NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Your attendance is requested at a meeting to be held in the

The Jeffrey Room, The Guildhall, St. Giles Square, Northampton, NN1 1DE

on Monday, 29 July 2019

at 6:00 pm.

George Candler
Chief Executive

AGENDA

1. APOLOGIES

Please contact Democratic Services on 01604 837722 or democraticservices@northampton.gov.uk when submitting apologies for absence.

2. MINUTES

3. DEPUTATIONS / PUBLIC ADDRESSES

4. DECLARATIONS OF INTEREST

5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED

6. STATEMENT OF ACCOUNTS 2017-18 (pages 5 – 9)

(Copy herewith)

7. STATEMENT OF ACCOUNTS - KPMG REPORT/ISA260 (pages 10 – 78)

(Copy herewith)

8. STATEMENT OF ACCOUNTS 2018-19 (DRAFT) (pages 79 – 208)

(Copy herewith)

9. EXCLUSION OF PUBLIC AND PRESS

THE CHAIR TO MOVE:
"THAT THE PUBLIC AND PRESS BE EXCLUDED FROM THE REMAINDER OF THE MEETING ON THE GROUNDS THAT THERE IS LIKELY TO BE DISCLOSURE TO THEM OF SUCH CATEGORIES OF EXEMPT INFORMATION AS DEFINED BY SECTION 100(1) OF THE LOCAL GOVERNMENT ACT 1972 AS LISTED AGAINST SUCH ITEMS OF BUSINESS BY REFERENCE TO THE APPROPRIATE PARAGRAPH OF SCHEDULE 12A TO SUCH ACT."

Public Participation
Members of the public may address the Committee on any non-procedural matter listed on this agenda. Addresses shall not last longer than three minutes. Committee members may then ask questions of the speaker. No prior notice is required prior to the commencement of the meeting of a request to address the Committee.

NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 8 July 2019

PRESENT: Ian Orrell (Chair); Councillor Oldham (Deputy Chair); Councillors M Markham, Golby, Marriott and Stone

APOLOGIES:

2. MINUTES

The Minutes of the meeting held on 18 March 2019 were confirmed and signed by the Chair as a true record.

3. DEPUTATIONS / PUBLIC ADDRESSES

There were none.

4. DECLARATIONS OF INTEREST

There were none.

5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED

There were none.

6. INTERNAL AUDIT UPDATE

The Chair invited the Internal Auditor, BDO to address the Committee.

The Internal Auditor, BDO presented the Internal Audit Update report and set out to the Committee the three reports that have been submitted for consideration. The Internal Auditor explained in reference to the progress on the 2018/19 plan that all the actions required have been completed. Against the 2019/20 plan, the Committee heard that the Council is making good progress and has recently started a review on cyber and health and safety. Progress on these will be fed back to the next meeting of Audit Committee.

Members raised a question to the Internal Auditor as to who decides what is audited. In response, the Internal Auditor stated that the items chosen for audit are selected through management meetings, staff reviews and then presented to the Audit Committee. It was noted that the items for Audit to consider were approved at the last meeting of Audit Committee.

The Internal Auditor, BDO explained to the Committee that there has also been a Senior Management restructure and that 4 recommendations have been put forward in reference to this to ensure the mechanics of this are working. In reference to Temporary Accommodation arrangements have been made around rent collection and good improvement has been made through the corporate wide homeless strategy.

Members raised a question that if an appeal was heard at court, and found not to be in the Council's favour, how it would affect the budget. The Chief Finance Officer responded stating that the budget is a guide, that there are variances and uncertainties which are accorded for respectively. The Internal Auditor further explained that the Council is chasing debt from people in difficult circumstances in temporary accommodation.

Councillor Stone raised a question to the Chief Finance Officer about whether Northampton

Partnership Homes have their own internal audit process. In response to questions from Members, the Chief Finance Officer explained that the Council will work more closely with Northampton Partnership Homes to get the information required for the Council's audit process.

Councillor M Markham stated to the Committee that she sits on Northampton Partnership Homes as a board member and that she will go back to them to state that the Council requires this information to assist with the audit process. She further commented that she has great concern that proper process has not been followed and that the Major Capital Projects area gives her the greatest concern.

Councillor Stone enquired how the risks were being managed and whether NBC had suitable officers managing the large capital projects, Councillor Markham expressed a concern over the Museum Project and who was managing it with the HoS leaving, stating that there has been a runaway budget for Delapre Abbey and Sixfields and sought assurance that the forecast and annual spend will be closely aligned. In response, the Chief Finance Officer stated that the Council is refining our project management with reference to Delapre Abbey and issues are regularly reviewed at internal meetings at a corporate level. Cllr Golby also expressed concern on the projects.

The Internal Auditor, BDO explained regarding the high levels of non-compliance to formal requirements such as performance discussions and settings targets which are SMART. Non-compliance related not to individuals but the process. The appraisal process was given as an instance and it was noted that it is the responsibility of all Members of Staff to help improve the process. It was further noted that challenges and improvements are to be made especially heading towards unitary status.

The Chief Finance Officer also explained to the Committee that there is only one Human Resources Manager and that Human Resources is being restructured since September 2019. A new HR Business Partner will be appointed in August 2019.

Councillor M Markham asked the Internal Auditor, BDO as to whether there are issues with recruitment across the Council. The Internal Auditor, BDO responded that there is a widespread issue across the Council with regards to recruitment and retaining staff. He further stated that there have been issues concerning the handover process and succession planning which has created fragility. The Chief Finance Officer additionally stated that it is very difficult to secure succession planning in lots of specialist areas, and that the Council is looking to develop its staff from within the organisation.

The Internal Auditor, BDO stated that roadmaps are not currently in place referencing the digital strategy and that further scrutiny has been requested and this will happen in due course as the strategy develops. In regard to the follow-up recommendations, he continued that it will be pertinent to ensure that any findings and recommendations are assessed and any actions completed by the due date.

The Chair stated that there are outstanding issues that need addressing and questioned when a suitable time will be to see managerial responses by. The Chief Finance Officer stated that he aims to provide a response to the September meeting of the Audit Committee.

The Chair invited the Internal Auditor, LGSS to present his report to the Committee. The Internal Auditor, LGSS explained that there has been a satisfactory level of compliance assurance with reference to the Accounts Receivable audit. The Housing Benefits audit is currently in draft stage although it was noted that benefit claims are recorded accurately. The Fixed Assets Register is additionally up to date and compliant.

RESOLVED:

1. **Reviewed the Internal Audit Update and were satisfied with its contents.**
2. **The Audit Committee asked that the Overview and Scrutiny Committee be invited to consider whether they should review the Museum Project.**

7. QUARTER 4 CORPORATE RISK REGISTER

The Chair invited the Governance and Risk Manager to present the Corporate Risk Register at Quarter 4.

The Governance and Risk Manager explained to the Committee that the Corporate Risk Register will be updated in July 2019 to outline the current risks to the Authority.

Councillor Stone stated in reference to risk number 7 that the town centre remains the main focus and that it remains important that we set definitions and measurements for 'economic prosperity'.

In response, the Chief Finance Officer outlined that he will request the Corporate Management Board to look at the below issues and feedback at the next meeting.

Councillor Markham commented that three quarters of economic activity takes place in the town centre and in the case that the Government is successful in its bid for government money that the new project will address risk consequences.

Councillor Stone further commented on risk number 4 that any rise in temporary accommodation should be measured regularly against the national average.

RESOLVED:

1. **Reviewed the Quarter 4 Corporate Risk Register and were satisfied with its contents**

8. QUARTER 4 2018-19 PERFORMANCE OUTTURN REPORT

The Chair invited the Chief Finance Officer to present the Quarter 4 Performance Outturn Report for 2018/19.

Councillor Stone questioned the Chief Finance Officer requesting how we can define the state of the Northampton town economy and judge how to assess its performance. In response, the Chief Finance Officer stated that the Council needs to keep in consideration the performance of the whole economy of the Borough of Northampton.

RESOLVED:

1. **Reviewed the Quarter 4 2018-19 Performance Outturn Report and were satisfied with its contents**

9. CHIEF FINANCE OFFICER REPORT TO THE AUDIT COMMITTEE

The Chair invited the Chief Finance Officer to present his report to the Committee. The Chief Finance Officer stated that KPMG no longer conduct audits for local government. He elaborated that the accounts for 2017/18 will be presented for approval at the next meeting and that the new auditors would then be able to start consideration of the 2018/19 audit.

In response to questions from Members, the Chief Finance Officer confirmed that the Borough Council will require its own set of accounts for 2020/21 before the establishment of the new unitary authority in the financial year 2021/22.

RESOLVED:

1. **Reviewed the Chief Finance Officer Report and were satisfied with its contents**

10. 2018-19 FINANCE OUTTURN REPORT

The Chair invited the Chief Finance Officer to present the Finance Outturn Report.

The Chief Finance Officer continued that there remains a risk if the Government changes rules, although there remains sufficient general fund reserves. The Committee heard that the general fund overspent by £0.732 million which was funded from reserves and that there has been an increase of sixteen posts for Outreach.

RESOLVED:

1. **Reviewed the 2018-19 Finance Outturn Report and were satisfied with its contents**

The meeting concluded at 8:00 pm

Appendices:

Appendix 1 Final NBC 2017-18 Statement of Accounts
To follow – at the meeting

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Final 2017-18 Statement of Accounts

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date: 29 July 2019

Policy Document: Statement of Accounts

Directorate: Chief Finance Officer

Accountable Cabinet Member: Cllr Brandon Eldred

1. Purpose

1.1 This report presents to the Audit Committee the final 2017-18 Statement of Accounts for the Committee's review and approval.

1.2 The 2017-18 accounts have been delayed due to the issues that existed on the prior year's accounts with those not being finally concluded until January 2019. As a result the Council has had to work to a rescheduled timeline for the production of the accounts and the external audit.

1.3 The Audit Committee will receive the final refined version agreed by KPMG at the Audit Committee, a final draft version having been circulated for information informally.

2. Recommendations

2.1 That the Committee approves the Statement of Accounts for 2017-16.

2.2 That the committee notes, that the delay in delivering these accounts relates to the time required to conclude the prior year's accounts. The delay has not and does not impact on the funding and financial sustainability of the Council or its prime financial controls and governance.

2.3 That the Audit Committee notes that whilst it is unusual to receive the final refined version at the meeting to formally sign off, it is permissible given the Committee has had visibility of prior versions and had the opportunity to consider the Accounts overall.

2.4 That the Audit Committee notes that Northampton Borough Council has received a further qualification on its Value for Money judgement, not the core Financial Statements / Accounts. This is due to the ongoing issues from the historic events around 'Sixfields'.

3. Issues and Choices

3.1 Report Background

3.1.1 The annual Statement of Accounts is the financial representation of all activities that the Council has been directly or indirectly involved with, over the course of the 2017-18 financial year. The publication of the Statement of Accounts is an essential feature of public accountability and stewardship, as it provides an annual report on how the Council has used the public funds for which it is responsible.

3.1.2 The Council's Statement of Accounts is produced in accordance with the Code of Practice (CoP) on Local Authority Accounting in the United Kingdom 2016-17 (supported by International Financial Reporting Standards (IFRS)), and includes a full balance sheet and statement of cash flow movements.

3.1.3 The signing, approval and publication of the Accounts is set out in Section 9 of the Accounts and Audit Regulations 2015. Accordingly they were certified by the Section 151 Officer in March 2019 for submission to audit by the Council's external auditor KPMG and are now presented to the Audit Committee for approval.

3.1.4 The Statement of Accounts are made up of the following sections:

- **The Narrative Report** - providing a summary of the most significant matters reported within the accounts and of the Council's financial position, this section is intended to outline the overall context within which the Council operates and provide a commentary on the Council's performance in 2017-18.
- **Statement of Responsibilities** – provides details of the formal responsibilities assigned to the Council and the Chief Finance Officer in respect of the Statements and the financial management of the Council.
- The **Core Financial Statements** – providing the Council's financial position as at 31 March 2018 comprising of the:

Comprehensive Income and Expenditure Statement (CIES)
Reports the net cost for the year of all of the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

Movement in Reserves Statement (MIRS)
Shows the movement in the year on the different reserves held by the Council. The reserves are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves.

Balance Sheet
Presents the value of the Council's current and non-current assets and liabilities as at 31 March 2017 with the bottom line effectively being the net worth of the organisation.

Cash Flow Statement
Summarising the inflows and outflows of cash arising from transactions with third parties, this analysis shows how the Council generates and uses cash and cash equivalents.

Expenditure and Funding Analysis (EFA)
Demonstrating to council tax payers how the funding available to the Council has been used to provide services, the EFA also shows how this expenditure is allocated between the Council's directorates.

- Notes to the Core Financial Statements, which provide further supporting details on aspects of the accounts and which are largely defined by the CoP.
- Additional statements for the Collection Fund, the Housing Revenue Account (HRA) and Group Accounts.
- Accounting Policies – this section details the accounting policies followed by the Council throughout the year and applied in producing the Statement of Accounts.
- Glossary – the Statement inevitably includes a number of technical terms and this section provides an explanation of their meaning.

3.2 Statement of Accounts 2017-18

3.2.1 The final 2017-18 NBC accounts for approval are provided at Appendix 1.

3.2.2 The following paragraphs provide a commentary on the financial position in the final accounts, based on the last draft. A update will be provided to Audit Committee in September 2019 if there are any material differences to the final version approved.

Usable Reserves

3.2.3 The General Fund Balance at the 1 April 2017 was £5.5m and this remains at £5.5m at the 31 March 2018. The Housing Revenue Account (HRA) reserve also remains unchanged at £5.0m.

3.2.4 The Council's Earmarked General Fund Reserves as at 31 March 2018 were slightly higher than the start of the year at £27.0m, an increase of £1.8m during the year. The HRA Earmarked Reserves however fell from £11.1m to £8.8m at the 31 March 2018.

3.2.5 The Capital Receipts Reserve in the final accounts stands at £16.0m, which has increased by £3.5m during the year.

3.2.6 Total Usable Reserves (including both General Fund and HRA) therefore stand at £66.3m at the 31 March 2018 compared to £62.6m at the start of the year.

Balance Sheet

3.2.7 The Council had a net worth at 31st March 2018 of £432.7m (i.e. the extent to which the Council's assets exceed its liabilities). This is predominantly due to the Long Term Assets that the Council holds which total £801.6m, of which £700.9m relates to Plant, Property and Equipment.

3.2.8 The Council does hold long term liabilities. The most significant of these is the Long Term Borrowing undertaking to finance the Council's capital programme, which stands at £247.3m. The Other Long Term Liabilities held on the balance sheet total £137.4m and relate to the Council's net Pension Fund liability.

3.2.9 The overall net assets are matched by the Council's reserves of which £66.3m relate to usable reserves as explained in 3.2.3 to 3.26 and unusable reserves of £366.4m which capture the necessary accounting entries required under the CIPFA Code.

Audit Changes

3.2.10 The accounts were provided to KPMG on 11 March at which point the external audit formally commenced. The Committee should note that KPMG were able to undertake elements of their audit work prior to this date which has helped to accelerate the conclusion of the 2017-18 accounts. There have been some changes that have resulted from KPMG's audit work. The main changes from the draft accounts to the final accounts are set out below:

a) Changes required to the Comprehensive Income and Expenditure Statement (CIES) resulting from the incorrect inclusion of service costs (£5.3m) and operating expenditure (£2.6m) in the Financing and Investment Income and Expenditure line of the CIES. These amounts should have been in the Cost of Services and the Other Operating Expenditure respectively. Due to the change to the Cost of Services this also required the Expenditure and Funding Analysis to be amended to reflect the correct figures as well as the Group Accounts.

b) Amendments to disclosure notes 32 and 33 which support the Cash Flow Statement (CFS) were required to ensure they casted and reconciled correctly to the CFS.

c) Final presentational refinements were made with KPMG during July 2019.

3.2.11 Other changes and audit adjustments of a more minor nature were also identified and amended such as formatting and amendments to wording.

3.3 Conclusions

3.3.1 The work of the LGSS Integrated Closedown team and the NBC Finance Business Partner team with KPMG have enabled the 2017-18 accounts to be produced and audited in a much quicker timeframe than the prior year. The conclusion of the 2017-18 accounts brings the Council up to date with it's financial statements.

3.3.2 The Audit Committee are recommended to approve the 2017-18 Statement of Accounts.

4. Implications (including financial implications)

4.1 Policy

4.1.1 There are no specific policy implications from this report. However Northampton Borough Council will be responding at the next Audit Committee to the formal observations and recommendations raised by the auditor, KPMG. Where appropriate and required, policies may be changed or improved.

4.2 Resources and Risk

4.2.1 There are no specific resources implications from this report. However the audit challenges and high risk nature of the audit have led to significant additional costs being incurred which KPMG will report on separately.

4.2.2 The Council is also reviewing its resourcing of the Year End / Closedown team and asset management team to ensure improved processes and quality of information presented.

4.2.3 The Chief Finance Officer will be reviewing further the ISA260 recommendations, which can be found reported in the document elsewhere on this agenda. Those not already addressed, will be taken into a work plan for rapid improvement and reported on to the Audit Committee in September 2019.

4.3 Legal

4.3.1 There are no specific legal implications from this report.

4.4 Equality

4.4.1 There are no specific equality implications from this report

4.5 Consultees (Internal and External)

4.5.1 The primary consultee has been the Audit Committee during the course of the delayed audit.

4.6 Other Implications

4.6.1 None specifically

5. Background Papers

5.1 Various previous Audit Committee agenda packs which provide details on the reasons and causes of the delays to the 2016-17 accounts.

Stuart McGregor
Chief Finance Officer (Section 151 Officer)

External Audit ISA260 Report 2017/18

Northampton Borough Council

—

July 2019

Summary for Audit Committee

This document summarises the key findings in relation to our 2017/18 external audit at Northampton Borough Council ('the Authority').

This report covers both our on-site work which was completed in March 2018 and March to April 2019 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment	We consider that your organisational and IT controls are effective overall, but we found a number of areas for further improvement. See page 5 for further details.
Controls over key financial systems	The controls over key financial systems need some improvement. We have raised a number of recommendations in Appendix One including one regarding the review of bank reconciliations. A similar recommendation was raised by KPMG in 2016/17.
Accounts production	Although an improvement on the 2016/17 audit with regards to responses to audit queries, KPMG encountered a significant number of issues with regards to supporting working papers. The main issue being that they often did not agree to the extract of the financial statements which they were supporting which caused delays to the audit and additional queries.

Financial statements

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

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11):

- **Valuation of Council Dwellings** – where assets are subject to revaluation, the code requires the year end carrying value to reflect the appropriate fair value at that date. The Authority reviews the value of assets each year end through a desktop impairment review and every fifth year performs a full revaluation. This creates a risk that the carrying value of assets not revalued in year differs materially from the year end fair value. There had been a full revaluation of all council dwellings in year. No significant issues arose as a result of our work.
- **Valuation of Other Land and Buildings** – there is a risk that incorrect assets are sent for revaluation and the correct procedure is not followed to ensure that assets at year end are held at the correct value. We identified an audit adjustment and a number of presentational issues within the note to the accounts. See Appendix One for details.
- **Valuation of Investment Properties** – all investment properties are subject to valuations each year. No significant issues arose as a result of our work.
- **Pensions Liabilities** – the pension liability is a material element of the Authority's balance sheet. The valuation relies on a number of assumptions, including the actuarial assumptions and actuarial methodology. There is a risk that the assumptions and methodology used are not reasonable. This could have a material impact in the financial statements. We found the pension liability to have balanced assumptions and have no issues to note

Summary for Audit Committee (cont.)

We have identified four audit adjustments. See page 57 for details. These adjustments result in a net increase of £0.6million in the reported deficit on provision of services.

Based on our work, we have raised six recommendations. Details of our recommendations can be found in Appendix one.

We are now in the completion stage of the audit and we anticipate issuing our Annual Audit letter to the September 2019 Audit Committee.

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors in relation to the loan to Northampton Town Football Club. However, we are satisfied that this work does not have a material effect on the financial statements.

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing a qualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

- **Governance Action Plan** – the plan was established in December 2016 and whilst we recognise that a significant amount of work has gone into the delivery of the Governance Action Plan during the 2017/18 financial year the timing of the implementation of these actions during the year means that we cannot gain assurance that there was a sufficiently systematic, robust, and objective governance process, and framework in place at the Authority through 2017/18.
- **NTFC loan and the wider loans system** – as of 31 March 2018, the external police investigation into the loan was still on-going, and the Authority continues to be involved in legal proceedings to recover related monies. Therefore, in conclusion our findings indicate that for the year 2017/18 and as at 31 March 2018 there was an insufficiently systematic, robust, and objective due diligence process, and framework within which decisions can be made or documented.

Summary for Audit Committee (cont.)

- **Financial resilience in the local and national economy** – we have reviewed the arrangements the Authority had in place to manage and deliver financial resilience during the 2017/18 financial year. Our work included a critical assessment of the Authority's Medium Term Financial Plan and a review to ensure that budgeting was sufficiently robust to ensure the Authority can continue to provide services effectively. We continued to meet regularly with the S151 Officer and key staff to understand the Authority's financial position and assessed the adequacy of its arrangements to ensure it had taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
- **Off-payroll working through an intermediary (IR35)** – we note that the use of off-payroll arrangements are still a risk to the wider public sector, and recommend that the Audit Committee gains appropriate assurance from the Authority that it has sufficient arrangements in place to mitigate against the associated risks. This includes having appropriate policies and procedures in place in order to ensure compliance with IR35 legislation, including those which allow the Authority to identify potential Personal Service Companies during the procurement and contracting stage with new suppliers, as well as the retrospective review of arrangements in place before 6 April 2017.
- **Chief Executive payment** – there was no formal agreement or exit letter detailing the final package for the Chief Executive's departure and the payment made in lieu of notice did not follow the same approval process as other employees. Those charged with Governance did however approve the payment before it was made.

See further details on pages 19 – 34.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their help during our audit and wish them luck in the future.

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Despite this, we have noted a number of areas for further improvement:

— **In-scope system User Access Reviews**

— **Implementation of password policy across the IT systems**

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We consider that your organisational and IT controls are effective overall, but noted a number of areas for further improvement:

— Issue 1: User Access Reviews were not carried out in the audit period for in-scope systems.

— Issue 2: Agresso password length is not assigned as per the password policy.

These weaknesses mean that we will need to do additional testing to mitigate these control failures.

Given the timeline of 2017/18 audit, IT work had to be reperformed on the Real Asset Management (RAM) system for when the final values were transacted into the system.

Recommendations are included in Appendix One.

Controls over key financial systems

The controls over the majority of the key financial systems are sound.

However, there are some weaknesses in respect of bank reconciliation and payroll.

Additional substantive work in the above areas was therefore required.

Work completed

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work we have determined that the controls over the majority of the key financial systems are sound.

