035</b>	<b>137,316</b>

\* Please note 15 Schools became independent Academies in 2012/13 and therefore left the control of the Council.

## **Reserve Description**

### **Capital Fund**

The Capital Fund is available to support future capital expenditure and redemption of debt.

### **Insurance Fund**

Specific reserve set up to support possible future costs associated with Insurance Liabilities.

### **Supporting People**

Established to support the future costs associated with the Supporting People Initiative within Social Care.

### **Strategic Waste Reserve**

Reserve set up to support the rising costs associated with waste disposal.

### **Fire Joint Training Centre**

Specific Reserve to hold the Council's share of the Equalisation fund to smooth out future fluctuations in project costs.

### **Invest to Save**

Reserve established to support the continued development of Invest to Save initiatives.

### **Transformation Reserve**

Specific Reserve set up to support costs associated with the Transformation Programme.

### **Impairment Reserve**

Specific Reserve set up to support any possible losses associated with Icelandic Investments.

### **Economic Stimulus Reserve**

Specific Reserve covering a number of initiatives including Rural Broadband, the under writing of deposits for first time house buyers under the Local Authority Mortgage Scheme and the introduction of a range of proposals to improve skills for economic growth centred on apprenticeships.

### **Revenue Grant Reserves**

Reserve established for specific unapplied revenue grants where conditions have been fully met.

### **School Balances**

Specific School revenue balances held by individual Schools, carryforward to support future years expenditure.

### **Dedicated Schools Grant Reserve**

Reserve set up to hold specific grant funding balances to support future years expenditure.

### **Capital Grant Reserves**

Reserve established for specific unapplied capital grants where conditions have been fully met.

### **Rates Retention Reserve**

A reserve of £1.9m was agreed by the Council in February 2013, reflecting a potential funding shortfall in business rate income.

**3. Financing and Investment Income and Expenditure**

	2011/12 £'000	2012/13 £'000
Interest payable and similar charges	17,469	17,905
Pensions interest cost and expected return on pensions assets	16,241	19,501
Interest receivable and similar income	-2,187	-1,999
Impairment of financial instruments	455	-25
<b>Total</b>	<b>31,978</b>	<b>35,382</b>

**4. Taxation and Non Specific Grant Incomes**

	2011/12 £'000	2012/13 £'000
Council Tax Income	-245,384	-246,999
Non Domestic Rates	-105,290	-128,700
Non-ringfenced Government Grants	-46,871	-17,619
Capital Grants and Contributions	-57,247	-34,375
<b>Total</b>	<b>-454,792</b>	<b>-427,693</b>

**5. Property, Plant and Equipment****Movements in 2012/13:**

	Other Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets included in PPE £'000
<b>Restated Gross book value at 1<sup>st</sup> April 2012</b>	<b>719,411</b>	<b>30,865</b>	<b>510,627</b>	<b>-</b>	<b>18,073</b>	<b>8,113</b>	<b>1,287,089</b>	<b>10,887</b>
Additions	30,042	2,915	24,207	-	4	-	<b>57,168</b>	13,407
Donations	1,159	-	-	-	-	-	<b>1,159</b>	-
Revaluation increases/ decreases (-) recognised in the Revaluation Reserve	-12,544	-	-	-	3	-	<b>-12,541</b>	-
Derecognition – disposals	-76,350	-3,425	-	-	190	-	<b>-79,585</b>	-
Assets reclassified to (-)/from Held for Sale	-4,531	-	-	-	-	-	<b>-4,531</b>	-
Other movements in cost or valuation	-	-	-	-	-	-5,806	<b>-5,806</b>	-
<b>Gross book value at 31<sup>st</sup> March 2013</b>	<b>657,187</b>	<b>30,355</b>	<b>534,834</b>	<b>-</b>	<b>18,270</b>	<b>2,307</b>	<b>1,242,953</b>	<b>24,294</b>

	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets included in PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Restated Accumulated Depreciation and Impairment as at 1<sup>st</sup> April 2012</b>	-86,365	-16,372	-174,940	-	-613	-	<b>-278,290</b>	-307
Depreciation charge	-9,219	-4,327	-18,848	-	-123	-	<b>-32,517</b>	-952
Derecognition – disposals	8,359	3,247	-	-	-	-	<b>11,606</b>	-
<b>At 31<sup>st</sup> March 2013</b>	<b>-87,225</b>	<b>-17,452</b>	<b>-193,788</b>	<b>-</b>	<b>-736</b>	<b>-</b>	<b>-299,201</b>	<b>-1,259</b>
<b>Net book value at 31<sup>st</sup> March 2013</b>	<b>569,962</b>	<b>12,903</b>	<b>341,046</b>	<b>-</b>	<b>17,534</b>	<b>2,307</b>	<b>943,752</b>	<b>23,035</b>

### Non Current Asset Valuations

- **Land and Property**

The Code requires all land and property to be formally revalued at least every five years. The latest five-year rolling programme of revaluations began on 1<sup>st</sup> April 2005 and this year the District Council covered was Stroud.

Operational land and property is included in the Balance Sheet on the basis of existing use value or, where this cannot be assessed because there is no market, depreciated replacement cost.

Non-operational land and property is included on the basis of market value except assets under construction which are included on the basis of capital expenditure incurred by 31<sup>st</sup> March 2013. The valuations have been undertaken by qualified valuers employed within the Asset Management and Property Services area of the Council.

- **Temporary Buildings**

Temporary buildings are included at historical cost and are depreciated over their expected life.

- **Vehicles, Plant, and Equipment**

Vehicles, plant, furniture and equipment are included at historical cost, less accumulated depreciation. Furniture and equipment charged to the capital account is included at historical cost and depreciated over the expected life.

- **Infrastructure Assets**

These assets, consisting of roads, bridges, street lighting, footpaths and footbridges, are included on the basis of historical costs incurred since 1<sup>st</sup> April 1974, depreciated over periods in accordance with the anticipated life of the various types of infrastructure.

- **Donated Assets**

Donated assets are defined as assets transferred at nil value or acquired at less than fair value.

## 6. Heritage Assets

### Tangible Heritage Assets

	17 <sup>th</sup> Century Tapestry £'000	2 x Listed Bridges £'000	Others £'000	Total £'000
<b>Net book value at 31<sup>st</sup> March 2011</b>	<b>30</b>	<b>864</b>	<b>-</b>	<b>894</b>
<b>2012/13:</b>				
<b>Gross book value at 1<sup>st</sup> April 2012</b>	<b>30</b>	<b>864</b>	<b>-</b>	<b>894</b>
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluation increases/decreases (-) recognised in the	-	-	-	-
Revaluation Reserve	-	-	-	-
Revaluation increases/decreases (-) recognised in	-	-	-	-
Surplus or Deficit on the Provision of Services	-	-	-	-
<b>Gross book value at 31<sup>st</sup> March 2013</b>	<b>30</b>	<b>864</b>	<b>-</b>	<b>894</b>
<b>Accumulated Depreciation and Impairment</b>				
<b>At 1<sup>st</sup> April 2012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	-	-	-	-
Disposals	-	-	-	-
Impairment losses/reversals (-) recognised in the	-	-	-	-
Revaluation Reserve	-	-	-	-
Impairment losses/reversals (-) recognised in the	-	-	-	-
Surplus or Deficit on the Provision of Services	-	-	-	-
<b>At 31<sup>st</sup> March 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value at 31<sup>st</sup> March 2013</b>	<b>30</b>	<b>864</b>	<b>-</b>	<b>894</b>

### Tangible Heritage Assets

The definition of a heritage asset is “a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture”. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, civic regalia, museum and gallery collections, and works of art.

### Non-Disclosure of Archives as Heritage Assets

Gloucestershire Archives holds the historic and administrative archives for the County of Gloucestershire and, in partnership with South Gloucestershire Council, for South Gloucestershire. These comprise some nine miles of records dating from the 12th century to the present day. They are held for the express purpose of ensuring their preservation and providing public access to information recording the heritage of the two counties both now and for future generations. The archives, ranging from a single piece of paper to thousands of documents, are held under a variety of terms, the most common ones being deposit (long-term loan), gift or purchase.

In the opinion of the Council, the archaeological collection of artefacts cannot be valued because of the diverse and often unique nature of the collection. Therefore cost or valuation information is not available and conventional valuation approaches lack sufficient reliability. The Council is of the opinion that the costs of obtaining the valuations for these items would be disproportionate in terms of the benefit derived.

## Non-Disclosure of tangible assets with an individual value of less than £25,000

Following CIPFA guidance the Council have decided to use a deminimus of £25,000 per individual asset when identifying which heritage assets should be recognised in the accounts.

### Intangible Heritage Assets

Intangible heritage assets are defined as assets with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events.

The Council do not currently hold any intangible heritage assets.

### 7. Investment Properties

Investment property is property (land or a building, or part of a building, or both) held solely to earn rental or for capital appreciation or both, rather than for:

- (a) Use in the production or supply of goods or services or for administrative purposes; or
- (b) Sale in the ordinary course of operations.

The Council does not currently hold any investment properties.

### 8. Intangible Assets

These are purchased software licences and are amortised over an estimated life of up to 10 years.

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

	2011/12		2012/13	
	Internally Generated Assets £'000	Other Assets £'000	Internally Generated Assets £'000	Other Assets £'000
Balance at start of year:				
Gross carrying amounts	-	346	-	281
Amortisation for the period	-	-65	-	-65
Other changes	-	-	-	-
<b>Net carrying amount at end of year</b>	<b>-</b>	<b>281</b>	<b>-</b>	<b>216</b>

## 9. Financial Instruments

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet, and consist of figures held within short and long term borrowings, short and long term investments, cash and cash equivalents and also debtors (including payments in advance) and creditors (including receipts in advance).

	Long Term		Current	
	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
<b>Financial Assets</b>				
<b>Investments</b>				
Loans and receivables	1,052	593	132,356	148,745
Available-for-sale financial assets	-	5,000	19,832	35,052
Unquoted equity investment at cost	-	-	-	-
<b>Total Investments</b>	<b>1,052</b>	<b>5,593</b>	<b>152,188</b>	<b>183,797</b>
<b>Debtors</b>				
Financial assets at amortised cost	51	1,277	22,315	25,528
<b>Included in Long and Short Term Debtors*</b>	<b>51</b>	<b>1,277</b>	<b>22,315</b>	<b>25,528</b>
<b>Total Financial Assets</b>	<b>1,103</b>	<b>6,870</b>	<b>174,503</b>	<b>209,325</b>
* The Short Term Debtors on the Balance Sheet include debtors that do not meet the definition of a financial asset (for example, sums due from HMRC for VAT reclaimed).				
<b>Financial Liabilities</b>				
<b>Borrowings</b>				
Borrowings at amortised cost	292,252	282,388	44,808	49,603
<b>Total Borrowings</b>	<b>292,252</b>	<b>282,388</b>	<b>44,808</b>	<b>49,603</b>
<b>Lease Liabilities</b>				
PFI liabilities at amortised cost	8,973	21,943	1,521	430
<b>Total other long term liabilities</b>	<b>8,973</b>	<b>21,943</b>	<b>1,521</b>	<b>430</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	-	-	53,424	124,047
<b>Included in Short Term Creditors*</b>	<b>-</b>	<b>-</b>	<b>53,424</b>	<b>124,047</b>
<b>Total Financial Liabilities</b>	<b>301,225</b>	<b>304,331</b>	<b>99,753</b>	<b>174,080</b>

\* The Short Term Creditors on the Balance Sheet include creditors that do not meet the definition of a financial liability (for example, sums due to HMRC for income tax and national insurance).

**Expense, Income, Gains and Losses**

	2011/12				2012/13				Total
	Financial Liabilities at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total	Financial Liabilities at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Interest expense	17,469	-	-	17,469	17,905	-	-		17,905
Impairment adjustments	-	455	-	455	-	-25	-		-25
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>17,469</b>	<b>455</b>	<b>-</b>	<b>17,924</b>	<b>17,905</b>	<b>-25</b>	<b>-</b>		<b>17,880</b>
Interest income	-	-1,398	-189	-1,587	-	-1,501	-252		-1,753
Interest income accrued on impaired financial assets	-	-593	-	-593	-	-246	-		-246
Gains on derecognition	-	-	-7	-7	-	-	-		-
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>-1,991</b>	<b>-196</b>	<b>-2,187</b>	<b>-</b>	<b>-1,747</b>	<b>-252</b>		<b>-1,999</b>
Losses on revaluation	-	-	166	166	-	-	32		32
<b>Surplus or deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>-</b>	<b>-</b>	<b>166</b>	<b>166</b>	<b>-</b>	<b>-</b>	<b>32</b>		<b>32</b>
<b>Net loss/gain(-) for the year</b>	<b>17,469</b>	<b>-1,536</b>	<b>-30</b>	<b>15,903</b>	<b>17,905</b>	<b>-1,772</b>	<b>-220</b>		<b>15,913</b>

## Fair Values of Assets and Liabilities

### Assets

Fair Value is considered for a financial asset represented by a long term debtor that arises from the Council's involvement in the Local Authorities Mortgage Scheme (LAMS). The fair value adjustment represents the premium received by the Council in recognition of the loan guarantees that it has given. A long term debtor was recognised for £1.235m which compares with the carrying amount of £1.2m.

Details of the fair values for Assets are as follows:

Assets	31 <sup>st</sup> March 2012		31 <sup>st</sup> March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Long term loans (investments)	1,052	1,052	5,593	5,593
Long-term debtors (loans for service purposes)	51	51	1,242	1,277
<b>Financial Assets</b>	<b>1,103</b>	<b>1,103</b>	<b>6,835</b>	<b>6,870</b>

### Liabilities

Fair Values are considered for financial liabilities that are represented by PWLB and other long-term borrowing and finance leases. Although no adjustments were recognised in the accounts, accounting practice requires that fair values are disclosed. These liabilities are carried in the Balance Sheet at amortised cost and their fair values are assessed by calculating the net present value of the future contractual cash flows that will take place over the remaining term of the instruments:

For PWLB loans actual premature repayment rates set at close of business on 31<sup>st</sup> March.

For commercial 'lender option borrower option' (LOBO) loans, future estimated cashflows are compared with the cashflows that would result from a comparable replacement PWLB loan.

Details of the fair values for Liabilities are as follows:

Liabilities	31 <sup>st</sup> March 2012		31 <sup>st</sup> March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB - maturity, fixed rate	277,252	360,498	275,390	361,658
PWLB - maturity, variable rate	15,000	15,031	15,027	15,026
Lender option borrower option (LOBO) loans	41,050	44,701	41,574	42,491
Finance leases (PFI projects)	8,973	8,973	22,373	22,373
<b>Financial Liabilities</b>	<b>342,275</b>	<b>429,203</b>	<b>354,364</b>	<b>441,548</b>

The fair values of the loans are higher than the carrying amount because the Council's borrowing portfolio includes fixed rate loans where the interest rates payable are higher than the prevailing market rates at the Balance Sheet date. Therefore the notional future loss (based on economic conditions as at 31<sup>st</sup> March) arises from this commitment to pay interest to lenders at above current market rates.

### Short Term

Short-term investments and short-term debtors and creditors are not considered for fair value adjustments but are carried at cost since this is a fair approximation of their value.

**10. Inventories**

	2011/12 £'000	2012/13 £'000
<b>Maintenance Materials</b>		
Balance outstanding at start of the year	1,055	928
Purchases	2,836	3,369
Stock used within the year	-2,963	-3,143
<b>Balance outstanding at year-end</b>	<b>928</b>	<b>1,154</b>

**11. Contractual Capital Commitments**

A contractual capital commitment is where a significant new contract has been agreed during the financial year where a legal agreement has been entered in to and can not easily be backed out of. The Council has a policy that significant would be valued at £3m or above.

At 31<sup>st</sup> March 2013 the Council has entered in to a contract for the major refurbishment of Maidenhill School in 2012/13 and future years budgeted to cost £3.54 million.

A 25 year contract was signed with Urbaser Balfour Beatty on 22nd February 2013 to deliver a residual waste treatment service. The capital value is estimated at approximately £190 million. This commitment only crystallises when satisfactory planning permission is achieved.

**12. Debtors**

	2011/12 £'000	2012/13 £'000
Central Government Bodies	8,622	6,442
Other Local Authorities	11,203	3,213
NHS Bodies	3,750	3,451
Public Corporations and Trading Funds	68	5,415
Other Entities and Individuals	14,154	20,667
<b>Total</b>	<b>37,797</b>	<b>39,188</b>

**13. Cash and Cash Equivalents**

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

	2011/12 £'000	2012/13 £'000
Cash held by the Council, including schools	6,973	9,351
Cash held in call/money market accounts with same day access	65,700	61,356
Cash Equivalents - investments maturing within 3 months	42,782	-
<b>Total Cash and Cash Equivalents</b>	<b>115,455</b>	<b>70,707</b>

**14. Assets Held for Sale**

	2011/12 £'000	2012/13 £'000
<b>Balance outstanding at start of year</b>	1,558	152
Assets newly classified as held for sale:		
Property, Plant and Equipment	152	4,532
Assets sold	-1,558	-2,412
<b>Balance outstanding at year-end</b>	<b>152</b>	<b>2,272</b>

**15. Creditors & Revenue Receipts in Advance**

	2011/12 £'000	2012/13 £'000
Central Government Bodies	9,582	7,989
Other Local Authorities	11,774	5,879
NHS Bodies	5,761	3,861
Public Corporations and Trading Funds	58	249
Other Entities and Individuals	36,975	39,989
<b>Total</b>	<b>64,150</b>	<b>57,967</b>

**16. Provisions**

	Balance at 1 <sup>st</sup> April 2012	Applications	Additions	Amounts Written off in Year	Balance at 31 <sup>st</sup> March 2013	Short Term Liabilities	Long Term Liabilities
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Insurance Fund	-5,282	153 *	-	-	-5,129	-4,083	-1,046
Adults:							
Community Equipment Liabilities	-200	-	-	-	-200	-	-200
Communities & Infrastructure:							
GSWBP Land Claims Contracts	-304	156			-148		-148
LATS	-789	789	-159		-159	-159	-
Lease Dilapidations	-75	-	-13	-	-88	-	-88
Children & Families:							
Pension Strain Costs	-29	-	-	-	-29	-	-29
Tax Employment Liability	-	-	-	-	-	-	-
Lease Dilapidations	-	-	-58	-	-58	-58	-
General:							
Pension Strain & Redundancy costs	-589	572	-1,980	-	-1,997	-1,997	-
Carbon Reduction Programme Allowances	-614	409	-369	70	-504	-504	-
Retained Fire Fighters Liabilities	-250	173	-	50	-27	-27	-
LAMS Scheme Liabilities	-	-	-70	-	-70	-	-70
<b>Total</b>	<b>-8,132</b>	<b>2,252</b>	<b>-2,656</b>	<b>120</b>	<b>-8,416</b>	<b>-6,835</b>	<b>-1,581</b>
Employee Accrual - IAS19 accumulated absences	-9,743	-	-	1,815	-7,928	-7,928	-
<b>Total</b>	<b>-9,743</b>	<b>-</b>	<b>-</b>	<b>1,815</b>	<b>-7,928</b>	<b>-7,928</b>	<b>-</b>

\* Net movement shown

**Insurance Fund**

Whilst Insurance services are arranged through external partners, the current excess levels effectively means that all but the very largest claims are self insured. The Council therefore operates a stand alone insurance fund to cover the impact of any self insurance liabilities. The Provisions held specifically relate to known claims which had not been settled at year end.

**Communities & Infrastructure - Contracts**

The contracts provision relates to anticipated costs associated with the Highways and Transportation Services Contract.

**General - Pension Strain & Redundancy costs**

The General Pension Strain and Redundancy provision relates to anticipated costs associated with staff under statutory notice in 2012/13 but who will not be leaving the Council until 2013/14.

**General - Carbon Reduction Programme Allowances**

The Carbon Reduction Programme is a new Government initiative where organisations have to purchase energy allowances based on energy usage which is retrospectively assessed. This provision therefore is an estimated cost for the procurement of the appropriate allowances for 2012/13.

**Employee Accrual - IAS19 accumulated absences**

Local Authorities are required to account for benefits payable during employment in accordance with IAS19. The provision held within the Accumulated Absences Account relate to estimated costs associated with short term benefits such as leave, flexible working hours and additional TOIL, which have been accumulated at the end of 2012/13 but will not be settled until 2013/14.

## 17. Unusable Reserves

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). 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<sup>st</sup> 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.

	2011/12 £'000	2012/13 £'000
<b>Balance at 1<sup>st</sup> April</b>	131,377	122,673
Upward revaluation of assets	5,962	-
Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	-	-1,732
Accumulated gains on assets sold or scrapped	-14,666	-23,131
<b>Balance at 31<sup>st</sup> March</b>	<b>122,673</b>	<b>97,810</b>

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains/losses made by the Council arising from increases/decreases in the value of investments that have quoted market prices or otherwise do not have fixed or determinable payments. The investments concerned are part of the portfolio held by the Council's external fund managers.

	2011/12 £'000	2012/13 £'000
<b>Balance at 1<sup>st</sup> April</b>	-12	-178
Change in year end valuation	-166	-32
<b>Balance at 31<sup>st</sup> March</b>	<b>-178</b>	<b>-210</b>

### 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<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 1 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2011/12 £'000	2012/13 £'000
<b>Balance at 1<sup>st</sup> April</b>	474,262	471,513
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	-34,483	-43,344
Amortisation of intangible assets	-65	-65
Revaluation losses on Property, Plant and Equipment		
Revenue expenditure funded from capital under statute	-38,433	-18,269
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-61,467	-70,389
Adjusting amounts written out of the Revaluation Reserve	14,666	23,131
Net written out amount of the cost of non-current assets consumed in the year		
Capital financing applied in the year:		
Write off of deferred charges	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	9,115	53
RCCO applied to capital financing	8,385	23,020
Voluntary Provision for financing of Capital Investment	24,432	15,663
Statutory Provision for the financing of Capital Investment	17,485	17,155
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	56,932	33,114
Donated Assets	575	1,159
Other	109	26
<b>Balance at 31<sup>st</sup> March</b>	<b>471,513</b>	<b>452,767</b>

### 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 employers' 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 present 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.

	2011/12 £'000	2012/13 £'000
<b>Balance at 1<sup>st</sup> April</b>	-446,814	-506,033
Actuarial gains or losses (-) on pensions assets and liabilities	-72,702	-74,013
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	12,583	-1,563
Firefighters injury awards	900	-
<b>Balance at 31<sup>st</sup> March</b>	<b>-506,033</b>	<b>-581,609</b>

### Collection Fund Adjustment Account

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

	2011/12 £'000	2012/13 £'000
<b>Balance at 1<sup>st</sup> April</b>	2,216	2,143
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements.	-73	-156
<b>Balance at 31<sup>st</sup> March</b>	<b>2,143</b>	<b>1,987</b>

### 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<sup>st</sup> March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2011/12 £'000	2012/13 £'000
<b>Balance at 1<sup>st</sup> April</b>	-10,303	-9,743
Amount in which the settlement or cancellation of accrual made at the end of the preceding year and the amount accrued at the end of this year differs.	560	1,815
<b>Balance at 31<sup>st</sup> March</b>	<b>-9,743</b>	<b>-7,928</b>

### 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 and discounts paid or received on the early redemption of loans. Premiums or Discounts are debited or credited 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.