However, we noted some weaknesses in respect of individual financial systems that will impact on our audit:

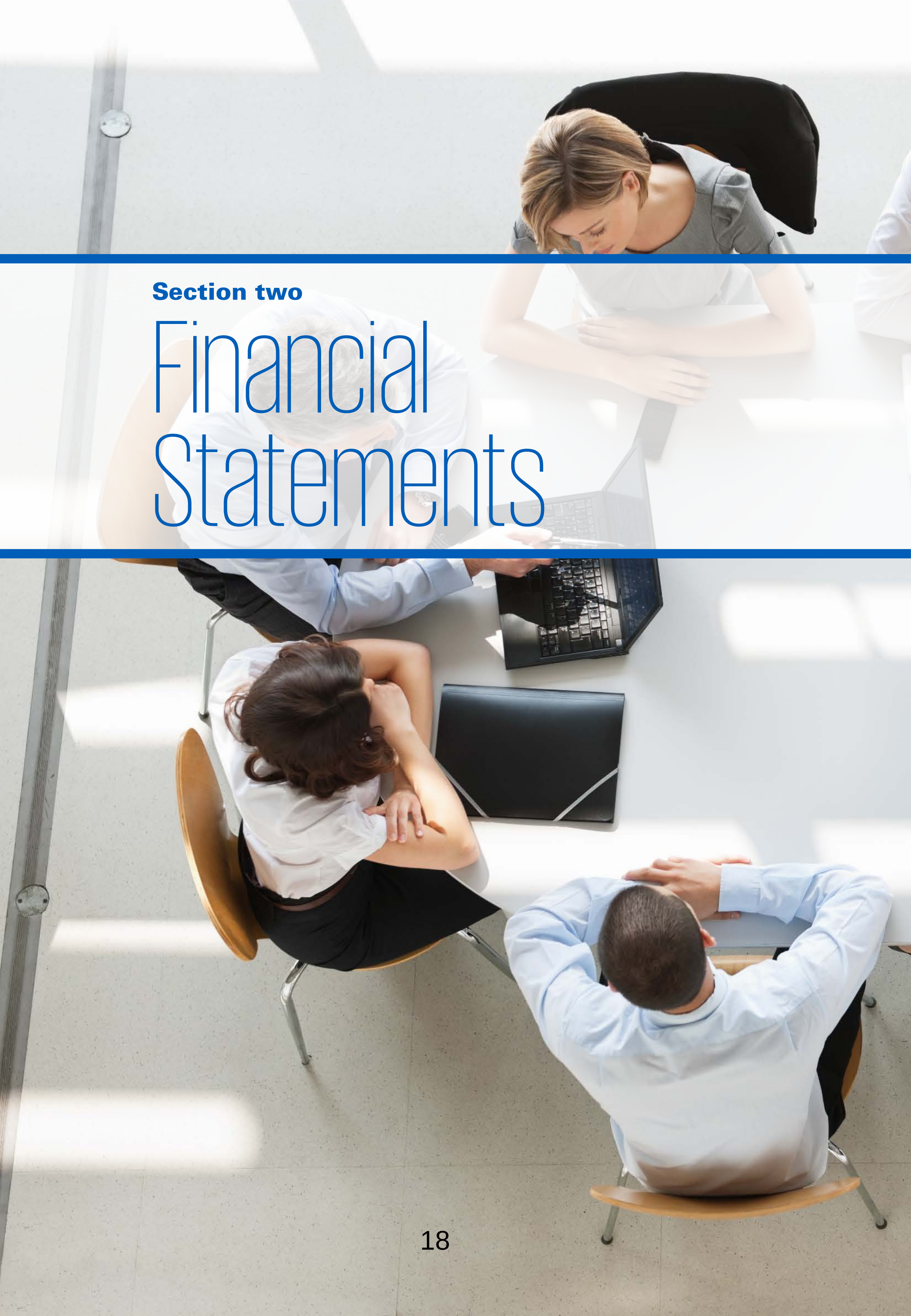
- **Bank Reconciliations:** The Authority reverses all cheques which have not been presented within 6 months, this means that the bank reconciliation does not show all unpresented cheques. Unrepresented cheques from prior to October 2016 are no longer valid. At the time of testing, this amounted to £592,060.
  At the time of our interim visit, the individual performing the review of the bank reconciliations had not previously had exposure to bank reconciliations and therefore, we considered that they did not have appropriate experience to provide a challenge to the bank reconciliations.
  We noted that there were unreconciled balances at the year end that were not included in the reviewed bank reconciliation but were included in the ledger. These were not picked up on during the review process.
- **Tender Process:** Of the 3 contracts tested from the contracts register, 1 did not go through a tender process and therefore did not comply with the Authority's tender requirements. We were also unable to obtain a number of contracts for testing purposes.
- **Processing of new starters:** In our testing of new starters, the Authority were unable to retrieve 2 of the starter forms for the individual selected for testing. One of the forms did not state the salary of the starter, therefore the information was incomplete.
- **Review of Business Rates Reconciliation:** In our sample testing of the reconciliation of the total per the VOA schedule and Academy system, we noted that 3 out of 5 of the reconciliations were not signed as reviewed.

Recommendations are included in Appendix One.

The weaknesses identified resulted in additional work at year end over payroll with further increased sample sizes.

Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented the majority of the recommendations in our prior year's *2016/17 ISA 260 Report*.

Accounts practices and production process

Due to significant delays in the completion of the 2016/17 external audit (reported in our External Audit ISA260 Report 2016/17), the Authority did not submit a draft of the 2017/18 financial statements for audit until 8 March 2019.

Delays to the audit process occurred as a number of supporting work papers did not agree to the financial statements submitted for audit. The delays have meant that we spent additional time over and above what was originally planned.

The quality issues we found were similar to the issues identified in previous years. Many working papers were not checked against the requirements listed in the Accounts Audit Protocol. Despite being signed off, we found gaps in the provision of information, and breakdowns provided within working papers did not tie to the draft accounts. This demonstrates a lack of audit trail, which adds to the difficulty in understanding the Authority's working papers

We have noted in Appendix Two that our high priority recommendation (recommendation 4) raised in last year in relation to this issue, remains outstanding and is reiterated for implementation.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included on pages 26–31.

Accounts production and audit process cont.

Implementation of recommendations

We raised 6 high priority recommendations in our 2016/17 Interim Report and 2016/17 ISA 260 Report. The Authority has implemented two of the recommendations relating to the financial statements in line with the timescales of the action plan. The table below sets out the Authority's progress against high priority recommendations. Further details are included in Appendix Two.

Issue	Progress
Review of bank reconciliations. We noted that there were a number of unreconciled items that the Authority had been unable to address. A number of the unreconciled items within the Authority's benefits bank account related to direct debit payments set up by third parties using the Authority's bank details. We also identified that a number of unreconciled items were incorrectly dated.	Issues were found in the bank reconciliations during the 2017/18 audit. A recommendation has been raised as part of the 2017/18 recommendations.
Valuation of Property, Plant and Equipment (PPE), including Council Dwellings. We faced difficulty in our work on the Authority's PPE.	Instructions to the valuer were formalised and provided for audit. The valuer reports were due to the timing of the 2017/18 audit, provided in advance of our on-site visit. No issues were found with the valuation methodology. However, due to incorrect floor areas originally supplied to GVA on an Other Land and Building asset, an updated valuation was required. This updated valuation was not transacted in RAM and an audit adjustment has been identified.
Preparation and review of audit working papers	Significant issues were again encountered as part of the 2017/18 audit. A large number of work papers did not agree to the core statements and notes that they professed to support. This led to additional external audit questions and delays and a number of presentational adjustments in the financial statements.
Fundamental review of financial reporting and accounts production process	In addition to issues encountered above, KPMG also found that there were consistency errors and presentational errors within the 2017/18 financial statements that should have been picked up had a senior management review of the financial statements been carried out prior to them being submitted for audit.
Componentisation of Council Dwellings	Fully Implemented. As per 2017/18 accounting policies, it was noted that the Authority has altered their valuation policy for Council Dwellings and now uses component accounting.
Team resilience and use of interim staff	The Closedown team worked hard to produce a set of 2017/18 accounts ready for audit. However, a number of team changes occurred throughout our audit.

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft 2017/18 statement of accounts on 8 March 2019 which is after the statutory deadline of end May 2018.

Quality of supporting working papers

We issued our Accounts Audit Protocol in October 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

We found quality issues in relation to the working papers. This is in addition to the delays previously highlighted. The quality of audit evidence initially provided did not align to our expectations which were set out in our Accounts Audit Protocol 2017/18. This has caused significant delays and placed additional pressures on the audit. There is an opportunity for improvements to be made in providing clear and concise audit trail of underlying transactions. We have noted in Appendix Two that our high priority recommendation (recommendation 3) raised in last year in relation to this issue, remains outstanding and is reiterated for implementation.

Response to audit queries

In general, the time taken by officers to deal with our audit queries has improved on the prior year. However, the delay to some queries still exceeded that which was expected. This was particularly acute when queries were fielded to officers outside of the core finance team.

Group audit

To gain assurance over the Authority’s 2017/18 group accounts, we placed reliance on the work completed by Grant Thornton on the financial statements of the Authority’s subsidiary; Northampton Partnership Homes. There are no specific matters to report pertaining to the group audit.

We are also pleased to report that there were no issues to note in relation to the consolidation process.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although our audit methodology includes the risk of management override as a default significant risk, we have identified that the events surrounding the loss of £10.22 million in relation to the NTFC loan and the on-going police investigation are contributory factors in the increased risk, and specifically warrants management override of control as a significant risk to the financial statements.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

We have decreased materiality over the financial statements which resulted in additional external audit testing over the Authority's financial statements. We enhanced our use of data analytics techniques over the Authority's transactional data (for example, journals, payroll, and non-pay expenditure) to allow us to gain additional assurance over the balances.

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

02

Fraudulent revenue recognition

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

In our *External Audit Plan 2017/18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

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

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of Council Dwellings

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. The Authority has an extensive property portfolio which requires valuation on a regular basis to reflect the service potential of these assets.

The valuation of council dwellings is a complex exercise which involves professional judgement of qualified valuation experts. There are significant estimates and judgements used by the Authority's valuer, and the valuation results are highly sensitive to these estimates and judgements. The valuation exercise is also linked to the estimates in relation to the useful economic lives of the buildings within the Authority's portfolio.

In 2015/16, the Authority's PPE totalled £548.9 million, which included £421.8 million of council dwellings. The Authority experienced significant difficulty in the valuation process for council dwellings in 2016/17. We found that the Authority had used the incorrect social housing discount factor on two occasions, and a beacon review indicated that a small number of beacons were not representative of the Authority's housing stock.

In 2016/17, the Authority engaged with three separate valuers on council dwellings: firstly its internal valuers who performed the initial valuation; then Underwoods to review the use of "appropriateness of beacons"; and finally Bruton Knowles who performed the final valuation.

In concluding the on-going 2016/17 audit we expected the final audited financial statements to include material audit adjustments. These arose from multiple incorrect iterations of valuer reports, all of which resulted in significant delays to the Authority's financial statements, which meant missing the statutory deadline by more than 10 months. There remains a risk that the Authority's council dwellings may be materially misstated due to incorrect processes and a lack of quality control over inputs into the financial statements.

Our assessment and work undertaken:

As part of our 2017/18 external audit we reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed, through the use of our valuation specialist, the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

As a result of this work we determined that Council Dwellings had been valued appropriately and accounted for suitably in the financial statements. A full revaluation was undertaken in 2017/18 as a result of the issues found in the 2016/17 audit. The valuations were then discounted at the relevant social housing discount factor for the East Midlands.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of Other Land and Buildings

During the course of the 2016/17 audit, we identified that the valuation of 'other land and buildings' is a significant audit risk. The Authority had engaged the following valuers to carry out work on both other land and buildings and investment properties:

- NBC's internal valuers on 26 September 2016;
- Underwoods on 6 October 2016; and
- GVA in December 2017.

The engagement of Underwoods was due to the capacity constraints within the Estates team, with internal valuers leaving the Authority. From September 2017 there are no valuation specialists remaining with the Authority, creating a gap in both capacity and capability.

This was heightened by the departure of a key member of the Closedown team, which gave us concerns over continuity and on the oversight of the valuation process.

We found there were no formal instructions sent to Underwoods therefore we were not able to confirm that Underwoods had complied with the valuation request, or that the Authority had instructed Underwoods in line with the Code requirements and other applicable valuation and accounting standards.

GVA have been engaged to complete valuations for the 2017/18 year for both 'other land and buildings' and 'investment properties', following KPMG's approval of their methodology. However, there remains a risk that incomplete or inaccurate information is sent to the valuers to inform their revaluation (e.g. classifications), and therefore incorrect methodologies are applied.

Likewise there remains a risk that the Authority's assets maybe materially misstated due to incorrect processes and a lack of quality control and review over inputs into the financial statements.

Our assessment and work undertaken:

As part of our 2017/18 external audit we reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

We reviewed the information sent to the valuer and compared this information to the fixed asset register to ensure all properties that required a valuation were in scope.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). We considered the approach taken by the valuer.

No issues were noted with the skills and experience of the valuers that were engaged for the valuation of Other Land and Buildings at 31 March 2019.

A number of adjustments were made to both the values and the presentation in the notes related. See Appendix One for audit adjustments.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of Investment Properties

The Authority has a portfolio of investment property, the full portfolio of which requires valuation on an annual basis. Our work in 2016/17 identified that the assumptions and methodology used were not in line with RICS guidance and standard industry practice. For example, the Authority's valuers had included purchaser's costs within the value of the property, thus overstating the assets that were valued. We also noted that not all assets which were valued were transacted within the fixed asset register. Material adjustments were required.

GVA will carry out the 2017/18 valuations.

There is a risk that incomplete or inaccurate information is sent to the valuers to inform their revaluation, and that the Authority's assets maybe materially misstated due to incorrect processes and a lack of quality control and review over inputs into the financial statements.

Our assessment and work undertaken:

As part of our 2017/18 external audit work we reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

We reviewed the information sent to the valuer and compared this information to the fixed asset register to ensure all properties that required a valuation were in scope. As a result of this work we determined that Investment Properties had been valued appropriately and accounted for suitably in the financial statements.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Northamptonshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.
Our assessment and work undertaken:	As part of our 2017/18 external audit work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary. As part of this work we assessed the controls with respect to the management review of assumptions used in the valuation report and accounts. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the Actuary to understand how these assets are allocated across participating bodies and re-performed this allocation. As a result of this work we determined that the liability has balanced assumptions and we have no issues to note. We have set out our view of the assumptions used in valuing pension liabilities at page 16.

Judgements

We have considered the level of prudence within key judgements in your 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

Subjective areas	2016/17	2017/18	Commentary
Provisions (excluding NDR)	3	3	We tested the Authority's provision against IAS 37 with no issues to note. We consider the provision disclosures to be proportionate.
NDR provisions	3	3	We tested the Authority's provision against IAS 37 with no issues to note. We consider the provision disclosures to be proportionate.
Pension liability	3	3	We have performed work on the assumptions used and have deemed the assumptions to be reasonable and within our expectations. Assumptions used are also in line with other local authorities within the Northamptonshire Pension Fund. We have requested specific representations in relation to this and have reiterated our previously raised, but not implemented, recommended 9 in Appendix Two.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements following approval of the Statement of Accounts by the Audit Committee.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix Four) for this year's audit of the Authority was set at £0.975 million. Audit differences below £45,000 are not considered significant.

Our audit identified a total of four significant audit differences, which we set out in Appendix Three. It is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a large number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code'). We have set out details of significant presentational adjustments in Appendix Three. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Authority's 2017/18 Annual Governance Statement (AGS) and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative Report

We have reviewed the Authority's 2017/18 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

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

Once we have finalised our opinions and conclusions we will then prepare and issue our 2017/18 Annual Audit Letter and conclude our audit.

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Northampton Borough Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Northampton Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix Six in accordance with ISA 260.

Management representations

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

Other matters

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

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

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

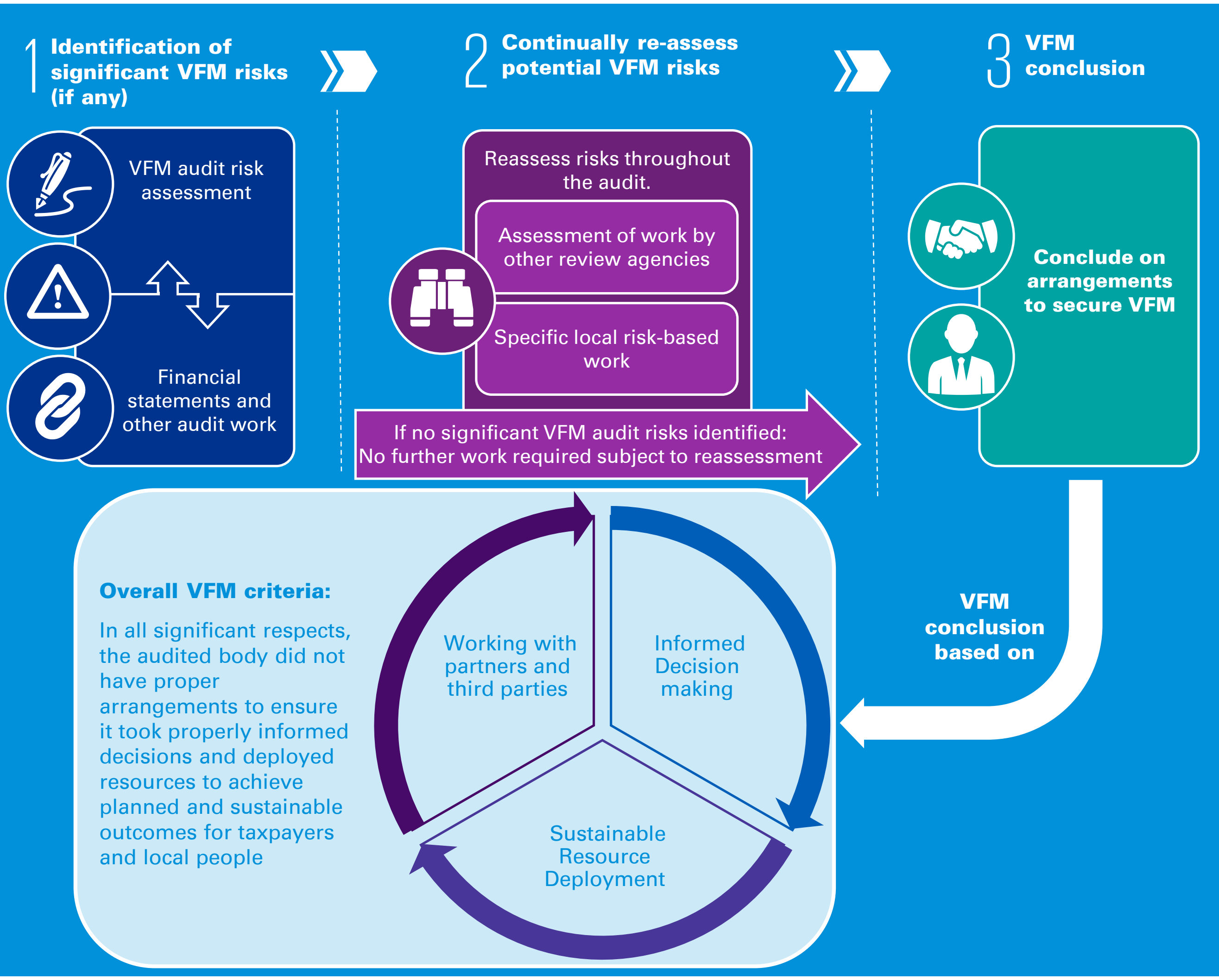
Our 2017/18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has not made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

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

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



Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Governance Action Plan	■		
NTFC Loan and wider loans system	■	■	■
Financial Resilience in the local and national economy	■	■	■
Off-payroll working through an intermediary (IR35)			■
Chief Executive Payment	■		■

In consideration of the above, we have concluded that in 2017/18, the Authority has not made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017/18* we have identified 5 risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In some cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate however we anticipate issuing an adverse value for money opinion.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

We have highlighted those risks which were identified after we presented our *External Audit Plan 2017/18* in November 2018.

Risk:

Governance Action Plan

In 2016/17 we obtained the Authority's Governance Action Plan and reviewed reported progress against this Plan. We have documented how the Authority measures and evaluates performance against each action, and assess this against supporting documentation. As of 31 August 2017, the Authority recorded that 22 actions had been implemented (46%), whilst 21 had been partially implemented (44%) and a further 4 (8%) not implemented, and 1 (2%) to be confirmed.

Our assessment and work undertaken:

During the course of the 2017/18 financial year, the Authority has put a lot of time, effort, and resource into implementing its Governance Action Plan (the Plan). The Plan is a key document for the Authority and it is overseen by the Leader of the Council, the Chief Executive, as well as the rest of the Corporate Management Board. The plan includes 48 actions. During the year the Audit Committee reviews progress as part of its programme of work.

There has been further progress in implementing the relevant actions by their due dates, although some actions have been slower than others to deliver due to competing pressures on resource. For example, in September 2017 only 46% of the Plan had been implemented, and in November 2017 this was 60%.

However, as of 31 March 2018, the Authority had completed 88% of the actions detailed in its Governance Action Plan, with 5 (10%) partly implemented, and 1 (2%) still be confirmed as to its status.

Of those six actions, all are deemed to be high priority, and three are overdue as of 31 March 2018. Of the partially implemented, only two are deemed to be 75% completed or more. These actions include risk management training for Officers and Members, the delivery of the 'Licence to Practice Organisational Development and Training', the establishment of a due diligence and compliance manual, and delivery of training on Equality Impact Assessments.

Within the risk management actions, the Borough Secretary, and Regeneration, Planning and Enterprise Directorates have completed service area risk registers, and this is complemented by the directorate risk registers within Customers and Communities, and Housing and Wellbeing.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

A risk register for Members had not been completed by 2017/18 year end, and the Authority noted that work was planned to continue on this into 2018/19. Likewise, the corporate risk register should be updated quarterly but had last been updated in December 2017.

Since his arrival, the new Chief Executive has also restructured the governance within the Authority, with four Boards now in place: Corporate Delivery Board, Corporate Performance Board, Corporate Improvement Board, and Corporate Management Board.

Whilst we recognise that a significant amount of work has gone into the delivery of the Governance Action Plan during the 2017/18 financial year, and that the majority of the plan has now, at the date of this report in July 2019, been implemented with only 10% of actions due to be delivered (and 5% overdue), the timing of the implementation of these actions during the year means that we cannot gain assurance that there was a sufficiently systematic, robust, and objective governance process, and framework in place at the Authority through 2017/18.

This is somewhat to be expected given that the Plan was only established in December 2016. As noted above, half way through the year only 46% of actions had been implemented. It is therefore clear that the actions cannot be said to have been suitably embedded during the 2017/18 financial year and as such we therefore are unable to assess whether it was operating effectively and/or as designed etc. However, we can state that if the actions already implemented are now embedded within the Authority, then it appears to have placed itself in a good position for 2018/19 onwards.

As a result of our work in respect of this risk, we are therefore unable to state that Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result we will issue an adverse value for money opinion for the 2017/18 year.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk: **NTFC loan and wider loans system**

In 2015/16, we issued an adverse conclusion on the Authority's arrangements to secure value for money. We were not satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to loans is adequate. A recommendation was raised during our 2016/17 audit regarding the controls and processes for issuing loans, due to finding that there is no systematic formalised system of recording or documenting the due diligence process, or results from the loan approval process. In addition, we came to the conclusion the accountability and decision making process is not sufficiently robust. Subsequent to the loss of £10.22million, the Authority has approved up to £950,000 to be spent on recovering lost monies.

Our assessment and work undertaken:

As reported in our previous external audit reports the Authority advanced a loan of £10.25 million to Northampton Town Football Club (NTFC) to carry out works to improve stadium facilities and develop a hotel. The loans were due to be repaid through the provision of a first return to the Authority on the development of land adjacent to the stadium combined with some land previously leased to NTFC, and then through enhanced revenue streams available to NTFC through the hotel and stadium development. The loan made to NTFC and the financial management concerns around it have been widely publicised.

Whilst our review into the circumstances surrounding the loan as well as subsequent actions undertaken is not yet complete, we have considered the information and findings so far as part of our VFM conclusion. We are unable to comment further on the findings of this specific review until complete.

During 2016/17, an internal audit report into the loan was presented to the Authority's Audit Committee in December 2016. A number of issues were raised and recommendations produced as a result. Internal Audit stated:

"Cabinet approved a loan of up to £12m, but this decision was based on limited information as a business case was not made available. A number of conditions were made by Cabinet and we have been unable to confirm that these were complied with fully, addressing all concerns. For these reasons, we have been unable to confirm that decisions taken were in line with the delegated authority…the information reviewed demonstrates that there was a lack of formal processes implemented and adhered to regarding risk management, project management, management information and performance management. We attempted to reconstruct the thought process for the decision made and for subsequent monitoring. Our view is that the Council failed to demonstrate this in its data room. This was made extremely difficult because of a lack of an approved business case, appropriate independent advice and documented risk management and governance processes. It is apparent that the overriding focus on the Sixfields redevelopment was on the operational aspects and subsequent governance arrangements failed to identify and address adequately the loan agreement."

We have taken into account our findings from our audits from 2015/16 onwards, our on-going investigation into the circumstances surrounding the loan agreement, and the internal audit report referenced above.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Due diligence also forms a key work strand of the Governance Action Plan noted overleaf. Following the issues raised, Officers initially put a hold on the issuing of any loans pending a review of due diligence processes. A summary of existing loans and key documentation have been compiled and centralised in one place. An extensive loans compliance checklist has been developed, and reviewed by the Authority's banker Barclays.

However, during the 2017/18 financial year, the action to establish a due diligence and compliance manual had not yet been delivered, and as of 31 March 2018 the action was overdue. Production of the manual has been delayed as the Authority has yet to agree a methodology, and was also considering whether external / consultancy support was required. Likewise, within the 'Effective Decisions' work strand of the Governance Action Plan, as of 31 March 2018, the Authority had yet to implement delivery of the 'Licence to Practice Organisational Development and Training Plan' which would address key governance areas to improve skill-sets of Officers and Members, including due diligence regarding decisions such as the NTFC loan.

However, we note that the Authority has made some progress, although until a time that all such actions are implemented and embedded we are unable to provide assurance that new processes and policies have been followed.

We have taken into account our findings from the 2015/16 and 2016/17 audits, our on-going investigation into the circumstances surrounding the loan agreement, and the internal audit report. Our findings indicate that there is an insufficiently systematic, robust, and objective due diligence process, and framework within which decisions can be made or documented. As of 31 March 2018, the external police investigation into the loan was still on-going, and the Authority continues to be involved in legal proceedings to recover related monies.

Therefore, in conclusion our findings indicate that for the year 2017/18 and as at 31 March 2018 there was an insufficiently systematic, robust, and objective due diligence process, and framework within which decisions could be made or documented.

As a result of our work in respect of this risk, we are therefore unable to state that Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result we will issue an adverse value for money opinion for the 2017/18 year.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:

Financial resilience in the local and national economy

Like most of local government, Northampton Borough Council faces a challenging future driven by funding reductions and an increase in demand for services. At a local level, this is compounded by the County Council's financial difficulties.

For 2017/18, the Authority set a net budget of £29.1 million, which includes the requirement to achieve £2.8 million of savings during the financial year, being a mixture of additional income generation (£683k) and reduced expenditure from general efficiencies (£1.6 million), economic growth (£172k) and other technical savings including debt financing (£282k).

Over the subsequent years, the Authority has set an overall net budget requirement which increases from £29.1million in 2017/18 to £32.6 million in 2021/22.

Feeding into the budget, the Authority has assumed a decrease in Revenue Support Grant from Central Government from £1.8 million next financial year to zero funding from 2019/20 onwards. Additionally funding from the New Homes Bonus reduces from £4.2 million in 2017/18 to £2.1 million by 2021/22. However, it is worth noting that the Authority has budgeted based on the assumption that funding from the Business Rates Retention Scheme will continue to increase during the period, from £7.6 million to £8.1 million by the end of the Medium Term Financial Plan. There is a risk attached to this due to the uncertainty provided by Central Government as to how this scheme will operate going forward and the Authority needs to ensure that budgeted assumptions are based on the latest information available to them and updated accordingly as the future of the Scheme is debated.

The financial pressure on the Authority is therefore likely to increase over the coming years and it is imperative that work continues to identify savings well in advance of the most difficult periods within the Medium Term Financial Plan, most especially savings which may require initial investment and a longer lead time to realise their benefits. The Authority has a positive track record of delivering savings, but this will only get more difficult. The Medium Term Financial Plan only detailed savings predicted up until 2020/21, and over this period a total of £7.5 million have been included in the budgets, although the Authority has set far higher targets of £21.9 million. This leaves unidentified savings of £14.4 million from 2018/19 onwards.

Our assessment and work undertaken:

Financial Resilience

Like most of local government, Northampton Borough Council faces a challenging future driven by funding reductions and an increase in demand for services. At a local level, this is compounded by the County Council's financial difficulties.

General Expenditure

During 2017/18, the Authority set a General Fund Budget for controllable service budgets of £29.1 million which included the requirement to achieve £2.8 million of savings during the financial year, being a mixture of additional income generation (£683k) and reduced expenditure from general efficiencies (£1.6 million), economic growth (£172k) and other technical savings including debt financing (£282k). This also included a £649k contribution to reserves to help deal with budget pressures arising in the medium term, as well as providing a source of funding for future invest to save initiatives.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

During the year, a revised budget of £31.844 million was set, the actual outturn reported against this was £30.820 million, a £1.024 million net variance (underspend), mainly attributable to a £1.241 million underspend relating to Customers and Communities which included £636k savings from the Environmental Services Contract and a one year suspension of LGPF employer contributions, as well as £360k increased income from car parking. Further underspends also occurred with LGSS (£535k) relating to insurance costs and an unused contingency for pensions auto-enrolment.

The areas of greatest overspend for the Authority were benefits, where higher temporary accommodation costs led to a greater Housing Benefits subsidy loss (£1.2 million), private sector housing (£356k overspend), and asset management (£324k overspend).

Reserves

The Authority decided to use the £1.024 million net underspend in two ways; firstly using £0.432 million towards project budget carry forwards (an increase from £99k carried forward as of March 2017), and secondly to use the remaining £0.592 million as a contribution towards the MTFP Cashflow Reserve to mitigate against risk of reduced central government funding, increased service costs, and increased contract management costs.
As a result, the minimum level of £5.5 million General Fund Balances remained as of 31 March 2018.

Overall, as of year-end, the Authority held £22.911 million of General Fund earmarked reserves to mitigate against specific risks, as well as invest in service improvement. This is a small decrease from the £23.003 million held at the end of March 2017. Of this, £10 million was specifically set aside to fund new vehicles and equipment required as part of the new Environmental Services contract, planned to be drawn at £1 million per year for the next decade. As noted above, additional funding was put into the MTFP Cashflow Reserve, which totalled £3.4 million and is used to mitigate against any delays in delivering planned services in the Medium Term Financial Plan. A further £2 million is set aside to fund the delivery of the Efficiency Plan.

Service specific reserves include Customers and Communities reserve of £0.683 million, Regeneration, Enterprise and Planning of £0.543 million, and Housing Reserves of £0.6 million.

Housing Revenue Account

The Housing Revenue Account had a net budget of £5.7 million during the year (-£25.492 within Budget Manager's Control, and £31.22 million Technical Account Adjustments), but reported an underspend of £1.467 million (£966k in 2016/17). This underspend was a result of a multitude of factors including lower interest and financing costs (£289k underspend), £454k additional income through service charges, £292k increased rent payments, and £240k lower repairs and maintenance costs.

The Authority maintained a £5 million HRA working balance as of March 2018, the same as at the previous year end, with a further £6.796 million of earmarked reserves (compared to £11.057 million in March 2017), for a total of £11.796 million (down from £16.057 million in March 2017), including £4.995 million for the capital programme, and £1 million for service improvement.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

The HRA had an approved capital budget of £36.001 million, but the outturn was £24.006 million, an effective £11.995 million underspend, although this is reduced to £11.032 million when £964k of carry forwards are taken into account.

Of this, £11.028 million was underspent on new builds, which relate to the Dallington Grange project.

Capital Budget

The Authority's capital budget for 2017/18 was originally set at an initial £20.679 million, including £17.77 million within the development pool at the time of approval. Of this, £4.395 million of funding was expected to be sourced via borrowing (including self-funded). The budget proposals included details regarding the Authority's enhanced governance arrangements in relation to capital projects via the Capital Programme Board, into the development pool for approval by Cabinet and Council.

During the year, subsequent changes to the budget were made and outturn reports show the latest approved budget was £24.274 million, with an approved adjusted carry forward for 2018/19 of £13.951 million. This has resulted in an end of year adjusted budget of £10.323 million.

The capital outturn for the year was £6.527 million, an initial underspend of £3.796 million. However, a further £3.456 million of this was expected to be carried forward, meaning a reduced underspend of £340k. This underspend was attributable to a number of small underspends across a variety of projects, including £103k relating to the Cinepod at the Royal & Derngate Theatre, a £73k refund from Northamptonshire County Council relating to the Giles Street Improvements, and £154k relating to unspent external grant funding relating to DFG's Owner Occupiers programme.

Of the total spent, the Authority used corporate borrowing of £2.488 million, £2.209 million of grants and contributions, and £1.668 million of capital receipts (against budget of £2.584 million). Of the budgeted £839k of reserves to be spent on capital, only £47k was used, with the remaining £792k used to repay historic borrowing, facilitating new borrowing used to fund the National Grid land purchase.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Medium Term Financial Plan

For 2018/19, the Authority set a net budget of £28.49 million (decreased from £29.1 million in 2017/18), which includes the requirement to achieve £1.822 million of savings and efficiencies during the financial year (£2.8 million in 2017/18), against a further £4.25 million of spending growth.

'Savings' include a mixture of additional income generation (£1.36 million) through car parking charges and other fees, as well as a reduced number of actual savings programmes (total of £462k of efficiencies against £1.6 million in 2017/18). Growth mainly comes from a net budget increase in environmental services of £4.02 million arising from the new environmental contract.

2018/19 is the final year where the Authority has budgeted for Revenue Support Grant from Central Government, which accounts for £886k of the £12.312 million total government funding, in addition to £15.793 million of council tax, and a £383k surplus on the collection fund.

The MTFP is set until 2022/23 and over the subsequent years, the Authority's net budget requirement decreases by £1.052 million to £27.438 million in 2019/20, before gradually increasing again over the next three years to a budget requirement of £28.897 million by 2022/23.

Whilst Central Government funding decreases from £12.314 million to £9.432 million over the five year period from 2018/19 to 2021/22, this is offset at the same time by increases in council tax income from £15.794 million to £17.962 million, resulting in an overall net reduction in income of £714k. This is based on an assumption of a £5 annual increase in the Band D Council Tax.

Therefore over this period, the majority of financial pressure arises from increased expenditure in corporate budgets. The service base budget increases from £27.474 million in 2018/19 to £28.440 million in 2022/23. Whilst reducing value in each subsequent year, the new environmental services contract adds further net budget increases during the five year period of the MTFP, averaging £2.636 million each year.

One further significant pressure on the Authority is debt financing, with costs more than doubling from £1.456 million in 2018/19 to £3.155 million by 2022/23.
Some mitigation is offered by the use of reserves during the period, with the Authority planning on drawing down a total of £6.023 million in the next five years.

It is also worth noting again that the Authority has budgeted based on the assumption that funding from the Business Rates Retention Scheme will continue to increase during the period, from £8.345 million to £8.401 million by the end of the Medium Term Financial Plan. There is a risk attached to this due to the uncertainty provided by Central Government as to how this scheme will operate going forward and the Authority needs to ensure that budgeted assumptions are based on the latest information available to them and updated accordingly as the future of the Scheme is debated.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

The Medium Term Financial Plan details savings and efficiencies over the next five years, gradually increasing to £3.033 million in 2022/23. The majority of income generation and cost savings are embedded from the first year (2018/19), and this increase is mainly driven from growing efficiencies predicted from organisational redesign (from £320k to £561k over five years), and a general fund sharing of support service savings (from £0k to £769k in five years' time).

However, the MTFP as it stands results in budget gaps from 2020/21 onwards for the next three years, reaching a gap of £1.503 million by 2022/23. This clearly identifies the need for more savings and efficiencies to be made, but these are yet to be planned. The Authority notes that these will be achieved via the programmes set out in the Efficiencies and Medium Term Financial Strategy, through areas such as partnerships, digital channels, further income generation, review of staffing and structures, and further investment and commercial opportunities.

As reported in our ISA260 2016/17, the financial pressure on the Authority is therefore likely to continue to increase over the coming years and it is imperative that work continues to identify savings well in advance of the most difficult periods within the Medium Term Financial Plan, most especially savings which may require initial investment and a longer lead time to realise their benefits. The Authority has a positive track record of delivering savings, but this will only get more difficult.

In its current form, the Authority will need to make further difficult decisions in respect of other sources of funding such as Council Tax, as more Authorities begin to increase this in order to mitigate the financial pressures felt elsewhere and maintain the desired level of services to the public. Careful financial planning is required, and the Authority should also ensure that the assumptions it feeds into its Medium Term Financial Strategy (such as demographics, service demand etc.) are regularly refreshed to provide an up-to-date and reliable indicator of future pressure points.

Unitary Status

It is also important to note that the plan for Unitary Councils in Northamptonshire are now planned to go-live in April 2021 and therefore it is important to ensure that all financial planning has consideration of the impact that programmes may have on this change in structure. Whilst it remains imperative that the Authority operates as efficiently as it can do, future opportunities for wider savings maybe achievable once the current structure of local government in Northamptonshire has been changed from one County and many Districts / Boroughs, to two Unitary Councils.

Many of the savings programmes in operation can, and should, continue, but the Authority should also be conscious of the medium and long-term implications of these when amalgamating with its partner Councils in the future, particularly when they relate to contracts, services or systems which will be shared going forward. Current investment in service redesign therefore should be reviewed to understand whether the benefits will be derived in time to make the projects worthwhile, or whether they should be reconsidered in light of a wider service amalgamation and redesign under a Unitary body.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

As a result, there is an overall risk that some elements of current investment do not deliver the benefits they are designed to achieve, due to the impact of incoming Unitary status, whilst longer-term commitments and contracts tie the successor Authority into financial commitments it would otherwise have jointly avoided.

Due to the restructuring of local government in the County, there is also a risk that reserves are utilised more quickly than otherwise would be intended in order to ensure they are spent within the Borough's geographical area rather than be amalgamated into wider Unitary reserves from 2021 onwards.

Conclusion

We have reviewed the arrangements the Authority has in place to manage and deliver financial resilience during the 2017/18 financial year.

Our work has included a critical assessment of the Authority's Medium Term Financial Plan and a review to ensure that budgeting is sufficiently robust to ensure the Authority can continue to provide services effectively.

We continued to meet regularly with the S151 Officer and key staff to understand the Authority's financial position and assessed the adequacy of its arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have no other issues to raise in respect of this particular VFM risk.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:

Off-payroll working through an intermediary (IR35)

Following the Finance Bill 2017, the Government introduced revised legislation relating to off-payroll working in the public sector. The measure applies to payments made on or after 6 April 2017, but also applies to contracts entered into before that date.

The off-payroll working rules are in place to make sure that, where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax and National Insurance contributions (NICs) as an employee.

— Public Sector authorities will be responsible for identifying and reviewing the employment status of all workers engaged through personal service intermediaries (referred to throughout as Personal Service Companies ("PSC") including those provided via an agency.

— Where, in the absence of the PSC, the worker is deemed to be an employee of the Public Sector Council, it, (or the agency) is required to calculate the deemed payment being made to the worker.

— Account for PAYE and National Insurance (employee and employer) to HMRC on the deemed payment.

— Financial sanctions will be applied where the legislation is not applied or applied incorrectly e.g. where employment status is incorrectly determined HMRC will collect any underpaid tax and NIC from the Public Sector Council.

HMRC is committed to enforcing the new rules and has set up an employment status and intermediaries team to review the arrangements.

Our assessment and work undertaken:

We originally included a VFM risk associated with the implementation of IR35 legislation relating to off-payroll working in the public sector. The measure applies to payments made on or after 6 April 2017, but also applies to contracts entered into before that date.

The off-payroll working rules are in place to make sure that, where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax and National Insurance Contributions (NICs) as an employee. Public Sector authorities will be responsible for identifying and reviewing the employment status of all workers engaged through personal service intermediaries (referred to throughout as Personal Service Companies ("PSC") including those provided via an agency.

During the course of work, in accordance with applicable NAO guidance regarding Value for Money considerations, we removed this from our planned work. Having had consideration of the risks relating to the Governance Action Plan, and the NTFC loan, we concluded that we had undertaken sufficient and appropriate work in order to form our value for money opinion.

We note that the use of off-payroll arrangements are still a risk to the wider public sector, and recommend that the Audit Committee gains appropriate assurance for the Authority that it has sufficient arrangements in place to mitigate against the associated risks. This includes

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

having appropriate policies and procedures in place in order to ensure compliance with IR35 legislation, including those which allow the Authority to identify potential Personal Service Companies during the procurement and contracting stage with new suppliers, as well as the retrospective review of arrangements in place before 6 April 2017.

We also note that the Authority's historical use of interims contributes to this risk, and the Audit Committee should also assure itself that appropriate arrangements are in place to ensure that value for money considerations are at the forefront of all such arrangements, whether they are employed directly by the Authority or contracted via the shared services arrangement with LGSS.

The Authority may wish to obtain specialist tax advice to ensure it is fully compliant in this matter.

We have no other issues to raise in respect of this particular VFM risk.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	**Chief Executive Payment** The Authority's previous Chief Executive departed the organisation in July 2017. The Chief Executive also acts in a statutory role as the Head of Paid Service. There is a risk that the terms and conditions of the departure, including any exit package, did not provide value for money to the Authority.
Our assessment and work undertaken:	We reviewed the circumstances surrounding the departure of the Chief Executive in July 2017. We reviewed payments made to the Chief Executive on leaving the Authority. However, we noted that there was limited associated documentation, but the payments had been reviewed and approved by the Borough Secretary and Monitoring Officer and the Borough's governance process, which was deemed appropriate. We reviewed the process put in place by the Authority following the Chief Executive's departure to ensure that statutory roles (including the Section 151 Officer) were appropriately filled during any gap in appointment. As part of our standard audit approach, we also reviewed exit packages for other staff leaving the Authority in the year, including those made through redundancy or early retirement. We reviewed the disclosures and related narrative provided in the financial statements by the Authority in order to ensure they are appropriate and compliant with guidance. Presentational amendments were made as a result. We have no other issues to raise in respect of this particular VFM risk.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2017/18 financial statements has identified some issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

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

Priority Rating for Recommendations

1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: **1**	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: **5**	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: **0**

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
1	1	**Review of Bank Reconciliations** ***Risk*** At interim we reviewed the month 11 bank reconciliation. We reviewed the year end bank reconciliation at our visit in March 2019. At interim we found the following risks: **Unpresented Cheques** – The Authority reverses all cheques which have not been presented within 6 months, this means that the bank reconciliation does not show all unpresented cheques pertaining to the Authority. When such cheques are later cashed, the Authority inserts a dummy entry into the general ledger (GL) so that the transaction on the bank account can be matched off. In October 2016, the Authority changed from HSBC to Barclays Bank. Therefore, unpresented cheques from before October 2016 are no longer valid. The cumulative amount of unpresented cheques within the Barclays accounts which has been reversed out of the GL and therefore showing in the bank reconciliations at the time of interim (March 2018) was £592,060. **Review** – The individual reviewing the bank reconciliations at the time of the interim audit was doing so after another team member left the organisation. However, the individual had not previously had exposure to the preparation of bank reconciliations. Therefore, we determined that the individual did not have the appropriate experience to perform the review. At our visit for the final audit we found the following risks: During our testing we noted that there were unreconciled balances that were not included in the bank reconciliation, but were included in the ledger. The bank reconciliation was reviewed on 20 April 2018 and did not pick up on the differing totals on the ledger and within the bank reconciliation. We noted that the reconciliation was reviewed by a different individual to the reviewer at interim. We were satisfied that this individual had the appropriate experience to perform the review. ***Recommendation*** The Authority should ensure that all unreconciled items are included within the bank reconciliation. The Authority should investigate and resolve all outstanding unreconciled bank reconciliation items in the month in which it occurs. The Authority should ensure that the review process is robust and that reviewers have the appropriate experience and expertise to carry out the review of the bank reconciliations.	NBC has raised this issue as part of the regular contract review, LGSS Internal Audit are now required to check that the activity is being undertaken on a regular basis and provide assurance to the NBC Chief Finance Officer. The implementation date reflects further improvements required to ensure full assurance. ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 August 2019

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
2	2	**Adherence to the tendering process** ***Risk*** During our testing of other expenditure, we considered compliance with the tendering process as part of procurement. We tested a sample of the contracts on the contracts register. Of these, one of the contracts was not subject to the tendering process and therefore did not comply with the Authority's tendering requirement. We tested a sample of 10 contracts from the Authority's list of expenditure up to February 2018: — For 2 samples, the contracts and their tenders could not be located as the related staff had left the organisations. — For 2 samples, signed contracts were not in place when they should have been. The Authority informed us that on-going tendering processes were underway to rectify this. — For 3 samples, the contracts were not listed on the contracts register provided by LGSS. There was, however, a compliant tender process. Whilst we were unable to see the tender documents for 5 of the sample items, expenditure on these samples was below the EU tendering limits but above the organisation's limit of £75,000. ***Recommendation*** The Authority should ensure that they apply and comply with their tendering process fully and consistently across all relevant contracts.	Officers have and will continue to be reminded of the need to comply with all Procurement rules. The new Internal Auditors have also been guided to this area to identify further specific areas for improvement. As part of the contract monitoring meetings, LGSS Procurement have been reminded of the need for the service to be more proactive in improving the process and compliance. ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 August 2019
3	2	***Processing of new starters and retention of data*** ***Risk*** During our testing of new starters to the organisation, we were unable to obtain the new starter forms for two of the new starters selected for testing. In another case, we were unable to identify the salary of the individual from the new starter form as the documentation was incomplete. ***Recommendation*** The Authority should ensure that they retain all of the appropriate information for new starters to ensure that the information is complete and that there is a clear audit trail.	There has been an issue in that the use of starter/leavers information is used to as part of system access controls. NBC staff can be controlled and the system improved. However NBC is reliant upon LGSS to ensure it complies in respect of its staff accessing NBC systems and data. LGSS Internal Audit are tasked with providing compliance assurance. ***Responsible Officer*** HR Manager – Karen Marriott / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 June 2019

Key issues and recommendations (cont.)

No	Risk	Issue & Recommendation	Management Response
4	2	***Review of Business Rates Reconciliation*** ***Risk*** As part of the business rates reconciliation process we understand that the reconciliations should be reviewed by the Business Rates team leader. We were unable to verify that this was the case for 3 of the 5 reconciliations that we reviewed as part of our testing as it had not been evidenced. We were unable to state that there has been appropriate review and segregation of duty as part of the reconciliation process. There is a risk that this exposes the Authority to fraud and/or error. ***Recommendation*** The review process should be consistently formally documented. This allows the Authority to demonstrate review and reduces the risk of fraud and/or error.	The recommendation was accepted and the service has implemented revised processes/procedures. ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 June 2019
5	2	***User access reviews were not carried out in the audit period for in-scope systems*** ***Risk*** There was no formal review of access rights for the Agresso or Northgate systems in the audit period. Therefore individuals may have inappropriate system access. There is no formal user access review process for the RAM/ Academy system. This is because there are a small number of users who are all known to the system owner. ***Recommendation*** The Authority should ensure that there is a formal process in place for reviewing system access and removing individuals from the system accordingly. In addition formal reviews of access rights should occur on a regular and timely basis. Also the revocation of access rights should occur in a timely manner when an individual leaves the organisation.	Recommendation was accepted and raised through the LGSS contract monitoring meetings. LGSS system controllers have taken appropriate action and LGSS Internal Audit are required to provide assurance on compliance. ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 June 2019
6	2	***Agresso password length is not assigned as per the password policy*** ***Risk*** The IT code of practice policy documents the password policy. We noticed that the standardised password parameters are: – Use passwords with a minimum length of 9 characters. – Change passwords at regular intervals of no more than 55 days, or as the application requires. – Last 24 passwords remembered. – Complexity should be enabled. Our testing found that the system parameters were appropriately applied for Northgate, Academy and AD. The password parameters for Agresso and RAM were set at a minimum of 8 characters instead of the minimum of 9 required. ***Recommendation*** The Authority should ensure consistency and full compliance across systems in the implementation of the password policy.	Recommendation was accepted and raised through the LGSS contract monitoring meetings. LGSS system controllers have taken appropriate action and LGSS Internal Audit are required to provide assurance on compliance ***Responsible Officer*** LGSS Business Systems Improvement Manager / NBC Chief Finance Officer – Stuart McGregor ***Implementation Deadline*** 1 April 2019

Follow-up of prior year recommendations

The Authority has not implemented all of the recommendations raised through our previous audit work.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

Number of recommendations that were	
Included in the original 2016/17 ISA260 report	**11**
Implemented in year or superseded	7
Outstanding at the time of our 2017/18 audit	4

Each of the issues and recommendations were given a priority rating, as outlined below.

Priority Rating for Recommendations					
1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: **5**	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: **4**	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: **2**

Follow-up of prior year recommendations cont.

High Priority

1. Review of bank reconciliations

We reviewed the Authority's year-end bank reconciliation. There are unreconciled balances that the Authority has been unable to address. Some of these balances were over a month old.

A number of the unreconciled items within the Authority's Benefits bank account relate to direct debit payments set up by third parties using the Authority's bank details. The Authority provides its Benefits bank details on payment forms to allow individuals to deposit payments directly into the Authority's bank account. The Authority's banker had honoured those direct debits. These were reimbursed by the bank subsequent to queries by Officers.