	2011/12 £'000	2012/13 £'000
<b>Balance at 1<sup>st</sup> April</b>	-5,033	-4,880
Adjustments with the General Fund relating to the total of deferred premiums/discounts:		
Net write down	153	154
<b>Balance at 31<sup>st</sup> March</b>	<b>-4,880</b>	<b>-4,726</b>

<b>18. Cash Flow Statement – Operating Activities</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£'000</b>	<b>£'000</b>
Net Surplus (-) or Deficit on the Provision of Services	2,556	28,494
Adjust net surplus or deficit on the provision of services for non cash movements:-		
Depreciation	-34,483	-43,344
Amortisation	-65	-65
Impairment loss/gain on Loans & advances debited to surplus or deficit on the provision of services in year	-455	25
Increase/Decrease in Interest Creditors	121	69
Increase/Decrease in Creditors	24,531	7,712
Increase/Decrease in Interest and Dividend Debtors	-135	-1,678
Increase/Decrease in Debtors	-8,275	1,736
Increase/Decrease in Inventories	-127	226
Movement in Pension Liability	13,483	-1,563
Contributions to/(from) Provisions	-823	-285
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	-61,468	-70,389
Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	-	35
Capital Grants credited to surplus or deficit on the provision of services	57,645	34,273
Proceeds from the sale of property plant and equipment, investment property and intangible assets	9,115	11,053
<b>Net Cash Flows from Operating Activities</b>	<b>1,620</b>	<b>-33,701</b>

The cash flows for operating activities include the following items:

	<b>2011/12</b>	<b>2012/13</b>
	<b>£'000</b>	<b>£'000</b>
Interest received	-2,322	-3,677
Interest paid	17,590	17,836

### **19. Cash Flow Statement – Investing Activities**

	<b>2011/12</b>	<b>2012/13</b>
	<b>£'000</b>	<b>£'000</b>
Purchase of property, plant and equipment, investment property and intangible assets	49,929	39,407
Purchase of short-term and long-term investments	16,732	315,216
Other payments for investing activities	-	1,200
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-9,115	-11,053
Proceeds from short-term and long-term investments	-27,181	-230,535
Other receipts from investing activities	-68,864	-42,196
<b>Net cash flows from investing activities</b>	<b>-38,499</b>	<b>72,039</b>

**20. Cash Flow Statement – Financing Activities**

	2011/12 £'000	2012/13 £'000
Appropriation to/from Collection Fund Adjustment Account	-73	-156
Repayments of short-term and long-term borrowing	14,504	5,000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	-16	1,566
<b>Net cash flows from financing activities</b>	<b>14,415</b>	<b>6,410</b>

**21. Movement in Net Debt**

	2011/12 £'000	2012/13 £'000	Movements in year £'000
Movement In Cash Balances			
Imprest Accounts	-172	-170	2
Cash At Bank	-6,801	-9,181	-2,380
Cash Equivalents investments	-108,482	-61,356	47,126
<b>Net Cash</b>	<b>-115,455</b>	<b>-70,707</b>	<b>44,748</b>
Financing & Liquid Resources			
	-305,436	-227,702	77,734
<b>Net Debt</b>	<b>-420,891</b>	<b>-298,409</b>	<b>122,482</b>

## 22. Amounts Reported for Resource Allocation Decisions

### Service Information for the year ended 31<sup>st</sup> March 2012

	Children & Young People £'000	Community Adult Care £'000	Environment £'000	Community Safety £'000	Strategy & Challenge/ Business £'000	Technical & Corporate £'000	Total £'000
Fees, Charges & Other Service Income	-21,796	-76,838	-8,057	-2,405	-3,615	-4,014	-116,725
Government Grants	-332,955	-16,983	-1,277	-298	-143	-837	-352,493
<b>Total Income</b>	<b>-354,751</b>	<b>-93,821</b>	<b>-9,334</b>	<b>-2,703</b>	<b>-3,758</b>	<b>-4,851</b>	<b>-469,218</b>
Employee Expenses	275,590	45,165	14,231	19,208	21,913	2,395	378,502
Other Operating Expenses	139,199	212,581	58,167	7,888	-5,262	74,384	486,957
Support Service Recharges	7,874	7,541	2,425	880	-12,893	-5,827	-
<b>Total Operating Expenses</b>	<b>422,663</b>	<b>265,287</b>	<b>74,823</b>	<b>27,976</b>	<b>3,758</b>	<b>70,952</b>	<b>865,459</b>
<b>Net Cost of Services</b>	<b>67,912</b>	<b>171,466</b>	<b>65,489</b>	<b>25,273</b>	<b>-</b>	<b>66,101</b>	<b>396,241</b>

### Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£'000
Cost of Services in Service Analysis	396,241
Add Technical Accounting Adjustments	9,329
Removal of amounts reported to management but not included in the Comprehensive Income and Expenditure Statement.	-32,246
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>373,324</b>

## Reconciliation to Subjective Analysis

2011/12

	Service Analysis	Technical Accounting Adjustments	Items not included in the Income & Expenditure Account	Net cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other service Income	-116,725	-	-	-116,725	-	-116,725
Surplus or deficit on associates or joint ventures	-	-	-	-	-	-
Interest and Investment income	-	-	2,187	2,187	-2,187	-
Income from Council Tax	-	-	-	-	-245,384	-245,384
Government Grants and Contributions	-352,493	2,561	-	-349,932	-152,161	-502,093
Capital Grants and Contributions	-	-	-	-	-57,822	-57,822
<b>Total Income</b>	<b>-469,218</b>	<b>2,561</b>	<b>2,187</b>	<b>-464,470</b>	<b>-457,554</b>	<b>-922,024</b>
Employee Expenses	378,502	8,692	-	387,194	-	387,194
Other Service Expenses	486,957	-74,905	-16,241	395,811	16,241	412,052
Support Service Recharges	-	-	-	-	-	-
Depreciation, Amortisation and Impairment	-	72,981	-	72,981	-	72,981
Interest Payments	-	-	-17,469	-17,469	17,469	-
Precepts & Levies	-	-	-268	-268	268	-
Gain or Loss on Disposal of fixed Assets	-	-	-	-	52,353	52,353
Impairment of Investments	-	-	-455	-455	455	-
<b>Total Operating Expenses</b>	<b>865,459</b>	<b>6,768</b>	<b>-34,433</b>	<b>837,794</b>	<b>86,786</b>	<b>924,580</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>396,241</b>	<b>9,329</b>	<b>-32,246</b>	<b>373,324</b>	<b>-370,768</b>	<b>2,556</b>

**Service Information for the year ended 31<sup>st</sup> March 2013**

	Children & Families	Adults	Communities & Infrastructure	Strategy & Challenge/ Business Support Services	Technical & Corporate	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Service Income	-15,707	-73,816	-9,805	-8,152	-2,185	-109,665
Government Grants	-285,089	-11,653	-6,418	-29	-40	-303,229
<b>Total Income</b>	<b>-300,796</b>	<b>-85,469</b>	<b>-16,223</b>	<b>-8,181</b>	<b>-2,225</b>	<b>-412,894</b>
Employee Expenses	228,741	29,197	33,920	25,658	2,431	319,947
Other Operating Expenses	143,208	195,896	78,314	8,192	60,909	486,519
Support Service Recharges	8,530	6,697	4,258	-22,546	3,061	-
<b>Total Operating Expenses</b>	<b>380,479</b>	<b>231,790</b>	<b>116,492</b>	<b>11,304</b>	<b>66,401</b>	<b>806,466</b>
<b>Net Cost of Services</b>	<b>79,683</b>	<b>146,321</b>	<b>100,269</b>	<b>3,123</b>	<b>64,176</b>	<b>393,572</b>

**Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement**

	£'000
Cost of Services in Service Analysis	393,572
Add Technical Accounting Adjustments	3,192
Removal of amounts reported to management but not included in the Comprehensive Income and Expenditure Statement.	-35,674
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>361,090</b>

## Reconciliation to Subjective Analysis

2012/13

	Service Analysis	Technical Accounting Adjustments	Items not included in the Income & Expenditure Account	Net cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other service Income	-109,665	-	-	-109,665	-	-109,665
Surplus or deficit on associates or joint ventures	-	-	-	-	-	-
Interest and Investment income	-	-	1,999	1,999	-1,999	-
Income from Council Tax	-	-	-	-	-246,999	-246,999
Government Grants and Contributions	-303,229	-899	86	-304,042	-146,319	-450,361
Capital Grants and Contributions	-	-	-	-	-34,375	-34,375
<b>Total Income</b>	<b>-412,894</b>	<b>-899</b>	<b>2,085</b>	<b>-411,708</b>	<b>-429,692</b>	<b>-841,400</b>
Employee Expenses	319,947	-20,117	-	299,830	-	299,830
Other Service Expenses	486,519	-37,469	-19,501	429,549	19,501	449,050
Support Service Recharges	-	-	-	-	-	-
Depreciation, Amortisation and Impairment	-	61,677	-	61,677	-	61,677
Interest Payments	-	-	-17,905	-17,905	17,905	-
Precepts & Levies	-	-	-378	-378	378	-
Gain or Loss on Disposal of fixed Assets	-	-	-	-	59,337	59,337
Impairment of Investments	-	-	25	25	-25	-
<b>Total Operating Expenses</b>	<b>806,466</b>	<b>4,091</b>	<b>-37,759</b>	<b>772,798</b>	<b>97,096</b>	<b>869,894</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>393,572</b>	<b>3,192</b>	<b>-35,674</b>	<b>361,090</b>	<b>-332,596</b>	<b>28,494</b>

### **23. Acquired and Discontinued Operations**

The Council had no acquired or discontinued operations during 2012/13.

### **24. Trading Operations**

The Council had no trading operations during 2012/13.

### **25. Agency Services**

The Council supplies goods and services to other public bodies, including other councils, health bodies, charities, and voluntary organisations. The majority of this income and expenditure relates to the provision of administrative, professional and technical assistance by the Support Services.

	2011/12 £'000	2012/13 £'000
Police	376	271
Fire & Rescue	1	-
Probation	89	77
Crown Courts	224	196
Academy Schools	584	860
Further Education	50	6
Health Trusts	188	66
Other Local Authorities	81	499
Other	326	132
<b>Total</b>	<b>1,919</b>	<b>2,107</b>

## 26. Pooled Budgets

The Council is involved with three partnerships between Adult Social Care and health agencies under Section 75 of the NHS Act 2006. This allows health bodies and health-related council services to work together more effectively in the provision of services designed to meet the needs of users without concern for the boundaries of their organisations. Details of the schemes are as follows:

### **Provision of mental health services with Gloucestershire Primary Care Trust (integrated budget)**

A partnership agreement with Gloucestershire Primary Care Trust to jointly commission mental health services came into place from 1st April 2011. '2gether' NHS Foundation Trust provide these services to the partnership. Previously the Council had a partnership agreement with '2gether' NHS Foundation Trust to provide these services.

In 2012/13 the Council's share of the gross expenditure of the partnership was £6.74m (£6.74m in 2011/12), gross income was £0.39m (£0.39m in 2011/12) and the Council's contribution was £6.35m (£6.35m in 2011/12)

### **Provision of social care occupational therapy (Integrated Budget) – managed by Gloucestershire Primary Care Trust - Care Services**

In 2012/13 the gross expenditure of the partnership was £4.2m (£4.1m in 2011/12), gross income was nil (nil in 2011/12) and the Council's contribution was £1.6m (£1.5m in 2011/12)

### **Provision of a community equipment service with Gloucestershire Primary Care Trust (Pooled Budget)**

In 2012/13 the gross expenditure of the partnership was £4.2m (£4.1m in 2011/12), gross income was nil (nil in 2011/12) and the Council's contribution was £1.6m (£1.5m in 2011/12)

With effect from 1<sup>st</sup> April 2011, Lead Commissioning responsibility for the Integrated Community Equipment Service (ICES) was transferred from Gloucestershire Health to the Council. Ownership of Funds to purchase NHS elements of the ICES was transferred to the Council. Expenditure continues to be subject to the requirement that these funds are spent in a way that reflects the financial contribution of each partner to the Pooled Fund for this individual service.

## 27. Members' Allowances

The Council is required to report the total allowances paid during the year to members of the County Council. Full details of the allowances paid to each individual councillor are published on the Council's website: [www.goucestershire.gov.uk](http://www.goucestershire.gov.uk)

	Restated 2011/12 £'000	2012/13 £'000
Basic Allowances	554	554
Special Responsibility Allowances	261	252
Travel & Subsistence Allowances	26	26
<b>Total</b>	<b>841</b>	<b>832</b>

## 28. Officer's Remuneration

The Council is required to list all post holders who earn between £50,000 and £150,000 for all or part of a year and who also fit the following criteria:

- They report directly to the Chief Executive, or;
- They are part of the Council's Senior Management Team, or;
- They hold posts required by statute.

The senior employees who received remuneration in excess of £50,000 for 2011/12 and 2012/13 are as follows:

### 2011/12

	Salary, Fees and Allowances £	Compensation for loss of Office £	Other Taxable Benefits £	Employer's Pension Contributions £	Total £
Commissioning Director: Adults <sup>(1)</sup>	71,948	-	62	16,476	<b>88,486</b>
Deputy Chief Executive <sup>(2)</sup>	80,137	-	-	18,351	<b>98,488</b>
Director of Law & Administration	89,746	-	-	20,552	<b>110,298</b>
Commissioning Director: Communities & Infrastructure	89,746	-	26	20,552	<b>110,324</b>
Director: Strategy & Challenge	95,881	-	20	21,957	<b>117,858</b>
Director: Strategic Finance	96,247	-	18	22,040	<b>118,305</b>
Commissioning Director: Children & Families	99,497	-	-	22,785	<b>122,282</b>
Chief Fire Officer & Operations Director	120,146	-	-	25,591	<b>145,737</b>
Chief Operating Officer	129,090	-	22	29,562	<b>158,674</b>
Chief Executive: Mr P Bungard	161,235	-	211	36,923	<b>198,369</b>
	<b>1,033,673</b>	-	<b>359</b>	<b>234,789</b>	<b>1,268,821</b>

**(1)** The Commissioning Director: Adults was appointed in July 2011. The full year salary for 2011/12 would have been £99,497.44.

**(2)** The Deputy Chief Executive works 22.2 hours per week. The whole time equivalent salary for 2011/12 is £133,562.

2012/13

	Salary, Fees and Allowances £	Compensation for loss of Office £	Other Taxable Benefits £	Employer's Pension Contributions £	Total £
Deputy Chief Executive <sup>(1)</sup>	80,137	-	-	-	<b>80,137</b>
Director of Law & Administration <sup>(2)</sup>	92,814	-	-	22,182	<b>114,996</b>
Commissioning Director: Communities & Infrastructure	92,814	-	13	22,182	<b>115,009</b>
Director: Strategy & Challenge <sup>(2)</sup>	95,881	-	3	22,915	<b>118,799</b>
Commissioning Director: Children & Families	103,114	-	-	24,644	<b>127,758</b>
Director: Strategic Finance	103,114	-	2	24,644	<b>127,760</b>
Commissioning Director: Adults	103,114	-	82	24,644	<b>127,840</b>
Chief Fire Officer & Operations Director	120,146	-	-	25,591	<b>145,737</b>
Chief Operating Officer	133,562	-	8	31,921	<b>165,491</b>
Chief Executive: Mr P Bungard	161,235	-	80	38,535	<b>199,850</b>
	<b>1,085,931</b>	-	<b>188</b>	<b>237,258</b>	<b>1,323,377</b>

**(1)** The Deputy Chief Executive works 22.2 hours per week. The whole time equivalent salary for 2012/13 is £133,562.

**(2)** The Director: Strategy & Challenge took over as Monitoring Officer from the Director of Law & Administration during the year.

Under regulations, the Council is required to show the number of employees whose remuneration exceeded £50,000 (excluding employer's pension contributions) and this is shown in the table below.

The table reflects the total remuneration, including compensation for loss of office (redundancy), received by employees as at 31<sup>st</sup> March 2013, not just an employee's gross salary. The Council is undertaking a major restructuring of services which is resulting in a number of early retirements and redundancies. Costs associated with these staffing reductions are included within the remuneration package for 2012/13, resulting in some employees being in higher bands than 2011/12.

Remuneration band	Total Number of Employees			
	2011/12		2012/13	
	Schools	Non-Schools	Schools	Non-Schools
£50,000 - £54,999	72	42	48	43
£55,000 - £59,999	53	29	47	23
£60,000 - £64,999	23	19	16	13
£65,000 - £69,999	4	9	4	6
£70,000 - £74,999	2	9	3	6
£75,000 - £79,999	6	1	5	-
£80,000 - £84,999	7	2	3	2
£85,000 - £89,999	-	4	1	1
£90,000 - £94,999	1	2	-	2
£95,000 - £99,999	-	5	-	4
£100,000 - £104,999	1	2	-	3
£105,000 - £109,999	-	1	-	-
£110,000 - £114,999	-	-	-	-
£115,000 - £119,999	-	-	-	-
£120,000 - £124,999	-	1	-	2
£125,000 - £129,999	-	1	-	-
£130,000 - £134,999	-	-	-	1
£135,000 - £139,999	-	-	-	-
£140,000 - £144,999	-	-	-	-
£145,000 - £149,999	-	-	-	-
£150,000 - £154,999	-	-	-	-
£155,000 - £159,999	-	-	-	-
£160,000 - £164,999	-	1	-	1
<b>Total</b>	<b>169</b>	<b>128</b>	<b>127</b>	<b>107</b>

The numbers within the bandings include the total remuneration (excluding employer's pension contributions) of the senior officers disclosed individually in the previous tables.

Salaries for teachers in Academy and Foundation schools have not been included.

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

**2011/12**

Exit package cost band (including special payments)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages	Total cost of exit packages in each cost band	£
£0 - £20,000	212	195	407	2,610,954	
£20,001 - £40,000	28	57	85	2,403,872	
£40,001 - £60,000	9	25	34	1,614,229	
£60,001 - £80,000	-	8	8	554,507	
£80,001 - £100,000	-	2	2	178,207	
£100,001 - £150,000	-	2	2	247,140	
Accruals/Provision	-	-	77	2,441,097	
<b>Total</b>	<b>249</b>	<b>289</b>	<b>615</b>	<b>10,050,006</b>	

**2012/13**

Exit package cost band (including special payments)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages	Total cost of exit packages in each cost band	£
£0 - £20,000	68	101	169	725,215	
£20,001 - £40,000	8	14	22	672,902	
£40,001 - £60,000	8	6	14	672,463	
£60,001 - £80,000	-	1	1	77,132	
£80,001 - £100,000	1	1	2	168,799	
£100,001 - £150,000	-	1	1	141,763	
Accruals/Provision	-	-	94	2,139,722	
<b>Total</b>	<b>85</b>	<b>124</b>	<b>303</b>	<b>4,597,996</b>	

The total cost of £4,597,996 in the table above includes £2,458,274 for exit packages that have been agreed, accrued for and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. In addition the Comprehensive Income and Expenditure Statement includes a provision for £1,979,634 which has been agreed and is payable to 86 officers

These costs are not included in the bands and therefore an additional line has been added to reconcile to the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement.

## 29. External Audit Costs

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

	2011/12 £'000	2012/13 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	200	119
Fees payable for the certification of grant claims and returns for the year	16	3
Fees payable in respect of other services provided during the year	10	3
<b>Total</b>	<b>226</b>	<b>125</b>

## 30. Deployment of Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education via the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012/13 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2012/13	-	-	<b>378,497</b>
Brought forward from 2011/12	-	-	<b>5,802</b>
Agreed initial budgeted distribution in 2012/13	57,066	327,233	<b>384,299</b>
In year adjustments *	-2,556	-133,842	<b>-136,398</b>
Final budget distribution for 2012/13	<b>54,510</b>	<b>193,391</b>	<b>247,901</b>
Actual central expenditure	-48,391	-	<b>-48,391</b>
Actual ISB deployed to schools	-	-193,391	<b>-193,391</b>
<b>Carry forward to 2013/14</b>	<b>6,119</b>	-	<b>6,119</b>

\* In year adjustments represent DSG recoupment in respect of all academy conversions

### 31. Grant Income

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

#### Credited to Taxation and Non Specific Grant Income

	2011/12 £'000	2012/13 £'000
Revenue Support Grant	-32,546	-2,495
National Non Domestic Rates Grant	-105,290	-128,670
Non Service Related Grants	-14,325	-15,154
<b>Total</b>	<b>-152,161</b>	<b>-146,319</b>

#### Revenue Grants Credited to Services

	2011/12 £'000	2012/13 £'000
Department for Work & Pensions - Workstep Grant	-4	-
Department for Children's Schools & Families Grants	-29,774	-28,900
Department for Children's Schools & Families - Dedicated Schools Grant	-286,633	-242,258
Department of Health Grants	-14,117	-11,653
Community & Local Government Grants	-1,066	-1,668
South West Regional Development Agency Grants	7	-
Youth Justice Board Grant	-776	-765
Young Peoples Learning Agency Grants	-14,944	-7,876
Other Grants	-2,502	-10,893
Skills Funding Agency	-115	-27
<b>Total</b>	<b>-349,924</b>	<b>-304,040</b>

	2011/12 £'000	2012/13 £'000
Capital Grants and Contributions credited to Comprehensive Income & Expenditure Account	-57,822	<b>-34,375</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 may require the monies or property to be returned to the giver. The balances at the year-end are as follows:

#### Capital Grants Receipts in Advance

	2011/12 £'000	2012/13 £'000
Department for Transport Grants	-565	-2,723
Department for Children's Schools and Families Specific	-39,564	-49,234
Department for Communities and Local Government	-8,129	-8,002
Other Capital Grants	-262	-939
Non Government Contributions for Capital purposes	-10,984	-5,526
Highways Section 106 Contributions	-11,629	-12,729
<b>Total</b>	<b>-71,133</b>	<b>-79,153</b>

## 32. Related Parties

The Council is required to disclose material transactions with related parties, that is 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 effective control 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. Grants received from Government departments are set out in the subjective analysis in Note 22 on reporting for resources allocation decisions. Grant receipts outstanding at 31st March 2013 are shown in Note 31.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in Note 27. Details of all member interests are recorded in the Register of Members' Interest, open to public inspection at Shire Hall during office hours or on the Council website.

### Other Public Bodies (subject to common control by Central Government)

The Gloucestershire Local Government Pension Scheme is a related party of Gloucestershire County Council due to the Council being the administering body of the scheme and by virtue of the Pension Committee including 6 Council Members out of the 12 Committee members. The Committee also includes Council staff who may be subject to influence from Council Members. From the 2012/13 financial year the Pension Fund's "in-house" surplus cash balances have been held in the Pensions Fund's own bank account and an instant access call account. The Council administers the Pension Fund's named accounts within its Treasury Management department. A total average balance of £5.2m (£5.8m in 2011/12) was held in the Pension Fund accounts for 2012/13 gaining interest of £0.073m. (£0.056m in 2011/12). The Council charged £1.31m (£1.16m in 2011/12) for administering the Pension Fund. At 31st March 2013, the Council owed the Pension Fund £67.8k (£563.9k in 2011/12) and was owed £0 (£191.5k in 2011/12) by the Pension Fund.

In 2012/13 the Council provided funding for 63 Police Officers via Gloucestershire Police Authority / Police Commissioner at a cost of £2.15m (£2.15m in 2011/12), which is contained within Environmental and Regulatory Services. During the year, in addition to the services provided to Police Officer funding, the Council also purchased goods and services totalling £0.55m from Gloucestershire Police Authority / Commissioner (2011/12 £1.23m). The balance owed to Gloucestershire Police Authority / Police Commissioner as at 31st March 2013 was £18,524 (2012 £27,899). The Council also supplies support services to the Police Authority for which it charged £590,706 in 2012/13 (£469,072 in 2011/12). At 31st March 2013, Gloucestershire Police Authority owed the Council £94,877 (2012 £83,797).

GFirst Ltd (Gloucestershire Development Company until 2nd November 2012) was a related party during the year by virtue of Councillor Charles Fellows being both a Director and Member of the company limited by guarantee. Councillor Charles Fellow resigned as a Director and Member of GFirst Limited on 16th July 2012. During the year, GFirst Ltd invoiced the Council for services totalling £553k, (2011/12 £1.572m) of which, £98k (2011/12 £0.411m) was outstanding at the 31st March 2013.

There is a contractual arrangement between the Council and Gloucestershire Care Partnership Limited (GCP) for the provision of places in care homes for older people, which involves sub-contracting its obligations to Order of St John Care Trust (OSJ) and Bedford Pilgrims Housing Association (BPHA).

The Council is entitled to appoint one independent trustee to the Board of GCP and under the Articles of Association the Council must always have less than 20% of the voting rights. At present the Council is a related party by virtue of Councillor Anthony Hicks being a Director of GCP during the year.

Current provision under the arrangement is managed under a commercial contract. Future development of care facilities is managed by an Estates Committee, comprising an equal number of representatives from each party.

In 2012/13 payments of £17.4m (£16.1m in 2011/12) were made to the Order of St John Care Trust in relation to this contract. Nothing was outstanding at the year end (2011/12 £0).

### 33. 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 PFI/PPP 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.

	2011/12 £'000	2012/13 £'000
<b>Opening Capital Financing Requirement</b>	437,485	416,026
Property, Plant and Equipment	47,552	37,954
Revenue Expenditure Funded from Capital under Statute	38,433	18,269
	<u>85,985</u>	<b>56,223</b>
PFI Assets on Balance Sheet	8,905	13,400
<b>Total to Finance</b>	<b>94,890</b>	<b>69,623</b>
<b>Sources of finance</b>		
Capital Receipts	-9,115	-53
Government Grants and other Contributions	-56,932	-33,114
Direct Revenue Contributions	-8,385	-23,056
	<u>-74,432</u>	<b>-56,223</b>
MRP	-17,485	-17,155
Capital Receipts supplied against debt	-9,115	-11,000
VRP	-15,317	-4,663
<b>Total revenue provision</b>	<b>-41,917</b>	<b>-32,818</b>
<b>Closing Capital Financing Requirement</b>	<b>416,026</b>	<b>396,608</b>
<b>Explanation of movements in year</b>		
Increase/decrease (-) in underlying need to borrowing	-30,364	-32,818
Assets acquired under PFI/PPP contracts	8,905	13,400
<b>Increase/Decrease (-) in Capital Financing Requirement</b>	<b>-21,459</b>	<b>-19,418</b>

**Capital Expenditure 2012/13**

	£'000	%
<b>Enabling &amp; Transition</b>		
Capitalised Revenue	1,250	
Business Management - general	2,460	
Rural Services	247	
	<b>3,957</b>	<b>7</b>
<b>Adults</b>	<b>793</b>	
	<b>793</b>	<b>1</b>
<b>Children &amp; Families</b>		
Schools	23,922	
Other Capital Maintenance	583	
Youth & Community	186	
	<b>24,691</b>	<b>44</b>
<b>Communities &amp; Infrastructure</b>		
Community Safety Misc.	-	
Coroners & Registration	105	
Fire & Rescue	1,753	
Trading Standards	-	
Archives	-	
Libraries	292	
Economic Development	-	
Waste Disposal	3	
Transportation	24,629	
	<b>26,782</b>	<b>48</b>
	<b>56,223</b>	<b>100</b>

## 34. Leases

The Council accounts for leases in accordance with its Statement of Accounting Policies

### Council as Lessee

#### Finance Leases

Other than those schemes undertaken through the Private Finance Initiative as reported in Note 35, there were no further finance leases identified by the Council during 2012/13

#### Operating Leases

The Council has entered into operating leases to acquire the use of both property and vehicles. The future commitments due under non-cancellable leases in future years are:

	Expiry date of lease		
	Within 1 year	After 1 year but less than 5 years	After more than 5 years
	£'000	£'000	£'000
<b>2011/12</b>			
Property	679	1,953	1,728
Vehicles:			
Fire Service	378	250	-
Other Services	260	505	8
Officer contract car-hire	184	254	-
	<b>1,501</b>	<b>2,962</b>	<b>1,736</b>
<b>2012/13</b>			
Property	631	1,854	1,740
Vehicles:			
Fire Service	206	44	-
Other Services	301	443	5
Officer contract car-hire	89	88	-
	<b>1,227</b>	<b>2,429</b>	<b>1,745</b>

The expenditure charged to Services in the Comprehensive Income and Expenditure Statement during the year in relation to the minimum payments for these leases was:

	2011/12 £'000	2012/13 £'000
Property	783	734
Vehicles:		
Fire Service	415	400
Other Services	337	351
Officer Contract car-hire	198	126
	<b>1,733</b>	<b>1,611</b>

## Council as Lessor

### Finance Leases (IAS 17)

The Council has looked at all leases (including those that terminated at 31st March 2013) where it is the lessor (landlord), to establish the correct classification under IFRS.

There were no finance leases identified to be included on the balance sheet.

### Operating Leases

The Council leases out property under operating leases for purposes that include the provision of community services, care homes for older people and county farms for new starters in agriculture.

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

	Expiry date of lease		
	Within 1 year	After 1 year but less than 5 years	After more than 5 years
	£'000	£'000	£'000
<b>2011/12</b>			
Property	2,270	6,222	6,647
	2,270	6,222	6,647
<b>2012/13</b>			
Property	2,387	8,940	14,144
	2,387	8,940	14,144

The income relating to the minimum lease payments credited to Services in the Comprehensive Income and Expenditure Statement during the year was:

	2011/12 £'000	2012/13 £'000
Property	2,326	2,471
	2,326	2,471

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## 35. Private Finance Initiatives and Similar Contracts

### Fire Service Joint Training Centre PFI Scheme

2012/13 was the tenth year of a twenty-five year PFI contract for the design, build, financing and operation of a Joint Training facility in Avonmouth. The scheme is a joint PFI venture with Avon Fire Authority and Devon & Somerset Fire Authority whereby a significant proportion of the training required by the three services is provided at this facility.

### Property, Plant and Equipment

The Council's share of the assets used to provide services at the Joint Training Centre are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 5.

### Payments

The Council makes an agreed payment each year which is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed.

Payments remaining to be made under the PFI contract at 31<sup>st</sup> March 2013 (excluding any estimation of inflation and availability/performance deductions) are as follows:

		Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
2011/12		£'000	£'000	£'000	£'000
623	Paid in 2012/13	383	112	143	638
<b>Outstanding undischarged contract obligations:</b>					
638	Payable within one year	392	123	138	653
2,715	Payable within two to five years	1,669	593	520	2,782
3,789	Payable within six to ten years	2,330	1,062	491	3,883
4,282	Payable within eleven to fifteen years	2,632	1,534	221	4,387
921	Payable within sixteen to twenty years*	-	-	-	-
<b>12,345</b>	<b>Total</b>	<b>7,023</b>	<b>3,312</b>	<b>1,370</b>	<b>11,705</b>

\* There are fifteen years remaining.

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2011/12 £'000	2012/13 £'000
Balance outstanding at start of year	1,662	1,612
Payments during the year	-50	-54
<b>Balance outstanding at year-end</b>	<b>1,612</b>	<b>1,558</b>

The asset value held as at the 31<sup>st</sup> March each year were:

	2011/12 £'000	2012/13 £'000
Opening Net Book Value	1,771	1,674
Depreciation	-104	-105
Additions	7	7
	<b>1,674</b>	<b>1,576</b>

### Fire Service Stations PFI Scheme

The building of four new Community Fire Stations, as well as a Life Skills Centre (SkillZONE) in Gloucestershire took place during 2011/12 and 2012/13. The PFI scheme runs for twenty-five and a quarter years to June 2037 and the fire stations become the property of the Fire & Rescue Service at the end of the contract agreement. Each station includes community facilities that can be hired by local groups and organisations. The SkillZONE centre in Gloucester will be an educational facility aimed at teaching key safety messages to different parts of the community.

### Property, Plant and Equipment

The Council's assets used to provide services at the Fire Stations and Life Skills Centre are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 5.

### Payments

The Council makes an agreed payment each year which is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed.

Payments remaining to be made under the PFI contract at 31<sup>st</sup> March 2013 (including an estimation of inflation and excluding estimations of availability/performance deductions) are as follows:

2011/12	£'000	Payment	Reimbursement	Interest	Total
		for Services	of Capital Expenditure	£'000	£'000
32	Paid in 2012/13	877	1,466	788.22	3,131
<b>Outstanding undischarged contract obligations:</b>					
3,131	Payable within one year	899	464	1,847	3,210
13,328	Payable within two to five years	3,825	2,834	7,001	13,660
18,622	Payable within six to ten years	5,344	6,051	7,692	19,087
21,069	Payable within eleven to fifteen years	6,047	9,307	6,241	21,595
23,836	Payable within sixteen to twenty years	6,841	13,050	4,542	24,433
26,969	Payable within twenty-one to twenty-five years	6,521	14,997	1,772	23,290
1,451	Payable within twenty-six to thirty years*	-	-	-	-
<b>108,406</b>	<b>Total</b>	<b>29,477</b>	<b>46,703</b>	<b>29,095</b>	<b>105,275</b>

\* There are twenty-four and a quarter years remaining.

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2011/12 £'000	2012/13 £'000
Balance outstanding at start of year	-	8,882
Payments during the year	-23	-1,466
Capital expenditure incurred in the year	8,905	13,400
<b>Balance outstanding at year-end</b>	<b>8,882</b>	<b>20,816</b>

The asset value held as at the 31<sup>st</sup> March each year were:

	2011/12 £'000	2012/13 £'000
Opening Net Book Value	-	8,905
Depreciation	-	-883
Additions	8,905	13,400
Revaluation	-	930
	<b>8,905</b>	<b>22,352</b>

#### **Arrangements that contain a lease**

The Council have examined arrangements that could contain a lease. This is where "a transaction does not take the legal form of a lease but conveys the right to use an asset in return for payment". None were identified.

#### **Service Concessions**

A service concession arrangement involves the grantor conveying to the operator for the period of the concession the right to provide services that give the public access to major economic and social facilities. They are arrangements whereby a public body grants contracts for the supply of public services, such as roads, to private operators. In practice, service concessions typically last for twenty five to thirty years or more and have complicated fact patterns.

There were no service concession identified by the Council during 2012/13.

## 36. Impairment Losses

### Capital Impairment Loss

Adjustment for impairment has not been considered necessary in respect of decline in value due to obsolescence or physical damage, nor due to a commitment by the council to undertake a significant reorganisation nor due to a significant adverse change in the statutory or other regulatory environment in which the Council operates.

No impairment adjustment has been made to reflect a significant decline in market values in Gloucestershire in 2012/13, as this is not believed to be the case. Over the last 5 years the Council has reassessed a significant proportion of its interests since the market peak of 2007. Without evidence to the contrary it is not considered appropriate to adjust for impairment due to "a significant decline in the market value of (property) assets".

### Icelandic Bank Impairment Loss

Early in October 2008, the Icelandic banks Glitnir and Landsbanki collapsed along with the UK subsidiary Heritable. The Council had £12.5m deposited with these institutions, with varying interest and maturity rates as follows:

Institution	Principal £'000	Interest Rate	Date Invested	Carrying Amount at 31st March 2013	Impairment at 31st March 2013	Balance Sheet 31st March 2013
				£'000	£'000	£'000
Heritable	2,000	6.15%	19.10.07	726	507	219
Glitnir	2,900	6.19%	07.11.07	618	-	618
Glitnir	3,000	5.75%	02.01.08	635	-	635
Glitnir	3,000	5.50%	31.01.08	635	-	635
Landsbanki	1,600	5.67%	03.01.08	1,177	456	721
	<b>12,500</b>			<b>3,791</b>	<b>963</b>	<b>2,828</b>

The carrying amount of the investments above have been calculated by applying LAAP 82 (Update 7), using the net present value of the expected repayments, discounted using the investments original interest rate. The total value recorded in the balance sheet is £2.828m.

The court case is now concluded and for both Landsbanki and Glitnir the Council has been awarded priority status. An impairment reserve was created during 2009/10 with a balance of £7.3m. This has now been reduced to £3.0m following further recovery of sums in Heritable and Landsbanki.

### Heritable Bank

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7<sup>th</sup> October 2008. To date payments of 77.2% of the claim have been recovered totalling £1.6m. Total recovery is estimated at 88%. The revised repayment schedule is as follows:

July 2013	2.00%
January 2014	8.80%

Recoveries are expressed as a percentage of the Council's claim in the administration which includes interest accrued up to 6<sup>th</sup> October 2008.

### **Landsbanki**

Landsbanki Islands hf is an Icelandic entity. Following the successful conclusion of the court case recovery is expected to be 100%.

To date 50% has been recovered, totalling £0.793m. Future payments are expected as follows.

December 2013	7.50%
December 2014	7.50%
December 2015	7.50%
December 2016	7.50%
December 2017	7.50%
December 2018	7.50%
December 2019	5.35%

### **Glitnir Bank**

Glitnir Bank hf is an Icelandic entity. Following successful conclusion of the court case recovery is 100%, which was paid in full during 2011/12. The amount recovered totalled £7.4m, with the rest paid in Icelandic Krona.

The element of the claim that was made in Icelandic Krona is held in an escrow account earning interest over the year. It is estimated that the deposit totals £1.9m as at 31<sup>st</sup> March 2013, however due to currency restrictions the Council are not able to access this deposit at the current time.

## **37. Termination Benefits**

The Council terminated the contracts of a number of employees in 2012/13, incurring liabilities of £4.6m (£7.9m in 2011/12). Note 28 provides details of the number of exit packages and total cost per band.

## **38. Pensions Schemes Accounted for as Defined Contribution Schemes**

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/13, the Council paid £13.8m to the Teachers' Pensions Agency (TPA) in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £17.8m and 14.1%. The reduction results mainly from schools which have converted to Academies and therefore have left Local Authority control. There were no contributions remaining payable at year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 39.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability.

These additional benefits, including unfunded compensation, are paid directly by the Council for retirements up to 1999 (£3.6m) and via the TPA for retirements post 1999 (£1.2m). Together these additional benefits costs totalled £4.8m in 2012/13 representing 4.9% of pensionable pay.

## 39. Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

The Council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Gloucestershire County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

### Transactions Relating to Post employment Benefits

The Council 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 the Council is 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:

	Local Government Pension Scheme		Unfunded - Firefighters' Pension Scheme	
	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of Services:				
Current service cost	21,042	<b>20,027</b>	3,800	<b>4,000</b>
Past service costs / gains (-)	629	<b>58</b>	1,600	-
Losses / Gains (-) on settlements and curtailments	-18,194	<b>-4,776</b>	-	-
Financing and Investment Income and Expenditure				
Interest cost	49,829	<b>47,093</b>	7,300	<b>7,000</b>
Expected return on scheme assets	-40,888	<b>-34,592</b>	-	-
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>12,418</b>	<b>27,810</b>	<b>12,700</b>	<b>11,000</b>
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure				
Actuarial gains and losses (Recognised)	-	-	-	-
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>12,418</b>	<b>27,810</b>	<b>12,700</b>	<b>11,000</b>

	Local Government Pension Scheme		Unfunded - Firefighters' Pension Scheme	
	2011/12	2012/13	2011/12	2012/13
	£'000	£'000	£'000	£'000
<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	22,682	5,837	-9,200	-7,400
	22,682	5,837	-9,200	-7,400

**Actual amount charged against the General Fund Balance for pensions in the year:**

Employers' contributions payable to scheme	30,452	29,061	3,500	3,600
Employers' contributions payable to scheme for unfunded LGPS benefits (Discretionary)	4,648	4,586	-	-
<b>Total employers contributions</b>	<b>35,100</b>	<b>33,647</b>	<b>3,500</b>	<b>3,600</b>

Retirement benefits payable to pensioners 4,300 4,600

In addition to the recognised gains and losses included in the above, actuarial gains and losses of -£74.0m (see \* below in "Asset and Liabilities in Relation to Post-employment benefits") (2011/12 -£72.7m) were included in the Comprehensive Income and Expenditure Statement. The cumulative amount of actuarial gains and losses recognised by the actuary for the Local Government Scheme only is -£352.9m, which is based on the full available history of Actuarial gains and Losses for the Council.

Within the actuarial loss of -£74.0m mentioned above is a loss of -£112.6m resulting from changes in actuarial financial assumptions. There was neither a gain or loss (£0m) as a result of changes to demographic assumptions, which includes mortality.

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

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

	Funded liabilities:		Unfunded liabilities:	
	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
Opening balance at 1 <sup>st</sup> April	-930,815	-990,052	-131,200	-144,900
Current service cost	-21,042	-20,027	-3,800	-4,000
Interest cost	-49,829	-47,093	-7,300	-7,000
Contributions by scheme participants	-7,967	-7,156	-900	-1,000
Actuarial gains and losses	-46,353	-113,159 *	-4,500	-16,600 *
Benefits paid	34,023	34,295	4,300	4,600
Benefits paid for unfunded LGPS benefits (Discretionary)	4,648	4,586	-	-
Past service costs	-629	-58	-1,600	-
Entity combinations	-	-	-	-
Curtailments	-3,255	-389	-	-
Settlements	31,166	6,925	100	-
<b>Closing balance at 31<sup>st</sup> March</b>	<b>-990,052</b>	<b>-1,132,128</b>	<b>-144,900</b>	<b>-168,900</b>

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

	<b>Local Government Pension Scheme</b>	
	2011/12 £'000	2012/13 £'000
Opening balance at 1 <sup>st</sup> April	615,201	628,919
Expected rate of return	40,888	34,592
Actuarial gains and losses	-21,849	55,746 *
Employer contributions	30,452	29,061
Employer contributions for unfunded LGPS benefits (Discretionary)	4,648	4,586
Contributions by scheme participants	7,967	7,156
Benefits paid	-34,023	-34,295
Benefits paid for unfunded LGPS benefits (Discretionary)	-4,648	-4,586
Entity combinations	-	-
Settlements	-9,717	-1,760
<b>Closing balance at 31<sup>st</sup> March</b>	<b>628,919</b>	<b>719,419</b>

The expected return on assets assumption as at 31st March 2013 has been set equal to the discount rate (as per the revised version of IAS19)

The actual return on scheme assets in the year was £90.5m (2011/12: £19.2m).

**Scheme History**

	2008/09	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
<b>Present value of liabilities:</b>					
Local Government Pension Scheme	-662,196	-1,091,393	-869,892	-926,123	-1,065,675
* Discretionary added years (Teachers)	-60,850	-75,721	-60,923	-63,929	-66,453
Firefighters Pension Schemes (unfunded) - Revised	-105,400	-152,600	-131,200	-144,900	-168,900
<b>Total Liabilities</b>	<b>-828,446</b>	<b>-1,319,714</b>	<b>-1,062,015</b>	<b>-1,134,952</b>	<b>-1,301,028</b>

<b>Fair value of assets in the Local Government Pension</b>	383,934	556,260	615,201	628,919	<b>719,419</b>
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**Surplus/(deficit) in the scheme:**

Local Government Pension Scheme	-278,262	-535,133	-254,691	-297,204	-346,256
* Discretionary added years (teachers)	-60,850	-75,721	-60,923	-63,929	-66,453
Firefighters Pension Schemes (unfunded) - Revised	-105,400	-152,600	-131,200	-144,900	-168,900
<b>Total</b>	<b>-444,512</b>	<b>-763,454 #</b>	<b>-446,814 #</b>	<b>-506,033</b>	<b>-581,609</b>

\* Discretionary added years (unfunded teachers) are actuarially valued from 2007/08 and have been restated accordingly.

# The main reasons for the change in the deficit of £316 million between these two years 2009/10 and 2010/11 consists of the following items shown for 2010/11 within the above **Assets and Liabilities in Relation to Post-employment Benefits** table. Within Liabilities, the "Actuarial gains and losses" (change in long term inflation expectations) and "Past service costs" (change from RPI to CPI to calculate pension increases). Within Assets, the "Actuarial gains and losses" (asset returns greater than anticipated by the actuary).

Previously the figure had been reported as £310m but has been amended due to the issue of revised fire reports in 2010/11.

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £581.6m 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:

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

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31<sup>st</sup> March 2014 is £27.0m. Expected contributions for the Firefighters' Pension Schemes in the year to 31<sup>st</sup> March 2014 are £1.6m.

### 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 Firefighters' Pension Schemes 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 1<sup>st</sup> April 2010. The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	2011/12	2012/13	Unfunded liabilities: Firefighters' Pension	2011/12	2012/13
Long-term expected rate of return on assets in the scheme:						
Equity investments	6.2%	4.5%		-	-	-
Bonds	3.9%	4.5%		-	-	-
Property	4.4%	4.5%		-	-	-
Cash	3.5%	4.5%		-	-	-
Mortality assumptions:						
Longevity (yrs) at 65 (60 for Fire) for current pensioners:						
Men	21.7	21.7		27.9	28.1	
Women	23.6	23.6		30.8	31.0	
Longevity (yrs) at 65 for future pensioners: (Figures assume members aged 45 as at 31st March 2012)						
Men	23.5	23.5		29.5	29.7	
Women	25.8	25.8		32.3	32.5	
Rate of increase in salaries						
Rate of increase in pensions (changed to CPI from 2010/11)	4.3% *	4.6% *		3.5%	3.8%	
Rate for discounting scheme liabilities	2.5%	2.8%		2.5% **	2.8% **	
Take-up of option to convert annual pension into retirement lump sum	4.8%	4.5%		4.8%	4.5%	
	50% +	50% +		90%	90%	
	75% #	75% #				

<sup>+</sup> Pre Apr 2008 Service

<sup>#</sup> Post Apr 2008 Service

\* Salary increases are expected to be 1% p.a. until 31<sup>st</sup> March 2015 reverting to the long term assumption shown thereafter.

\*\* Pension increases are assumed to be 0.8% p.a. less than market derived RPI.

The Firefighters Pension Schemes 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:

	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2013
Equity investments	71%	75%
Bonds	21%	17%
Property	6%	6%
Cash	2%	2%
	100%	100%

### History of Experience Gains and Losses

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

	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
<b>Local Government Pension Scheme</b>					
Differences between the expected and actual return on assets	-36.7	24.0	1.7	-3.5	7.7
Experience gains and losses on liabilities	0.4	0.2	6.1	-1.6	-0.1
<b>Firefighters Pension Scheme (FPS) - Revised</b>					
Differences between the expected and actual return on assets	-	-	-	-	-
Experience gains and losses on liabilities	-1.5	-2.2	-3.8	-0.8	-0.1
<b>Firefighters Pension Scheme (New FPS) - Revised</b>					
Differences between the expected and actual return on assets	-	-	-	-	-
Experience gains and losses on liabilities	26.6	-35.5	-12.9	-14.3	-2.0

## **40. Contingent Liabilities**

Contingent liabilities are disclosed by way of a note when there is a possible obligation which may require a payment or a transfer of economic benefits.

Work by the Council has identified a contingent liability in respect of Pyke Quarry and Oak Quarry, restored landfill sites, and Fosse Cross, a closed landfill site. At the Pyke and Oak Quarry sites there are Household Recycling Centres. Should the Council vacate the sites they would have to be restored. At Fosse Cross the Council has a budget for maintenance of the site, and if this site were to be vacated restoration costs would be incurred. The work for restoration of the three sites is estimated to be £0.5m.

### **Waste PPP**

The Council's waste scheme was finalised during 2012/13, however the facility was refused planning in February 2013 and the future of the scheme is currently subject to the outcome of a planning inquiry, following the appeal by UBB (Gloucestershire) Ltd.

If the contract were to be terminated for failure to obtain planning consent compensation would be calculated on a force majeure basis (no fault termination) which would require the Council to pay a termination sum in accordance with the provisions of the contract. These costs have been estimated at between £11m - 20m.

## **41. Contingent Assets**

Contingent assets are disclosed by way of note where inflow of a receipt or economic benefit is probable. There are no contingent assets in 2012/13.

## **42. 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 Treasury Management Strategy Statement and Investment 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**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

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

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instruments risk in accordance with CIPFA's Prudential Code.

The Council's day to day cash flow results in surplus funds being available for investment. These are made in accordance with the Council's Treasury Management Strategy which has been developed in accordance with the Prudential Code for Capital Finance. The principle aims are security, liquidity and yield.

Deposits are made with the Government Debt Management Office, other local authorities, banks and other financial institutions (building societies). The banks and financial institutions must satisfy a minimum credit rating and the Council sets limits on the amounts that can be invested in both an individual institution and also with a type of institution in total.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies 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. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31<sup>st</sup> March 2013 that this was likely to crystallise.

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

	Amount at 31 <sup>st</sup> March 2013	Historical experience of default	Historical experience adjusted for market conditions at 31 <sup>st</sup> March 2013	Estimated maximum exposure to default and uncollectability	Estimated maximum exposure at 31 <sup>st</sup> March 2013	
					£'000	£'000
Deposits with Banks & Financial Institutions	198,740	-	1	963	963	
Customers	7,571	3.6	4	726	726	
	<b>206,311</b>			<b>1,689</b>		<b>1,689</b>

No credit limits were exceeded during the reporting period and (except for the investments held in Icelandic Banks) the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council's debtors, including any payments in advance made by the Council totalled £38.906m as at 31<sup>st</sup> March 2013, represent a customer base with the potential for risk exposure to non-recovery of the debt. However a large proportion of the total debt relates to Government bodies and other debts which are not considered to be a risk. Therefore, in practice, the calculation of the risk exposure (bad debt provision) is confined to debtor invoices raised that are then subjected to recovery procedures. At 31<sup>st</sup> March 2012 these debts totalled £0.726m.