We also identified that a number of unreconciled items were incorrectly dated, for example, an item which appeared to be a reconciling item from January 2016 was in fact a reconciling item from November 2016. Officers have stated that the system records an incorrect date when the reconciling item appears between the first and twelfth day of each month.

Based on the issues identified above, we were unable to place reliance on the Authority's bank reconciliations.

Recommendation

The Authority should issue instructions to its banker not to honour direct debit payments out of its Benefits bank account.

The Authority should investigate and resolve all outstanding unreconciled items within the month in which it occurs. The Authority should also establish a system of reconciliation which supports monthly reconciliations on a timely basis and provides the correct date for each item.

Update as at July 2018

Superseded

During the 2017/18 audit, we identified issues in the bank reconciliation process. See recommendation 1 in Appendix One.

Follow-up of prior year recommendations cont.

High Priority

2. Valuation of Property, Plant and Equipment (PPE), including Council Dwellings

We faced significant difficulty in our work on the Authority's PPE. In the prior year, we raised a recommendation on the valuation of Council Dwellings. Our work this year has found issues more broadly in relation to PPE.

In the current year, the Authority has used three separate valuers for the valuation of its PPE (including Council Dwellings) and investment properties:

- Land and buildings: internal valuers and Underwoods. Underwoods were engaged by the Authority due to capacity constraints within the Estates team.
- Council Dwellings: Underwoods, and subsequently Bruton Knowles
- Investment properties: Underwoods

Formal instructions to external valuers

We identified that no formal valuation instructions were sent to the external valuers, Underwoods and Bruton Knowles.

Type of asset	Valuer	Assessment of instructions
– Land and buildings (non-HRA) – Investment properties	Underwoods, date instructed not available	No formal written records or instructions were sent to Underwoods. As a result, we were not able to confirm that Underwoods had complied with the valuation request, which would have included list of assets to be valued. We had to undertake additional work to reconcile the list of assets reviewed against the valuer's output. We were also not able to confirm that the Authority has instructed its external valuer in line with the requirements of the Code and other applicable valuation and accounting standards. We engaged our KPMG specialist to perform additional substantive work to provide assurance that the valuations were in line with applicable standards.
– Council Dwellings	Underwoods, instructed February 2017 Bruton Knowles, instructed April 2017	Two in-year valuation exercises were requested the first by Underwoods in February 2017, and the second by Bruton Knowles in April 2017. For the valuation exercise, the Authority asked its valuer to utilise "alternative beacons where necessary", without considering the impact of this request. As a result, we were unable to initially agree inputs in relation to Council Dwellings. Further work was required to provide us with this assurance.

Follow-up of prior year recommendations cont.

High Priority

Valuation Reports

The Authority did not request a full valuation report from Underwoods. This is not in line with Code requirements. In response to our inquiries, a second valuation was undertaken for Council Dwellings in April 2017 by Bruton Knowles, for which we have received a valuation report on 23 June 2017.

We received the valuation report for 'other land and buildings' and investment properties on 4 August 2017 which was undertaken by Underwoods. The late receipts of these reports delayed our assessment of the valuation results.

Valuation review and challenge

For Council Dwellings, we noted that there was an initial review by the Authority on the results of the valuation exercise undertaken by Underwoods. This review by the Authority was undertaken with incomplete information as no valuation report was prepared by the valuer. This had not been requested by the Authority.

Bruton Knowles subsequently took on the valuation review of Council Dwellings and provided both the valuation results and a valuation report. The Authority had performed a review of the valuation results. However we note that:

- the Authority was not aware that the valuer had used the social housing discount factor (EUV-SH) for the South East instead of East Midlands. This is evident during our initial discussions with the Authority;
- the Authority was also not aware that the social housing discount factor had changed. This is evidenced by the initial draft of the accounts, where the old EUV-SH of 34% was stated;
- the Authority had not considered the impact of instructing the valuer to use "alternative beacons where necessary"; and
- the valuation was performed on a desktop basis. We understand that this was requested verbally by the Authority, and this methodology was chosen due to time pressure. This methodology is a departure from Code requirements and the Authority's accounting policies. This departure was not disclosed within the Authority's accounts, nor assessed for compliance with Code requirements. Upon our initial feedback to the Authority on this matter, Officers made the decision to ask for a full valuation exercise. This was carried out on 16 September 2017 on the same 20% of beacons. We are still evaluating the results of this new exercise.

For 'other land and buildings', our valuation specialist was unable to obtain assurance over key inputs used for the valuation process due to the high turnover within the Estates team. Work on this is still ongoing.

Overall assessment

We note that there is no overall strategic ownership and compliance review by an appropriately-experienced individual at the Authority. The valuation process in the current year appears to be on an *ad hoc* basis, with no written process notes or standard valuation procedure. This is particularly important given the high turnover within the Estates team during the past two years. We note that there has been limited consideration of how the valuation exercise aligns with requirements of the Code or audit requirements, in particular:

- the requirement for a valuer's report;
- the formalisation of valuer's instructions, including a list of assets to be valued;
- consideration of an audit trail in relation to assets to be valued;
- an assessment of the impact of 'alternative' beacons, where identified;
- the requirement for a full valuation instead of a desktop valuation for assets valued within the 5-year cycle;
- an assessment of the valuer's assumptions, in particular the justification for a social housing discount factor outside of the DCLG's guidance; and
- the timeframe and output to allow early review and assessment in light of the early closedown period in 2017/18.

The reactive nature of this year's valuation process has resulted in significant delays and non-compliance with Code requirements.

Follow-up of prior year recommendations cont.

High Priority

Recommendation

The Authority should formulate a formal policy and process for valuation, including establishing an overall strategy and position responsible for oversight over the valuation process. The individual(s) responsible should be suitably-qualified or experienced. They should be able to assess compliance of the valuation process and results against Code requirements as well as other applicable valuation and accounting requirements. This includes awareness of valuation requirements that are specific to the local government sector, for example, the DCLG's *Stock Valuation for Resource Accounting (SVRA).*

The valuation process should align to the Authority's closedown timetable, including a consideration of deliverables ahead of the year-end period. The process should be co-ordinated across the various valuers used (whether internal or external). The individual(s) responsible should oversee the transaction of valuation outputs into the Authority's fixed asset register, and subsequently oversee the production of good-quality working papers which contain clear audit trails (see recommendation 3 for further commentary on working papers).

Written instructions should always be issued to the Authority's valuers, whether internal or external. The instructions should require the valuers to comply with the Code and other requirements, specifically, the *Red Book* (*RICS Valuation –Professional Standards UK January 2014, revised April 2015*) for all valuations prior to 1 July 2017, and the *RICS Valuation –Global Standards July 2017* for all valuations going forwards. Valuation instructions should be agreed in advance with the valuer, with any departure from standard practice and requirements highlighted in both the instructions and the valuation report. The instructions should also reflect any variations agreed verbally between the Authority and the valuers.

There should be a clear record of all assets, including the date of last valuation and the valuer responsible. Instructions sent to the valuer should be accompanied by a list of assets due to be valued in a particular year; this list should be readily reconcilable to the Authority's master records.

The process should also include a formal review of valuation results, including any assumptions made by the valuer. The valuer should be instructed to present key valuation considerations and supporting evidence to enhance credibility and transparency to the values reported. Where necessary, the results and/or assumptions should be challenged, including the use of any alternative social housing discount factor. This challenge should be recorded and an audit trail maintained to ensure availability of records.

The Authority should require a valuation report to be produced to accompany the numerical valuation outputs, in line with the *Red Book* (*RICS Valuation –Professional Standards UK January 2014, revised April 2015*) for all valuations prior to 1 July 2017, and the *RICS Valuation –Global Standards July 2017* for all valuations going forwards. Special consideration needs to be given to valuation of Council Dwellings and the reporting requirements contained within the DCLG's *SVRA*.

Clear rationale over inputs and records (for example, comparable market data) should be recorded by the Authority's internal valuers, given the high turnover within the Estates team. This will help mitigate the difficulty experienced in the current year over obtaining assurance over the valuation inputs.

Update as at July 2018

Implemented

For the 2017/18 valuations, the Authority sent formal instructions to both Bruton Knowles for their review of Council Dwellings and to GVA for their review of other assets.

The assets were valued as at 31 December 2017.

No significant issues were highlighted through our review of valuations however one audit adjustment has been identified. See Appendix Three.

Follow-up of prior year recommendations cont.

High Priority

3. Preparation and review of audit working papers

We stated in our *External Audit 2016/17 Interim Report* dated April 2017 that the Authority had implemented our recommendation in relation to the preparation and review of audit working papers. Whilst we acknowledge that the Authority has made efforts to improve working papers (including the use of KPMG Central), we subsequently identified significant issues during our final audit in July 2017.

The audit team undertook an audit debrief and workshop in October 2016 to analyse key issues which we found with the prior year's working papers. We also worked with the Authority in the preparation of our draft *Accounts Audit Protocol*(PBC requirements) in December 2016, and based on our discussions with Officers, issued the final PBC requirements in January 2017. We followed this up with a meeting with the Closedown team to discuss specific requirements of the document request list in March 2016. We have also offered further support and opportunities to discuss specific requirements of audit requests.

Nonetheless we found quality issues on the Authority's working papers, which are similar to the issues which we identified last year. These are:

- Many working papers were not checked against the requirements listed in the Accounts Audit Protocol. Despite being signed off, we found gaps in the provision of information; and
- Breakdowns provided within working papers did not tie to the draft accounts. This demonstrates a lack of audit trail, which adds to the difficulty in understanding the Authority's working papers.

Key audit areas of concern are:

- Fixed assets: The Authority had not provided key outputs from valuers ahead of the audit as previously agreed. We did not receive any working papers on valuation which led to difficulty in agreeing valuers' reports to the accounts. In addition, Authority had significant difficulty and delayed providing us with a breakdown of additions and disposals of Council Dwelling components. We also had difficulty in understanding the Authority's workings in relation to componentisation;
- Payroll: There was no audit trail and we had to spend a significant amount of time with Officers to understand the working papers; and
- Debtors and creditors: Not all breakdowns were provided; this did not meet our PBC requirements which had been agreed with Officers. In addition, where breakdowns were provided, these did not always agree to the accounts or to the Authority's general ledger.

We note that some of the working papers with issues were prepared by individuals outside the Authority's Closedown team, but nevertheless should have been subject to senior management review prior to submission to the audit team.

There were numerous emails provided, both as part of the initial PBC but also subsequently throughout the audit (particularly in relation to PPE). We found working papers (in particular in relation to fixed assets) that consisted predominantly of embedded emails and documents. This led to significantly more work as information was dispersed within multiple emails and working papers.

Follow-up of prior year recommendations cont.

High Priority

Recommendation

All working papers should be provided by an agreed date, typically prior to the start of an on-site audit visit.

The Authority should ensure that all key closedown staff receive and review the agreed *Accounts Audit Protocol* prior to producing working papers for the audit. The review should be robust and reviewers should conduct an independent assessment of the working papers to ensure that the working papers can be understood by a third party.

Where breakdowns of balances are required by the *Accounts Audit Protocol*, these should be provided. The sum of the breakdown should agree to the audited balance, per the figures in the accounts submitted for audit.

Information should be contained and set out clearly within working papers, as much as possible, without the need for the audit team to review multiple emails or embedded documents to understand the evidence. Where there is a need to support the evidence via emails, these can be referred to as supplementary documents, but these should not form the bulk of the working paper.

The overarching principle is that working papers should provide a clear and concise audit trail from the financial statements through to sufficient and appropriate evidence within supporting working papers. Working papers need to:

- be clear, with explanations if needed. The working papers need to be written from the view point of someone external to the organisation;
- be supported by strong evidence, for example, third party documentation; and
- agree to the financial statements provided for audit.

Update as at July 2018

Outstanding

Although improvements were made on 2016/17, KPMG still felt that significant further improvements could be made to working papers that were provided for audit.

A high number of working papers did not agree to the notes. This led to additional questions and delays to the audit visit.

Follow-up of prior year recommendations cont.

High Priority

4. Fundamental review of financial reporting and accounts production process

The *Accounts and Audit Regulations 2015* introduced a statutory requirement to publish the accounts with an audit opinion by 31 July. This requirement comes into effect in the financial year ending 31 March 2018. The Authority is aware of this and we have sought early engagement with the Authority this year, in line with guidance from the National Audit Office (NAO) in AGN 06.

In light of this, we have agreed a staged approach for 2016/17, with key audit areas to be reviewed during our interim audit visit beginning 6 March 2017. We reported in our *External Audit 2016/17 Interim Report* (dated April 2017) that we were not able to do this due to delays. These were primarily in relation to:

– fixed assets valuation reports; and

– the restated CIES and EFA.

During our final audit visit in July 2017, we noted not all working papers had been provided, most significantly for fixed assets. We also noted various issues with the quality and availability of audit evidence (see recommendation 3).

We understand the departure of valuers within the Estates team as well as a key member of the Closedown team contributed to the delays and issues noted.

We also noted issues in relation to the quality and completeness of the draft accounts provided for audit:

– the note to the EFA was missing; and

– the Cash Flow Statement was wrong. It contained figures which we did not recognise nor were we able to tie these back to the accounts. Upon query, we were advised that this was the result of time pressures. A version of the new Cash Flow Statement was provided for audit by the Closedown team to ensure the accounts were complete, despite being wrong. This doubled our audit work as we had to audit the statement twice.

Significant audit work continued from September 2017 until December 2018, finalising key areas, in particular, fixed assets. The audit work this year has been beyond the initial three-week final audit period in July 2017, which was planned, agreed, and budgeted with the Authority. As reported, the delays have had a significant impact on the final audit fee. This is additional to the extra work required for it being a "high risk" audit.

Given the issues we have seen, both in the production of the accounts and the provision of audit working papers, the Authority was unable to meet the earlier statutory deadlines in 2017/18, and this audit has yet to commence at the date of this updated report. There is also a risk that the Authority is unable to meet the deadline to produce draft 2018/19 financial statements without significant changes to the current manner by which it produces its draft accounts, including changes to ensure that it produces good-quality working papers to support the accounts.

Follow-up of prior year recommendations cont.

High Priority

Recommendation

There should be a strategic and fundamental re-evaluation of the Authority's approach to the production of its financial statements and audit working papers. The Authority should aim to be in a position where key financial transactions such as additions, disposals, accruals, recharges, etc., are posted to the ledger on a regular basis. The Authority has put in place a new Closedown team in 2016/17 to improve its accounts production and audit performance; this has not proven to be as effective as both sides had initially anticipated.

In line with best practice which we have seen elsewhere in the public and the private sector, the Authority should aim achieve financial closedown at the end of every month. The Authority currently achieves closedown once a year, which has the effect of accumulating financial transactions towards the financial year end. This places immense pressure on the Authority's Finance team and Closedown team to meet year-end deadlines. The Closedown team is effectively being asked to compress a year's worth of financial transactions and analysis into a relatively short period of time.

The achievement of an earlier closedown in 2018/19 cannot be achieved by maintaining *status quo*. Initially, the Authority should aim to implement quarterly financial closedowns as an interim measure until monthly closedowns can feasibly be achieved. This will involve the wider Finance team and a change in current processes. Budget holders and other key contributors (such as valuers) will also need to be part of this joint effort; this will be a significant change in the wider corporate culture.

Update as at July 2018

Outstanding

Similarly to recommendation 3 above , the review of the accounts submitted for audit could be improved – a number of errors were found in presentation that should have been picked up if a thorough senior management review of the accounts had been performed.

Follow-up of prior year recommendations cont.

High Priority

5. Componentisation of Council Dwellings

The Authority changes the way it accounted for the components of Council Dwellings in the third quarter of 2015/16. The Authority has grouped individual components by type into one "global" component type, for example, kitchens, bathroom etc. We highlighted in our *External Report 2015/16* that this was a change that introduced a new element of estimation which was not disclosed within the Authority's accounting policies. We noted that this policy has also not been disclosed in this year's financial statements.

Calculation of the estimate

The Authority now estimates the amount of component disposals as a percentage of component additions. This percentage is based on historical data.

For example, if the Authority knows that on average it replaces a kitchen that was worth £2,000 with a new kitchen that is worth £10,000, the percentage calculated is 20%. Thus for every £10 it spends on kitchens, it derecognises £2.

Rationale for change

The Authority stated in 2015/16 that this change was designed to reduce the amount of manual inputs into the fixed asset register. The Authority was able to demonstrate that in 2015/16, the difference between the old and the new methodology was not material, however it anticipated this figure to be larger in 2016/17. We agreed with key Officers that for 2016/17, the Authority will need to demonstrate that the difference between the old and new methodology would not be material. However the Authority did not produce this analysis in the current year due to departure of a key member of the Closedown team.

Estimates, uncertainty, and complexity

This new methodology is an accounting estimate which introduces a particular margin of error. It is a move away from the purpose of componentisation, which was first introduces in IAS 16 and adopted by the code in 2010/11 in order to further refine asset values, that is to *further refine an existing estimate.* The Code states that estimates can be a faithful representation if the amount is described clearly and accurately as an estimate, the nature and limitations of the estimating process are explained, and no errors have been made by selecting and applying an appropriate process for developing the estimate. This has not been the case as no such disclosure exists.

The Code further states that 'as a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated'. We note that the use of this new estimate is not the result of inherent uncertainties, but a move to reduce processing of asset values.

Whilst the original methodology does to a certain extent involve estimates (for example, useful life of a component and the overall valuation of a building), these are established estimates and the estimation process of these values is governed by professional standards and carried out by qualified individuals. The new methodology introduces further uncertainties and decreases precision of the components' valuations. This new accounting estimate has ultimately increased uncertainty, adds complexity to the process, and significantly increases audit work.

Audit Impact

We faced difficulty in understanding the Authority's working papers in relation to estimates. Conversely, the Authority had difficulty in providing the audit team with a breakdown of component additions and disposals in year and caused additional work in obtaining necessary audit evidence. As at the time of writing, we have further outstanding queries in relation to the derecognition of components in quarter 4. In line with accounting requirements, we have asked the Authority to prove that this new estimate is based on the latest available, reliable information.

We note that there was an audit difference found in the prior year resulting from the application of this new componentisation estimate, which was not adjusted.

Follow-up of prior year recommendations cont.

High Priority

Overall Assessment

Whilst we understand the rationale driving this change in the accounting for components of Council Dwellings, the Authority has faced difficulty in justifying the reduction of precision on the basis of materiality. The calculation is complex and has caused delays to what should have been a straightforward area of audit. The amalgamation of components has removed the audit trail as the Authority is unable to easily reconcile the disposal of a particular component to the breakdown of component disposals.

Recommendation

The Authority should account for its Council Dwellings components in line with IAS 16 and Code requirements going forwards. This will increase precision and provides a clear audit trail. It will also remove complexity from the process. The Authority should consider alternative methods in reducing the manual processing of asset values, for example, the use of automated scripts within its fixed asset register system.

However, should the Authority choose to continue using its new methodology of accounting for components of Council Dwellings, the Authority will need to be able to provide evidence that the estimates used are based on the latest available, reliable information. The Authority should disclose this change within its accounting policies, as well as explain the nature and limitations of the estimating process. In order to ensure that its estimates are current and based on the latest available, reliable information, the Authority will need to perform an annual assessment of this estimate. There should also be special consideration of the audit trail of additions and disposals, and the ease of which these can be evidenced to external auditors.

Update as at July 2018

Implemented

As per the 2017/18 accounting policies disclosed in the Statement of Accounts, component accounting has been applied to council dwellings.

Follow-up of prior year recommendations cont.

Medium Priority

6. General IT controls –Passwords

We tested the Authority's general IT control environment this year and key IT applications, which are Agresso, Academy, Northgate, and RAM.

We noted that the Authority has documented a password policy as part of its information security policies:

– Use passwords with a minimum length of 8 characters.

– Change passwords at regular intervals of no more than 60 days, or as the application requires.

– Last 20 passwords remembered

– Complexity should be enabled

Our testing found that the password complexity option has not been enabled on Agresso and Academy. We also found that the minimum password length has not been enforced on RAM.

Recommendation

The Authority should enforce the password policy across all of the IT applications used by the Authority.

Update as at July 2018

Superseded

During the 2017/18 audit, whilst we identified improvements in the controls relating to passwords, there were still inconsistencies. Therefore the recommendation has been superseded. See recommendation 6 in Appendix One.

Follow-up of prior year recommendations cont.

Medium Priority

7. NDR Reconciliations

We have identified differences between cash and the NDR system in relation to monies received by the Authority. Some of these differences date from June 2016, which has not been resolved at year end. We understand that these are still being investigated.

Recommendation

The Authority should continue to investigate reconciling items between cash received and its NDR system.

Update as at July 2018

Superseded

During the 2017/18 audit, whilst we identified improvements in the reconciliation, there was still no formal review documented. Therefore the recommendation has been superseded. See recommendation 4 in Appendix One.

Follow-up of prior year recommendations cont.

Medium Priority

8. Payroll Reconciliations

The payroll function was transferred from LGSS to the Authority in January 2017. We were not able to review payroll reconciliations performed by LGSS from Period 1 to Period 9 as records were lost during the move.

For Period 10 to 12, we were able to review the payroll reconciliation performed by the Payroll Manager. We understand that this reconciliation was meant to be reviewed by a member of the Finance team; however we were unable to verify this as no evidence has been retained. We were unable to state that there has been appropriate review and segregation of duty as part of the payroll reconciliation. There is a risk that this exposes the Authority to fraud and/or error.

We understand that the Payroll Manager is updating the payroll processes at the moment and anticipates formalising this review process.

Recommendation

The review process should be formally documented. This allows the Authority to demonstrate review and reduces the risk of fraud and/or error. Where there are system changes, records of key controls will need to be retained for audit purposes going forwards.

Update as at July 2018

Implemented

All payroll reconciliations reviewed as part of the 2017/18 audit had been prepared and reviewed appropriately.

Follow-up of prior year recommendations cont.

Low Priority

9. Review of actuarial assumptions

The Authority is a member of the Northamptonshire Pension Fund (LGPS) which is required to undergo a full valuation every three years. As part of the full valuation process in 2016/17, the Authority is required to submit information about its members, as well as review and challenge the actuarial assumptions. These are both financial and non-financial assumptions.

The Authority's Actuary stated in its February 2017 briefing note:

"We therefore strongly recommend that you consider the suitability of the default assumptions to your specific organisation."

Assumptions used will impact the balance sheet and the following years CIES.

The Authority was initially unable to demonstrate a review of the assumptions or demonstrate the acceptance of the default actuarial assumptions used as part of the valuation process. Upon our feedback, the Authority has subsequently produced emails which demonstrate review of actuarial assumptions.

Recommendation

The Authority should formally evidence the review of all assumptions used by the Actuary to ensure relevant to the organisation. Where appropriate, the Authority should challenge these assumptions.

Update as at July 2018

Outstanding

As part of our work in 2017/18 we found that assumptions were not reviewed. The above is therefore outstanding.

Follow-up of prior year recommendations cont.

Low Priority

10. ITGC – RAM Leavers

A member of Finance left NBC in September 2018 however, it was noted that their RAM account had been used post their leaving date. It had been used by the RAM consultant who was required for the volume of work required to remove original incorrect Council Dwellings valuations and upload correct valuations as a result of audit adjustments.

Best practice would suggest that all leavers are removed from entity systems in a timely manner. There is a risk that the leavers' account if not closed, could be used for inappropriate amendments to the system - especially given the user rights of this particular user. As part of our testing we confirmed that all the amendments made by the RAM consultant were only the amendments to council dwellings valuations and not to system configuration therefore minimising this risk.

Recommendation

The Authority should ensure that it has a formal process in place for removing individuals from all systems they have access to on the date they leave the organisation. Where temporary access is needed by other individuals or organisations, separate and identifiable usernames should be provided to them for audit purposes.

Update as at July 2018

Superseded

As at March 2019, it was confirmed that there were no changes to the RAM leavers process. Therefore, there is no formalised process for revoking user access from the RAM application. Users are disabled based on personal recognition of the control owner who is usually aware of staff exits.

See recommendation 5 in Appendix One.

Follow-up of prior year recommendations cont.

Medium Priority

11. ITGC – RAM Update

Key financial systems should be kept updated. One of the issues that caused delays to the audit was a result of an outdated version of the Real Asset Management (RAM) system which holds fixed asset information. The outdated version resulted in a lack of support from third parties. A RAM consultant was required to come in and remove data from RAM to update it to the correct balances. This was a large piece of work and not would have been required if RAM was operating on a more recent version. We suggest that the RAM system is looked into for the 2017/18 accounts preparation onwards and the system updated.