Generally the recovery process commences when an invoice is 28 days overdue. The following provides an aged-debt analysis of our outstanding debtor invoices.

	2011/12 £'000	2012/13 £'000
Less than a month	15,985 *	3,450
One to three months	1,558	1,451
Three to six months	395	485
More than six months	1,651	1,785
	<b>19,589</b>	<b>7,171</b>

\* this figure includes £11.6m relating to a PCT debt at year end

### **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 current maturity is as follows:

	2011/12 £'000	2012/13 £'000
Less than one year	46,329	49,604
Between one and two years	9,863	4,863
Between two and five years	14,590	18,062
Between five and ten years	62,171	60,735
Between ten and twenty years	51,400	44,500
Between twenty and thirty years	38,968	38,968
Between thirty and forty years	85,260	85,260
Between forty and fifty years	30,000	30,000
Finance Lease Liability	8,973	22,373
	<b>347,554</b>	<b>354,365</b>

All trade and other payables 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.

The Council's strategy for managing interest rate risk is based on the prevailing interest rates and market forecasts. It works within any limits imposed by its own Investment Strategy and takes advice from external advisors to achieve a high rate for investments and borrow when rates are low.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and is used to monitor the budget during the year. In addition to considering the risk associated with the financial markets it also monitors the effects of interest adjustments with other external bodies such as the Pension Fund or Health Authority.

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

	£'000
Increase in interest payable on variable rate borrowings	150
Increase in interest receivable on variable rate investments	-690
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>-540</b>

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

There would be no further effect as the remainder of the Council's borrowing and investments are held in fixed rate products.

**Price Risk**

The Council has no equity investments and thus has no direct exposure to loss arising from movements in the price of shares.

**Foreign Exchange Risk**

The Council's exposure to foreign exchange rates includes the operation of a Euro account to facilitate foreign transactions and deposits with Icelandic banks currently held in Icelandic Krona. The sterling value of the Euro account will fluctuate in line with movements in exchange rates. The balance of the account is maintained at around £35,000 so the exposure to loss is not significant. An amount of approximately £1.9m is held in Icelandic Krona which represents the balance of deposits made with Glitnir, and an allocation in Krona for Landsbanki. Due to currency restrictions in Iceland, these amounts cannot currently be converted into Sterling. They will remain in Escrow accounts in Iceland earning interest at a variable rate of between 3.4% and 4.2%. Once currency restrictions are lifted they will be converted to Sterling at Spot rates.

**43. Publicity**

Section 5 of the Local Government Act 1986 requires all Local Authorities to maintain a specific memorandum account in which all expenditure and promotional advertising mentioning either specific parts or the whole of Gloucestershire or any such similar expenditure is charged. An analysis of this expenditure is provided below.

	2011/12 £'000	2012/13 £'000
Staff recruitment advertising	298	270
Public relations, communications and tourism officers	485	399
Publications, marketing and promotion	469	670
<b>Total</b>	<b>1,252</b>	<b>1,339</b>

#### 44. Trust Funds

At 31<sup>st</sup> March 2013 the Council administered 4 trust funds on behalf of the trustees. These funds do not represent assets of the Council and they have not been included in the Balance Sheet.

	Balance at 31 <sup>st</sup> March 2012	Income	Expenditure	Balance at 31 <sup>st</sup> March 2013
	£	£	£	£
<b>Libraries</b>				
2 trusts providing books for libraries	2,773	161	160	2,774
<b>Gloucestershire Heritage Trust Ltd</b>				
Preserves and renovates specific buildings and areas which are of historic interest	6,811	80	-	6,891
<b>Gloucestershire War Relief</b>				
The awarding of grants relating to service in the Great War	411	-	-	411
<b>Total</b>	9,995	241	160	10,076

#### 45. Landfill Allowance Trading Scheme (LATS)

The estimated usage of permits during 2012/13 is 89,540. 71,555 permits allocated by Defra and used during the year have been valued at the rate advised by Defra of £6.31, totalling £451,512. A provision has been created for the estimated 17,985 permits shortfall that will need to be purchased. 2012/13 is the final year of the scheme however, the shortfall in permits to cover the landfill during 2012/13 will be purchased during the Reconciliation Period, which runs from April to September 2013.

#### 46. Insurance

The Council arranges external insurance subject to the following excess levels: public and employer's liability £370,500. Fire/storm/water perils damage to all Council Properties £100,000 excess and damage to vehicle £20,000 excess. This effectively means that all but the very largest claims are self-insured.

The Insurance Fund is made up of annual premiums charged to services. The fund consists of a provision representing the estimated cost of outstanding claims, with the remaining balance being held as a reserve to meet the cost of potential future claims.

#### 47. Deferred Liabilities

The amount of £2.648m represents the shares of the PFI Joint Fire Training Centre project equalisation fund attributable to Avon Fire Authority and Devon & Somerset Fire Authority.

## 48. Council Tax Collection Fund Adjustment Account

Within Gloucestershire precept collection for the Council is managed by the District Councils. Prior to 2009/10 precept income shown within the Council's accounts was purely on a cash basis, i.e. the amount actually received from each District, with the District Councils showing the full share of any outstanding arrears and overpayments.

Regulations now require the Council to account for precept collection on an accruals basis. The Council is therefore required to include its share of any collection balances within the formal Statement of Accounts.

The following statement outlines the balances held as at 31<sup>st</sup> March 2013:

<b>Council Tax Collection Fund as at 31<sup>st</sup> March 2013</b>	<b>Council Tax Arrears after impairment allowance for doubtful/bad debt (Debtors) £'000</b>	<b>Council Tax overpayments and prepayments (Creditors) £'000</b>	<b>Collection Fund Surplus (-) /Deficit £'000</b>	<b>Cash (shown as Debtor or Creditor) £'000</b>
Cheltenham Borough Council	1,083	-425	-23	-635
Cotswold District Council	549	-752	-566	769
Gloucester City Council	2,298	-667	158	-1,789
Forest of Dean District Council	785	-287	-679	181
Stroud District Council	793	-657	-638	504
Tewkesbury Borough Council	1,256	-182	-239	-835
<b>Total</b>	<b>6,764</b>	<b>-2,970</b>	<b>-1,987</b>	<b>-1,805</b>

## 49. Exceptional Items

### Restructuring Costs

The fundamental review of the Council's role and organisational shape continued during 2012/13.

The total of the retirement and redundancy costs incurred as part of the "Meeting the Challenge" initiative for the year totalled £1.465m. Due to the nature of these costs, this has been treated as an exceptional item within the 2012/13 Comprehensive Income and Expenditure Statement.

## 50. Post Balance Sheet Events

### Localisation of Business Rates

From 1 April 2013 the regime around the income that Local Authorities collect from National Non Domestic or Business Rates (NNDR) changes from one where billing authorities collects purely on behalf of Central Government to one where this income is shared between Central Government, billing and precepting authorities. This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a pre-determined "Start-Up" funding assessment.

Risks of non-collection include rates billed from 1 April 2013, but also those not yet collected from prior years and appeals that were not resolved before that date. The Council has liaised with the billing authorities in the County, and the Council's share of potential losses is 10%. This amounts to a potential loss in income to the Council of £0.57m.

### Children's Centres

Four Children's Centre contracts ceased on 31<sup>st</sup> March 2013. The Pension Fund actuaries will calculate a cessation valuation to ensure liabilities are fully funded.

## Gloucestershire Pension Fund

### Fund Account for the year ended 31<sup>st</sup> March 2013

2011/12 re-stated £'000	2012/13 £'000	Note
<b>Dealings with members, employers and others directly involved in the scheme</b>		
Contributions		
-64,134 from employers	-62,917	N20
-16,281 from members	-15,717	N20
<u>-80,415</u>	<u>-78,634</u>	N7
Transfers in from other pension funds		
-3,906 individual transfers in from other schemes	-4,242	N29
Other income		
-195 recoveries for services provided	-276	N22
Benefits		
51,606 pensions	56,038	
11,928 commutation of pensions and lump sum retirement benefits	9,330	
1,875 lump sum death benefits	1,321	
<u>65,409</u>	<u>66,689</u>	N7
Payments to and on account of leavers		
12 refunds of contributions	5	
-4 state scheme premiums	-1	
3,621 individual transfers out to other schemes	3,647	
537 group transfers out to other schemes	-	
<u>4,166</u>	<u>3,651</u>	
1,157 Administrative expenses	1,312	N9 & N22
<u>-13,784</u>	<u>Net additions from dealings with scheme members</u>	<u>-11,500</u>
<b>Returns on investments</b>		
-28,134 Investment income	-24,626	N15 & N19
12 Taxes on income	-25	N3 & N15
-9,357 Profit and losses on disposal of investments and changes in market value of investments	-146,752	N4
3,468 Investment management expenses	3,214	N19 & N23
<u>-34,011</u>	<u>Net returns on investments</u>	<u>-168,189</u>
<b>-47,795 NET INCREASE (-) / DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b>	<b>-179,689</b>	
1,157,356 <b>Opening net assets of the scheme</b>	<b>1,205,151</b>	
<b>1,205,151 Closing net assets of the scheme</b>	<b>1,384,840</b>	

## Gloucestershire Pension Fund

### Net Assets Statement as at 31<sup>st</sup> March 2013

1st April 2011 re- stated £'000	2011/12 re-stated £'000		2012/13	Note
			£'000	
<b>Investment assets</b>				
174,936	165,810	Fixed interest securities	151,104	
297,391	251,991	Equities	282,317	
76,355	77,829	Index-linked securities	74,137	
508,052	594,694	Pooled investment vehicles	763,382	
63,325	75,074	Property unit trusts	77,721	
736	1,187	Derivative contracts	310	N2 & N17
3,526	4,254	Other investments - Venture Capital/Private Equity	4,369	N10
18,046	12,195	Cash held on behalf of the investment managers	5,222	
6,731	8,697	Other investment balances	5,837	N19
1,149,098	1,191,731		1,364,399	
<b>Investment liabilities</b>				
-1,497	-1,025	Derivative contracts	-416	N2 & N17
-3,740	-4,591	Other investment balances	-1,077	
-5,237	-5,616		-1,493	
<b>Long term assets</b>				
-	438	Contributions due from employer	388	N19
5,562	4,326	Money due re. transfer of staff to another pension scheme	3,708	N29
5,562	4,764		4,096	N25
<b>Current assets</b>				
3,514	4,074	Contributions due from employers	2,880	N19
233	206	Other current assets	376	
618	1,236	Money due re. transfer of staff to another pension scheme	618	N29
5,155	10,357	Cash balances	15,987	N2, N24 & N28
9,520	15,873		19,861	N25
<b>Current liabilities</b>				
-98	-13	Unpaid benefits	-1	
-1,489	-1,588	Other current liabilities	-2,022	N19
-1,587	-1,601		-2,023	N26
1,157,356	1,205,151	<b>Net assets of the scheme available to fund benefits at the period end</b>	<b>1,384,840</b>	N5, N14 & N18

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end but rather summarise the transactions and net assets of the scheme.

The actuarial present value of promised retirement benefits is disclosed at Note N27.

The notes on the following pages form part of these Financial Statements.

## Gloucestershire Pension Fund

### Notes

#### N1. Introduction

The County Council is the administering body for the Gloucestershire Local Government Pension Fund. This is not only for County Council employees but also for district councils within the County and other local bodies providing public services. A full list of all employing bodies who are members of the Fund are shown in the Pension Fund's Annual Report alongside the more detailed accounts of the Gloucestershire Pension Fund. The Local Government Pension Scheme is a statutory funded pension scheme. It is "contracted out" of the state scheme and is termed a defined benefit (or final salary) scheme. The scheme is voluntary and made available to all (\*) employees except fire fighters, police and teachers (who have their own separate nationally-administered schemes). The Fund is financed by contributions paid in by the existing employees and their employers and by earnings from the investment of Fund monies. The number of contributors at 31<sup>st</sup> March 2013 was 16,877 (2012 16,731). The Fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- The LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

A full analysis of membership, funding and benefits can be found in the Pension Fund's Annual Report. The Fund exists to provide pensions and certain other benefits to former employees. The Pension Fund is not a Gloucestershire County Council fund and is subject to its own audit, therefore balances are not included in the Gloucestershire County Council Consolidated Balance Sheet. The Fund is administered by the Pension Committee, which is a committee of Gloucestershire County Council.

It is expected that new regulations setting out details of LGPS 2014 will be laid by the end of 2013. A summary of key benefits can be found in the Annual Report.

*\* There are restrictions with some casual staff*

#### N2. Accounting policies

##### Basis of preparation

The Statement of Accounts summarises the Funds' transactions for the 2012/13 financial year and its position at year end as at 31st March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts summarise the transactions of the Fund and reports on the net assets available to pay pensions and benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial value of promised retirement benefits, valued on an International Accounting Standard (IAS19) basis, is disclosed at Note 27 of these accounts. The accounts are prepared on a going concern basis.

##### Accruals concept applied

Income and expenditure have been accounted for on an accruals basis so far as amounts due have been determined in time for inclusion in the accounts. Any amount due in year but unpaid will be classed as a current financial asset. Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year.

Individual transfer values are accounted for when they are paid or received. Bulk transfer values are accrued when the value has been determined.

##### Investment manager expenses

The managers' fees have been accounted for on the basis contained within their management agreements. Broadly these are based on the market value of the investments under management and therefore increase or decrease as the value of these investments change. In addition the Fund has agreed with the following managers that an element of their fee be performance related:

- Standard Life Investments - UK Equities
- GMO - Global Equities
- Hermes - Property Unit Trusts

Hermes deducts its fees from a combination of assets held and income distributions. GMO and Yorkshire Fund Managers deduct their fees from the value of the assets under their management.

Where the Fund has obtained investment advice from external consultants the cost is included in investment management charges.

### Administering authority recharges

The Regulations permit the County Council to charge the cost of both the management and administration of the pension scheme to the Fund. A proportion of relevant officers' salaries, on-costs and general overheads have been charged to the Fund on the basis of time spent on fund administration.

### Valuation of assets

The SORP requires securities to be valued on a Fair Value Basis therefore assets, where there is an active and readily available market price, are valued at the bid (selling) price and liabilities on an offer (buying) price basis. Where assets do not actively trade through established exchange mechanisms a price is obtained from the manager of the investment asset. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing as at 31st March 2013. Purchases and sales during the year which require settlement in a foreign currency are converted from/to sterling at the exchange rate prevailing on the trade date. Fixed interest securities are recorded at net market value based on their yields. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is re-invested in the fund, net of applicable withholding tax. Property within the property unit trusts are independently valued in accordance with the Royal Institute of Chartered Surveyors valuation standards. Private Equity is valued using the latest financial statements published by the respective fund managers and in accordance with the International Private Equity and Venture Capital Guidelines.

### Cash

Cash balances held in accordance with the County Councils Treasury Management Strategy and those held with the Funds' Custodian BNY Mellon, on behalf of investment managers, are in instant access accounts, subject to timing deadlines.

### Derivatives

Derivative contracts are valued at fair value and are determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Derivative contract assets, those with a positive value, are valued at bid price and derivative contract liabilities, those with a negative value, are valued at the offer price. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts. The fair value of the forward currency contracts are based on market forward exchange rates at the year end date.

### Acquisition and transaction costs of investments

Acquisition costs of investments (e.g. stamp duty) and transaction costs are included within the purchase cost/proceeds of investment purchases and sales. Note 4 refers.

### N3. Taxation

The Fund is exempt from UK capital gains tax on the proceeds of investments sold. Corporation Tax is deducted from UK equity dividends; tax deducted from property unit trusts can be reclaimed. Withholding tax is payable on income from overseas investments. This tax is recovered wherever local tax laws permit.

### N4. Investment movements summary

#### 2012/13

Asset Class	Market Value at 31 <sup>st</sup> March 2012 re-stated	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value, new money and accruals	Market Value at 31 <sup>st</sup> March 2013
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	165,810	96,111	-124,751	13,934	151,104
Equities	251,991	128,562	-57,732	-40,504	282,317
Index Linked	77,829	13,333	-23,460	6,435	74,137
Derivatives	162	-	-868	600	-106
Pooled Investments	594,694	4,717	-751	164,722	763,382
Property Unit Trusts	75,074	3,235	-227	-361	77,721
Private Equity	4,254	-	-43	158	4,369
	1,169,814	245,958	-207,832	144,984	1,352,924
Cash movement, currency adjustments and other end of year settlements	35,337			1,768	31,916
	1,205,151			146,752	1,384,840

2011/12

Asset Class	Market Value at 31 <sup>st</sup> March 2011 re-stated	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value, new money and accruals	Market Value at 31 <sup>st</sup> March 2012 re-stated
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	174,936	125,544	-147,898	13,228	165,810
Equities	297,391	*107,991	*-124,308	-29,083	251,991
Index Linked	76,355	30,850	-43,188	13,812	77,829
Derivatives	-761	-	-371	1,294	162
Pooled Investments	508,052	979,230	-906,314	13,726	594,694
Property Unit Trusts	63,325	10,242	-	1,507	75,074
Private Equity	3,526	405	-	323	4,254
	1,122,824	1,254,262	-1,222,079	14,807	1,169,814
Cash movement, currency adjustments and other end of year settlements	34,532			-5,450	35,337
	1,157,356			9,357	1,205,151

\* Within these figures is an in-specie transfer of £29.9m from UK equities to global equities, as per the Funds new strategic allocation.

The change in market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The derivatives in the previous tables represents futures and forward foreign exchange contracts. The closing market value represents fair value as at the year end date. In the case of derivative contracts, which are traded on exchanges, this value is determined using exchange prices at the reporting date. Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date and entering into an equal and opposite contract as at that date. The profit or loss arising is included within the total 'cash movement' figure.

All derivative contracts settled during the period are reported within the table as purchases and sales.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amount to £770,251 (2011/12 £875,872). In addition to the transaction costs disclosed, indirect costs are incurred through the bid/offer spread on investments within pooled investment vehicles. The amount of indirect costs are not separately provided to the Fund.

Please see Note N29 for information on changes to comparable figures

#### N5. Management of fund assets

The market value of investments managed by each external manager at the end of the financial year was:

	2011/12 re-stated £'000	%	2012/13 £'000	%
Western Asset Management Company	319,128	26.5	290,356	21.0
BlackRock	327,404	27.2	387,545	28.0
CBREI	10,426	0.9	14,273	1.0
GMO	197,845	16.4	243,176	17.6
Standard Life Investments	261,271	21.7	358,757	25.9
Hermes Investment Management Property Unit Trust	65,470	5.4	64,431	4.6
BNY Mellon Asset Management International	3	-	-	-
YFM Group	4,254	0.3	4,369	0.3
<b>Total - External Managers</b>	<b>1,185,801</b>	<b>98.4</b>	<b>1,362,907</b>	<b>98.4</b>
In-house cash and accruals	19,291	1.6	21,933	1.6
Cash instruments with Custodian	59	-	-	-
	1,205,151	100.0	1,384,840	100.0

Where the value of an investment exceeds 5% of the total value of net assets or 5% of its asset class, details have been disclosed in note N18.

Please see Note N29 for information on changes to comparable figures

**N6. Actuarial position of the Fund**

- In line with the Local Government Pension Scheme (Administration) Regulations 2008, actuarial valuations of the Fund are required to be undertaken every three years, for the purpose of setting employer contribution rates for the forthcoming triennial period. The latest valuation took place as at 31st March 2010. This valuation was the relevant valuation for employer contributions required during the year to 31<sup>st</sup> March 2013. The next valuation will take place as at March 2013.
- The estimate of the pension fund liability is subject to significant variations, based on changes to the underlying assumptions used - see below.
- Results showed that the total common contribution rate was 25.8% (22.3% 2007 valuation) for the three years to 31<sup>st</sup> March 2013. Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 actuarial valuation report and the Funding Strategy Statement on the Fund's website. This rate of contribution is the rate which, in addition to the contributions paid by the members, is sufficient to meet:
  - ❖ 100% of the liabilities arising in respect of service after the valuation date;
  - ❖ plus an adjustment over a period of 20 years to reflect the shortfall of the value of the County Council's notional share of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.
- The market value of the Fund's assets at the March 2010 triennial valuation date was £1,054m (£950.5m March 2007) and represented 70.4% (74.1% March 2007) of the Fund's accrued liabilities, allowing for future pay increases. When a valuation reveals a deficiency, the employer contribution rates are adjusted to target restoration of a solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Scheme Actuary and employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.
- The contribution rate has been calculated using the projected unit method in line with accepted guidelines and the main actuarial assumptions used are as follows:

<b>Funding Basis</b>	
Rate of return on investments	6.1% per annum
Rate of general pay increases *	4.8% per annum
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	3.3% per annum

\* An allowance is also made for promotional pay increases. Note that the assumption at 31st March 2010 is actually 1% pa for 2010/11 and 2011/12, reverting to 5.3% pa thereafter.

- The full actuarial valuation report for both 2007 and 2010 has been published on the County Council's website and can be viewed using the following web address:  
[www.goucestershire.gov.uk/pensionsinvestments](http://www.goucestershire.gov.uk/pensionsinvestments)
- See note N27 for details of the Actuarial Present Value of Promised Retirement Benefits.

**N7. Analysis of contributions receivable and benefits payable**

	2011/12	2012/13		
	Contributions receivable £'000	Benefits payable £'000	Contributions receivable £'000	Benefits payable £'000
Gloucestershire County Council [Administering authority]	39,844	35,474	35,920	35,530
Scheduled bodies (104) (89 11/12) [Bodies admitted by right]	36,661	27,376	37,795	28,286
Admitted bodies (25) (22 11/12) [Bodies admitted by agreement]	3,910	2,559	4,919	2,873
	80,415	65,409	78,634	66,689

Scheduled bodies now include 61 (46) schools who have converted to academy status; formerly these were included with the County Council.

## N8. Statement of Investment Principles

A Statement of Investment Principles, which sets out the Pension Fund's long-term investment objectives, its style of management and policies together with risk management, performance targets and details of how that performance is monitored and reviewed, can be found in the Annual Report of the Gloucestershire Pension Fund. This statement is also available on the website at the following address [www.goucestershire.gov.uk/pensionsinvestments](http://www.goucestershire.gov.uk/pensionsinvestments)

## N9. Related party transactions

Gloucestershire County Council, as Administering Authority for the Fund, incurred the following costs in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund.

	2011/12 £'000	2012/13 £'000
<b>Administrative expenses</b>	1,157	1,312

Part of the Pension Fund's cash holdings are invested on the money markets by the Treasury Management team of Gloucestershire County Council, see notes 2, 25 and 28.

Of the County Council's key management personnel, some of the Director; Strategic Finance's remuneration costs were charged to the Fund to reflect time spent. These consisted of salary, fees and allowances of £9,280 (£9,626 2011/12) and employers' pension contributions £2,218 (£2,204)

A member of the Pension Committee, Councillor Lyndon Stowe is Cotswold District Council's nominated shareholder for Ubico Limited. Ubico Limited is an employer in the Fund.

Transactions between employers and the Fund are disclosed in note N7.

## N10. Contingent liabilities and contractual commitments

The Fund has an investment within a private equity fund managed by Yorkshire Fund Managers. The following table shows the Fund's total commitment and the remaining liability, following drawdowns, at the year end. Funding has also been set aside but not yet allocated to the global property manager.

	Total Commitment £'000	Outstanding liability 2011/12 £'000	Outstanding liability 2012/13 £'000
Chandos Fund	3,000	1,032	1,032
CBREI	20,000	9,902	7,102
	<b>23,000</b>	<b>10,934</b>	<b>8,134</b>

## N11. Contingent assets

Due to retrospective adjustments to how pension payments are made for Registration staff working additional hours or on a fee basis, a contingent asset of £41,579 has been recorded for possible additional contributions from ex members of staff, during 2013/2014 and future years.

## N12. Unquoted holdings

The following holdings are unquoted:

	2011/12 £'000	2012/13 £'000
<b>Pooled investment vehicles</b>		
UK equity unitised insurance policy	6,287	<b>7,626</b>
Overseas equity managed funds	197,845	<b>243,176</b>
Overseas equity unitised insurance policies	281,953	<b>335,285</b>
UK limited liability partnerships	-	<b>317</b>
Overseas limited liability partnerships	7,416	<b>1,577</b>
Global multi asset unitised insurance policy	-	<b>63,214</b>
	<b>493,501</b>	<b>651,195</b>
<b>Property unit trusts</b>		
UK property unit trust	5,652	<b>6,916</b>
Overseas property unit trust	4,685	<b>6,971</b>
	<b>10,337</b>	<b>13,887</b>
<b>Total</b>	<b>503,838</b>	<b>665,082</b>

## N13. Stocklending

The Pension Funds' custodian has been authorised to release stock to third parties under a stock lending arrangement. At 31<sup>st</sup> March 2013 the value of stock out on loan was £8.0m (2011/12 £2.7m) of which £8.0m (£2.7m) were UK equities. Collateral of £8.3m (£2.8m) equal to 105% (105%) of stock out on loan was held in the form of £8.3m (£0.8m) in AA rated UK and Overseas government debt and AAA rated fixed interest stock issued by Supranational bodies. No collateral was held in the form of FTSE350 UK equities (2011/12 £2.0m). The Pension Fund stipulates those institutions that are allowed to borrow its stock and the type of collateral that is acceptable.

**N14. Financial asset analysis**

		2011/12 £'000	2012/13 £'000
<b>Financial assets</b>			
Fixed interest securities			
UK - Public Sector	- Quoted	60,993	<b>69,600</b>
- Other	- Quoted	104,817	<b>81,504</b>
		<b>165,810</b>	<b>151,104</b>
Equities			
UK	- Quoted	251,991	<b>282,317</b>
Index-linked securities			
UK - Public Sector	- Quoted	77,780	<b>74,137</b>
- Other	- Quoted	49	-
		<b>77,829</b>	<b>74,137</b>
Pooled investment vehicles			
Unit Trusts			
Overseas - Equities - managed from within the UK	- Quoted	45,413	<b>52,222</b>
Unitised Insurance Policies			
UK - Equities	- Unquoted	6,287	<b>7,626</b>
Overseas - Equities - managed from outside the UK	- Unquoted *	281,953	<b>335,285</b>
Global - Multi Asset - managed from within the UK	- Unquoted	-	<b>63,215</b>
Other Managed Funds			
O.E.I.C.'s			
Overseas - Fixed interest - managed from outside the UK - Quoted *		731	<b>849</b>
Overseas - Fixed interest - managed from within the UK - Quoted *		55,049	<b>59,115</b>
Overseas - Equities - managed from outside the UK - Unquoted *		197,845	<b>243,176</b>
Limited Liability Partnerships			
UK - Property - managed from within the UK	- Unquoted	-	<b>317</b>
Overseas - Fixed interest - managed from outside the UK - Unquoted		7,416	<b>1,577</b>
		<b>594,694</b>	<b>763,382</b>
Property Unit Trusts			
UK - managed from within the UK	- Quoted	64,737	<b>63,834</b>
- managed from outside the UK	- Unquoted	5,652	<b>6,916</b>
Overseas - managed from outside the UK	- Unquoted	4,685	<b>6,971</b>
		<b>75,074</b>	<b>77,721</b>
Derivative Contracts (note N17)			
Futures - UK		92	-
Forward foreign exchange contracts		1,095	<b>310</b>
		<b>1,187</b>	<b>310</b>
Other Investments			
Venture Capital/Private Equity - UK		4,254	<b>4,369</b>
Cash (Managers)			
Cash instruments	- UK	7,981	<b>3,896</b>
	- Overseas	2,743	<b>972</b>
Cash deposits	- UK	1,438	<b>184</b>
	- Overseas	33	<b>170</b>
		<b>12,195</b>	<b>5,222</b>
Other investment balances			
Debtors			
Outstanding settlement of investment transactions		3,800	<b>1,430</b>
Accrued dividend income and tax reclaims due on dividend income		4,897	<b>4,407</b>
		<b>8,697</b>	<b>5,837</b>
<b>Total Financial Assets</b>		<b>1,191,731</b>	<b>1,364,399</b>

	2011/12 £'000	2012/13 £'000
<b>Financial Liabilities</b>		
Derivative Contracts (note N17)		
Futures - UK	-	<b>-105</b>
- Overseas	-	<b>-3</b>
Forward foreign exchange contracts	-1,025	<b>-308</b>
	<b>-1,025</b>	<b>-416</b>
Other investment balances		
Creditors		
Outstanding settlement of investment transactions	-4,591	<b>-1,077</b>
<b>Total Financial Liabilities</b>	<b>-5,616</b>	<b>-1,493</b>
<b>Long Term Assets</b>		
Contributions due from employer	438	<b>388</b> N19
Money due re. transfer of staff to another pension scheme	4,326	<b>3,708</b> N29
	<b>4,764</b>	<b>4,096</b>
<b>Current Assets</b>		
Contributions due from employer	4,074	<b>2,880</b> N19
Other current assets (debtors)	206	<b>376</b>
Money due re. transfer of staff to another pension scheme	1,236	<b>618</b> N29
Cash balances	10,357	<b>15,987</b>
	<b>15,873</b>	<b>19,861</b>
<b>Current Liabilities</b>		
Unpaid benefits	-13	<b>-1</b>
Other liabilities (creditors)	-1,588	<b>-2,022</b> N19
	<b>-1,601</b>	<b>-2,023</b>
<b>TOTAL</b>	<b>1,205,151</b>	<b>1,384,840</b>

\* These overseas pooled funds may incorporate some UK assets.

**N15. Investment income**

Investment income arises from the following investment categories:

	2011/12 £'000	2012/13 £'000
Fixed interest	8,541	7,506
Equities	11,025	9,771
Index-linked	2,714	1,424
Pooled investment vehicles ( <i>please see note N19</i> )	5,568	5,712
Interest on cash deposits	229	98
Private equity	-	43
Other income from stocklending, underwriting and class actions	57	72
	28,134	24,626
Withholding tax	-12	25
	28,122	24,651

**N16. Separately invested additional voluntary contributions (AVC's)**

Gloucestershire County Council LGPS provides additional voluntary contribution (AVC) schemes for its members with The Prudential Assurance Company Limited and Phoenix Life Limited. The AVC's are invested separately in funds managed by them. These are in the form of with-profits, unit-linked and deposit accounts and secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement confirming amounts held to their account and movements in the year. These amounts are not included in the Pension Fund Accounts in accordance with section 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093).

	Prudential		Phoenix Life		Total Investments	
	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
Value of investments at 1 <sup>st</sup> April	7,474	7,417 *	187	154	7,661	7,571 *
Prior year adjustments	-	-	-	-	-	-
Contributions received in year	635	680	3	2	638	682
Death in service premiums paid by members	-8	-7	-	-	-8	-7
Sales of investments	-1,017	-1,180	-35	-19	-1,052	-1,199
Changes in value of investments	346	480	-1	1	345	481
<b>Present value of investments</b>	<b>7,430</b>	<b>7,390</b>	<b>154</b>	<b>138</b>	<b>7,584</b>	<b>7,528</b>

\* Following the implementation of a new administration platform Prudential are unable to provide a reconciliation of the 2011/12 closing balance with the 2012/13 opening balance, this is due to the differing specifications of the two systems.

## N17. Derivatives

Investments in derivatives are only made if they contribute to a reduction of risks and facilitate efficient portfolio management. A derivative is a generic term for financial instruments used in the management of portfolios and is a financial contract between two parties, the value of which is determined by the underlying asset. Derivatives include futures, forwards, swaps and options.

The fixed income portfolio uses futures and options for duration and yield curve management purposes. Additionally, the investment strategy for this manager, for all overseas currency exposures, is to be fully hedged back in to sterling which is achieved by the use of foreign exchange forward contracts. To mitigate large unrealised profits accruing with any one counterparty the contracts are split between a handful of banks and the contracts rolled quarterly in order that any gains or losses are realised at regular intervals.

The investment strategy of the property manager with overseas holdings is to look at the denomination of the asset and provide hedging based on the actual currency exposure within the property fund. The hedges are achieved by placing foreign exchange forward contracts with the Fund's custodian which are rolled over on a 3 month basis. The value of the hedges are reviewed on a monthly basis.

In the table below, the 'notional value' of the stock purchases under futures contracts is the economic exposure and the value subject to market movements as at 31<sup>st</sup> March 2013.

### Derivative Contract Analysis

	Contract type*	2011/12 Notional Value £'000	2012/13 Notional Value £'000	Expiration	2011/12 Market Value £'000	2012/13 Market Value £'000
<b>INVESTMENT ASSETS</b>						
<u>Futures</u>						
UK - Fixed Interest						
UK Long Gilt Future	ET	-25,994		- Less than 3 months	92	-
UK Futures		-25,994		-	92	-
Total Futures		-25,994		-	92	-
<u>Forward foreign exchange contracts</u>	OTC	86,200	12,623	Less than 6 months	1,095	310
<b>Total Derivative Assets</b>		60,206	12,623		1,187	310
<b>INVESTMENT LIABILITIES</b>						
<u>Futures</u>						
UK - Fixed Interest						
UK Long Gilt Future	ET	-	-18,530	Less than 3 months	-	-105
UK Futures		-	-18,530		-	-105
Overseas - Fixed Interest						
Australian 10 Year Bond Future	ET	-	7,347	Less than 3 months	-	-3
Overseas Futures		-	7,347		-	-3
Total Futures		-	-11,183		-	-108
<u>Forward foreign exchange contracts</u>	OTC	84,596	10,602	Less than 6 months	-1,025	-308
<b>Total Derivative Liabilities</b>		84,596	-581		-1,025	-416
<b>Net Futures</b>					162	-106

\* Contract types ET (exchange traded) OTC (over the counter)

The total Futures' initial margin for 2012/13 was £0.5m (£0.7m 2011/12) and the total variation margin was (£0.3m) (£0.7m 2011/12). The initial margin is an amount of money deposited by both buyers and sellers of Futures contracts to ensure performance of the terms of the contract. The variation margin reflects the accumulated cash flows from the daily marking to market that accrues in the futures broker's account.

A breakdown of the open forward foreign exchange contracts at 31st March 2013 is given below:-

**Open Forward Currency Contracts at 31st March 2013**

<b>Settlement</b>	<b>Currency bought</b>	<b>Local Value</b> 000	<b>Currency sold</b>	<b>Local Value</b> 000	<b>Asset Value</b> £000	<b>Liability Value</b> £000
Up to six months	USD	9,000	GBP	5,717	212	
Up to six months	GBP	2,040	EUR	2,378	28	
Up to six months	GBP	1,929	USD	2,885	28	
Up to six months	GBP	962	EUR	1,104	27	
Up to six months	GBP	570	HKD	6,617	9	
Up to six months	GBP	319	SGD	595	3	
Up to six months	GBP	723	AUD	1,057	2	
Up to three months	GBP	298	USD	450	1	
Up to three months	GBP	26	AUD	38	-	
Up to six months	HKD	451	GBP	38	-	
Up to six months	GBP	362	NZD	660	-1	
Up to three months	EUR	500	GBP	424	-1	
Up to three months	USD	450	GBP	298	-2	
Up to six months	GBP	417	JPY	59,774	-2	
Up to six months	EUR	1,032	GBP	894	-21	
Up to six months	GBP	1,796	USD	2,810	-55	
Up to six months	GBP	3,035	USD	4,743	-90	
Up to six months	GBP	3,376	USD	5,331	-136	
					310	-308
<b>Net forward currency contracts at 31st March 2013</b>						<b>2</b>

**Prior year comparative**

Open forward currency contracts at 31st March 2012	1,095	-1,025
Net forward currency contracts at 31st March 2012		70

**N18. Investments exceeding 5% of Total Net Assets or that exceed 5% of their Asset Class**

At 31<sup>st</sup> March 2013 the Pension Fund held two, (2011/12, three) investments that each exceeded 5% of the total value of the net assets of the scheme. These are detailed as follows:

<b><u>Investments exceeding 5% of Total Net Assets</u></b>	2011/12		2012/13	
	£'000	%	£'000	%
* BlackRock Global Equity Fund	281,953	23.4	<b>335,285</b>	<b>24.2</b>
* GMO Developed World Equity Investment Fund	197,845	16.4	<b>243,176</b>	<b>17.6</b>
Hermes Property Unit Trust	64,737	5.4	-	-
	<b>544,535</b>	<b>45.2</b>	<b>578,461</b>	<b>41.8</b>

*BlackRock investments are Unitised Insurance Policies*

*GMO Investment Fund is an O.E.I.C. investing in global equities*

*Hermes Property Unit Trust is a Property Unit Trust*

*\* Indicates assets which are in excess of 5% of both net assets and their asset class for 2012/13*

<b><u>Investments exceeding 5% of their Asset Class</u></b>	2011/12		2012/13	
	£'000	%	£'000	%
<b>Fixed interest securities</b>				
Treasury 4.25% 2040	27,872	16.8	<b>17,432</b>	<b>11.5</b>
Treasury 4.25% 2039	16,248	9.8	<b>9,511</b>	<b>6.3</b>
Treasury 3.75% 2021	12,920	7.8	<b>22,088</b>	<b>14.6</b>
<b>Equities</b>				
Royal Dutch Shell 'B' Shares	18,782	7.5	<b>17,615</b>	<b>6.2</b>
BP	13,761	5.5	-	-
HSBC Holdings	13,672	5.4	<b>20,109</b>	<b>7.1</b>
<b>Index-linked securities</b>				
United Kingdom IL 1.25% 2027	12,107	15.6	<b>13,499</b>	<b>18.2</b>
United Kingdom IL 1.125% 2037	8,623	11.1	<b>9,569</b>	<b>12.9</b>
United Kingdom IL 1.875% 2022	7,225	9.3	<b>7,988</b>	<b>10.8</b>
Treasury IL 2% 2035	7,214	9.3	<b>12,091</b>	<b>16.3</b>
United Kingdom IL 1.25% 2032	6,946	8.9	<b>7,770</b>	<b>10.5</b>
Treasury IL 4.125% 2030	6,840	8.8	-	-
Treasury IL 0.625% 2040	6,680	8.6	-	-
Treasury IL 1.25% 2055	6,473	8.3	<b>7,117</b>	<b>9.6</b>
United Kingdom IL 0.375% 2062	5,976	7.7	<b>6,133</b>	<b>8.3</b>
Treasury IL 0.625% 2042	4,410	5.7	-	-
Treasury IL 0.75% 2047	-	-	<b>4,106</b>	<b>5.5</b>
United Kingdom IL 0.25% 2052	-	-	<b>4,195</b>	<b>5.7</b>
<b>Pooled investment vehicles</b>				
* Blackrock Global Equity Fund	281,953	47.4	<b>335,285</b>	<b>43.9</b>
* GMO Developed World Equity Investment Fund	197,845	33.3	<b>243,176</b>	<b>31.9</b>
Standard Life Global Absolute Return Strategies Fund	n/a	n/a	<b>63,215</b>	<b>8.3</b>
Legg Mason Global Funds - WA GMS	55,049	9.3	<b>59,115</b>	<b>7.7</b>
Blackrock Emerging Markets Index Fund	45,413	7.6	<b>52,222</b>	<b>6.8</b>
<b>Property unit trusts</b>				
Hermes Property Unit Trust	64,737	86.2	<b>63,834</b>	<b>82.1</b>
Global Alpha Fund	4,685	6.2	<b>5,191</b>	<b>6.7</b>
<b>Derivative contracts - assets</b>				
UK Long Gilt Future (LIF) Exp Jun 12	92	57.1	-	-
<b>Derivative contracts - liabilities</b>				
UK Long Gilt Future (LIF) Exp Jun 13	-	-	<b>-105</b>	<b>99.1</b>
<b>Other investments - Venture Capital/Private Equity</b>				
South West Venture Fund	2,507	58.9	<b>2,507</b>	<b>57.4</b>
Chandos Fund	1,747	41.1	<b>1,862</b>	<b>42.6</b>

## N19. Changes to comparative figures

One investment manager deducts its fees direct from the units that it manages. The Fund puts through notional investment manager expenses against offsetting dividend income to show that this expenditure has been incurred. The basis on which the fees are identified has changed for 2012/13 and the 2011/12 figures have been re-calculated on the same basis. The following represents the three statements where these figures are identified.

<b>Fund Account</b>	2011/12	2011/12 re-stated	Difference
Investment income	-27,879	-28,134	-255
Investment management expenses	3,213	3,468	<u>255</u>
<hr/>			
<b>Net Assets Statement</b>	2011/12	2011/12 re-stated	Difference
Other investment balances	8,442	8,697	255
Other current liabilities	-1,333	-1,588	<u>-255</u>
<hr/>			
<b>Financial asset analysis (Note 14)</b>	2011/12	2011/12 re-stated	Difference
Accrued dividend income and tax claims due on dividend income	4,642	4,897	255
Other liabilities (creditors)	-1,333	-1,588	<u>-255</u>
<hr/>			

It had been agreed previously that an employer who left the Fund in 2008/09 could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made. Previously this accrual was included within Current Assets but as the deficit will be paid over a number of years it has been moved under the more appropriate heading of Long Term Assets.

	2011/12	2011/12 re-stated	Difference
Long term assets - Contributions due from employer	-	-438	-438
Current assets - Contributions due from employer	-4,512	-4,074	<u>438</u>
<hr/>			

## Contributions Breakdown (Note 20)

Whilst analysing the contributions it was discovered that the deficit funding element in 2011/12 had been over-stated and the normal contributions under-stated. This has now been corrected and the 2011/12 figures re-stated.

## Currency Risk (Note 28)

For the 2012/13 sensitivity table the values include the total GMS fund as a pooled investment. In 2011/12 the GMS currency values were included individually. Therefore the 2011/12 table has been re-stated to reflect the total GMS fund to ensure a direct comparison.

## Fair Value Hierarchy (Note 28)

The 2011/12 table has been re-stated following further analysis of the individual investments and their appropriate levels and to ensure a direct comparison with the 2012/13 position.

**N20. Contributions breakdown**

	2011/12	2011/12 Re-stated	2012/13
	£'000	£'000	£'000
<b>From Employers:</b>			
Normal	32,573	34,956	<b>36,227</b>
Augmentation	96	96	<b>64</b>
Deficit Funding	26,102	23,719	<b>24,680</b>
Other	5,363	5,363	<b>1,946</b>
	<b>64,134</b>	<b>64,134</b>	<b>62,917</b>
<b>From Members:</b>			
Normal	15,861	15,861	<b>15,363</b>
Additional Voluntary	420	420	<b>354</b>
	<b>16,281</b>	<b>16,281</b>	<b>15,717</b>

See Note 19 for changes to comparative figures

The employers' monthly contributions and deficit funding payments are based on a percentage of pensionable pay and have been identified above. The deficit funding contributions relate to past service benefit accrual and are payable over an agreed recovery period, not exceeding 20 years.

Other contributions are those contributions paid by an employer to compensate the Pension Fund for early retirement costs, excess ill health retirement costs or to improve their funding levels. During 2011/12 lump sums totalling £0.8m were received from two employers to reduce their liabilities and employers restructured their staffing levels resulting in early retirement payments to the Fund. During 2012/13 restructuring costs fell resulting in a decrease on the previous year

These payments follow the principles outlined in the Funding Strategy Statement. Early retirement costs are usually paid in one lump sum or were historically paid over several years dependent on the status of the employer. When a payment is spread there is an extra cost to reflect the delay in total payment. There are currently no early retirement costs being spread; however at 31<sup>st</sup> March 2013 £0.3m (2011/12 £0.8m) was due to the Pension Fund for early retirements, which have been accrued.

Excess ill health retirement costs are invoiced for as they arise and funding level payments are made by an employer voluntarily.

It had been agreed previously that an employer who left the Fund in 2008/09 could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made.

**N21. Custody of investments**

The accounts for the year ended 31st March 2013 use the valuations for the Fund's assets provided by our custodian, BNY Mellon Asset Servicing SA/NV. This reflects the position of the custodian who is ultimately the master book of record. Fund Managers must make sure that their records agree with those kept by the custodian, although the investment values may be obtained from different sources. Using the custodian's valuations ensures that the various portfolios are priced consistently, so that the same stocks, in different portfolios, are valued on the same basis. Investments held in custody by BNY Mellon Asset Servicing SA/NV on behalf of the Pension Fund, are ring-fenced from the assets of the Bank and segregated within its books as belonging to Gloucestershire County Council's Pension Fund.

**N22. Administrative expenses**

	2011/12 £'000	2012/13 £'000
Employee costs	593	616
Support services including IT	347	381
Printing and publications	7	7
Pension committee	2	2
External audit fees	36	22
Actuarial fees	172	284
	<hr/>	<hr/>
	1,157	1,312

Within actuarial fees there were costs of £250,169 (£153,032) generated by specific employer requirements, these were then charged back to the employer. The corresponding income is included within Recoveries for Services Provided in the Fund Account.

**N23. Investment management expenses**

	2011/12 £'000	2012/13 £'000
Management fees	3,321	3,097
Custody fees	74	61
Performance monitoring service	36	36
Actuarial fees - investment consultancy	17	-
Investment consultancy	20	20
	<hr/>	<hr/>
See Note N19	3,468	3,214

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments

**N24. Cash**

From the 1<sup>st</sup> April 2010 the Pension Fund has had its own bank account. At 31<sup>st</sup> March 2013 the cash balance was £15.9m (£10.4m 2011/12) made up of a temporary bank overdraft of £15.0k and £16.0m invested through the County Council's short-term investment procedures. During the year the average investment balance was £5.2m (£5.8m 2011/2012) earning interest of £72.6k (£56.1k 2011/2012).

**N25. Current assets**

	2011/12 £'000	2012/13 £'000
Contributions due - Employees	498	503
Contributions due - Employers	3,576	2,377
Sundry debtors	206	376
Money due re. transfer of staff to another pension scheme	1,236	618
	<hr/>	<hr/>
Cash balances	5,516	3,874
	<hr/>	<hr/>
	10,357	15,987
	<hr/>	<hr/>
	15,873	19,861

	2011/12 £'000	2012/13 £'000
Analysis of debtors	<hr/>	<hr/>

<b>Current assets</b>	2011/12 £'000	2012/13 £'000
Central government bodies	1,283	681
Other local authorities	3,027	1,648
NHS bodies	20	15
Public corporations and trading funds	-	1
Academies	311	255
Other entities and individuals	875	1,274
	<hr/>	<hr/>
	5,516	3,874

	2011/12 £'000	2012/13 £'000
<b>Long term assets</b>		
Central government bodies	4,326	<b>3,708</b>
Other entities and individuals	438	<b>388</b>
	<b>4,764</b>	<b>4,096</b>

One employer has transferred to another pension fund and the resulting bulk transfer value due is being paid over a number of years. The total amount was credited to the Pension Fund and an accrual has been made for the outstanding amount. The accrual will be rolled forward each year and adjusted for payments made. A payment of £618,000 is due to the Pension Fund within the next twelve months. Also please see note N29.

It had been agreed previously that an employer who left the Fund in 2008/09 could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made. Previously this accrual was included within Current Assets but as the deficit will be paid over a number of years it has been moved under the more appropriate heading of Long Term Assets. A payment of £50,000 is due to the Pension Fund within the next twelve months.

#### N26. Current liabilities

	2011/12 £'000	2012/13 £'000
Benefits payable	-13	-1
Sundry creditors	-1,588	<b>-2,022</b>
	<b>-1,601</b>	<b>-2,023</b>
 Analysis of creditors		
	2011/12 £'000	2012/13 £'000
Central government bodies	-540	-559
Other local authorities	-17	-119
Other entities and individuals	-1,044	<b>-1,345</b>
	<b>-1,601</b>	<b>-2,023</b>

## N27. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation (See Note N6), the funds Actuary also undertakes a valuation of the pension fund liabilities on an IAS19 basis every year. These liabilities have been projected using a roll forward approximation from the last triennial valuation as at 31st March 2010.