Recommendation

The Authority should ensure that all of its key systems, accounting and otherwise, are kept up-to-date with relevant patches and software releases as and when required. This will ensure that the latest version is serviceable, provides the most up-to-date functionality and mitigates against issues which may lead to a loss of data or the system being unable to operate as intended.

Update as at July 2018

Outstanding

RAM was not updated for the 2017/18 audit.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

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

A number of minor amendments focused on presentational improvements have also been made to the 2017/18 draft financial statements. The Closedown Team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences – Authority

The following table sets out the significant audit differences identified by our audit of Northampton Borough Council's financial statements for the year ended 31 March 2018.

Table 1: Adjusted audit differences – Authority (£'m)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	*Dr depreciation* 0.1 *Dr revaluation gains* 0.5	*Dr revaluation reserve* 1 *Dr capital adjustment account* 0.7 *Cr general fund* (0.7)	*Cr OLB* 1.7		*Dr revaluation reserve* 1 *Dr capital adjustment account* 0.7 *Cr general fund* (0.7)	Incorrect floor area used for valuation of Northgate bus station. Updated floor area resulted in the provision of a new valuation. This investigation resulted in other errors found in the asset management system.
2	*Dr Cost of Services* 5.7 *Dr Other Operating Expenditure* 2.2 *Cr finance and investment income* (7.9)					Management fee paid to NPH was included in finance and investment income incorrectly and some assets which were reclassified in 2016/17 were not included in the investment property fair value movements.
3		*Cr revaluation reserve* (0.1)	*Dr OLB* 0.1		*Cr revaluation reserve* (0.1)	Royal and Derngate Theatre Cinepod 2nd screen had not been updated to reflect the value in the valuer report
	Dr £0.6m	**Dr £0.9m**	**Cr £1.6m**	**-**	**Dr £0.9m**	**Total impact of adjustments**

Appendix Three:

Audit differences

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of Northampton Borough Council's financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £0.9m. Cumulatively, the impact of these uncorrected audit differences is £0.1m. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences – Authority (£m)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1		*Dr Revaluation Reserve* 0.1	*Cr OLB* 0.1		*Dr Revaluation Reserve* 0.1	Mayorhold Multi Story Car Park Buildings are overstated in the fixed asset register – the valuer in the asset register does not agree to the valuer report.
		Dr £0.1m	**Cr £0.1m**		**Dr £0.1m**	**Total impact of adjustments**

Audit differences (cont.)

Presentational adjustments - Authority

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code').

Whilst the majority of these adjustments were not significant, we identified a number of adjustments of a more significant nature and details of these are provided in the following table.

There were a number of casting and inconsistency errors also identified within each set of draft accounts; the majority of these casting errors were amended for the final accounts with those relating to rounding if less than £2,000 ignored.

Table 5: Presentational adjustments – Authority

No.	Basis of audit difference
1	The Cash Flow Statement submitted for audit did not agree to the supporting workpapers and has since been amended. As a result notes 10 and 32-35 had to be amended.
2	A £30,000 exit package had not been disclosed in the Officers' Remuneration note (Note 20).
3	The External Audit Costs note was incorrect and had to be amended.
4	A loan made to Cosworth was not disclosed within the Debtors note (Note 9).

Materiality and reporting of audit differences

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

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

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

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

We reassessed materiality for the Authority at the start of the final accounts audit. Our *External Audit Plan 2017/18* reported a materiality of £1.3m for the Authority against a benchmark of £260.8m. The published Authority accounts had Gross Expenditure of £195.8m.

Materiality was reported at 0.5% of Gross Expenditure resulting in an updated materiality of £0.975m (£1.4m previously reported) for the Authority financial statements as a whole for 2017/18.

All misstatements above £45,000 will be reported to Audit Committee. All individual differences below this threshold will be considered trivial.

Materiality of the Group Accounts remains at £1.4m.

Materiality for the Authority's accounts was set at £0.975 million which equates to around 0.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

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

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

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

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £45,000 for the Authority.

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

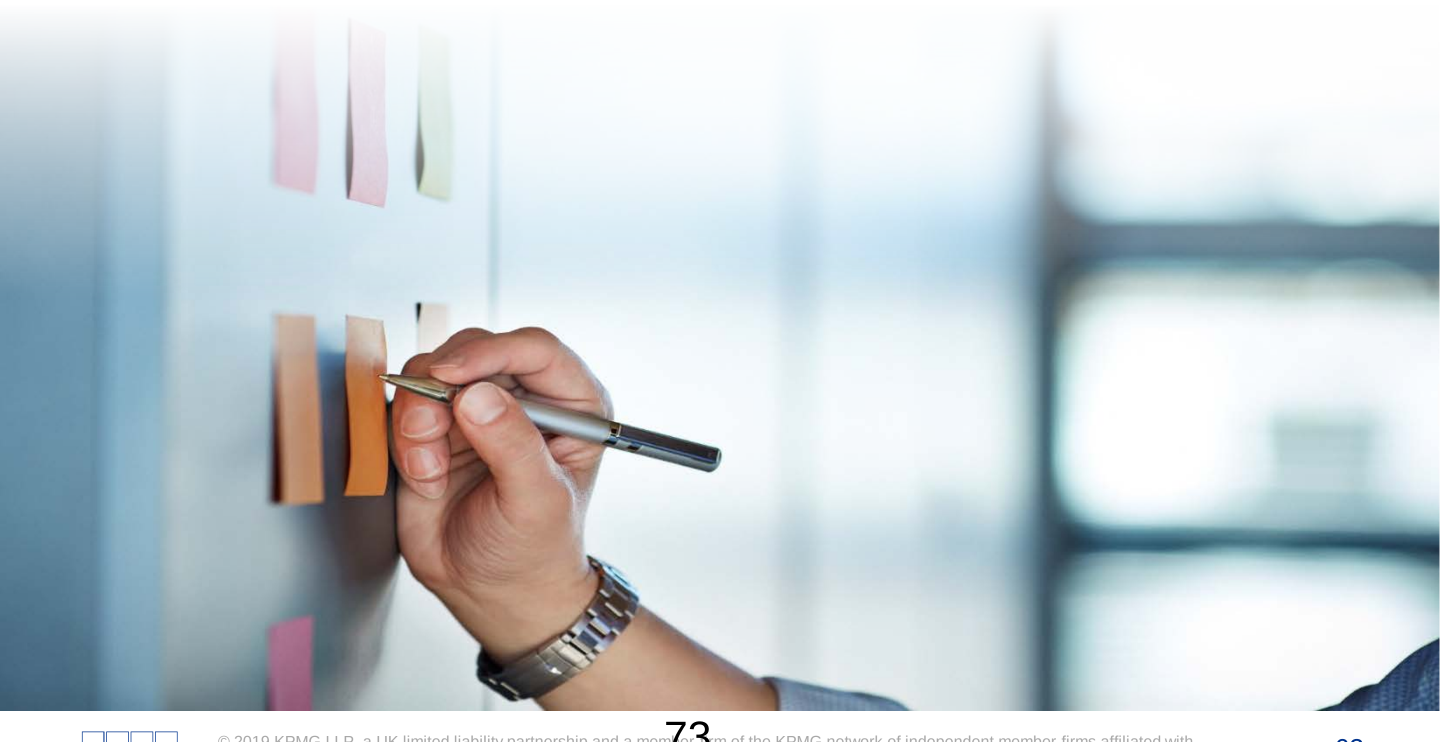
Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified three adjusted audit differences. See page 57 for details.
Unadjusted audit differences	The net impact of unadjusted audit differences on the deficit on provision of services would be £0.1m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See Appendix Three for further details.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including one significant deficiency identified, in Section one of this report (see pages 5 to 6).
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix Six for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 16.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit were discussed, or subject to correspondence, with management.



Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NORTHAMPTON BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have detailed the fees charged by us to the Authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix Seven, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed in Appendix Seven on page 65.

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 1:10. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

We confirm that all non-audit services were approved by the audit committee or equivalent.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the below table.

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
Audit-related assurance services				
Grant Certification – Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed daily rate	4,500	-
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	18,182	-

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

Appendix Six:

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the audit committee or equivalent.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG LLP

Appendix Seven:

Audit fees

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audit is £80,775 plus VAT (£80,775 in 2016/17), which is consistent with the prior year.

However, we propose an additional fee of £120,000 due to the high risk nature of the audit and the significant delays incurred (£196,466 in 2016/17). We have discussed and agreed this with the S151 Officer. This is still subject to PSAA's final determination.

Our work on the certification of the Authority's Housing Benefit Subsidy return is completed. The planned scale fee for this is £10,976 plus VAT (£18,972 in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £4,500 plus VAT (£4,674 in 2016/17), see further details below.

Component of the audit	**2017/18 Planned Fee £**	*2016/17 Actual Fee £*
Accounts opinion and value for money work		
PSAA Scale fee	80,775	*80,775*
Additional fee in relation to Code changes	-	*4,813*
Additional fee in relation to fee variations	120,000 TBC*	*196,466*
Additional fee in relation to elector work - NTFC	TBC**	*54,972*
Additional fee in relation to elector work – Council Tax	17,208	*4,700*
Total audit services	**217,983**	***341,726***
Mandatory assurance services		
Housing Benefits Certification (work completed in Nov 18 and additional costs incurred due to errors)	18,182	*18,972*
Total mandatory assurance services	**18,182**	***18,972***
Audit-related assurance services		
Pooling of Housing Capital Receipts (work completed in January 2019)	4,500	*4,674*
Total audit-related assurance services	**4,500**	***4,674***
Total non-audit services	**22,682**	***23,646***
Grand total fees for the Authority	**240,665**	***365,372***

All fees quoted are exclusive of VAT.

** Subject to approval by the PSAA.*

*** Additional fee in respect of this on-going work (with reference to the objection regarding the c£10m loan made by the authority to Northampton Town Football Club) which has not been charged during 2017/18, but will be submitted on completion, subject to approval by the PSAA, and billed in a future period. The expected additional fee is currently estimated to be c£50k.*

The key contacts in relation to our audit are:

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We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Bostock, by email to andrew.bostock@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

CREATE: CRT086281A

Appendices:

Appendix 1 Draft NBC 2018-19 Statement of Accounts

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	**Draft 2018-19 Statement of Accounts**

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date: 29 July 2019

Policy Document: Statement of Accounts

Directorate: Chief Finance Officer

Accountable Cabinet Member: Cllr Brandon Eldred

1. Purpose

1.1 This report presents to the Audit Committee the first draft 2018-19 Statement of Accounts for the Committee's review and comment.

2. Recommendations

2.1 That the Committee notes and comments on the Statement of Accounts for 2018-19.

2.2 That the committee notes, that the delay in delivering these draft accounts relates to work to conclude the 2017-18 accounts.

3. Issues and Choices

3.1 Report Background

3.1.1 The annual Statement of Accounts is the financial representation of all activities that the Council has been directly or indirectly involved with, over the course of the 2018-19 financial year. The publication of the Statement of Accounts is an essential feature of public accountability and stewardship, as it provides an annual report on how the Council has used the public funds for which it is responsible.

3.1.2 The Council's Statement of Accounts is produced in accordance with the Code of Practice (CoP) on Local Authority Accounting in the United Kingdom 2018-19 (supported by International Financial Reporting Standards (IFRS)), and includes a full balance sheet and statement of cash flow movements.

3.1.3 The signing, approval and publication of the Accounts is set out in Section 9 of the Accounts and Audit Regulations 2015. Following consideration by the Audit Committee the S151 Officer will authorise the draft accounts for release to EY for external audit.

3.1.4 The Statement of Accounts are made up of the following sections:

- **The Narrative Report** - providing a summary of the most significant matters reported within the accounts and of the Council's financial position, this section is intended to outline the overall context within which the Council operates and provide a commentary on the Council's performance in 2018-19.
- **Statement of Responsibilities** – provides details of the formal responsibilities assigned to the Council and the Chief Finance Officer in respect of the Statements and the financial management of the Council.
- The **Core Financial Statements** – providing the Council's financial position as at 31 March 2019 comprising of the:

  Comprehensive Income and Expenditure Statement (CIES)
  Reports the net cost for the year of all of the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

  Movement in Reserves Statement (MIRS)
  Shows the movement in the year on the different reserves held by the Council. The reserves are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves.

  Balance Sheet
  Presents the value of the Council's current and non-current assets and liabilities as at 31 March 2019 with the bottom line effectively being the net worth of the organisation.

  Cash Flow Statement
  Summarising the inflows and outflows of cash arising from transactions with third parties, this analysis shows how the Council generates and uses cash and cash equivalents.

  Expenditure and Funding Analysis (EFA)
  Demonstrating to council tax payers how the funding available to the Council has been used to provide services, the EFA also shows how this expenditure is allocated between the Council's directorates.

- Notes to the Core Financial Statements, which provide further supporting details on aspects of the accounts and which are largely defined by the CoP.
- Additional statements for the Collection Fund, the Housing Revenue Account (HRA) and Group Accounts.
- Accounting Policies – this section details the accounting policies followed by the Council throughout the year and applied in producing the Statement of Accounts.
- Glossary – the Statement inevitably includes a number of technical terms and this section provides an explanation of their meaning.

3.2 Statement of Accounts 2018-19

3.2.1 The first draft 2018-19 NBC accounts for consideration are provided at Appendix 1.

3.3 Next Steps

3.3.1 The accounts will be issued for Public Inspection which will last for a minimum period of 6 weeks.

3.3.2 These draft accounts will be subject to a further Quality Review and refinement exercise, before providing a final set of draft accounts to Audit Committee to approve prior to submission to EY in readiness for their audit. The audit is scheduled to be undertaken in October 2019. The Committee should note that the timing of the audit has been deferred due to resourcing issues being experienced by EY nationally and the need for KPMG to complete their audit activities prior to EY formally undertaking work.

4. Implications (including financial implications)

4.1 Policy

4.1.1 There are no specific policy implications from this report.

4.2 Resources and Risk

4.2.1 There is a resource implication in having to ensure the finance team and other parts of LGSS and NBC are available for the revised EY audit dates. This will place additional demands on staff time due to the non standard audit timing and may lead to additional costs through the retention of external resources supporting the closedown teams.

4.3 Legal

4.3.1 There are no specific legal implications from this report.

4.4 Equality

4.4.1 There are no specific equality implications from this report

4.5 Consultees (Internal and External)

4.5.1 The Audit Committee will be the main consultee as part of the accounts and audit process. In addition the Council will be publishing the accounts for public inspection for a minimum period of 6 weeks.

4.6 Other Implications

4.6.1 None specifically

5. Background Papers

5.1 N/a

Stuart McGregor
Chief Finance Officer (Section 151 Officer)

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NORTHAMPTON
BOROUGH COUNCIL

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Please be advised this is currently a Working Paper and not yet suitable for issuing to Audit as still subject to a review process that will validate the figures used and ensure that the casting and formatting of the document will be consistent when published

Introduction

This Statement of Accounts presents the statutory financial statements for Northampton Borough Council (the Council) for the period 1 April 2018 to 31 March 2019 and gives a comprehensive summary of the overall financial position of the Council, providing a true and fair view.

The Council has a statutory duty to approve and publish this document, which sets out to ensure that the accounts of the authority provide comparable information through complying with International Financial Reporting Standards. The accounts are presented in the format recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA), as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 (the Code). Our core financial statements use this format and meet the conditions of the Code.

The final Statement of Accounts will be approved by Audit Committee in November 2019

The Statements

The financial statements which make up these accounts are listed below, and further details of their purpose are provided with each statement:

Core Financial Statements
- Movements in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- All supported by Notes to the Core Financial Statements

Supplementary Financial Statements
- Housing Revenue Account (HRA) Income and Expenditure Account
- Movement in Housing Revenue Account Reserve
- Both supported by Notes to the HRA Accounts
- The Collection Fund Income and Expenditure Account
- Notes to the Collection Fund

Group Accounts
- Northampton Partnership Homes (NPH) is a wholly owned subsidiary of the Council and, in order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and NPH have been consolidated. Full details can be found in the Group Accounts section.

The Council's Strategic / Corporate Priorities

The Council adopts a Corporate Plan each year as part of its policy and management framework. This sets out the future direction of the Council and commitments for action on behalf of the elected Administration.

The Corporate Plan 2018-2020 is relevant to the period of these accounts and can be found on the Council's website using this link:
https://www.northampton.gov.uk/downloads/file/10585/corporate-plan-2018-2020

The Corporate Plan outlines the strategic priorities set by the Council for that period, as follows:

- A stronger economy – shaping place and driving growth; creating a thriving, vibrant town; and a clean, green and tidy town.
- Resilient communities – keeping the town and people safe; empowering local people; and more homes, better homes.
- Exceptional services to be proud of – putting the customer first; spending your money wisely; and improving our governance.

The Council's 2018-19 Performance

In order to provide an overview of the Council's performance during the 2018/19 financial year and the position as at 31 March 2019, significant matters and variances are summarised in this section and supported by the detail included in the statement of accounts and the core financial statements.

Financial Performance

The Council's budget is divided across two accounts as required by statute. The General Fund, the Housing Revenue Account (HRA), and their respective sources of funding are kept entirely separate.

The Council set a balanced budget for 2018/19. The main budgeted sources for funding of the 2018/19 **General Fund budget** were as follows:

- Revenue Support Grant £0.9m;
- Business Rates Retention Scheme £8.3m;
- New Homes Bonus £3.1m;
- Council Tax £15.8m.

At the end of the 2018/19 year, the General Fund outturn for controllable service budgets shows an overspend of £0.7m as detailed below:

Service area	Revised budget (£m)	Outturn (£m)	Variance (£m)
Customers & Communities	12.492	12.980	0.488
Chief Executive	0.921	0.767	-0.153
Chief Finance Officer	10.559	10.457	-0.102
Economy, Assets & Culture	0.936	1.118	0.181
Housing & Wellbeing	2.734	3.969	1.235
Borough Secretary	2.480	2.256	-0.225
Planning	0.613	0.115	-0.497
Corporate budgets	0.233	0.038	-0.195
Total	**30.968**	**31.700**	**0.732**

The main variations were as follows:

- Within Customers & Communities there was an overall overspend of £0.488m. This was mainly due to an overspend of £0.312m on the environmental services contract and its management. This related to additional ad hoc works; legal costs; and costs of a risk share mechanism reflecting lower sales proceeds of recycled materials. This was partially offset by performance deductions relating to the old contract, and some variable elements of the contract coming out under budget. There was also an overspend of £0.232m on Parks and Open Spaces due to a loss of ground maintenance recharges to NPH. Overall within the Customers & Communities area there was also some smaller variances including some underspends due to staff vacancies.

- Within the Chief Executive area there was an overall underspend of £0.153m associated with the senior management restructure that took place during the year.
- Within the Chief Finance Officer Area there was an overall underspend of £0.102m, mainly due to a saving on the LGSS contract related to new insurance premiums. There was also a significant pressure of £0.400m in the Benefits area due to subsidy loss resulting from the increased demand in temporary accommodation – this was forecast during the year. This overspend has been offset by an underspend on rent allowances due to increased recovery rates.
- Within the Economy, Assets and Culture area there was an overall overspend of £0.181m. This was made up of overspends in the Asset Management area (0.377m) due to vacant posts being covered by interims, valuation work being carried out by external companies and additional maintenance costs in relation to water hygiene at the Racecourse. There was also an overspend in Programmes & Enterprise (£0.154m) partly due to the write off of a large debt. These overspends were partially offset by underspends against Car Parking (£0.263m) and Facilities Management (£0.120m) due to savings on postage associated with a reduction in post sent by the authority.
- Within the Housing & Wellbeing area there was an overall overspend of £1.235m. This mainly relates to the Housing Options and Advice area and is due to pressures resulting from the increased demand in temporary accommodation and includes the associated increased charge in the bad debt provision. This pressure was forecast during the year. This pressure was partly offset by additional homelessness grants received from central government in March 2019.
- Within the Borough Secretary area there was an overall underspend of £0.225m, mainly due to vacancies within the Legal Team.
- Within the Planning area there was an overall underspend of £0.497m. This was partly due to an underspend in the Planning Policy & Heritage area (£0.252m) due to an underspend on the Local Plan Part 2 – the service has requested to carry forward some of this underspend (see appendix 2). There was also an underspend on Development Control (£0.206m) due to additional planning income and some vacancies.
- On the Corporate budget there was an underspend of £0.195m due to greater interest income generated from cash balances due to cash balances remaining higher than forecast, and an interest rate rise.

The Council's final approved budget for **General Fund capital** expenditure in 2018/19 was £20.0m, reflecting carry forwards from 2017/18, in year changes and re-profiling approved as part of the setting of the 2019/20 capital programme.

Capital expenditure for 2018/19 totalled £14.0m against the final approved budget of £20.0m, a net variance of £.6.0m (30%). A large proportion relates to schemes that are currently underway or still planned to take place and these budgets will be carried forward into the next financial year (2019/20). The majority of this carry forward is due to the timing of approvals and the timescales for letting contracts and funding agreements.

The 2017/18 capital programme was funded as follows:

- Borrowing £3.5m
- Capital Receipts £7.6m
- Grants £2.5m
- Section 106 Contributions £0.4m

The **HRA outturn** position shows an underspend on controllable spending of £0.884m. After technical accounting adjustments this position moves to an underspend of £0.620m. This has reduced the required net contribution to reserves from the budgeted amount of £0.922m to £0.620m, while the HRA working balance remains unchanged at £5m.

HRA capital expenditure for 2018/19 totalled £25.319m against the final approved budget of £25.694m, a net underspend of £0.375m. This underspend relates mainly to the repurchase of former council houses (£0.410m) to be carried forward into 2019/20 and an NPH managed schemes overspend (£0.035m).

Further details of the budget that was set for 2018/19 can be found on the Council's website here:
http://www.northamptonboroughcouncil.com/councillors/ieListDocuments.aspx?CId=242&MId=8719

Further details of the Council's outturn position for 2017/18 can be found on the Council's website here:
http://www.northamptonboroughcouncil.com/councillors/ieListDocuments.aspx?CId=528&MId=8735

Non-Financial Performance

Data is collected across a range of locally developed indicators which are collected on a monthly, quarterly or annual basis. These form the basis of the council's performance monitoring process. A summary of the overall indicator performance against targets is shown below:

	2017/2018	2018/2019			
Performance Status	End of year	Q1 %	Q2%	Q3%	Q4
Blue (Exceptional or over performance)	21.21%	20.00%	13.33%	13.79%	14.71%
Green	39.39%	40.00%	46.67%	44.83%	32.35%
Amber (Within agreed tolerance)	9.09%	9.09%	10.00%	10.00%	14.71%
Rounded total	69.69%	69.69%	70.00%	70.00%	61.77%
Red (Outside agreed tolerances)	30.30%	30.04%	30.00%	30.00%	38.24%

61.77% of performance measures where data was available reached their target or performed within agreed tolerances. The figures reported for the quarter and year end unfortunately have shown an increase in the red indicators. This is largely due to the handover of the contract from Enterprise Services to Veolia which impacted on reporting while the new contractor got to grips with how we needed data reporting. Although this means the overall figures appear poor, there have been significant improvements overall in the service now being delivered to residents of Northampton. We have changed some KPIs from four monthly reporting (which didn't line up with quarterly reports in any meaningful way) to monthly. This will give the opportunity to identify areas of concern more promptly and take remedial action.

Full details of the performance outturn report can be found here:
http://www.northamptonboroughcouncil.com/councillors/ieListDocuments.aspx?CId=528&MId=8734

THE 2018/19 ACCOUNTS

The Core Financial Statements consist of the following, which are supported by the details provided in the associated notes to the accounts:

Comprehensive Income and Expenditure Statement (CIES) – provides a summary of the resources which have been applied and generated during the year through the process of delivering services and managing the Council. The statement analyses total expenditure and income by major category or type of service and shows that Customers and Communities was the largest area of expenditure in 2018/19.

- The headline figure for the CIES is an overall deficit (expenditure in excess of income) of £1.71m, which includes all accounting adjustments.
- The Net Cost of Services for the year totalled £32.75m to which Other Operating Expenditure and Income and Financing and Investment Expenditure and Income are added. This is then offset by £33.37m of Council Tax funding and non-specific grants to provide the Overall Deficit on the Provision of Services for the year of £21.49m.

- The Other Comprehensive Income and Expenditure category includes technical items that are not reflected in the Surplus or Deficit on the Provision of Services. This category in the CIES is a £19.77m surplus.

Expenditure and Funding Analysis – produced to provide further context to the CIES, and shows the difference between the net expenditure chargeable to the Council's General Fund and earmarked reserves and the income and expenditure in the CIES. The analysis also demonstrates how the Council's resources are allocated between directorates.

For 2018/19, the net expenditure chargeable to the Council's General Fund is £32.27m. This differs from the income and expenditure shown in the CIES due to a number of technical accounting adjustments which the Council is required to make by the Code. These include capital charges such as depreciation, actuarial pension adjustments and adjustments to the Collection Fund, and are shown in the supporting note to the EFA.

Balance Sheet – setting out the assets and liabilities recognised by the Council at the balance sheet date, the bottom line is effectively the net worth of the organisation at that date. The net assets of the Council (the assets less the liabilities) are matched by the Reserves held by the Council – net assets decreased slightly over the year by £1.71m to £431.03m

The key points to note from this Balance Sheet are:

- Plant, Property and Equipment has increased by £18.70m to £719.60m.
- Heritage Assets have decreased by £8.59m to £28.22m.
- Long Term Debtors are £6.58m down at £56.08m.
- Current Assets are £15.67m less at the 31 March 2019 due to reductions in Short Term Investments, Short Term Available for Sale Financial Instruments, Cash and Cash Equivalents offset with an increase in the value of Short Term Debtors.
- Both Current and Long Term Liabilities at £455.97m remain relatively stable compared to the prior year value of £453.43m. The largest liabilities that the Authority has are Long Term Borrowing and the Pension Liability.

Movement in Reserves Statement – analyses the movements on reserves held by the Council during the financial year, split between 'usable reserves', which are those that can be applied to fund expenditure or reduce local taxation and 'unusable' reserves. The 'surplus or (deficit) on provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the CIES. This cost is different from the amounts required to be charged to the General Fund balance for Council Tax setting purposes. The 'net increase/decrease before transfers to earmarked reserves' line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

The main message from this statement in 2018/19 is that Usable Reserves have increased by £2.05m over the period to £68.39m. Within this category of reserves the General Fund reserve has decreased by £1.50m to £4.00m and the Housing Revenue Account General Reserve remained static at £5.00m. Unusable Reserves over the period to 31 March 2019 decreased by £3.76m to £362.64m in total

Cash Flow Statement – outlines the changes in the cash and cash equivalents during the year. For example, changes in debtor and creditor balances during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

Supplementary Financial Statements – the Housing Revenue Account shows the in-year cost of providing housing services in accordance with generally accepted accounting practices. The transactions of the Council, acting as billing authority for Council Tax and NNDR are shown on the Collection Fund Statement in accordance with the code of accounting practice.

RISK MANAGEMENT

The Council takes a proactive approach to risk management. The management of risk and governance was undertaken at officer level through service risk registers, which were subsequently reported to the Risk Management Board as a corporate risk register. The registers identify key risks together with any existing or planned measures to mitigate them. This analysis is then interpreted through an assessment based on a combination of impact and likelihood of occurrence. Member involvement is through Cabinet, Audit Committee and Council approval of policies and review of risk areas.

GOVERNANCE

A number of policies and procedures are in place to govern financial management and decision making, with the constitution being the principal one as it includes financial regulations and contract procedures.

THE 2019/20 BUDGET AND MEDIUM TERM OUTLOOK

Economic Context

There continues to be uncertainty around the national and global economic outlook, caused by various factors including the UK's planned withdrawal from the European Union. Therefore the draft budget is built on prudent assumptions around inflation, interest rates, business rates growth and growth
in the tax base.

Medium Term Financial Strategy

In October 2018 Cabinet approved the Medium Term Financial Strategy, which provides the framework and context for the development of the detailed budget and Medium Term Financial Plan. The Medium Term Financial Strategy included the following strategic principles:

- The Council will, within available resources, seek to maximise delivery of services and levels of performance and ensure that resources are targeted to meeting its objectives and priorities
- The Council will set a balanced budget, which is stable and sustainable and fully represents the cost of providing the levels of service and performance set out in the Corporate Plan and Service Plans
- Income streams will be maximised through the delivery of high quality, cost effective services.
- Council Tax will be increased up to the maximum allowed without requiring a referendum.
- Investment decisions will take into account both revenue and capital implications.
- Where requirements to undertake borrowing are identified, the costs and benefits of doing so will be assessed as required in line with CIPFA's Prudential Code.
- Financial implications will be underpinned by a robust risk assessment.
- Decision making will be business case lead. There will be a focus on the short, medium and long-term financial implications of decisions.
- Reserves will be utilised to fund investments that will deliver a long-term sustainable financial position.

The 2019/20 Budget

The Council's 2019/20 budget was agreed on 20 February 2019 and included the following headlines:

- An annual council tax increase of £6.56 (2.99%) per band D property and an indicative increase at the same level for planning purpose in future years;
- A general fund budget of £27.495m, excluding parish precepts.

The agreed general fund net budget for 2019/20 is summarised in the table below:

Description	2019/20 £000s
Service Base Budget	29,702
Proposed Growth	970
Proposed Savings	(1,134)
Corporate Budgets	(1,005)
Contribution from Reserves	133
Net Budget	**28,665**
Business Rates*	(8,883)
New Homes Bonus	(2,595)
Council Tax	(16,622)
Collection Fund Surplus	(565)
Total Funding	**(28,665)**
Savings to be identified	**0**

*includes baseline shown at para 3.2.1 plus growth of £500k

The value of the proposed programme for 2019/20 is just over £52.5m. Proposed new schemes include support for the north west relief road, new office developments/town centre regeneration schemes, street light repairs and temporary accommodation for homeless people.

The table below summarises the general fund capital programme and funding for 2019/20:

Description	Budget 2019/20
	£000s
Schemes in the current capital programme	7,800
Scheme where approval has recently been given	7,667
Schemes in the current development pool awaiting formal approval	1,525
New proposals	35,525
Total general fund capital programme	**52,516**
Funding source:	
Self funded schemes	23,327
Borrowing	6,999
Capital receipts	5,549
ESIF and LGF funding for Vulcan Works	7,140
s106 funding for North West Relief Road and Upton Country Park	5,700
Other grants and contributions	3,801
Total Funding	**52,516**

The headlines for the 209/20 Housing Revenue Account budget are as follows:

- An average rent decrease of 1% per dwelling, in line with the legislation and the government's national rent policy, to take effect from 1st April 2019;
- HRA budget for 2019/20 of £51.8m expenditure.

The HRA capital programme has been developed within the context of the 30 year business plan and the latest stock condition survey information. The HRA capital programme has a direct impact on the revenue position of the HRA and is summarised below:

	Draft 2019-20 £000s £	Proposed 2019-20 £000s £
External Improvements	10,600	10,600
Internal Works	3,500	3,500
Environmental Improvements	3,000	3,000
Structural Works and Compliance	450	450
Disabled Adaptations	1,300	1,300
IT Development	400	400
New Build Programme/Major Projects	23,107	22,576
Buybacks and Spot Purchases	500	500
Total	**42,857**	**42,326**

FINANCING:		
Major Repairs Reserve/Depreciation	9,642	9,642
Capital Receipts - RTB (excl 1-4-1)	3,134	3,134
Capital Receipts - RTB 1-4-1 Receipts	7,035	7,035
Revenue/Earmarked Reserve	9,937	9,405
Borrowing / CFR	13,110	13,110
Total Financing - HRA	**42,857**	**42,326**

Full details of the medium term financial plan and the budgets that have been set for 2019/20 can be found on the council's website here:
http://www.northamptonboroughcouncil.com/councillors/ieListDocuments.aspx?CId=242&MId=8719

VALUE FOR MONEY STATEMENT

Northampton Borough Council strives to achieve Value for Money (VfM) through:

- Delivering services that are fit for purpose and meeting statutory requirements;
- Applying cost effective delivery models for services, be they provided directly, in partnership or commissioned through a third party;
- Holding a clear understanding of costs and what drives them;
- Applying changes and investment to reduce costs and overheads, improving efficiency and the customer experience; and
- Delivering improved outcomes and value for money for local people, through a framework of strategic and local partnerships which cooperate effectively to meet shared goals.

The Council has developed a range of integrated approaches and organisational processes which together help to drive the delivery of VfM. For example:

- An Efficiency Strategy approved as part of the Medium Term Financial Strategy
- Performance Management reporting
- Procurement rules that ensure VfM is delivered through the Councils procurement of goods and services
- A Governance Action Plan to ensure that proper and effective governance happens in practice at all times.

The Council will continue to maintain the focus on Value for Money whilst striving to achieve its key outcomes.

FURTHER INFORMATION

For information please contact:

Stuart McGregor
Chief Finance Officer
Northampton Borough Council
Guildhall
St Giles Square
Northampton
NN1 1DE

You have the right to inspect our accounts each year during the Public Inspection Period. We advertise the dates during which you can inspect the accounts on our website. Our accounts are audited by EY LLP. They are the auditors appointed by the Public Sector Audit Appointments (PSAA), the audit body which arranges the appointment process for External Auditors for local authorities.

This Statement of Accounts has been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.

The Authority's Responsibilities

The Authority is required to:

- Arrange 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 Authority, that officer is the Chief Finance Officer
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts

The Chief Financial Officer

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities
- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice on Local Authority Accounting

Certificate

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31st March 2018.

Stuart McGregor –Chief Finance Officer
Date:

Approval by Audit Committee

I confirm that these audited accounts were approved by the Audit Committee at the meeting held on xxth of November 2019

Ian Orrell CPFA – Independent Chair of Audit Committee
Date:

C. INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHAMPTON BOROUGH COUNCIL

These financial statements, and accompanying notes, have been prepared using the relevant level of rounding according to individual notes. In some instances, this has led to a variance in totals/sub-totals. Any variances of 1 unit (£'000 etc.) are caused by rounding's and are considered to be trivial for the purpose of the accounts.

D1 MOVEMENT IN RESERVES STATEMENT

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

The Statement is shown on the next page.

	General Fund	Earmarked GF Reserves	Housing Revenue Account	Earmarked HRA Reserves	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplie	Total Usable Reserves	-	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1-Apr-18	**(5,505)**	**(25,182)**	**(4,999)**	**(11,060)**	**(12)**	**(12,506)**	**(3,307)**	**(62,567)**	**(326,596)**	**(389,165)**
Movement in Reserves during 2017-18										
Total comprehensive income and expenditure	(1,565)		142,421					**140,855**	(184,430)	**(43,575)**
Adjustments between accounting and funding basis under regulations (note 2)	(204)		(140,131)		(605)	(3,487)	(199)	**(144,624)**	144,624	**0**
Transfer to/from Earmarked Reserves	1,774	(1,774)	(2,290)	2,290				**0**	0	**0**
Increase/(decrease) in 2017-18	5	(1,774)	0	2,290	(605)	(3,487)	(199)	**(3,766)**	(39,808)	**(43,575)**
Balance at 31 March 2018 carried forward	**(5,500)**	**(26,956)**	**(4,999)**	**(8,770)**	**(617)**	**(15,993)**	**(3,506)**	**(66,341)**	**(366,402)**	**(432,743)**
Movement in Reserves during 2018-19										
Total comprehensive income and expenditure	9,622	0	11,864	0	0	0	0	**21,486**	(19,774)	**1,712**
Adjustments between accounting and funding basis under regulations (note 2)	(9,423)	0	(12,190)	0	616	(2,294)	(246)	**(23,536)**	23,536	**0**
Transfer to/from Earmarked Reserves	1,301	(1,301)	326	(326)	0	0	0	**0**	0	**0**
Increase/(decrease) in 2018-19	1,500	(1,301)	0	(326)	616	(2,294)	(246)	**(2,050)**	3,762	**1,712**
Balance at 31 March 2019 carried forward	**(4,000)**	**(28,257)**	**(4,999)**	**(9,096)**	**(1)**	**(18,287)**	**(3,752)**	**(68,391)**	**(362,640)**	**(431,031)**

D2 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. This statement does not show in detail the amount of funding from local taxes and general government grants. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Notes to the Core Financial Statements.

The statement is shown on the next page.

Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
2017-18	2017-18	2017-18		2018-19	2018-19	2018-19
£000	£000	£000		£000	£000	£000
5,052	**(3,003)**	**2,049**	Regeneration, Enterprise & Planning	5,165	(2,493)	**2,672**
255,858	**(117,984)**	**137,874**	Housing	61,104	(58,312)	**2,792**
3,818	**(1,249)**	**2,569**	Borough Secretary	3,525	(573)	**2,951**
34,486	**(16,334)**	**18,152**	Customers & Communities	33,879	(10,830)	**23,049**
8,183	**(1,774)**	**6,409**	Central Services Budgets	6,985	(1,598)	**5,388**
67,466	**(68,079)**	**(613)**	Corporate Budgets	61,815	(65,915)	**(4,100)**
374,863	**(208,423)**	**166,440**	**Cost of Services**	**172,473**	**(139,721)**	**32,752**
2,166	**(1,508)**	**658**	Other Operating Expenditure	24,903	(11,861)	**13,042**
14,691	**(6,655)**	**8,036**	Financing and Investment Expenditure and Income	32,826	(23,763)	**9,063**
0	**(34,279)**	**(34,279)**	Taxation and Non Specific Grants	45,622	(78,993)	**(33,371)**
391,720	**(250,865)**	**140,855**	**Surplus(-) or Deficit on Provision of Services**	**275,824**	**(254,338)**	**21,486**
		(178,466)	(Surplus) or Deficit on Revaluation of Non Current Assets			**(26,041)**
		(5,964)	Actuarial (gains) / losses on pension assets / liabilities			**6,267**
		(184,430)	**Other Comprehensive Income and Expenditure**			**(19,774)**
		(43,575)	**Total Comprehensive Income(-) and Expenditure**			**1,712**

D3 BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.

31 March 2018 £000	Balance Sheet	Note	31 March 2019 £000
700,902	Property, Plant and Equipment	14	719,603
36,806	Heritage Assets	15	28,220
13,830	Investment Property	18	13,794
551	Intangible Assets		388
0	Long Term Investments		0
49,500	Long Term Debtors	16	56,080
801,589	**Long Term Assets**		**818,085**
10,021	Short Term Investments		5,025
34,021	Short Term Available for Sale Financial Instruments		23,119
0	Assets held for Sale	22	0
48	Inventories		23
23,193	Short Term Debtors	20	29,597
17,300	Cash and Cash Equivalents	21	11,148
84,583	**Current Assets**		**68,912**
(10,546)	Short Term Borrowing	17	(5,506)
(39,578)	Short Term Creditors	23	(43,901)
(5,912)	Provisions	24	(6,170)
(56,036)	**Current Liabilities**		**(55,577)**
(12,734)	Long Term Creditors	35	(16,599)
(11)	Provisions	24	(60)
(247,263)	Long Term Borrowing	17	(241,874)
(137,385)	Other Long Term Liabilities	25	(141,857)
(397,393)	**Long Term Liabilities**		**(400,390)**
432,743	**Net Liabilities**		**431,030**
66,341	Usuable Reserves	26	68,392
366,402	Unusuable Reserves	27	362,640
432,743	**Total Reserves**		**431,032**

D4 CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority 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 Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the Authority'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 Authority.

2017/18 £000s	Cashflow Statement	2018/19 £000s
(140,855)	Net Surplus or (deficit) on the provision of services (Notes D2/D5a)	(21,486)
182,367	Adjustment to surplus or deficit on the provision of services for noncash movements (Note 32)	20,768
(3,081)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Notes 32)	0
38,431	**Net Cashflows from Operating Activities**	**(718)**
(31,192)	Net Cashflows from Investing Activities (Note 34)	4,996
(3,027)	Net Cashflows from Financing Activities (Note 35)	(10,429)
4,212	**Net increase or decrease in cash and cash equivalents**	**(6,151)**
13,088	Cash and Cash Equivalents at the Beginning of the Reporting Period (Note 10)	17,300
17,300	**Cash and Cash Equivalents at the End of the Reporting Period**	**11,149**

D5a. EXPENDITURE AND FUNDING ANALYSIS (EFA)

The Expenditure and Funding Analysis demonstrates how the funding available to the Council for the year 2018/19 (i.e. government grants, rents, Council Tax and Business Rates) has been used to provide services in comparison with those resources consumed or earned under generally accepted accounting practice (GAAP). The Expenditure and Funding analysis also shows how this expenditure is allocated for decision-making purposes between the Council's directorates. Income and expenditure accounted for under GAAP is presented more fully in the Comprehensive Income and Expenditure Statement.

Net expenditure chargeable to the General Fund and Earmarked Reserves £000	Adjustments between Funding and Accounting Basis £000	2017-18 Net Expenditure in the CIES £000		Net expenditure chargeable to the General Fund and Earmarked Reserves £000	Adjustments between Funding and Accounting Basis £000	2018-19 Net Expenditure in the CIES £000
1,477	572	**2,049**	Regeneration, Enterprise & Planning	3,091	(419)	**2,672**
(10,769)	148,642	**137,873**	Housing	2,717	75	**2,792**
2,085	485	**2,569**	Borough Secretary	3,239	(288)	**2,951**
10,892	7,260	**18,152**	Customers & Communities	13,417	9,632	**23,049**
5,993	416	**6,409**	Central Services Budgets	5,488	(100)	**5,388**
(692)	80	**(613)**	Corporate Budgets	8,521	(12,621)	**(4,100)**
8,986	**157,454**	**166,440**	**Net Cost of Services**	**36,472**	**(3,721)**	**32,752**
(8,464)	(17,121)	**(25,585)**	Other Income and Expenditure	(4,200)	(7,066)	**(11,266)**
522	**140,333**	**140,855**	**(Surplus) or Deficit on Provision of Services**	**32,273**	**(10,787)**	**21,486**
(46,747)			Opening General Fund Balance at 31 March	**(46,225)**		
522			Plus: Surplus on General Fund Balance In Year	**32,273**		
(46,225)			**Closing General Fund Balance at 31 March**	**(13,952)**		

Notes to Expenditure and Funding Analysis

Adjustments between funding and accounting basis 2018-19

Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Adjustments	Total Adjustments
	£000	**£000**	**£000**	**£000**
Regeneration, Enterprise & Planning	(75)	341	(685)	**(419)**
Housing	(1,515)	322	1,268	**75**
Borough Secretary	9	330	(627)	**(288)**
Customers & Communities	9,324	993	(686)	**9,632**
Central Services Budgets	0	0	(100)	**(100)**
Corporate Budgets	63	(12,324)	(360)	**(12,621)**
Net Cost of Services	**7,806**	**(10,338)**	**(1,189)**	**(3,721)**
Other Income and Expenditure	0	0	(7,066)	**(7,066)**
Difference between General Fund surplus/deficit and CIES surplus/deficit on provision of services	**7,806**	**(10,337)**	**(8,256)**	**(10,787)**

Adjustments between funding and accounting basis 2017-18

Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Adjustments	Total Adjustments
	£000	**£000**	**£000**	**£000**
Regeneration, Enterprise & Planning	(54)	**626**	0	**572**
Housing	148,224	**418**	0	**148,642**
Borough Secretary	8	**477**	0	**485**
Customers & Communities	5,563	**1,697**	0	**7,260**
Central Services Budgets	416	**0**	0	**416**
Corporate Budgets	80	**0**	0	**80**
Net Cost of Services	**154,237**	**3,218**	**0**	**157,455**
Other Income and Expenditure	(13,105)	(2,560)	(1,454)	**(17,121)**
Difference between General Fund surplus/deficit and CIES surplus/deficit on provision of services	**141,132**	**658**	**(1,454)**	**140,333**

Adjustments for Capital purposes

In the service lines this column records adjustments in respect of depreciation, impairment, movements in fair value of investment properties, revenue expenditure funded from capital under statute (REFCUS) and revaluation gains/losses

- For *Other Operating expenditure* – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- For *Financing and investment income and expenditure* – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted

from other income and expenditure, as these are not chargeable under generally accepted accounting practices.

- For *Taxation and non-specific grant income and expenditure* – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS19 *Employee Benefits* pension related expenditure and income

- For services, this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For *Financing and investment income and expenditure*, the net interest on the defined benefit liability is charged to the CIES.

Other Adjustments

Other difference between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute.

- For services, this comprises the accrual made in respect of accumulated absences.
- The charge under *Taxation and non-specific grant income and expenditure* represents the difference between what is chargeable under statutory regulations for Council Tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing issue, as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

Expenditure and Income Analysed by Nature

The Authority's expenditure and income is analysed as follows:

2017/18 £000	Expenditure/Income	2018/19 £000
	Expenditure	
14,832	Employee Benefits expenses	13,645
202,945	Other Services expenses	185,304
(1,900)	(Gains)/Loss on the disposal of non current asset	(1,487)
1,519	Support Services Recharges	7,663
68,095	Depreciation, Amortisation, Impairment	77,935
8,036	Interest Payments	7,890
1,058	Precepts and Levies	1,111
1,072	Payments to Housing Capital Receipts Pool	(16,237)
96,063	(Gain)/Loss on revaluations	0
391,720	**Total Expenditure**	**275,824**
	Income	
(215,110)	Fees, charges and other service income	(96,931)
(1,476)	Interest and investment income	7,890
(36,886)	Income from council tax and NNDR	(100,522)
2,607	Government grants and contributions	(64,775)
(250,865)	**Total Income**	**(254,338)**

1a. MATERIAL ITEMS OF INCOME AND EXPENSE

For the 2018/19 financial year 2018/19 NBC has 3 material items disclosed in the accounts.