### Balance Sheet:

Year Ended	31 <sup>st</sup> March 2012 £m	31 <sup>st</sup> March 2013 £m
Present Value of Promised Retirement Benefits	1,824	2,149

### Net Assets Available for Benefits

Year Ended	31 <sup>st</sup> March 2012 £m	31 <sup>st</sup> March 2013 £m
Net assets	1,205	1,385

The assumptions used are those adopted for the Administering Authorities IAS19 report, as required by the Code of Practice, and these differ from those used for the triennial valuation. It is estimated that the impact of the change of assumptions to 31st March 2013 is to increase the actuarial present value by £207m (£47m 2011/12).

### Significant Actuarial Assumptions Used

#### Financial:

Year Ended	31 <sup>st</sup> March 2012 % pa	31 <sup>st</sup> March 2013 % pa
Inflation/Pension Increase Rate	2.5	2.8
Salary Increase Rate *	4.3	4.6
Discount Rate	4.8	4.5

\* Salary increases are 1% p.a. nominal until 31st March 2015 reverting to the long term rate thereafter.

#### Longevity assumption:

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2010. Based on these assumptions the average future life expectancies at age 65 are summarised below.

	Males	Females
	Years	Years
Current Pensioners	21.7	23.6
Future Pensioners **	23.5	25.8

\*\* Future pensioners are assumed to be aged 45 at the last formal valuation. This assumption is the same as at 31st March 2012.

#### Commutation assumption:

An allowance is included for future retirements to elect to take 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax free cash for post-April 2008 service.

## **N28. Nature and extent of risks arising from Financial Instruments**

The Gloucestershire Local Government Pension Fund's ("The Fund") objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (or pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities i.e. promised benefits payable to members. Therefore the aim of investment risk management is to minimise the risk of an overall reduction on the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

The Fund's investments are managed on behalf of the Fund by the appointed Investment Managers. Each Investment Manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Gloucestershire Local Government Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and considers and takes advice on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

### **Market Risk**

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical, industry sectors, individual securities, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee as well as appropriate monitoring of market conditions and benchmark analysis.

### **Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting all such instruments in the market.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited. The Investment Managers mitigate this price risk through diversification in line with their own investment strategies and mandate guidelines.

Other Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the year to 31<sup>st</sup> March 2013. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the assets, as held by the Fund's custodian, at 31<sup>st</sup> March 2013 by the amounts shown below:

<b>As at 31<sup>st</sup> March 2013</b>	<b>Value</b>	<b>Volatility of return</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	£'000	%	£'000	£'000
UK Bonds	151,104	6.7	161,228	140,980
UK Index Linked Gilts	74,137	9.3	81,032	67,242
UK Equities	289,942	16.0	336,333	243,551
Overseas Bonds	61,542	19.6	73,604	49,480
Overseas Equities	693,897	18.9	825,044	562,750
UK Property	71,067	3.6	73,625	68,509
Overseas Property	6,971	10.2	7,682	6,260
Venture Capital/Private Equity	4,369	8.5	4,740	3,998
	1,353,029		1,563,288	1,142,770
<b>Total Gloucestershire Fund</b>	<b>1,353,029</b>	<b>8.8</b>	<b>1,472,096</b>	<b>1,233,962</b>

Prior year comparative data:

<b>As at 31<sup>st</sup> March 2012</b>	<b>Value</b>	<b>Volatility of return</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	£'000	%	£'000	£'000
UK Bonds	165,810	7.2	177,748	153,872
UK Index Linked Gilts	77,829	9.3	85,067	70,591
UK Equities	258,278	17.2	302,702	213,854
Overseas Bonds	63,196	22.6	77,478	48,913
Overseas Equities	525,211	15.4	606,093	444,329
UK Property	70,389	3.8	73,064	67,714
Overseas Property	4,685	2.1	4,784	4,586
Venture Capital/Private Equity	4,254	9.7	4,667	3,841
	1,169,652		1,331,603	1,007,700
<b>Total Gloucestershire Fund</b>	<b>1,169,652</b>	<b>10.7</b>	<b>1,295,273</b>	<b>1,044,031</b>

## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. This risk will affect the value of both fixed interest and index linked securities. The amount of income receivable from cash balances will also be affected by fluctuations in interest rates.

The Funds exposure to interest rate movements, as a result of the bond portfolio, as at the 31st March 2013 is set out below along with the interest rate sensitivity analysis data.

### Interest Rate Risk Sensitivity Analysis

The council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Over the last five years long term yields, as measured by the yield on the FTSE Over 15 Year Gilt Index, have averaged 3.9% (2011/12 4.2%) and moved between a high of 4.8% (4.9%) and a low of 2.8% (2.9%). As at the end of March 2013 this yield was 3.0% (3.3%). Given the high degree of uncertainty over the future economic situation, the Fund's bond manager has advised that it is entirely possible that yields could fluctuate anywhere within this historic range in the next year, or in extreme circumstances outside these boundaries.

The analysis that follows assumes that all other variables, in particular, exchange rates, remain constant and shows the effect in the year on the values of a +/- 100bps (1%) change in interest rates.

Asset type	Carrying amount as at 31st March 2013	Change in the year in the net assets available to pay benefits	
		+100BPS £'000	-100BPS £'000
Bond Portfolio - Fixed Interest Securities excluding cash	290,730	-33,251	33,251

Asset type	Carrying amount as at 31st March 2012	Change in the year in the net assets available to pay benefits	
		+100BPS £'000	-100BPS £'000
Bond Portfolio - Fixed Interest Securities excluding cash	306,003	-34,285	34,285

## Foreign Currency Risk

Foreign currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on both monetary and non-monetary investments denominated in a currency other than sterling. For a sterling based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls. Apart from permitting the fixed income portfolio manager and global property manager to hedge currency exposures back to sterling, the Fund's current policy is to not hedge foreign currency exposure.

### Currency Risk Sensitivity Analysis

Following analysis of historical data, by the Fund's performance measurement service, the likely volatility associated with foreign exchange rate movements is considered to be 5.6% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 5.6% strengthening/weakening of the pound against the various countries in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - Asset type	2012/13		
	Asset value		Change to net assets available to pay benefits
	as at 31st March	2013 £'000	
Global Fixed Interest	59,264	62,583	+5.6% 55,945
UK Equities Portfolio	700	739	-5.6% 661
Global Equities	579,437	611,885	546,989
Emerging Market Equities	52,541	55,483	49,599
Global Multi Asset	63,215	66,755	59,675
	755,157	797,445	712,869

Currency exposure - Asset type	2011/12 - Re-stated (see note N19)		
	Asset value		Change to net assets available to pay benefits
	as at 31st March	2012 £'000	
Global Fixed Interest	60,306	64,950	+7.7% 55,662
UK Equities Portfolio	658	709	-7.7% 607
Global Equities	456,318	491,454	421,182
Emerging Market Equities	45,594	49,105	42,083
	562,876	606,218	519,534

Currency exposure - Asset type	2011/12		
	Asset value as at 31st March		Change to net assets available to pay benefits
	2012 £'000	£'000	
Global Fixed Interest	4,173	4,498	+7.8% 3,848
UK Equities Portfolio	658	709	-7.8% 607
Global Equities	456,318	491,911	420,725
Emerging Market Equities	45,594	49,150	42,038
	506,743	546,268	467,218

## Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises any credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's contractual exposure to credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Bankruptcy or insolvency of the custodian may affect the Fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The Fund manages its risk by monitoring the credit quality and financial position of the custodian.

Credit risk on over the counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The Fund's bond portfolios have significant credit risk through its underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

The council believes it has managed its exposure to credit risk within an acceptable level and its default experience over the last five financial years is not significantly out of line with the industry.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. The Fund invests surplus cash held with the custodian in diversified money market funds.

Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted.

Foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts which are primarily banks. The maximum credit exposure on foreign currency contracts is any net profit on forward contracts, should the counterparty fail to meet its obligations to the Fund when it falls due.

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31<sup>st</sup> March 2013 is set out below.

**Credit Analysis**

<b>31<sup>st</sup> March 2013</b>	<b>AAA</b> £'000	<b>AA</b> £'000	<b>A</b> £'000	<b>BBB</b> £'000	<b>BB</b> £'000	<b>B</b> £'000	<b>Unrated</b> £'000
UK Gilts	63,095	-	-	-	-	-	-
UK Index Linked	74,681	-	-	-	-	-	-
Overseas Govt Bonds	-	-	-	-	-	-	-
Corporate Bonds	-	4,399	87,748	18,182	5,011	344	1,691
Asset Backed	2,753	2,404	9,818	6,464	-	-	-
Emerging Markets	-	-	-	-	-	-	-
Mortgages	1,040	-	-	-	-	-	-
Supra/Sov/Local Govts	4,791	-	-	-	-	-	-
Cash/Cash Equivalents/Currency Forwards	6,864	-	-	-	-	-	1,446
	<b>153,224</b>	<b>6,803</b>	<b>97,566</b>	<b>24,646</b>	<b>5,011</b>	<b>344</b>	<b>3,137</b>
% of Fixed Interest Portfolio	52.7	2.3	33.6	8.5	1.7	-	1.1

<b>31<sup>st</sup> March 2012</b>	<b>AAA</b> £'000	<b>AA</b> £'000	<b>A</b> £'000	<b>BBB</b> £'000	<b>BB</b> £'000	<b>B</b> £'000	<b>Unrated</b> £'000
UK Gilts	57,443	-	-	-	-	-	-
UK Index Linked	78,278	-	-	47	-	-	-
Overseas Govt Bonds	-	-	-	-	-	-	-
Corporate Bonds	1,180	7,702	25,066	87,023	5,526	-	795
Asset Backed	11,084	1,143	10,710	7,832	-	-	-
Emerging Markets	-	-	5,399	-	-	-	-
Mortgages	970	-	-	-	-	-	-
Supra/Sov/Local Govts	5,805	-	-	-	-	-	-
Cash/Cash Equivalents/Currency Forwards	4,019	-	-	-	-	-	9,412
	<b>158,779</b>	<b>8,845</b>	<b>41,175</b>	<b>94,902</b>	<b>5,526</b>	-	<b>10,207</b>
% of Fixed Interest Portfolio	49.7	2.8	12.9	29.7	1.7	-	3.2

**Treasury Management Year End Cash Balances**

The management of Pension Fund cash balances not held by the Custodian is delegated to Gloucestershire County Council's Treasury Management team to manage in accordance with their Treasury Management Strategy, which reflects the CIPFA Code of Practice on Treasury Management in Public Services. Pension Fund cash is invested separately from Gloucestershire County Council monies.

The Fund's cash holding under its treasury management arrangements at 31st March 2013 is shown below:

Account Name	Rating*	Balances as at 31st March 2012		Balances as at 31st March 2013	
		£'000	£'000	£'000	£'000
RBS Liquidity Select Account	A/A1	23		23	
Ignis Liquidity Fund	AAAm	5,000		5,000	
Federated Prime Rate Liquidity Fund	AAAm	5,000		5,000	
Goldman Sachs	AAAm	140		5,000	
HSBC Money Market	AA- / A1+	420		979	
HSBC Current Account	AA- / A1+	-226		-15	
<b>Total</b>		<b>10,357</b>		<b>15,987</b>	

\* Standard and Poors ratings are quoted as at 31st March 2013.

### Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. A substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the Fund are the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements and has immediate access to its cash holdings.

All financial liabilities are due within one year.

### Refinancing risk

Refinancing risk relates to the Fund being required to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. Refinancing risk within the Bond portfolio is mitigated through credit and liquidity analysis of all investments and diversification by both issuer and maturity. The fund has no other financial instrument(s) that has refinancing risk as part of its treasury management and investment strategies.

### Fair value hierarchy

The Fund is required to classify its investments using a fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. Fair value is the value at which the investments could be realised within a reasonable timeframe. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The fair value hierarchy has the following levels:

- Level 1 – Unadjusted quoted prices in an active market for identical assets or liabilities that the reporting entity has the ability to access at the measurement date
- Level 2 – Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Unobservable inputs for the asset or liability used to measure fair value that rely on the reporting entity's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy, as held by the Fund's custodian, at 31<sup>st</sup> March 2013

Type of Asset	2012/13		
	Level 1 £'000	Level 2 £'000	Level 3 £'000
UK Equities	282,317	-	-
Global Equities	243,176	-	-
Emerging Market Equities	52,222	-	-
Fixed Interest	151,104	-	-
Index Linked Securities	74,137	-	-
Overseas Fixed Interest	59,965	1,577	-
Unitised Insurance Policy	406,125	-	-
Property	-	63,834	14,204
Private Equity	-	-	4,369
Cash & Cash Equivalents	4,868	-	-
Futures	-108	-	-
<b>TOTAL</b>	<b>1,273,806</b>	<b>65,411</b>	<b>18,573</b>

Type of Asset	2011/12 Restated (see note N19)		
	Level 1 £'000	Level 2 £'000	Level 3 £'000
UK Equities	251,991	-	-
Global Equities	197,845	-	-
Emerging Market Equities	45,413	-	-
Fixed Interest	165,811	-	-
Index Linked Securities	77,829	-	-
Overseas Fixed Interest	55,779	7,416	-
Unitised Insurance Policy	288,241	-	-
Property	-	64,737	10,337
Private Equity	-	-	4,254
Cash & Cash Equivalents	10,723	-	-
Futures	93	-	-
<b>TOTAL</b>	<b>1,093,725</b>	<b>72,153</b>	<b>14,591</b>

Type of Asset	2011/12		
	Level 1 £'000	Level 2 £'000	Level 3 £'000
UK Equities	251,991	-	-
Global Equities (Pooled Investment)	-	-	197,845
Emerging Market Equities (Pooled Investment)	45,413	-	-
Fixed Interest	-	165,810	-
Index Linked Securities	-	77,829	-
Overseas Fixed Interest (Pooled Investment)	55,779	-	7,416
Unitised Insurance Policy (Pooled Investment)	6,288	-	281,953
Property	-	-	75,074
Private Equity	-	-	4,254
Cash & Cash Equivalents	1,798	8	8,917
Futures	93	-	-
<b>TOTAL</b>	<b>361,362</b>	<b>243,647</b>	<b>575,459</b>

**N29. Transfer of Magistrates Court Staff to the Principal Civil Service Pension Scheme (PCSPS)**

On the 1<sup>st</sup> April 2005 Magistrates Court staff were transferred to the Department of Constitutional Affairs (DCA) and so were no longer eligible to be active members of the Local Government Pension Scheme (LGPS). Employees had the option to transfer their previous LGPS service to the PCSPS or leave the service in the LGPS as a deferred pension. Agreement was reached between the Government Actuary's Department (GAD) and local authority actuaries on the resulting bulk transfer value in March 2011. The bulk transfer value, calculated to take into account those staff moving their service to the PCSPS and the amount required by the LGPS to meet the liability of ex-magistrates staff currently receiving pensions and those with deferred pensions, was a payment to the Gloucestershire LGPS Fund of £6.18m payable in equal instalments over 10 years.

The first payment of £618k was received and accounted for in the 2011/12 pension fund accounts. This has now been adjusted to correctly recognise the full accrued value in the 2010/11 financial year and to include a debtor for the outstanding balance. The resulting changes have been made as follows:

<b>1<sup>st</sup> April 2011 Net Asset Statement Re-stated</b>	<b>2010/11</b>	<b>2010/11</b>	<b>Difference</b>		
		<b>re-stated</b>			
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b><u>Long Term Assets</u></b>					
Money due for transfer of staff to Civil Service Scheme	-		5,562		5,562
<b><u>Current Assets</u></b>					
Money due for transfer of staff to Civil Service Scheme	-		618		618
<b>2011/12 Fund Account Re-stated</b>					
	<b>2011/12</b>	<b>2011/12</b>	<b>Difference</b>		
		<b>re-stated</b>	<b>£'000</b>	<b>£'000</b>	
Group Transfers In	618		-	-	-
<b>2011/12 Net Asset Statement Re-stated</b>					
	<b>2011/12</b>	<b>2011/12</b>	<b>Difference</b>		
		<b>re-stated</b>	<b>£'000</b>	<b>£'000</b>	
<b><u>Long Term Assets</u></b>					
Money due for transfer of staff to Civil Service Scheme	-		4,326		4,326
<b><u>Current Assets</u></b>					
Money due for transfer of staff to Civil Service Scheme	-		1,236*		1,236

\*reflects the receipt of two payments of £618k in 2012/13

The magistrate courts payments within long term assets, payable in future years, have not been discounted, as given the low discount factor that would have been used, the effect would have been negligible

**Fire Pensions Accounts****Fund Account for the year ended 31<sup>st</sup> March 2013**

2011/12			2012/13		
FPS £'000	NFPS £'000	Total £'000	FPS £'000	NFPS £'000	Total £'000
<b>Contributions Receivable</b>					
From employer					
-1,411	-206	-1,617	Normal	-1,406	-197
			Early retirements		
-19	-9	-28	Other: ill health retirement	-24	-3
From members					
-729	-159	-888	Normal	-775	-158
-6	-	-6	Other: added years	-7	-
<b>Transfers in</b>					
-	-7	-7	Individual transfers in from other schemes	-	-
-	-	-	Other	-	-
<b>Benefits Payable</b>					
3,977	1	3,978	Pensions	4,154	5
275	8	283	Commutations & lump sum retirement benefits	302	13
-	-	-	Lump sum death benefits	-	-
-	-	-	Other	-	-
<b>Payments to and on account of leavers</b>					
-	-	-	Refunds of contributions	-	-
85	-	85	Individual transfers out to other schemes	-	-
2,172	-372	1,800	Net amount payable / receivable for the year before top-up grant receivable / amount payable to Central Government	2,244	-340
-2,172	372	-1,800	Top-up grant receivable / payable to Central Government	-2,244	340
<b>Net amount payable / receivable for year</b>					
-	-	-		-	-

**Fire Pensions Accounts****Net Assets Statement for the year ended 31<sup>st</sup> March 2013**

			2011/12			2012/13	
	FPS	NFPS	Total		FPS	NFPS	Total
	£'000	£'000	£'000		£'000	£'000	£'000
<b>Net current assets and liabilities</b>							
			Contributions due from employer				
-383	-	-383	Pension top-up grant receivable from sponsoring department		-15	-	-15
			Unpaid pension benefits				
			Amount due to sponsoring department				
			Other current assets and liabilities				
383	-	383	Amount owing to general fund		15	-	15
<hr/>							
	-	-	-		-	-	-

**NOTES**

- a) The Firefighters' pension fund is administered by the Council. It was established for authorities in England under the Firefighters' Pension Scheme (amendment) (England) Order 2006 and is split into two schemes 'Firefighter Pension Scheme (FPS) which is for wholetime firefighters who were employed before 5<sup>th</sup> April 2006 and have not transferred to the new scheme and the 'New Firefighters Pension Scheme (NFPS) for all wholetime firefighters who have joined since 6<sup>th</sup> April 2006, those that have transferred from the old scheme and all Retained Firefighters. It is an unfunded scheme which is "contracted out" of the state scheme and is termed a defined benefit (or final salary) scheme. The funding arrangements for this scheme changed on the 1<sup>st</sup> April 2006. The fund is financed by contributions paid in by existing firefighters and the Fire Service with any balance receivable from or payable to the Department of Communities and Local Government (DCLG), therefore there are no investment assets belonging to the Fund.
- b) Employees and employers contribution levels are based on percentages of pensionable pay set nationally by the DCLG/WG and subject to triennial revaluation by the Government Actuary's Department.
- c) Pension benefits are payable from the fund in accordance with the relevant statutory provisions and include ordinary and ill-health awards. Any ongoing Injury awards are not payable from the fund.
- d) The fund has been prepared to meet the requirements of the "Code of Practice on Local Authority Accounting in the United Kingdom 2012/13". There are no administration charges included in the accounts and the fund's financial statements do not take into account any liabilities to pay pensions and other benefits after the period end.
- e) The liability under IAS 19 is disclosed in Note 39 of the Notes to the Accounts.

## **Glossary of terms**

### **Accounting Policies**

Those principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in Financial Statements through recognising, selecting measurement bases for, and presenting Assets, Liabilities, Gains, Losses and changes to Reserves. Accounting policies do not include estimation techniques.

### **Accounting Standards**

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Council. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

### **Accrual**

An amount to cover income or spending that has not yet been paid but which belongs to that accounting period.

### **Actuary**

An adviser on financial questions involving probabilities relating to mortality and other contingencies. Every three years the Scheme appointed actuary reviews the Assets and the Liabilities of the Fund and reports to the Group Director of Enabling & Transition on the financial position. This is known as the triennial actuarial valuation.

### **Active Investment Management**

A style of investment management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or by a combination of all 3).

### **Actuarial Gains and Losses**

For a Defined Benefit Pension Scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

### **Admitted Body**

An organisation that chooses and is allowed by the Scheme to be admitted to the LGPS using an Admission Agreement in order to provide access to the Scheme for some or all of its employees.

### **Amortisation**

The writing down in book value of Intangible Assets to reflect the Asset's usage.

### **Additional Voluntary Contributions (AVC's)**

Contributions over and above a member's normal contributions which the member elects to pay in order to secure additional benefits.

### **Benefits in Kind**

Benefits in Kind are items provided to an employee on top of their salary that are considered to benefit the employee. Benefits in Kind can be varied and wide ranging. Some of the most common of these benefits include fuel allowances, leased cars, mobile phones, beneficial or low rate loans, and contributions to schemes such as private medical insurance.

### **Capital Expenditure**

Includes spending on the acquisition, creation or enhancement of Assets either directly by the Council or indirectly in the form of grants to other persons or bodies. Expenditure not falling within this definition must be charged to the General Fund as Revenue Expenditure.

## **Class of Tangible Fixed Assets**

The classes of Tangible Fixed Assets required to be included in the accounting statements are:

### **Operational Assets**

- Land and buildings
- Vehicles, plant, furniture and equipment
- Infrastructure assets
- Community assets

### **Non-operational Assets**

- Assets under construction
- Surplus assets held for disposal.

## **Code of Practise (CODE)**

A publication produced by CIPFA that provides comprehensive guidance on the content of a Council's Statement of Accounts.

## **Community Assets**

Assets that the Council intends to hold in perpetuity that have no determinable useful life, and that may have restrictions on their disposal. Examples of Community Assets are parks and historical buildings.

## **Consistency**

The principle that the accounting treatment of like items within an accounting period, and from one period to the next, is the same.

## **Contingent Asset**

A Contingent Asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

## **Contingent Liability**

A Contingent Liability is either a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

## **Corporate and Democratic Core**

The Corporate and Democratic Core comprises all activities which the council engage in specifically because it is an elected, multi-purpose council. The cost of these activities are over and above those which would be incurred by a series of independent, single purpose, nominated Bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

## **Dedicated Schools Grant (DSG)**

A specific Government grant which funds schools and schools related expenditure. The grant is ringfenced and can only be used in support of the School's budget.

## **Deferred Charges**

Expenditure which may properly be deferred, but which does not result in, or remain matched with, assets controlled by the council.

## **Deferred Retirement Benefit**

A benefit that a member has accrued but is not yet entitled to receive payment.

## **Depreciation**

The measure of the cost or revalued amount of the benefits of the Fixed Asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a Fixed Asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the Asset.

## **Derivative**

A security whose price is dependent upon, or derived from, one or more underlying Assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying Asset. The most common underlying Assets include stocks, bonds, commodities, currencies, interest rates and market indexes.

## **Disclosure**

Information we must show in the accounts under the CIPFA code of practice.

## **Discretionary Benefits**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the council's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996.

## **Estimation Techniques**

The methods adopted by an Entity to arrive at estimated monetary amounts corresponding to the measurement bases selected for Assets, Liabilities, Gains, Losses and changes to Reserves. Estimation techniques implement the measurement aspects of Accounting Policies. An Accounting Policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique.

## **Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

## **Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the Accounts.

## **Exchange Traded Funds (ETFs/ET's)**

A fund that tracks a selection or 'basket' of related securities within a Stock Market Index but can be traded on an Exchange like a stock or share.

## **Extraordinary Items**

Material items possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

## **Fair Value**

The amount for which an Asset could be exchanged or a Liability settled at arms length between knowledgeable parties.

## **Finance Lease**

A Finance Lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

## **Funding Level**

The relationship at a specified date between the actuarial value of Assets and the Actuarial Liability, normally expressed as a funding ratio or percentage.