- A contract to carry out the councils Environmental Services (Waste Collection, Street Cleaning, Parks etc). The contract costs in relation to this item in 2018/19 was £10m (2017/18 £7.6m).
- A contract with LGSS to cover the majority of the councils back office functions (H.R., Finance, ICT and HR etc). The contract costs in relation to this item in 2018/19 was £5m (2017/18 £6.8m)
- The following expenditure on Housing Benefit have also been made:
  -Rent Allowance of £34.9m (2017/18 £35.7m)
  -Rent Rebates £28.3m (2017/18 £29.95m)

1b. OTHER COMPREHENSIVE INCOME AND EXPENDITURE

2017/18 £000s	Other Comprehensive Income & Expenditure	2018/19 £000s
	Revaluation Reserve	
(5,392)	General Fund Revaluation Gains	(13,790)
3,208	General Fund Revaluation Losses	553
160	General Fund Impairment	1,377
(209,046)	HRA Revaluation Gains	(17,031)
32,512	HRA Revaluation Losses	2,850
92	HRA Impairment	0
(178,466)	**Total**	**(26,041)**
(5,964)	Actuarial Gains & Losses to the Pensions Reserve	6,267
(184,430)	**Other Comprehensive Expenditure and Income**	**(19,774)**

1c. OTHER OPERATING EXPENDITURE

2017/18 £000s	Other Operating Expenditure	2018/19 £000s
1,058	Parish council precepts	1,111
1,072	Payments to the Government Housing Capital Receipts Pool	1,072
428	Trading	8,254
(1,900)	Gains/Losses on the disposal of non-current assets	2,604
658	**Total**	**13,042**

1d. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2017/18 £000s	Financing And Investment Income And Expenditure	2018/19 £000s
8,008	Interest payable and similar charges	7,890
3,530	Pensions interest cost and expected return on pension assets	3,473
(1,476)	Interest receivable and similar charges	(1,606)
		(86)
(2,026)	Income and expenditure in relation to investment properties and changes in their fair value	(607)
8,036	**Total**	**9,063**

1e TAXATION AND NON-SPECIFIC GRANT INCOME

2017/18 £000s	Taxation And Non Specific Grant Income	2018/19 £000s
15,326	Council tax income	(16,237)
(36,878)	Retained Rates	(39,828)
(1,122)	Capital grants and contributions	(1,487)
(1,817)	Revenue Support Grant	(886)
(4,345)	Non-ring fenced government grants	(3,082)
(1,836)	Section 31 grants	(2,073)
(3,586)	Other NNDR related transactions	(2,026)
29,120	Tariff Payment	30,079
0	Donated Assets	(14)
1,511	Levy Payment	2,184
(34,279)	**Total**	**(33,371)**

2 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

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

2018/19	General Fund Balance	Housing Revenue Account	Earmarked Reserves	Major Repairs Reserve	Capital receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non-current assets	(18,451)	(5,495)	0	(12,998)	0	0	(36,944)	36,944
Impairment - Long Term Debtor	0	0	0	0	0	0	0	0
Revaluation gains on PPE	950	9,350	0	0	0	0	10,300	(10,300)
Revaluation losses on Property Plant and equipment	(1,273)	(10,644)	0	0	0	0	(11,917)	11,917
Movements in the market value of Investment properties	(40)	5	0	0	0	0	(35)	35
Amortisation of Intangible assets	(92)	0	0	0	0	0	(92)	92
Capital Grants & contributions applied (if any)	3,162	0	0	0	0	0	3,162	(3,162)
Income in relation to donated assets if any	14	0	0	0	0	0	14	(14)
Revenue expenditure funded from capital under statute	(1,439)	0	0	0	0	0	(1,439)	1,439
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	(107)	(7,871)	0	0	0	0	(7,978)	7,978
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement								
Statutory provision for the financing of capital investment	1,375	0	0	0	0	0	1,375	(1,375)
Capital expenditure charged against the General Fund and HRA balances	0	0	0	0	0	0	0	0
Balance of MRA	0	0	0	0	0	0	0	0
Total Adjustments primarily involving the Capital Adjustment Account	**(15,901)**	**(14,655)**	**0**	**(12,998)**	**0**	**0**	**(43,554)**	**43,554**

2018/19	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0	0	19	19	(19)
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	(265)	(265)	265
Total Adjustments primarily involving the Capital Grants Unapplied Account	**0**	**0**	**0**	**0**	**0**	**(246)**	**(246)**	**246**
Adjustments primarily involving the Capital Receipts Reserve:								
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,373		0	0	(2,294)	0	3,079	(3,079)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	2,466	0	0	0	0	2,466	(2,466)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0		0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance payments to Government Capital Receipts pool	(1,072)	0	0	0		0	(1,072)	1,072
Transfer from Deferred Capital receipts Reserve upon receipt of cash	(19)	0	0	0		0	(19)	19
Total Adjustments primarily involving the Capital Receipts Reserve	**4,282**	**2,466**	**0**	**0**	**(2,294)**	**0**	**4,454**	**(4,454)**
Adjustment primarily involving the Major Repairs Reserve:								
Reversal of major Repairs Allowance credited to the HRA	0	0	0	0	0	0	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	13,614	0	0	13,614	(13,614)
Total Adjustment primarily involving the Major Repairs Reserve	**0**	**0**	**0**	**13,614**	**0**	**0**	**13,614**	**(13,614)**

2018/19	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Deferred Capital Receipts Reserve:								
Adjustments primarily involving the Pensions Reserve:		0						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	6,619	1	0	0	0	0	6,620	(6,620)
Employer's pensions contributions and direct payments to pensioners payable in the year	(4,823)	(2)	0	0	0	0	(4,825)	4,825
Total Adjustments primarily involving the Pensions Reserve	**1,796**	**(1)**	**0**	**0**	**0**	**0**	**1,795**	**(1,795)**
Adjustments primarily involving the Collection Fund Adjustment Account:								
Amount by which council tax income and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	373	0	0	0	0	0	373	(373)
Adjustment primarily involving Unequal Pay Back Pay Adjustment Account								
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlement chargeable in the year in accordance with statutory requirements	27	0	0	0	0	0	27	(27)
Total Adjustments	**(9,423)**	**(12,190)**	**0**	**616**	**(2,294)**	**(246)**	**(23,536)**	**23,536**

2017/18	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non-current assets	-3,364	-51,826	0	-12,604	0	0	-67,894	67,894
Impairment - Long Term Debtor	0	0	0	0	0	0	0	0
Revaluation gains on PPE	4,973	58,485	0	0	0	0	63,458	-63,458
Revaluation losses on Property Plant and equipment	-7,790	-153,791	0	0	0	0	-161,582	161,582
Movements in the market value of Investment properties	1,853	8	0	0	0	0	1,860	-1,860
Amortisation of Intangible assets	-349	0	0	0	0	0	-349	349
Capital Grants & contributions applied (if any)	2,516	0	0	0	0	0	2,516	-2,516
Income in relation to donated assets if any	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	-1,519	0	0	0	0	0	-1,519	1,519
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement	-1,163	-8,553	0	0	0	0	-9,716	9,716
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement								
Statutory provision for the financing of capital investment	1,333	0	0	0	0	0	1,333	-1,333
Capital expenditure charged against the General Fund and HRA balances	824	6,791	0	0	0	0	7,615	-7,615
Balance of MRA	0	0	0	0	0	0	0	0
Total Adjustments primarily involving the Capital Adjustment Account	**-2,787**	**-148,886**	**0**	**-12,604**	**0**	**0**	**-164,278**	**164,278**

2017/18	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0	0	-211	-211	211
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	13	13	-13
Total Adjustments primarily involving the Capital Grants Unapplied Account	**0**	**0**	**0**	**0**	**0**	**-198**	**-198**	**198**
Adjustments primarily involving the Capital Receipts Reserve:								
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,898	8,898	0	0	-11,796	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	7,066	0	7,066	-7,066
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-38	-142	0	0	179	0	0	0
Contribution from the Capital Receipts Reserve to finance payments to Government Capital Receipts pool	-1,072	0	0	0	1,072	0	0	0
Transfer from Deferred Capital receipts Reserve upon receipt of cash	0	0	0	0	-9	0	-9	9
Total Adjustments primarily involving the Capital Receipts Reserve	**1,787**	**8,756**	**0**	**0**	**-3,487**	**0**	**7,056**	**-7,056**
Adjustment primarily involving the Major Repairs Reserve:								
Reversal of major Repairs Allowance credited to the HRA	0	0	0	0	0	0	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	12,000	0	0	12,000	-12,000
Total Adjustment primarily involving the Major Repairs Reserve	**0**	**0**	**0**	**12,000**	**0**	**0**	**12,000**	**-12,000**

2017/18	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Deferred Capital Receipts Reserve:								
Transfer of deferred sale proceed credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0	0	0	0	0
Adjustments primarily involving the Financial Instruments Adjustment Account:								
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-10	0	0	0	0	0	-10	10
Adjustments primarily involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	-6,747	-4	0	0	0	0	-6,750	6,750
Employer's pensions contributions and direct payments to pensioners payable in the year	6,090	3	0	0	0	0	6,093	-6,093
Total Adjustments primarily involving the Pensions Reserve	**-657**	**1**	**0**	**0**	**0**	**0**	**-657**	**657**
Adjustments primarily involving the Collection Fund Adjustment Account:								
Amount by which council tax income and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,464	0	0	0	0	0	1,464	-1,464
Adjustment primarily involving Unequal Pay Back Pay Adjustment Account								
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlement chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0
Total Adjustments	**-202**	**-140,131**	**0**	**-604**	**-3,487**	**-197**	**-144,623**	**144,623**

NORTHAMPTON BOROUGH COUNCIL

3. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19.

	Opening Balance Apr 2017	Realignment of Reserves Oct 2017	Additions to Reserves 2017/18	Use of Reserves 2017/18	Opening Balance Apr 2018	Additions to Reserves 2018/19	Use of Reserves 2018/19	Closing Balance March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund								
Customers and Communities Reserves	1,349	0	0	(667)	682	257	(426)	**513**
Regeneration, Enterprise and Planning Res	722	(64)	171	(286)	543	120	(66)	**597**
Housing Reserves	610	0	73	(83)	600	69	(163)	**507**
Total Service Related Reserves	**2,681**	**(64)**	**244**	**(1,036)**	**1,825**	**446**	**(655)**	**1,617**
MTFP Cashflow	5,762	(3,307)	3,065	(770)	4,750	4,304	(6,500)	**2,554**
Delivering the Efficiency Plan	7,101	(5,101)	0	0	2,000	258	(475)	**1,783**
Strategic Investment Reserve	2,851	(1,528)	0	(1,323)	0	0	0	**0**
Environmental Services Capital Financing	0	10,000	0	0	10,000	0	(1,000)	**9,000**
Other Corporate Reserves	1,371	0	422	(383)	1,410	5,157	(390)	**6,177**
Total Corporate Reserves	**17,085**	**64**	**3,487**	**(2,476)**	**18,160**	**9,719**	**(8,365)**	**19,514**
Insurance Reserve	1,027	0	152	0	1,179	0	(302)	**877**
Rates Retention Deficit Funding	1,963	0	1,448	0	3,411	760	0	**4,171**
Other Technical Reserves	247	0		0	247	0	(247)	**0**
Total Technical Reserves	**3,237**	**0**	**1,600**	**0**	**4,837**	**760**	**(549)**	**5,048**
Section 106 Contributions	**2,183**	**0**	**0**	**(46)**	**2,137**	**0**	**(57)**	**2,080**
Total General Fund	**25,186**	**0**	**5,331**	**(3,558)**	**26,956**	**10,925**	**(9,626)**	**28,259**
HRA								**0**
HRA Reserves	8,295	961	0	(2,289)	6,967	328	0	**7,295**
HRA Supporting People Reserve	558	(558)	0	0	0	0	0	**0**
HRA Reform Reserve	8	(8)	0	0	0	0	0	**0**
HRA Leaseholder Reserve	500	0	0	0	500	0	0	**500**
HRA Service Improvement Reserve	1,395	(395)	0	0	1,000	0	0	**1,000**
HRA Insurance Reserve	300	0	0	0	300	0	0	**300**
Total HRA	**11,056**	**0**	**0**	**(2,289)**	**8,770**	**328**	**0**	**9,098**
Total Earmarked Reserves	**36,242**	**0**	**5,331**	**(5,847)**	**35,726**	**11,253**	**(9,626)**	**37,357**

General Revenue Grants (Ring-fenced)
The reserve contains grants which have been received but not spent but which are ring-fenced for a specific purpose in future years.

S106 Contributions
These are developer contributions towards future maintenance and infrastructure costs relating to future growth development across Northampton.

Service Related Reserves
These allow the Council to commit funding to individual projects which may be spread across more than one year.

Strategic Investment Reserve
The Council has set aside funding to support future Invest to Save initiatives and meet strategic priorities. This reserve has strict criteria before monies can be drawn down. The criteria are set out in the Medium Term Financial Plan 2016-21.

Delivering the Efficiency Plan
To fund the one-off revenue costs of initiatives leading to ongoing efficiency savings.

MTFP Cashflow Reserve
To cover any delays in achieving planned savings, or shortfalls, in income generation.

Insurance Reserve
This reserve assists the Council in managing its liabilities surrounding future Insurance Claims.

Other Technical Reserves
These reserves are set aside to assist the Council with managing cash flow accounting and new policy, legislative and technical changes across local government. Rates retention deficit funding is set aside to manage the current NNDR Collection Fund deficit.

HRA Earmarked Reserves

These reserves contain amounts specifically set aside to finance HRA projects. The money in these reserves must be used on the Housing Revenue Account.

4. PROPERTY, PLANT AND EQUIPMENT

a) Movement

Movements in 2017/18	Council Dwellings £000s	Housing Land and Buildings £000s	Other Land and Buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant and Equipment £000s
Cost or Valuation									
At 1st April 2017	**582,235**	**20,566**	**80,895**	**2,067**	**2,530**	**14,471**	**1,549**	**9,353**	**713,666**
Additions	17,966	147	170	464	47	58	0	8,849	27,701
Donations	0	0	0	0	0	0	0	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	166,862	(3,294)	1,261	0	0	0	429	0	165,258
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(98,790)	(703)	(3,529)	0	0	0	42	0	(102,980)
Derecognition – disposals	(6,811)	(186)	0	0	0	0	0	0	(6,997)
Derecognition – other	(1,372)	0	0	0	0	0	(330)	0	(1,702)
Assets reclassified (to) / from Held for sale	0	0	0	0	0	0	0	0	0
Assets reclassified (to) / from Held for sale	0	200	(600)	0	0	0	0	0	(400)
Other movements in cost or valuation	(2,735)	(113)	2,308	64	8	1	145	(277)	(599)
At 31 March 2018	**657,355**	**16,617**	**80,505**	**2,595**	**2,585**	**14,530**	**1,835**	**17,925**	**793,947**
Accumulated Depreciation and Impairment									
At 1 April 2017	(35,640)	(501)	(6,221)	(707)	(566)	(411)	(40)	0	(44,086)
Depreciation Charge	(12,184)	(384)	(1,843)	(602)	(74)	(158)	(29)	0	(15,274)
Depreciation written out to the revaluation reserve	12,530	10	914	0	0	0	6	0	13,460
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,777	352	709	0	0	0	16	0	4,854
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(56)	(158)	0	0	0	(38)	0	(252)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(51,209)	(155)	(707)	0	0	0	(462)	0	(52,533)
Derecognition – Disposals	95	6	0	0	0	0	0	0	101
Derecognition – other	27	0	0	0	0	0	18	0	45
Other Movements	39	7	599	0	(1)	0	(4)	0	640
At 31 March 2018	**(82,565)**	**(721)**	**(6,707)**	**(1,309)**	**(641)**	**(569)**	**(533)**	**0**	**(93,045)**
Net Book Value									
At 31 March 2017	**546,595**	**20,065**	**74,674**	**1,360**	**1,964**	**14,060**	**1,509**	**9,353**	**669,580**
At 31 March 2018	**574,790**	**15,896**	**73,798**	**1,286**	**1,944**	**13,961**	**1,302**	**17,925**	**700,902**

Movements in 2018/19	Council Dwellings £000s	Housing Land and Buildings £000s	Other Land and Buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infra-structure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construct-ion £000s	Total Property, Plant and Equipment £000s
Cost or Valuation									
At 1st April 2018	**657,354**	**16,617**	**80,505**	**2,595**	**2,585**	**14,530**	**1,835**	**17,925**	793,947
Additions	18,541	236	811	8,518	0	80	0	8,072	36,258
Donations	5,979	(267)	5,410	0	0	0	11	0	11,133
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(5,974)	(117)	(1,103)	0	0	0	586	0	(6,608)
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,782)	(80)	(47)	0	0	0	(144)	0	(7,053)
Derecognition – disposals	(785)	(229)	(96)	0	0	0	0	0	(1,110)
Derecognition – other	0	0	0	0	0	0	0	0	0
Assets reclassified (to) / from investment	0	0	0	0	0	0	0	0	0
Other movements in cost or valuation	6,643	(138)	532	0	32	0	19	(7,355)	(267)
At 31 March 2019	**674,976**	**16,022**	**86,012**	**11,113**	**2,617**	**14,610**	**2,307**	**18,642**	826,300
Accumulated Depreciation and Impairment									
At 1 April 2018	(82,565)	(721)	(6,707)	(1,309)	(641)	(569)	(533)	0	(93,045)
Depreciation Charge	(12,628)	(323)	(2,139)	(1,055)	(74)	(157)	(24)	0	(16,400)
Depreciation written out to the revaluation reserve	8,332	84	1,199	0	0	0	14	0	9,629
Depreciation written out to the Surplus/Deficit on the Provision of Services	4,159	49	780	0	0	0	3	0	4,991
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	(524)	0	0	0	0	0	(524)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(5,495)	0	(6,085)	0	0	0	0	0	(11,580)
Derecognition – Disposals	95	1	3	0	0	0	5	0	104
Derecognition – other	26	22	32	0	0	0	0	0	80
Other Movements	(5)	13	0	0	(6)	0	(2)	0	0
At 31 March 2019	**(88,081)**	**(875)**	**(13,441)**	**(2,364)**	**(721)**	**(726)**	**(537)**	**0**	**(106,745)**
Net Book Value									
At 31 March 2018	**(82,565)**	**(721)**	**(6,707)**	**(1,309)**	**(641)**	**(569)**	**(533)**	**0**	**(93,045)**
At 31 March 2019	**586,895**	**15,147**	**72,571**	**8,749**	**1,896**	**13,884**	**1,770**	**18,642**	**719,554**

b) Depreciation

The useful lives and depreciation rates used in the calculation of depreciation are detailed in the accounting policies.

c) Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations have been carried out by appointed external valuers. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture, and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The main Housing stock was initially valued by the Beacon Method at April 2000. A rolling programme of revaluation exists whereby approximately 20% of the Housing Stock is revalued each year and the average percentage change established on the revalued properties is then applied to the remaining stock. The 20% of the beacons valued each year are reviewed to see if beacons that are more appropriate are available; the potential uncertainties around this methodology are set out in Appendix J2 General Information – Section 4 Assumptions (page 138) made about the future and other major sources of estimation uncertainty.

The significant assumptions applied in estimating values are:

- Each property has good title
- Each property is not subject to flooding, subsidence, shrinkage, or other such hazards
- The land is not affected in any way by contamination
- Each property is free from structural defect and is in reasonable condition
- Where properties are vacant, the current and future use are the same with no potential redevelopment of the site

	Council Dwellings	Housing Land and Buildings	Other Land and Buildings	Vehicles, Plant, Furniture, and Equipment	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000
Valued at fair value in:						
2018/19	674,977	2,190	67,205	8,512	2,308	755,192
2017/18	0	6,891	3,820	482	0	11,193
2016/17	0	0	3,958	25	0	3,983
2015/16	0	6,919	4,969	173	0	12,061
2014/15	0	27	6,055	1,919	0	8,001
Previous Years	0	0	2	0	0	2
	674,977	16,027	86,009	11,111	2,308	790,432

d) Information on Asset

31/03/2018 Total Number		31/03/2019 Total Number
11,472	**Council Dwellings**	11,417
	Housing Land and Building	
2,877	Council Garages	2,803
75	Shared Ownership Properties	71
66	Operational Shops	66
18	Council Houses not used as dwellings - Community Rooms	15
29	Commercial Property (Units)	27
	Other Land and Buildings	
26	Community Centres	26
21	Other Operational Properties	20
17	Surface Pay & Display Car Parks	17
5	Multi-Storey Pay & Display Car Parks	5
1	Bus Station	1
1	Depots	1
14	Sub-Depots	13
3	Central Administrative Offices	3
1	Local Area Offices	0
1	Open Markets	1
1	Museums	1
3	Theatres, Cinepod	3
1	Golf Course	1
7	Sports & Leisure Facilities	7
7	Pavilions	7
1	Travellers Site	1
8	Public Conveniences	5
92	Commercial Property (Units)	92
65.97ha	Agricultural Land	65.97ha
62.88ha	Allotments	62.88ha
84	**Infrastructure**	85
144	**Vehicles, Plant and Equipment**	165
	Community Assets	
8	Cemeteries	9
2	Monuments/Memorials/Exhibitions	2
1	Guildhall	1
1	Historical Buildings	1
1	Commercial Property (Units)	1
925.53ha	Parks and Open Spaces	925.36ha
	Heritage Assets	
164	Museum Exhibits	166
123	Guildhall Contents	123
38	Buildings & Statuary	38
15	Mayoral Regalia	15
	Investment Assets	0

16	Land	16
17	Properties	17
41	Units	41
0	**Asset held for Sale**	0
	Surplus Assets	
99	Residential Land/Units held for Development	76
5	Public Conveniences	5
1	Other Surplus Asset	1
58	**Intangible Assets**	64

e) Donated Assets

No donated assets were received during 2018/19 or 2017/18.

f) Commitments under Capital Contracts

As at 31st March 2019, there are no material commitments under existing capital contracts.

5. HERITAGE ASSETS

Reconciliation of the heritage assets held by the Authority:

Movements in 2018/19	Historic Buildings	Museum Exhibits	Mayoral Regalia	Guildhall Artefacts	Total Heritage Assets
Cost or Valuation					**0**
1st April 2018	**13,674**	**21,718**	**48**	**1,932**	**37,372**
Additions	92			0	92
Revaluations	462			0	462
Transfers	133			0	133
31 March 2019	**14,361**	**21,718**	**48**	**1,932**	**38,059**
Accumulated Depreciation and Impairment					
1st April 2018	**-566**	**0**	**0**	**0**	**-566**
Depreciation Charge	-80	0	0	0	-80
Impairment	-9,208	0	0	0	-9,208
31 March 2019	**-9,854**	**0**	**0**	**0**	**-9,854**
Net Book Value					0
at 31 March 2018	**13,108**	**21,718**	**48**	**1,932**	**36,806**
at 31 March 2019	**4,508**	**21,718**	**48**	**1,932**	**28,206**

Buildings and Statuary
Historic Buildings that were previously included in Community Assets were valued as part of the five-year rolling programme of valuations undertaken by the Council's internal valuers. Statuary has been valued at market valuations by Art and Antiques Ltd in March 2012.

Museum Exhibits
Museum Exhibits were valued in March 2010 by Arts and Antiques Ltd for insurance purposes: these valuations are based on market values. Of particular interest is the shoe collection, which is the largest collection of shoe heritage in the world and is designated as being of national importance.

Mayoral Regalia
These comprise of the chains and pendants of office and were valued in March 2010 by Arts and Antiques Ltd for insurance purposes. These valuations are based on market values.

Guildhall Artefacts
These are items within the Guildhall such as paintings, clocks, lighting and furniture. Again, they were valued in March 2010 based on market values by Arts and Antiques Ltd for insurance purposes, which is based on market values.

6. INVESTMENT PROPERTIES

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

2017/18 £000s	Investment Properties	2018/19 £000s
-477	Rental income from investment property	-571
368	Direct operating expenses arising from investment property	0
-109	**Net (gain) / loss**	**-571**

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct, or develop investment property or repairs, maintenance or enhancement

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

2017/18 £000s	Investment Property Valuations	2018/19 £000s
12,150	**Balance at start of the year**	**13,830**
	Additions:	
0	Construction	0
20	Subsequent expenditure	
1,860	Net gains/(losses) from fair value adjustments	-35
	Disposals	
	Transfers:	
-200	to/(from) Property, Plant and Equipment	
0	Net Gains / (Losses) from fair value adjustments	0
13,830	**Balance at end of year**	**13,795**

7. FINANCIAL INSTRUMENTS

a) Categories of Financial Instruments

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

Categories of Financial Instruments	Long-Term		Current	
	31 March 2018 £000s	31 March 2019 £000s	31 March 2018 £000s	31 March 2019 £000s
Investments				
Loans and receivables	0	0	27,321	16,173
Available for sale financial assets	0	0	34,021	23,119
Unquoted equity investments at cost		7,586		
Debtors				
Loans and receivables	49,500	48,494	12,813	17,059
Borrowings				
Financial Liabilities at amortised cost	(247,263)	(241,874)	(10,546)	(5,506)
Other Long Term Liabilities				
PFI and finance leases	0		0	
Creditors				
Financial Liabilities at amortised cost	(12,734)	(15,907)	(39,578)	(44,593)

b) Reclassifications

There have been no reclassifications of financial instruments during the year.

c) Income, Expense, Gains, and Losses

2017/18					2018/19				
Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and Receiv-ables £000s	Financial Assets: Available for Sale £000s	Total £000s	Income, Expense, Gains and Losses	Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and Receiv-ables £000s	Financial Assets: Available for Sale £000s	Assets and liabilities at fair value through profit and loss	Total £000s
7,961	0	0	**7,961**	Interest expenditure	7,890				**7,890**
0	0	12	**12**	Losses on derecognition			27		**27**
0	0	0	**0**	Reduction in fiar value			33		**33**
0	732	0	**732**	Impairment losses		1,146			**1,146**
7,961	**732**	**12**	**8,705**	**Total Expense in Surplus or Deficit on the Provision of Services**	**7,890**	**1,146**	**60**		**9,096**
	-1,468		**-1,468**	Interest income		-1,900		-99	**-1,900**
		14	**14**	Increases in fair value					
0	**-1,468**	**14**	**-1,454**	**Total Income in Surplus or Deficit on the Provision of Services**	**0**	**-1,900**	**0**	**-99**	**-1,999**
				Gains on Revaluation				-22	-22
				Losses on Revaluation				506	506
0	**0**	**0**	**0**	**Surplus/(Deficit) arising on revaluation of financial assets in other Comprehensive Income and Expenditure**	**0**	**0**	**0**	**484**	**484**
7,961	**-736**	**26**	**7,251**	**Net gain/(loss) for the year**	**7,890**	**-754**	**60**	**385**	**7,581**

The Authority did not have any Assets and Liabilities at Fair Value through Profit and Loss for either 2017-18 or 2018-19.

d) Fair Values of Assets and Liabilities

- Items are split according to the following hierarchy.
- Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs – unobservable inputs for the asset or liability.

There were no transfers between input levels during the financial year.