## **Futures Contracts**

A contract which binds two parties to complete a sale or purchase at a specified future date at a price which is fixed at the time the contract is effected. Exchange Traded Futures Contracts have standard terms and margin payments are required.

## **Going Concern**

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the Accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

## **Government Grants**

The assistance by Government and Inter-Government Agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to a Council in return for past or future compliance with certain conditions relating to the activities of the council.

## **Guaranteed Minimum Pension (GMP)**

The minimum pension which a salary related Occupational Pension Scheme must provide in respect of contracted out contributions paid between April 1978 and 1997 as a condition of contracting out.

## **IFRS**

These standards are issued by the International Accounting Standards Board. They are adapted under the auspices of CIPFA so as to apply to local authorities and consolidated in the Code of Practise on Local Authority Accounting.

## **International Accounting Standard (IAS) 19**

International Accounting Standard (IAS) 19 outlines the accounting requirements for employee benefits, including short-term benefits (e.g. wages and salaries, annual leave), post-employment benefits such as retirement benefits, other long-term benefits (e.g. long service leave) and termination benefits. The standard establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable, and outlines how each category of employee benefits are measured, providing detailed guidance in particular about post-employment benefits.

## **International Financial Reporting Interpretations Committee (IFRIC) 12**

The objective of IFRIC 12 is to clarify how certain aspects of existing International Accounting Standards are to be applied to service concession arrangements. A service concession arrangement is an arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. The grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

## **Inventories**

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

## **Impairment**

A loss in the value of a Fixed Asset arising from physical damage such as a major fire or a significant reduction in market value. In addition a reduction in value where there is insufficient unrealised gains in the revaluation reserve for that asset. A loss in the value of a financial instrument arising from market conditions.

## **Infrastructure Assets**

Fixed assets that are not able to be transferred and expenditure on which is recoverable only by continued use of the asset created. Examples of Infrastructure Assets are highways and footpaths.

## **Investment Management Agreement**

The document agreed between an Investment Manager and the Fund setting out the basis upon which the manager will manage a portfolio of investments for the Fund.

## **LAAP**

Local Authority Accounting Panel. The panel regularly issues LAAP Bulletins to local authority practitioners. These Bulletins provide guidance on topical issues and accounting developments and when appropriate provide clarification on the detailed accounting requirement.

## **Liquid Resources**

Current Asset investments that are readily disposable by the council without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

## **Long-term Contracts**

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

## **Managed Fund**

An arrangement where the assets of a scheme are invested on similar lines to the operation of unit trusts by an external investment manager.

## **Market Value**

The price at which an asset might reasonably be expected to be sold in an open market.

## **Membership**

Local Authority employment during which time pension contributions were made or deemed to have been made providing entitlement to benefits under the scheme.

## **Net Book Value**

The amount at which Fixed Assets are included in the Balance Sheet, i.e. at their historical cost or current value less the cumulative amounts provided for depreciation.

## **Non-Operational Assets**

Fixed Assets held by a council but not used or consumed in the delivery of services or for the service or strategic objectives of the council. Examples of Non-Operational Assets include investment properties and assets that are surplus to requirements, pending their sale.

## **Open Ended Investment Company (OEIC)**

A pooled investment vehicle structured as a limited company in which investors can buy and sell shares on an ongoing basis.

## **Operating Leases**

Under this type of lease, the risks and rewards of ownership of the leased goods stay with the company leasing out the goods.

## **Operational Assets**

Fixed assets held and occupied, used or consumed by the council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the council.

## **Options**

The right but not the obligation to buy (call option) or sell (put option) a specific security at a specified price (the exercise or strike price), at or within a specified time (the expiry date). This right is obtained by payment of an amount (known as the premium) to the writer (seller) of the option, and can be exercised whatever happens to the security's market price.

## **Over The Counter (OTC)**

A market that is conducted between dealers by telephone and computer and not on a listed exchange.

## **Past Service Cost**

For a Defined Benefit Scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

## **Pensionable Earnings**

The earnings on which benefits and/or contributions are calculated under the scheme rules.

## **Pension Interest Cost and Expected Return on Pensions Assets**

For a Funded Defined Benefit Scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

## **Pooled Investment Vehicle**

A fund in which a number of investors pool their assets which are managed on a collective basis. The assets of a pooled investment vehicle are denominated in units that are revalued regularly to reflect the values of underlying assets. Vehicles include open ended investment companies, real estate investment trusts and unit trusts.

## **Prior Period Adjustments**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

## **Projected Unit Method**

An Accrued Benefits funding method in which the actuarial liability makes allowance for projected earnings. The standard contribution rate is that necessary to cover the cost of all benefits which will accrue in the control period following the valuation date by reference to earnings projected to the dates on which benefits become payable.

## **Public Works Loans Board (PWLB)**

A Government agency providing long and short term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

## **Quoted Investments**

Investments that have their prices quoted on a recognised stock exchange.

## **Realised Gains/ (Losses)**

Profit/(losses) on investments when they are sold at more/(less) than the purchase price.

## **Related Parties**

Two or more parties are related parties when at any time during the financial period:

- One party has direct or indirect control of the other party, or
- The parties are subject to common control from the same source, or
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests, or
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of the Council include:

- Central Government
- Local Authorities and other bodies precepting or levying demands on the Council Tax
- It's subsidiary and associated companies
- It's joint ventures and joint venture partners
- It's Members
- It's Chief Officers, and
- It's Pension Fund.

For individuals identified as related parties, the following are also presumed to be related parties:

- Members of the close family, or the same household, and
- Partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

## **Related Party Transaction**

A Related Party Transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- The purchase, sale, lease, rental or hire of assets between related parties
- The provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund
- The provision of a guarantee to a third party in relation to a liability or obligation of a related party
- The provision of services to a related party, including the provision of pension fund administration services
- Transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

## **Remuneration**

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

## **Reserves**

Amounts set aside in one year's accounts to be spent in future years. Some reserves are earmarked for specific purposes and other general revenue balances are available to meet future revenue and capital expenditure.

## **Residual Value**

The Net Realisable Value of an Asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

## **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

## **Scheduled Bodies**

Local authorities and similar bodies whose staff are entitled automatically to become members of the Local Authority Pension Fund.

## **Segregated Fund**

Where the assets of a particular fund are managed independently of those of other funds under the fund manager's control.

## **Service Reporting Code of Practise (SeRCOP)**

Councils have different structures for services or departments, which may have different responsibilities, making comparisons between them difficult. To help make comparisons, CIPFA uses a Code of Practice which provides standard categories for both services (departments) and expense types. The CIPFA Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP) from 2011/12. SeRCOP establishes proper practices with regard to consistent financial reporting for services. It is expected that CIPFA members will comply with all the mandatory requirements of SeRCOP as it defines best practice in terms of financial reporting. SeRCOP is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and Public Services reform.

## **Soft Loans**

Loans, normally to voluntary sector organisations, below the market rate of interest.

## **Specialist Management**

A fund management arrangement whereby there are separate accounts or contracts with one or a variety of managers for specific asset classes. Each manager focuses mainly on stock selection within the asset class while the Pension Committee/trustees determine allocations to each asset class.

## **Tangible Fixed Assets - Property Plant & Equipment**

Tangible Assets that yield benefits to the council and the services it provides for a period of more than one year.

## **Transfer Payment**

A payment made from a pension scheme to another pension scheme in lieu of benefits, which have accrued to the member or members concerned, to enable the receiving arrangement to provide alternative benefits.

## **Transfer Value**

The amount of the transfer payment.

## **Trust Funds**

Funds administered by the Council on behalf of others for such purposes as prizes, charities and specific projects.

## **Unitised Insurance Policy**

Investors are issued with a life policy representing title. Investors' 'holdings of units' represent a means of calculating the value of their policy. The Life Fund/Company holds the pool of investments and is the owner of all the assets. The activities of Life Companies are regulated by the FSA.

### **Unit Trust**

Unit Trusts are collective funds, which allow private investors to pool their money in a single fund, thus spreading risk, getting the benefit of professional fund management and reducing dealing costs. Unit trust trading is based on market forces and their Net Asset Value - that is, the value of their underlying assets divided by the number of units in issue. The activities of unit trusts are regulated by the FSA.

### **Unquoted Investments**

Investments which are dealt in the market but are not subject to any listing requirements and are given no official status.

### **Useful Life**

The period over which the council will derive benefits from the use of a fixed asset.

### **Unrealised Profit**

This is the anticipated profit that would be generated from selling the asset.

### **Usable Capital Receipts**

The proportion of the proceeds arising from the sale of fixed assets that can be used to finance capital expenditure or repay debt.

### **Venture Capital**

The term used to describe a subset of private equity covering the seed to expansion stages of investment.

## Abbreviations

<b>BVACOP</b>	Best Value Accounting Code of Practice
<b>CFR</b>	Capital Financing Requirement
<b>CPFA</b>	Chartered Public Finance Accountant
<b>CPI</b>	Consumer Price Index
<b>DCLG</b>	Department of Communities and Local Government
<b>DEFRA (Defra)</b>	Department for Environment, Food and Rural Affairs
<b>DSG</b>	Dedicated Schools Grant
<b>FPS</b>	Firefighters Pension Scheme
<b>FSA</b>	Financial Services Authority
<b>GCC</b>	Gloucestershire County Council
<b>GFRS</b>	Gloucestershire Fire and Rescue Service
<b>GSWBP</b>	Gloucester South West Bypass
<b>HMRC</b>	Her Majesty's Revenue and Customs
<b>IAS</b>	International Accounting Standard
<b>ICES</b>	Integrated Community Equipment Service
<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>IFRS</b>	International Financial Reporting Standards
<b>ISB</b>	Individual School Budget
<b>IT</b>	Information Technology
<b>LAAP</b>	Local Authority Accounting Panel
<b>LAMS</b>	Local Authority Mortgage Scheme
<b>LASAAC</b>	Local Authority (Scotland) Accounts Advisory Committee
<b>LATS</b>	Landfill Allowances Trading Scheme
<b>LEP</b>	Local Enterprise Partnership
<b>LGPS</b>	Local Government Pension Scheme
<b>LOBO</b>	Lender Option Borrower Option (Loans)
<b>MRP</b>	(Statutory) Minimum Revenue Provision
<b>NFPS</b>	New Firefighters Pension Scheme
<b>NHS</b>	National Health Service
<b>NNDR</b>	National Non-Domestic Rates
<b>NPV</b>	Net Present Value
<b>PCT</b>	Primary Care Trust
<b>PFI</b>	Public Finance Initiative
<b>PPP</b>	Public-Private Partnership
<b>PPE</b>	Property Plant and Equipment
<b>PWLB</b>	Public Works Loans Board
<b>RCCO</b>	Revenue Contribution to Capital Outlay
<b>RPI</b>	Retail Price Index
<b>RSG</b>	Revenue Support Grant
<b>SeRCOP</b>	Service Reporting Code of Practice
<b>TOIL</b>	Time Off in Lieu
<b>TPA</b>	Teachers' Pensions Agency
<b>VRP</b>	Voluntary Revenue Provision
<b>WG</b>	Welsh Government



# **ANNUAL GOVERNANCE STATEMENT 2012/2013**

## 1. Scope of Responsibility

Gloucestershire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

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.

### What is Governance?

Governance is about how Gloucestershire County 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.

Strong transparent and responsive corporate governance is a key feature of any democratic body whose main function is community development and representation.

It sets out the systems and processes, culture and values by which Gloucestershire County Council works and how it accounts to, engages with and, where appropriate, lead local communities.

Gloucestershire County Council operates through a governance framework that brings together an underlying set of legislative requirements, governance principles and management processes. The Council has therefore approved and adopted a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework; *Delivering Good Governance in Local Government 2007 (Addendum 2012)*. A copy of the Council's code is on our website at <http://www.gloucestershire.gov.uk/article/105641/Code-of-Corporate-Governance> or can be obtained from the Monitoring Officer, Jane Burns.

This code is a public statement of the Council's commitment to these principles and sets out how the commitment will affect all areas of the Council's business.

This statement also explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an Annual Governance Statement.

## **2. The Purpose of the Governance Statement**

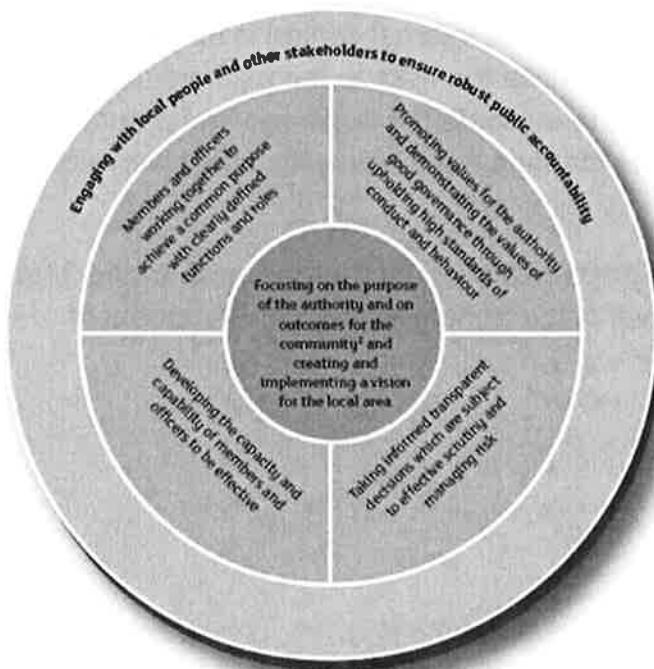
The governance framework comprises the systems, processes, culture and values by which the County Council is directed and controlled, and its activities through which it accounts to, engages with, and leads the community. It enables the authority to monitor the achievement of its strategic objectives, and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31st March 2013 and up to the date of approval of the annual report and Statement of Accounts.

### 3. GCC's Governance Framework

The Council's governance framework is consistent with the six core principles (underpinned by a number of supporting principles) of the CIPFA/SOLACE framework.



**Core Principle 1:** Gloucestershire County Council aims to focus on its purpose and on outcomes for the community, creating and implementing a vision for the local area with partners.

**Core Principle 2:** Members and officers working together to achieve a common purpose with clearly defined functions and roles.

**Core Principle 3:** Promoting values for the authority, and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

**Core Principle 4:** Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk.

**Core Principle 5:** Developing the capacity and capability of members and officers to be effective.

**Core Principle 6:** Engaging with local people and other stakeholders to ensure robust public accountability.

The key GCC corporate strategies, systems and processes which contribute to effective governance arrangements, and underpin the core principles are :-

- The Council's Constitution 2013 (describes the individuals and groups that make up the County Council (that is, its "composition") and the principal rules and procedures that govern the way it operates, including clearly defined decision making processes.  
<http://glosterext.goucestershire.gov.uk/documents/s17230/Constitution%20Document.pdf>

- The Council Strategy 2011-2015 (defines the Council's key priorities and plans following full consultation with the communities of Gloucestershire)  
<http://www.goucestershire.gov.uk/CHttpHandler.ashx?id=42252&p=0>
- Key Strategies, plans and policies (describes the corporate plans and policies operating within GCC) <http://www.goucestershire.gov.uk/policy>
- Medium Term Financial Strategy 2013/14 to 2015/16 (describes GCC's financial strategy and detailed budget to meet the priorities of the Council's Strategy)  
<http://www.goucestershire.gov.uk/CHttpHandler.ashx?id=50886&p=0>
- Members training programmes and briefings (to support continued Member development) <http://www.goucestershire.gov.uk/search?q=members&go=Go>
- Code of Conduct for Members and Co-opted Members of GCC and Register of Interests (defines the expected standard of conduct by Members)  
<http://www.goucestershire.gov.uk/search?q=members&go=Go>
- Complaints policy  
<http://www.goucestershire.gov.uk/search?q=complaints+policy&go=Go>
- Risk Management Policy Statement and Strategy 2013-2014 (defines how risk is managed within the Council)  
<http://www.goucestershire.gov.uk/article/105641/Code-of-Corporate-Governance>
- Effective governance of the Council's Pension Fund
- Effective governance within partnership arrangements
- Performance and Spending Framework (defines the council's corporate performance management arrangements, including audits, inspections and assessments) <http://www.goucestershire.gov.uk/article/104745/Performance--spending>
- External Audit arrangements. External audit provide (a) an independent opinion on the financial statements and (b) a value for money conclusion focusing on financial resilience and the three 'E's i.e. economy, efficiency and effectiveness.
- Internal Audit arrangements. Internal Audit provide independent, objective assurance that the key risks to the achievement of objectives/priorities are adequately managed and that Anti-Fraud and Corruption arrangements are in place to ensure financial probity.

#### **4. Review of Effectiveness of Corporate Governance Arrangements**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior officers of the Council who have responsibility for good governance, the Chief Internal Auditor's annual report on Internal Audit Activity 2012/2013, any comments made by the Council's External Auditors and any other review agencies and inspectorates.

In undertaking this review GCC has:-

- Set out the key documents and processes which incorporate its governance system;
- Sought independent assurances from external assessments where available;
- Obtained detailed risk based assurance statements from Directors, countersigned by either the Chief Executive, Deputy Chief Executive or Chief Operating Officer depending on line management responsibilities covering all areas of the business, to confirm that adequate governance arrangements are in place in relation to:
  - Service delivery;
  - Key partnerships;
  - Risk management and internal control;
  - Performance management;
  - Financial management;
  - Adherence to laws, regulations, rules and procedures;
  - Human resources issues;
  - Management of natural resources;
  - Asset management; and
  - Information governance.
- If less than adequate assurance has been received back from any Director in relation to a key issue, this is reported later within this governance statement.
- Reviewed, via the Audit and Governance Committee, progress on the implementation of key audit recommendations made in relation to all internal audits where an inadequate 'Limited Assurance' audit opinion was issued during the year.

- Reviewed the effectiveness of the Audit and Governance Committee.
- Reviewed the effectiveness of Internal Audit.
- Reviewed the effectiveness of a sample of the key corporate governance processes highlighted.
- Reviewed the control and governance arrangements relating to the pensions fund.

The summary findings of the review of the effectiveness of the corporate governance arrangements in place within Gloucestershire County Council and Gloucestershire Pension Fund, which was co-ordinated by the Chief Internal Auditor, prior to being scrutinised by all Directors, and approved by the Commissioning Board and Corporate Management Team, are set out below.

Wherever possible, rather than duplicate work, assurance has been sought from external assessments, as summarised below.

#### **4.1 Governance framework – results of an examination of a sample of key corporate governance processes.**

A detailed internal audit of the assurance gathering process for the Annual Governance Statement was undertaken when the requirements for this statement were first introduced. This audit, which examined the processes followed, concluded that the Chief Internal Auditor for the authority, was the appropriate officer to undertake the review of the effectiveness of the systems of internal control, given the relevant experience in risk management and internal control. It also concluded that the sources of assurance that had been used as part of the review were appropriate and in accordance with best practice guidance issued at that time.

#### **Action Required**

However, during the latter part of 2012/2013 and early part of 2013/2014, CIPFA/SOLACE in addition to other relevant professional disciplines, have published revised 'good governance' guidance. The Chief Internal Auditor will undertake a review of the revised guidance during 2013/2014, and develop proposals which will be aimed to further enhance the Council's current governance and ongoing assurance arrangements, to ensure they continue to reflect good practice, taking into consideration the Council's New Operating Model.

In addition, the Council's Code of Corporate Governance will be updated to meet the requirements of the new guidance, and will be presented to the Audit and Governance Committee, before going to full Council for approval.

This is of sufficient significance to be included within the key governance improvement areas identified as a result of the annual governance review, as set out in section 5 of the statement.

#### **4.2 Budget Scrutiny/Performance Management/Business Planning Arrangements and Independent Reviews of the Council**

This area has been covered in numerous inspections in recent years, with positive comments always being made. Corporate Performance Management and Business Planning continue to be an integral part of working arrangements within GCC, both at officer and member level, with strategic performance reports being submitted to the Corporate Management Team, Cabinet and the Budget and Performance Scrutiny Committee, (who led on the budget and performance scrutiny process during 2012/13) and performance against Business Plans being monitored by the relevant Scrutiny Committees.

In terms of the Governance statement for 2012/13, further key assurance has been obtained from the most recent Annual Audit Letter produced by the External Auditors and reported to the Audit Committee in January 2013. In this letter the auditors set out their responsibilities for giving an assessment on the adequacy of the County Council's financial arrangements and statements, internal control arrangements and arrangements for securing financial resilience and securing value for money.

In relation to the above, the external auditor issued an unqualified opinion, stating that the council had proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness in its use of resources. No significant weaknesses were identified by the External Auditor.

#### **4.3 One key external performance measure received each year also comes from the Ofsted inspections of children's services**

##### **Ofsted Inspection of Children's Safeguarding Services: 6th February 2012 (report published 5th March 2012)**

The purpose of the inspection is to evaluate the contribution made by relevant services in the local area towards ensuring that children and young people are properly safeguarded. The inspectors recognised that, despite the significant challenges and changes faced as a council over the past year, GCC made good improvements in our safeguarding services.

Leadership, management, ambition and prioritisation are now rated as 'good'. The rating for the overall effectiveness of the safeguarding services is 'adequate' with 'good' capacity for improvement. Inspectors have been clear that all issues of concern raised in the November/December 2010 inspection have been addressed.

They recognised that, despite a challenging year for the council, frontline staff across Social Care, Schools and Health are working effectively together to deliver better planning, support and care for children and families, particularly for those most in need of our help.

While the inspectors have, as expected, also identified some areas where further improvement is needed, they are clear that GCC have the right resources, plans and leadership in place to sustain the progress we have already made. They also recognised that these are areas we are already working on, including introducing greater challenge across the whole of the Children's Partnership. There is a strong emphasis on continuing to develop partnership working to ensure that all the agencies working with children are doing all they can to keep them safe.

The Council is also working hard to make further improvements to reporting and information sharing on equality and diversity issues, as well as building on the positive changes we have already made to monitor the quality of our services. The Inspection report can be found at

<http://www.goucestershire.gov.uk/article/109498/Ofsted-inspections-of-childrens-safeguarding-and-adoption>

In addition, managing the key inherent risks associated with Safeguarding Children is included within the Council's ongoing management of strategic risks, and actions taken to manage any identified risks are monitored and reported as part of the quarterly corporate performance and risk management reporting framework.

#### **4.4 Cotswold Water Park**

In addition to the independent Ofsted reviews, the authority also commissioned an independent review (undertaken by Dr Graham Garbutt) of the Cotswold Water Park in 2011/12, examining areas such as governance arrangements, adherence to policies and decision making processes.

Graham Garbutt concluded his review into GCC's dealings past and present with the Cotswold Water Park ("CWP"). His report, including recommendations, was considered by the Council's Audit Committee on 12th March 2012. The recommendations cover the Complaints system, Freedom of Information, Officers Scheme of Delegation, Disposals of Property, Code of Conduct (for members and officers), Cabinet and Joint arrangements, Scrutiny and Intervention, Roles of the Chief Financial Officer, Role of the Monitoring Officer and Governance/ Planning Policy/ Landscape Design/ Rural Development.

Those recommendations, which include Mr Garbutt's suggestions for the future course of the County Council's relationship with CWP, as well as matters concerning the general governance of the Council, were incorporated into an action plan that was overseen by the Audit Committee during 2012/2013.

## **Action Required**

All actions emanating from the review have now been addressed. However, the Audit and Governance Committee requested that during the latter part of 2013/2014, Internal Audit review compliance with the following revised policies, systems and processes, reporting the outcomes back to the Committee:

- Complaints Policy/System;
- Officers Scheme of Delegation;
- Disposals of Property; and
- Employees Code of Conduct.

The findings of this external review and ongoing monitoring of the actions taken by the Council are of sufficient significance to be included within the key governance issues arising from the annual governance review, as set out in section 5 of the statement.

## **4.5 Risk Management Arrangements**

The Annual Report on Risk Management Activity 202/2013 provides an overview of the effectiveness of risk management within GCC and can be found at <http://glostext.goucestershire.gov.uk/documents/g7533/Public%20reports%20pack%202028th-Jun-2013%2010.00%20Audit%20and%20Governance%20Committee.pdf?T=10>

The extract below demonstrates where external recognition has been provided as to GCC's effectiveness.

### **Insurance Tender**

In June, 2013 the Council's Long Term Agreement with insurers expired. Since June, 2012 Risk Management and Insurance Services (RMIS) have been involved in compiling the risk management information throughout the Authority that relates to the insurable risks, to provide assurance to potential bidders that GCC has a good risk profile to keep premiums as low as possible.

Significant risk management data was provided within the Invitation to Tender and at the 'insurer's day'. The outcome was very successful with the Council achieving, with effect from 2013/2014, a 12% reduction in annual insurance premiums (3 year contract) when compared to 2012/2013 premiums, on a like for like basis. The tender report produced by MARSH relating to Gloucestershire County Council in May 2013 reported the following:

*'It should be noted that the winning bids offer a very competitive deal in the current market and it is attributable to the robust risk management practices embedded throughout your organisation. All key markets who attended the insurers meetings before the tender started have commented how impressed they are with Gloucestershire's management of risk and in all cases have rewarded the Authority for this'.*

In addition, Internal Audit provides an opinion on the effectiveness of risk management arrangements on each audit activity. The outcomes during 2012/2013 highlighted that in 95% of the audited areas Internal Audit rated the effectiveness of the risk management arrangements as adequate or substantial, with 45% rated as substantial and 50 % adequate, with the remaining 5% obtaining a limited assurance opinion. Where limited assurance opinions are given on audits of a strategic importance, they are provided to the relevant risk champions within the Council to ensure that they are placed on the relevant risk registers.

The monitoring of the implementation of the recommendations is then owned by the relevant manager and helps to further embed risk management into the day to day management processes. These opinions also help to inform the work priorities of Risk Management and Insurance Services.

Internal Audit also undertake, on an rotational basis, reviews on the effectiveness of risk management arrangements, operating across all service areas, looking at the Strategic and Operational Performance/Business Plans/Project Plans and associated Risk Registers, to ensure that actions recorded to mitigate risks are in place and operating as intended.

This year Internal Audit reviewed the arrangements operating within Safeguarding Adults, Public Health, Legal Services, Asset Management and Property Services (AMPS), Human Resources (HR) and Strategic Finance.

These internal and external assessments, coupled with the external recognition received for the numerous risk management initiatives undertaken over past years, and the detailed risk based assurance statements obtained from all Directors (Commissioning and Delivery) as part of the formulation of the Annual Governance Statement, has led to conclude that robust risk management arrangements operate within the authority.

#### **4.6 Cabinet and Individual Cabinet Members decision making arrangements / Scrutiny arrangements**

Cabinet and Individual Cabinet Members decision making arrangements continued to operate effectively during 2012/13.

In terms of Scrutiny, a key piece of scrutiny work undertaken during the year related to the scrutiny of the Councils 2013/2014 budget process, with a report being submitted to, and considered by Cabinet, as part of the budget setting process.

The Council has also adopted a new scrutiny structure with the number of committees reducing from 6 to 4, these being:

- Health and Care Overview and Scrutiny Committee;
- Children and Families Overview and Scrutiny Committee;
- Environment and Communities Scrutiny Committee; and
- Overview and Scrutiny Management Committee.

More information on the roles and responsibilities of these can be accessed at:

<http://glostext.goucestershire.gov.uk/ieDocHome.aspx?Categories=>

In addition, GCC has been recognised for its commitment to accountability in local government as part of a national report. The Centre for Public Scrutiny (CfPS) has marked its 10th anniversary by publishing a book of essays, entitled 'State of Accountability in 2013', illustrating best practice in the field. Titled 'How local public scrutiny and accountability can affect national practice', the essay looks at the success of scrutiny at the time of the 2007 floods and the lessons learnt since. These scrutiny processes had a direct effect on a number of improvements following the emergency, including an investment of £30 million by Severn Trent into a secondary piped water supply to the county and flood defences installed by National Grid at Walham electricity sub-station in Gloucester.

In June 2012, the CfPS awarded Gloucestershire County Council its Overall Impact award for the work of the Severn Estuary Scrutiny Commission in bringing together local residents and the Environment Agency (EA) to consider flood risk management proposals.

#### **4.7 Financial Management and Reporting Arrangements**

In his latest Annual Audit Letter the External Auditor issued an unqualified audit opinion, confirmed that proper arrangements were in place to secure value for money and did not identify any material weaknesses in the Council's internal control arrangements.

During 2012/13 regular financial monitoring reports were presented to Cabinet and Scrutiny Committees. Although those reports highlighted risks regarding demand led budgets, they forecast an overall position whereby net expenditure was contained within the overall budget. Indeed, after transfers to Reserves and additional debt redemption approved by Cabinet during 2012/13, an overall under spend of around £4.7 million was achieved, equivalent to 1.2% of the budget.

#### **4.8 Audit Arrangements, including the Audit and Governance Committee**

Effective audit arrangements operate within the Council, provided by an in house internal audit service and external audit provided by the Audit Commission/Grant Thornton during the latter part of 2012/2013. Both internal and external audit submit detailed annual plans to the Audit and Governance Committee of the council, together with regular monitoring reports highlighting key recommendations and actions taken. Clearly, for audit to be effective, it is important that appropriate action is taken in relation to key recommendations made.

During 2012/13 the external auditors found no material weaknesses in the system of internal control within the authority.

Regarding internal audit reports, the Audit Committee have, during 2012/13, taken the opportunity to follow up on progress on all key audit recommendations in relation to audit reports where only limited assurance was given. They did this by requesting the attendance at their meetings of key operational officers who are asked to report on progress. This improves accountability and ensures that key recommendations are actioned to the satisfaction of the Audit Committee.

During 2012/13, six “limited assurance” internal audit reports were issued (representing 10% of the overall audit activity) which related to, Supplier A Landlines (reported to committee 27th September 2012), Contract Award and Monitoring – Property Agency Framework Agreement (reported to Committee 24th January 2013), Fostering Payments Extras (reported to Committee 24th January 2013), Developers Contributions-monitoring systems (reported to Committee 28th June 2013), Gloucestershire Fire and Rescue Service-Procurement of a New Mobilisation, Control and Command system (reported to Committee 28th June 2013), and Project Management Capacity- Cinderford Northern Quarter Spine Road (reported to Committee 28th June 2013). Whilst 10% of the audited activity was rated as a limited opinion, 90% of the activities reviewed have received either a substantial (18%) or adequate (72%) opinion on control.

Given that Internal Audit and the Audit Committee form an integral part of the County Council’s overall governance framework, and are an important source of assurance in respect of the County Council’s arrangements for managing risk, maintaining an effective control environment, and reporting on financial performance, their effectiveness was reviewed in relation to the 2012/13 financial year.

During the latter part of 2012/2013, the Audit Committee changed its role and associated terms of reference, taking on additional governance responsibilities such as oversight of Members Conduct. In addition, the Chairman and the membership changed due to the elections in May 2013.

As such the Committee was renamed The Audit and Governance Committee and comprises of 9 members with a Chairman who is not part of the Executive.

It's primary role, as laid out in the Constitution, is to provide independent assurance of the adequacy of the risk management framework and the associated control environment; independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, to oversee the financial reporting process, and to ensure that Members maintain high standards of probity in their public life by carrying out investigations in respect to allegations of misconduct by a Member or co-opted Member.

With reference to Internal Audit, The Accounts and Audit (England) Regulations 2011 require relevant bodies 'to conduct an annual review of the effectiveness of its internal audit'.

The Accounts and Audit Regulations also states that internal audit should conform to 'proper practices' and it is advised that, during 2012/13 proper practice for internal audit is set out in the Code of Practice for Internal Audit in Local Government in the UK published in 2006 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

To meet the above requirements a self assessment of the Internal Audit Service was undertaken, benchmarking the service against this proper practice.

The Code consists of 11 standards, containing over 190 detailed questions, (summarised below) which set out how the internal audit service should perform its functions, against which an annual assessment should be undertaken.

The self assessment against the Code of Practice has identified that the internal audit service fully meets the requirements of the Code as set out in the Annual Report on Internal Audit activity 2012/2013 which reflects the outcome of the review. <http://gloertext.glocestershire.gov.uk/documents/g7533/Public%20reports%20pack%2028th-Jun-2013%2010.00%20Audit%20and%20Governance%20Committee.pdf?T=10>

### **Public Sector Internal Audit Standards (PSIAS)**

As summarised above, since 2006, the CIPFA Code of Practice for Internal Audit has been advised as the proper practice for internal audit. However, a collaboration announced by the Chartered Institute of Internal Auditors (CIIA) and the Chartered Institute Public Finance and Accountancy (CIPFA) in May 2011 has led to the development of a new set of Internal Audit Standards, namely the Public Sector Internal Audit Standards (PSIAS).

The new PSIAS have been developed to provide a consistent standard across the UK public sector and applies to central government, local government and NHS organisations. These new standards, which replace the CIPFA Code of Practice, became effective from 1 April 2013 and have four key objectives:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

These standards are mandatory and the Chief Internal Auditor will be expected to report on adherence to them in the 2013/2014 annual internal audit report. As such, the Chief Internal Auditor will undertake a self-assessment against the PSIAS and revise the Internal Audit Charter (Terms of Reference) and implement any changes, as required.

The revised self-assessment, action plan, (summarising improvement areas identified) and revised Internal Audit Charter (Terms of Reference), will be presented to the Audit and Governance Committee for approval.

### **Action Required**

Due to the changes in the role and functions of the Audit and Governance Committee and the changes in the mandatory standards relating to Internal Audit, self-assessments will be undertaken during 2013/2014, led by the Chief Internal Auditor, in full collaboration with the Audit and Governance Committee, against the required standards and guidance issued by the relevant professional bodies. The findings of this review and ongoing monitoring of the actions taken by the Council are of sufficient significance to be included within the key governance issues arising from the annual governance review, as set out in section 5 of the statement.

### **4.9 Standards of conduct of officers and members (including the role of the Standards Committee) and adherence to the law**

The Standards Committee continued to operate effectively during 2012/13. As provided in the Council's Constitution, "the purpose of the Standards Committee is to maintain high standards of probity amongst members through the provision of advice, training and by carrying out investigations in respect of allegations of misconduct by a member or a co-opted member". As stated in 4.8 above this role has now been taken over by the Audit and Governance Committee.

Regarding complaints to the Ombudsman in 2012/13, no findings of maladministration were made.

#### **4.10 Partnership Arrangements**

The partnership landscape continues to evolve. Statutory responsibilities have been scaled back in some areas, e.g. Local Strategic Partnerships. In other areas there are new statutory responsibilities, most notably new Health and Well Being Boards. We anticipate monitoring and quality assurance through the Department of Health.

#### **4.11 Assurances from Directors**

As part of this review of the effectiveness of Governance arrangements during 2012/13, detailed assurance statements were sought from all permanent Directors within the Delivery, Commissioning, Enabling and Transition, Strategy and Challenge and Strategic Finance “arms” of the Council, to confirm that, for their areas of management responsibility, there were adequate governance arrangements in place covering the areas set out in section 4 of this statement.

Assurances were received back from all permanent Directors, countersigned by the Chief Executive, Deputy Chief Executive or Chief Operating Officer covering all key service areas. All significant issues raised are included within this statement, but generally, although a number of minor issues were raised by a number of Directors, the feedback received was generally very positive.

#### **4.12 The Role of the Chief Financial Officer (CFO)**

In accordance with recommendations on proper practices on the form and content of the Annual Governance Statement for 2012/2013, this statement includes the following disclosure about the status of the Chief Financial Officer (the Section 151 Officer), the Strategic Finance Director, in accordance with CIPFA’s statement on the role of the Chief Financial Officer (CFO).

The CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them.

Gloucestershire County Councils’ financial arrangements fully conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). As CFO, the Director: Strategic Finance is a key member of the Corporate Management Team and is responsible for the proper administration of the Council’s financial arrangements and leads a fully resourced and suitably qualified Strategic Finance Function. The CFO regularly meets with the Chief Executive and Monitoring Officer as part of the Statutory Officers Group, the Corporate Management Team and Cabinet in order to ensure that she can bring influence to bear on all material and business decisions to ensure immediate and long term implications, opportunities and risks, are fully considered and in alignment with the Medium Term Financial Strategy (MTFS) and other corporate strategies.

#### **4.13 The Role of the Monitoring Officer**

The Monitoring Officer is a statutory appointment under Section 5 of the Local Government and Housing Act 1989. The Monitoring Officer has responsibilities in relation to governance.

The main functions of the Monitoring Officer at Gloucestershire County Council are:

- To report to the Council and to the Cabinet in any case where s/he is of the opinion that any proposal or decision of the authority has given rise to or is likely to or would give rise to any illegality, maladministration or breach of statutory code under Sections 5 and 5A of the Local Government and Housing Act 1989 LGHA 89;
- To investigate any matter, which s/he has reason to believe may constitute, or where s/he has received an allegation that a matter may constitute, a reportable incident under Sections 5 and 5A of the LGHA 89;
- To act as one of the principal adviser to the authority's Audit and Governance Committee, together with the Director Strategic Finance;
- To maintain a register of interests of members and co-opted members of the authority; and
- To have responsibility for responding to complaints to the Local Government Ombudsman.

The Monitoring Officer's ability to discharge these duties and responsibilities will depend on Members and Officers:

- complying with the law (including any relevant Codes of Conduct);
- complying with any General Guidance issued, from time to time, by the Audit and Governance Committee and the Monitoring Officer;
- making lawful and proportionate decisions;
- complying with the Council's Constitution and standing orders;
- not taking action that would bring the Council, their offices or professions into disrepute; and
- communicating effectively with the Monitoring Officer and seeking advice on any issues relating to constitutional or ethical matters.

#### **4.14 The Role of the Head of Internal Audit (Chief Internal Auditor - CIA)**

In accordance with amended recommendations on proper practices on the form and content of the Annual Governance Statement for 2012/2013, this statement now includes the following disclosure about the role of the Chief Internal Auditor (CIA).

CIPFA has issued the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010). The statement sets out five principles that define the core activities and behaviours that belong to the role of the head of internal audit and the organisational requirements needed to support them.

The Council's Internal Audit Service arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010). The CIA works with members of the Corporate Management Team to give advice and promote good governance throughout the organisation.

The CIA leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the County Council's control environment, comprising governance, risk management and control, across the Council.

#### **4.15 Meeting the Challenge Programme and Project Management**

GCC has invested significantly in continuing to strengthening the arrangements we have in place for programme and project management. There is a clear portfolio of projects which have been designed to meet the significant challenges the Council is facing. These projects are managed in accordance with good practice principles and are systematically reviewed as part of the corporate performance and risk management and reporting framework.

#### **4.16 Gloucestershire Pension Fund**

Gloucestershire County Council is the administering body for the Gloucestershire Pension Fund.

Internal Audit reviewed the controls in place for the three main areas of governance, pension administration and investment management.

Based on this work Internal Audit has concluded that adequate assurance has been obtained that the controls are operating satisfactorily.

## **Governance**

Internal Audit examined the various reports, policies and statements, which are published on the Gloucestershire County Council website, namely the annual report, statement of investment principles, funding strategy statement, communications policy statement, governance policy statement, governance compliance statement, pension administration strategy and the actuarial valuation report.

The latest triennial actuarial review was in respect of the fund as at 31 March 2010 and the report was published in March 2011, as a result revised employer contribution rates were agreed and implemented from 1 April 2011. In some cases employers agreed to make payment by way of both employers contributions and lump sums. Following on from the 2010 triennial review, in August 2011 and November 2011 the Pension Committee agreed changes to the investment structure of the fund. The statement of investment principles was updated to reflect the strategic asset review and approved by the Pension Committee in May 2012.

Internal Audit is satisfied that all published statements are satisfactory and changes have been approved by the Pension Committee. The annual business plan which was approved by the Pension Committee in February 2013 sets out a timetable for the review of key policies, which are revised if necessary.

The governance compliance statement (August 2011) identifies the level of compliance against best practice principles. With the exception that not all stakeholders are represented within the committee structure, the authority is fully compliant. The reason given for this is 'concern over the logistics and potential size of the committee'. The Committee have agreed to keep the membership as it is but to review it if a request for representation is received from one of the large employers.

## **External Fund Managers**

Internal Audit has examined the latest published accounts and the latest internal control statements of all fund managers. With one exception there were no qualifications to the opinions given.

The exception was in respect of the internal controls report of one of investment managers. Management have gained assurance from the fund managers that there are no implications for the Gloucestershire Pension Fund.

In May 2011 an Investment Management Agreement was signed with CB Richard Ellis. Investors, as the Fund's newly appointed UK Property Multi Manager. Since that time funds have been placed with this manager and there are no longer any investments with Arcadian, whose contract has ended.

## **Performance Monitoring**

All of the fund managers report regularly on their performance to the Pension Committee. In addition the custodians measure the performance against the agreed benchmarks and this is reported to the committee. GCC have also engaged a specialist company who independently measure the performance of the funds. Some of the fees paid to fund managers are performance based. Performance related fees are actively monitored.

The Pension Committee also receives advice on the financial markets, the strategic asset allocation and fund management from an independent investment advisor. A new investment fund advisor was appointed during the year following the retirement of the previous postholder.

Following the recent elections three new members have been appointed to the Pension Committee. In addition there is a new employee representative. In accordance with Myners principal 1, members of the Pension Committee should have sufficient skills, knowledge and expertise to be able to make effective decisions and challenge the advice they are given. The new members have all attended in house training, and will be encouraged to attend a 3 day training course.

### **Management of funds risks & controls**

As part of the annual report and funding strategy statement the administering authority assesses and publishes its risks under four main headings:

- financial;
- demographic;
- regulatory; and
- governance.

Mitigating controls are documented against each risk.

The risk register is currently being updated and a revised statement is to be taken to the Pension Committee in August 2013. This is to be supported by a full risk register evaluating both the inherent and the residual risks to the fund.

Internal Audit are satisfied that the key documents required to mitigate these risks including the actuarial review – triennial valuation, the fund strategy statement and the statement of investment principles are in place and are reviewed on a regular basis.

## **Pension Fund Administration**

The Gloucestershire Pension Fund participates in the annual CIPFA benchmarking club, which compares them to 62 other LG Pension Funds.

The latest results show that the costs per member have fallen since the previous year and continue to be well below the average.

Staff are actively engaged in providing information to the actuaries as the first stage of the triennial review, which is based on the fund as at 31st March 2013. They have liaised with employers to ensure data is accurate and complete. Work is also underway to prepare for the major changes which will be introduced as part of LGPS 2014.

Pension administration continue to carry out a variety of exercises to mitigate against risk of losses to the fund including validation of pension contributions and data matching between the pensions database and the pensioners payroll.

## **5. Significant Governance Issues**

Local government has been undergoing significant change, driven by the economic downturn and financial pressures as well as the introduction of new roles, opportunities and flexibility for Council's in the form of the Localism Act and other key legislation.

The Council faced a challenging year in 2012/2013 as it sought to manage budget reductions and increasing demand for some key services during a period of significant changes made to the organisational structure of the Council and the implementation of the new operating model. The environment for 2013/2014 and beyond will continue to be extremely challenging with a need to continue to identify significant cost reductions over the medium term. However, the Council has demonstrated its ability to deliver such savings and service realignment, and is developing plans to address the challenge.

CIPFA guidance details key developments since the launch of the Framework (2007) and the County Council can provide assurance of incorporating these new duties and requirements through the following:

### **Maintaining Standards**

The Localism Act 2011 places the Authority under a duty to promote and maintain high standards of conduct by members and co-opted members of the Council. In discharging this duty, the Council is required to adopt a Code dealing with the conduct that is expected of members and co-opted members, when acting in that capacity and which is consistent with the principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

To this effect, the Council approved a revised Members' Code of Conduct on 21<sup>st</sup> November 2012. Following local elections in May 2013, all re-elected and newly elected Members are expected to abide by this revised Code, training having been provided to Members during June 2013, highlighting these expectations.

The Act abolishes the requirement to have a Standards Committee with the functions of this Committee being transferred to the Audit and Governance Committee, which is now the body responsible for ensuring the Council fulfils its duty to promote high standards of conduct by its officers and members and co-opted members, and make recommendations to the County Council on the form of the Council's Code of Conduct.

### **Health & Social Care Act 2012**

Public Health services have been restructured nationally and locally. At a national level, a new body, Public Health England oversees the public health system and are accountable to the Secretary of State. At a local level, local authorities now have the responsibilities for public health and whilst objectives will be set nationally for improving population health, local authorities have the freedom to determine the means by which they are achieved.

In preparation of this transition, the Council has, from 1st April 2013, created a Gloucestershire Health and Wellbeing Board as a committee of the Council.  
<http://www.goucestershire.gov.uk/GHWB>

The Board will bring together local commissioners of health and social care, public health, elected representatives and representatives from Healthwatch to agree an integrated way to improve local health and well-being. The specific functions are:

- Duty to promote integrated working;
- Duty to prepare a Joint Strategic Needs Assessment; and a
- Duty to prepare a Joint Health and Wellbeing Strategy  
<http://www.goucestershire.gov.uk/CHttpHandler.ashx?id=53311&p=0>

Continued focus will be needed to ensure that public health integrates effectively with the council's strategy for serving the communities of Gloucestershire.

### **Police Reform and Social Responsibility Act 2011**

The Police Reform and Social Responsibility Act 2011 provides for directly elected police and crime commissioners to oversee local police forces, replacing police authorities. The Act gives the elected Commissioner responsibility for holding the Chief Constable to account, securing an efficient and effective local police force and carrying out functions in relation to community safety and crime prevention.

As the servicing authority, the County Council has ensured that Police and Crime Panel has been established. The Panel is not a replacement for the Police Authority but is there to provide a check and balance to the Commissioner. It has a duty to support the Commissioner in the effective exercise of their functions and to challenge them as a critical friend.

The Panel is also responsible for reviewing and scrutinising the Commissioner's actions and decisions and holding him to account. This will include:

- Scrutinising the budget and precept;
- Scrutinising the Police and Crime Plan;
- Holding confirmatory hearings; and
- Dealing with non-criminal complaints.

The Council's Overview and Scrutiny Management committee will receive verbal updates (by way of information only) following the meeting of the Police and Crime Panel.

### **Changes to Local Authority Governance Structures**

The County Council is increasingly using commissioning and partnerships with other local authorities and sectors as a vehicle for delivering public services. Whilst the benefits of this are widely recognised, partnerships and the cross cutting issues with which they often deal, create some challenges for clear accountability and good governance. The County Council strives to ensure that working arrangements demonstrate clear lines of accountability for stakeholders and customers taking into consideration each partner organisations' own governance and structure.

### **Summary of key actions to be taken**

As a result of the review of governance arrangements outlined above, the following governance issues have been identified, which will be addressed as shown.

#### **(1) Review of revised good governance guidance**

With reference to paragraph 4.1 above, the Chief Internal Auditor will undertake a review of the revised guidance during 2013/2014, and develop proposals designed to further enhance the Council's current governance and ongoing assurance arrangements, to ensure they continue to reflect good practice, taking into consideration the Council's New Operating Model.

In addition, the Council's Code of Corporate Governance will be updated to meet the requirements of the new guidance and will be presented to the Audit and Governance Committee, before going to full Council for approval.

#### **(2) Cotswold Water Park Actions - Internal Audit Compliance Review**

With reference to paragraph 4.4, Internal Audit to review compliance with the following revised policies, systems and processes, reporting the outcomes back to the Audit and Governance Committee:

- Complaints Policy/System;

- Officers Scheme of Delegation;
- Disposals of Property; and
- Employees Code of Conduct.

### **(3) Audit self-assessments against mandatory standards/revised guidance**

With reference to paragraph 4.8, due to the changes in the role and functions of the Audit and Governance Committee and the changes in the mandatory standards relating to Internal Audit, self-assessments will be undertaken during 2013/2014, led by the Chief Internal Auditor, against the required standards and guidance issued by the relevant professional bodies, addressing any issues highlighted.

### **6. Certification**

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 5. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

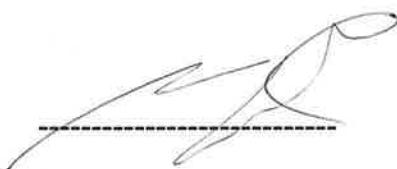
Signed:



Peter Bungard  
Chief Executive

Date:

29/8/2013



Mark Hawthorne  
Leader of the Council

29/8/2013



Jo Walker  
Director: Strategic  
Finance (S151)

28/6/2013