There has been no change in the valuation technique used during the year for the financial instrumen

Items Available for Sale or Fair Value through the Profit and Loss

Some of the authority's financial assets are measured in the balance sheet at fair value on a recurring basis. These are described in the following table, including the valuation techniques to measure them.

Financial Assets measured at fair value				
Recurring fair value measurements	Input level in fair value hierarchy	Input level in fair value hierarchy	2017/18 £000s	2018/19 £000s
Available for sale - Certificate of deposits	Level 1	Unadjusted quoted prices in active market for identical shares	34,021	23,119
Total			34,021	23,119

The Council held £m in Certificates of Deposit at 31 March 2019. The fair value has been calculated by using published price quotations. The fair value of the assets at 31 March 2019 is marginally higher than the carrying amount at the same date because the Authority's portfolio of investments includes a number of fixed rate investments where the interest receivable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2019) attributable to the commitment to receive interest above current market rates.
The Council holds no other available for sale investments.

Items Disclosed on the Balance Sheet at their Carrying Amount

Except for the financial assets carried at fair value (described in the table above), all other financial assets and financial liabilities are carried on the balance sheet at amortised cost.

For investments and borrowings not quoted on an active market, a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, a financial model valuation has been used. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. Our accounting policy uses new borrowing rates to discount the future cash flows.

Fair value has been assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

Financial Instruments – Liabilities

Loans are held with the PWLB, government and market lenders.

- For loans from the PWLB payable, new borrowing rates from the PWLB have been applied to provide the fair value.
- For non-PWLB market loans payable, prevailing market rates have been applied to provide the fair value.
- For non-PWLB government loans payable (HCA, GPF and LIF) made for a specified purpose, the fair value is taken to be the carrying amount as there is no market for such loans.
- For trade creditors, receipts in advance, finance leases and loans of under 12 months the fair value is taken to be the carrying amount.
- No early repayment or impairment is recognised.

Financial Instruments - Liabilities	31 March 2018		31 March 2019	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
Short Term				
Borrowing	(10,546)	(10,651)	(5,506)	(10,543)
Creditors & Receipts in Advance	(40,054)	(40,054)	(44,593)	(44,593)
Long Term				
Borrowing	(247,263)	(298,697)	(241,874)	(302,858)
Creditors & Receipts in Advance	(12,258)	(12,258)	(15,907)	(15,907)
Finance Leases	(0)	(0)	(0)	(0)
Financial Liabilities	**-310,121**	**-361,660**	**-307,881**	**-373,901**

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional loss (based on economic conditions at 31st March 2019) arising from a commitment to pay interest to lenders above current market rates.

PWLB loans included above have a carrying value of £230.5m and a fair value of £279.6m.
This measures the economic effects of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, as the Debt Management Office provides a transparent approach allowing exit cost to be calculated without undertaking a repayment or transfer it is also appropriate to disclose this exit price. The exit price reflects the fair value of PWLB loans calculated using early redemptions rates instead of new loan rates. If a value is calculated on this basis the carrying amount of £230.5m would be valued at £333.2m.

Financial Instruments – Assets

All the financial assets are classed as Loans and Receivables. Investments are held as short-term investments and in Money Market Funds and call and notice accounts.

- For fixed term deposits, the fair value has been assessed with reference to a comparable investment with the same/similar lender for the remaining period of the deposit.
- For cash equivalent investments, trade debtors, long-term debtors and finance leases the fair value is taken to be the carrying amount.
- No early repayment or impairment is recognised

The fair values are as follows:

The fair value of the assets at 31 March 2019 is marginally higher than the carrying amount at the same date because the Authority's portfolio of investments includes a number of fixed rate investments where the interest receivable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2019) attributable to the commitment to receive interest above current market rates.

Financial Instruments - Assets	31 March 2018		31 March 2019	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
Loans & Receivables				
Short Term				
Fixed Term Investments	10,021	10,021	12,495	12,495
Cash and Cash Equivalents	17,300	17,300	17,059	17,059
Debtors	12,813	12,813	33,231	33,231
Long Term				
Long Term Investments			7,586	7,586
Long Term Debtors	49,500	49,500	56,080	56,080
Finance Leases	0	0		
Total	89,634	89,634	126,451	126,451

e) Short Term Borrowing

31 March 2018 £000s	Short Term Borrowing	31 March 2019 £000s
50	Billing Parish Council 7 day notice account	0
125	Northampton Volunteer Bureau 7 day notice account	0
32	HCA principal due within 1 year	0
10,094	PWLB Loans principal due within 1 year	4,896
245	Growing Places Fund principle due within 1 year	611
10,546	**Total**	**5,507**

f) Long Term Borrowing

31 March 2018 £000s	Long Term Borrowing	31 March 2019 £000s
	Analysis of loans by type	
230,401	Public Works Loan Board	225,350
9,066	Money Market LOBOs	9,067
1,037	Homes & Communities Agency	1,002
5,620	Growing Places Fund	5,307
1,140	Local Infrastructure Fund	1,148
247,263	**Total**	**241,874**
	Analysis of loans by maturity	
5,451	Maturing in 1-2 years	
44,092	Maturing in 2-5 years	
45,712	Maturing in 5-10 years	
152,009	Maturing in over 10 years	
247,263	**Total**	**0**

g) Investments

31 March 2018 £000s	Investment Type	31 March 2019 £000s
	Included in Cash and Cash Equivalents	
200	Deposit and Call Accounts	200
21,200	Money Market Funds	12,295
21,400	**Total - Cash and Cash Equivalents**	**12,495**
	Investments:	
	Current Investments - Under 1 Year	

10,021	Fixed Term Investments	5,017
0	Notice Accounts	0
	Long Term Investments - Over 1 Year	
0	Fixed Term Investments	7,586
10,021	**Total - Investments**	**12,603**
	Available for Sale Financial Instruments:	
	Current Investments - Under 1 Year	
34,021	Certificate of Deposit	23,127
34,021	**Total - Available for Sale Financial Instruments**	**23,127**
65,442	**Total**	**48,225**

h) Soft Loans

The Council has made loans to Northampton Rugby Football Club (NRFC) to redevelop the Franklins Garden Stadium at the same interest rate as that available to the Council from the Public Works Loans Board (PWLB). These have been assessed as a material soft loan.

2017/18 £000s	Material Soft Loans	2018/19 £000s
4,624	**Balance at 1 April**	4,433
0	Nominal value of new loans granted in year	0
0	Fair value adjustment on initial recognition	0
29	Write down of fair value adjustments in year	28
-220	Loans repaid	-220
0	Impairment losses	0
4,433	**Balance at 31 March**	**4,241**

The interest rate used to calculate the fair value of the soft loans has been arrived at by taking the EU reference rate at the start date of the loan and adding a margin of 400 basis points (4%) to reflect the Council's risk in the loans.

8. CONSTRUCTION CONTRACTS

In 2018/19, the Council did not have any external construction contracts in progress.

9. DEBTORS

Debtors	Long-term 31 March 2018 £000s	Long-term 31 March 2019 £000s	Short-term 31 March 2018 £000s	Short-term 31 March 2019 £000s
Central Government Bodies	0	0	7,472	16,278
Less Impairment Allowance	0	0	0	0
Central Government Bodies	**0**	**0**	**7,472**	**16,278**
Other Local Authorities	0	0	3,247	3,882
Less Impairment Allowance	0	0	-103	0
Other Local Authorities	**0**	**0**	**3,144**	**3,882**
NHS Bodies	0	0	0	0
Less Impairment Allowance	0	0	0	0
NHS Bodies	**0**	**0**	**0**	**0**
Other Entities & Individuals	49,500	48,494	14,099	12,993
Less Impairment Allowance	0	0	-1,522	-3,577
Other Entities & Individuals	**49,500**	**48,494**	**12,577**	**9,416**
TOTAL	**49,500**	**48,494**	**23,193**	**29,576**

The Council provides loans to third parties to support local businesses and regeneration. See the table below

Counterparty	Purpose of loan	Start date	End Date	Initial Loan Value £000s	Amount Outstanding at 31 March 2019 £000s
Cosworth	To support the acquisition of specialist machinery at their new factory in the enterprise zone	01-Jan-14	01-Jan-19	1,400	0
Saints Rugby Club (NTRFC)	To support stadium expansion and associated development	22-Jan-14	22-Jan-39	5,500	3,970
Unity Leisure	To facilitate the purchase a soft play facility in Northampton.	10-Jul-15	10-Jul-20	300	91
University of Northampton	To support the creation of a waterside campus in Northampton.	10-Mar-16	10-Mar-21	28,500	28,500
		10-Mar-16	10-Mar-56	17,500	16,775

10. CASH AND CASH EQUIVALENTS

31 March 2018 £000s	Cash and Cash Equivalents	31 March 2019 £000s
7	Cash held by the authority	13
7	**Total Cash & Giro Accounts**	**13**
-4,107	**Operating Account used as part of cash management/ overdraft**	**(1,360)**
200	Deposit Account Facilities with banks	200
21,200	Deposits with money market funds	12,295
21,400	**Total Cash Equivalents**	**12,495**
17,300	**Total Cash and Cash Equivalents**	**11,148**

11. CURRENT ASSETS HELD FOR SALE

Current 2017/18 £000s	Assets Held for Sale	Current 2018/19 £000s
1,159	**Balance outstanding at start of year**	**0**
	Assets newly classified as held for sale:	
	Property Plant and Equipment	
-1,163	Assets sold	0
4	Other Movements	0
0	**Balance outstanding at year end**	**0**

Note: All assets in Held for Sale in 2018/19 are classified as current assets where disposal is anticipated within 12 months.

12. CREDITORS

31 March 2018 £000s	Creditors	31 March 2019 £000s
-15,154	Central Government Bodies	-13,896
-11,331	Other Local Authorities	-6,686
0	Public Corporations and Trading Funds	0
-13,093	Other entities and Individuals	-20,996
-39,578	**Total**	**-41,578**

13. PROVISIONS

Long Term Provisions

Provisions (<1 yr)	Insurance Provision £000	Rental Assistance Provision £000	Total £000
Balance at April 2018	**(6)**	**(5)**	**(11)**
Additional Provisions made in 2018-19	(49)	0	**(49)**
Amounts used in 2018-19	0	0	**0**
Balance at March 2019	**(55)**	**(5)**	**(60)**

Short Term Provisions

Provisions (<1 yr)	Insurance Provision £000	Business Rates Provision £000	Other Provisions £000	Total £000
Balance at April 2018	**(80)**	**(5,773)**	**(59)**	**(5,912)**
Additional Provisions made in 2018-19	(167)	(10,943)	0	**(11,110)**
Amounts used in 2018-19	63	10,789	0	**10,852**
Balance at March 2019	**(184)**	**(5,927)**	**(59)**	**(6,170)**

a) Insurance Provision

The provision covers the following risks:

- Liability claims under the policy excess arising from 1992/93 onwards.
- Claims under the policy excess on the Council's own dwellings.
- Claims over the "paid locally" figure but under the excess on the Council's motor vehicles.
- Death-in-service cover for employees who have council loans for the purchase of cars required for essential purposes.
- Other small miscellaneous items arising from time to time.

External premiums are charged direct to the revenue accounts, as are the costs of the internal Insurance Provision. This provision is reduced as claims are settled.

The estimated cost of outstanding claims is held in the Insurance provision as at 31st March 2019; an actuarial forecast of future valid claims made against 2018/19 and before, is held in the Insurance Reserve.

b} Business Rates Appeals Provision

Following the localisation of the Business Rates Retention Scheme, NBC is now liable for the impact of its share of the effects of any appeals against business rates ratings assessments decided by the Valuation Office Agency (VOA), including the effects of any backdating. The provision at 31st March 2019 is therefore based on the number of appeals that have been made to the VOA at the balance sheet date, spilt between long-term and short-term, depending on when the appeals are expected to be settled. Disclosure has been made in the Contingent Liabilities note (note 29) for other risks associated with appeals.

This note excludes the Collection Fund provisions for appeals, which are shown in the Collection Fund notes in section G to these Accounts.

14. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement on page 18 and further detail about earmarked reserves is shown in Note 3.

The summary table below shows that Useable Reserves balances held the end of the year.

31 March 2018 £000s		31 March 2019 £000s
66,341	Usable Reserves	68,391

15. UNUSABLE RESERVES

a) Balances

31-Mar-18 £000s	Unuseable Reserves	31-Mar-19 £000s
-267,972	Revaluation Reserve	-276,463
380	Financial Instruments Adjustment Account	352
26	Available for Sale Financial Instruments Reserve	484
-234,864	Capital Adjustment Account	-227,266
-123	Deferred Capital Receipts Reserve	-113
137,385	Pensions Reserve	141,857
-1293	Collection Fund Adjustment Account	-1,551
59	Short Term Compensated Absences Account	59
-366,402	**Total**	**-362,641**

b) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority 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 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31 March 2018				31 March 2019		
General Fund	Housing Revenue Account	Total		General Fund	Housing Revenue Account	Total
£000	£000	£000		£000	£000	£000
-53,832	**-48,304**	**-102,136**	**Balance at 1 April**	**-54,626**	**-213,028**	**-267,654**
-5,392	-209,046	-214,438	Upward Revaluation of assets	-8,380	-16,997	-25,377
3,368	32,604	35,972	Downward Revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	2,150	2,850	5,000
-2,024	**-176,442**	**-178,466**	Surplus or Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**-6,230**	**-14,147**	**-20,377**
736	7,964	8,701	Difference between fair value depreciation and historical cost depreciation	826	7,712	8,538
73	3,857	3,929	Accumulated gains on assets sold or scrapped	30	2,999	3,029
809	**11,821**	**12,630**	Amounts written off to the Capital Adjustment Account	**856**	**10,711**	**11,567**
-55,047	**-212,925**	**-267,972**	**Balance at 31 March**	**-60,000**	**-216,464**	**-276,463**

c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account is used to reconcile the accounting treatment of Financial Instruments that has been adopted and the actual charges that must be made under statute.

2017/18 £000s	Financial Instruments Adjustments Account	2018/19 £000s
408	**Balance as at 1 April**	**380**
0	Transitional Arrangements - Unattached Premia	0
-28	Soft Loans - Statutory Fair Value Adjustments	-28
380	**Balance as at 31 March**	**352**

d) Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

31-Mar-18 £000		31-Mar-19 £000
(12)	**Balance at 1 April**	26
0	CCLA Property Fund initial unrealised revaluation loss	506
(1)	Upward Revaluation of Investments	0
27	Downward Revaluation of Investments not charged to the Surplus or Deficit on the Provision of Services	7
14	Surplus or Deficit on revaluation of Investments not posted to the Surplus or Deficit on the Provision of Services	539
12	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure as part of Other Investment Income	(26)
0	CCLA Property Fund year-end unrealised revaluation gain	(22)
		0
26	**Balance at 31 March**	491

e) 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 Authority 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 Authority. The Account also contains revaluation gains accumulated on Property, Plant, and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.
Note 2 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2017/18			Capital Adjustment Account	2018/19		
General Fund £000s	HRA £000s	Total £000s		General Fund £000s	HRA £000s	Total £000s
-32,204	**-335,442**	**-367,646**	**Balance at 1 April**	**-32,549**	**-202,675**	**-235,223**
			Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
3,464	64,430	67,894	- Charges for depreciation and impairment of non current assets	18,451	18,494	36,944
7,791	153,791	161,582	- Revaluation losses on Property, Plant and Equipment	1,273	10,644	11,917
-4,972	-58,486	-63,458	- Revaluation gains on Property, Plant and Equipment	-950	-9,350	-10,300
349	0	349	- Amortisation of intangible assets	92	0	92
1,519	0	1,519	- Revenue expenditure funded from capital under statute	1,439	0	1,439
1,163	8,553	9,717	- Amounts of non-current assets written off on disposal or sale	2,210	5,767	7,977

			as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement			
9,315	**168,289**	**177,603**	**Total**	**22,515**	**25,554**	**48,069**
-809	-11,821	-12,630	Adjusting amounts written out of the Revaluation Reserve	-855	-10,712	-11,566
8,506	**156,468**	**164,973**	**Net written out amount of the cost of non-current assets consumed in the year**	**21,660**	**14,842**	**36,502**
			Capital financing applied in the year:			
-2,095	-4,971	-7,066	- Use of the Capital Receipts Reserve to Finance new capital expenditure	-3,193	-5,021	-8,214
0	-12,000	-12,000	- Use of the Major Repairs Reserve to finance new capital expenditure	0	-11,615	-11,615
-2,309	0	-2,309	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital expenditure	-2,897	0	-2,897
-9	0	-9	- Application of grants to capital financing from the Capital Grants Unapplied Account	0	0	0
-1,333	0	-1,333	- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	-1,375	0	-1,375
-824	-6,791	-7,614	- Capital expenditure charged against the General Fund and HRA balances	0	-4,698	-4,698
-6,571	**-23,761**	**-30,331**	**Total**	**-7,465**	**-21,334**	**-28,799**
-1,853	-8	-1,860	Movements in the market value of Investment Properties debited or credited to the Comprehensive	40	-5	35

			Income and Expenditure Statement			
0	0	0	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	-14	0	-14
-32,121	**-202,743**	**-234,864**	**Balance at 31 March**	**-18,327**	**-209,171**	**-227,499**

f) Deferred Capital Receipts Reserve

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

31/03/2018 £000		31/03/2019 £000
-132	**Balance at 1 April**	**-123**
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**0**
9	Transfer to the Capital Receipts Reserve upon receipt of cash	**10**
-123	**Balance at 31 March**	**-113**

g) 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 Authority 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 a benefit earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority 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.

2017/18		2018/19
£000		£000
142,692	Balance at 1 April	149,313
5,964	Remeasurements of the net defined liability/(asset)	0
6,750	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	5,037
-6,102	Employer's pensions contributions and direct payments to pensioners payable in the year	-6,595
9	Pensions Correction	-25
149,313	Balance at 31 March	147,730

h) Collection Fund Adjustment Account

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

2017/18 £000s	Collection Fund Adjustment Account	2018/19 £000s
171	**Balance as at 1 April**	**-1,293**
132	Amounts 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	132
-1,596	Amounts by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	391
-1,293	**Balance as at 31 March**	**-769**

i) Short Term Compensated Absences Account

The Short Term Compensated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance be neutralised by transfers to or from the Account.

2017/18 £000s	Short Term Compensated Absences Account	2018/19 £000s
59	**Balance as at 1 April**	**59**
0	Movements in year	0
59	**Balance as at 31 March**	**59**

j) Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until cash might be paid out to claimants. The information available at this time is that any further settlements of Unequal Pay Back Pay are unlikely to be made and there is not a reserve against this.

16. INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant, and Equipment. The intangible assets include both purchased licenses and internally generated software.

2017/18 Other Assets £000s	2017/18 Total £000s	Intangible Assets	2018/19 Other Assets £000s	2018/19 Total £000s
		Balance at start of year		
4,691	4,691	Gross carrying amounts	5,235	5,235
-4,396	-4,396	Accumulated amortisation	-4,684	-4,684
295	**295**	**Net carrying amount at start of year**	**551**	**551**
46	46	Purchases	74	74
-61	-61	Disposals - Gross value	0	0
61	61	Disposals - Amortisation	0	0
559	559	Asset Transfers	133	133
-349	-349	Amortisation for the Period	-371	-371
551	**551**	**Net carrying amount at end of year**	**387**	**387**
		Comprising:		
0	0	Gross carrying amounts	0	0
551	**551**	**Net carrying amount at end of year**	**387**	**387**

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £k charged to revenue in 2018/19 was charged to the appropriate cost centres and then absorbed as an overhead across all the service headings in the Net Expenditure of Services where the original service charged was an overhead. It is not, therefore, possible to quantify exactly how much of the amortisation is attributable to each service heading.

No item of capitalised software is individually material to the financial statements

17. MEMBERS' ALLOWANCES

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

2016/17 £000s	Members' Allowances	2017/18 £000s
	Expenditure	
25	Mayor/Deputy Mayor Allowance	22
424	Members' Allowances	412
449	**Total**	**434**

18. OFFICERS' REMUNERATION

a) Senior Officers

Position	Financial Year	Notes	Salary (inc Fees & Allowances) £000	Compensation for loss of Office £000	Total Remuneration excl Pension Contributions £000	Pension Contributions £000	Total Remuneration inc Pension Contributions £000
Chief Executive	**2018/19**	1	**£127**	**£0**	**£127**	**£21**	**£148**
	2017/18	1	£0	£0	£0	£0	£0
Director of Customers & Communities	**2018/19**	2	**£81**	**£62**	**£143**	**£8**	**£151**
	2017/18	2	£113	£0	£113	£19	£132
Borough Secretary	**2018/19**		**£87**	**£0**	**£87**	**£14**	**£101**
	2017/18		£85	£0	£85	£14	£99
Head of Customer & Cultural Services	**2018/19**		**£77**	**£0**	**£77**	**£13**	**£90**
	2017/18		£75	£0	£75	£12	£87
Head of Housing & Wellbeing	**2018/19**		**£76**	**£0**	**£76**	**£12**	**£88**
	2017/18		£72	£0	£72	£12	£84
Head of Planning	**2018/19**		**£76**	**£0**	**£76**	**£12**	**£89**
	2017/18		£74	£0	£74	£12	£86
Head of Economy, Assets and Culture	**2018/19**	3	**£33**	**£0**	**£33**	**£0**	**£33**
	2017/18	3	£0	£0	£0	£0	£0
Head of Finance (Section 151 Officer)	**2018/19**	4	**£83**	**£0**	**£83**	**£0**	**£83**
	2017/18	4	£0	£0	£0	£0	£0

Notes:

1 - Chief Executive was appointed in April 2018.
2 – The Director for Customers and Communities left post in August 2018.
3 - Head of Economy, Asset and Culture was appointed in December 2018
4 - Head of Finance was appointed to the post in June 2018.

b} <u>Officers paid over £50,000</u>

The Council is required, under the Accounts and Audit Regulations 2003 (regulation 7(2)) to disclose the number of employees whose remuneration was £50,000 or more (excluding employer's pension contributions). This is shown in bands of £5,000 in the table below:

Note: Senior Officers earning in excess of £50k have been excluded from this note as they are disclosed within Note 20a (Senior Officers).

2017/18 No. of Employees	Remuneration Band	2018/19 No. of Employees
5	£50,000 - £54,999	8
0	£55,000 - £59,999	2
0	£60,000 - £64,999	1
0	£65,000 - £69,000	1
5	**Total**	**12**

c) <u>Exit Packages</u>

(a) Exit Package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other agreed departures		(d) Total Number of exit packages by cost band (b + c)		(e) Total cost of exit packages in each band	
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18 £000	2018-19 £000

£0 - £20,000	2	1	2	0	4	1	£18	£7
£20,001 - £40,000	0	1	1	1	1	2	£35	£44
£40,001 - £60,000	0	0	1	0	1	0	£47	£0
£60,001 - £80,000	0	0	0	0	0	0	£0	£0
£80,001 - £100,000	0	0	0	0	0	0	£0	£0
£100,001 - £150,000	0	1	0	0	0	1	£0	£107
£150,001 - £200,000	0	1	0	0	0	1	£0	£328
Total	**2**	**4**	**4**	**1**	**6**	**5**	**£100**	**£486**

19. EXTERNAL AUDIT COSTS

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

2017/18 £000s	External Audit Costs	2018/19 £000s
81	Fees payable with regard to external audit services carried out by the appointed auditor (Section 5 Audit Commission Act 1998)	62
0	Additional charges due to overruns *	0
11	Fees payable for the certification of Grant Claims and Returns (Section 28 Audit Commission Act 1998)	0
21	Fees payable in respect of other services provided by the appointed auditor	0
-12	Refund of an element of the Audit Commissions retained earnings prior to its closure in March 2015	0
101	**Total**	**62**

*The final 2017/18 external audit fee variations have yet to be agreed

20. GRANT INCOME

2017/18		2018/19
£000s		£000s
	Credited to Taxation and Non-Specific Grant Income	
-1,793	Revenue Support Grant	-886
-4,229	New Homes Bonus	-3,082
0	Delapre Abbey Restoration	0
-462	Local Growth Fund - Vulcan Works	-860
	St Crispins	-107
	St James Mill	-114
	Upton Country Park	-101
-293	Mounts Baths - Sport England	-153
-215	Mounts Bath - Northampton Leisure Trust contribution (accrued)	215
	Playgrounds and allotments	-120
-176	Other Grants Individually Less Than £100,000	-247
-7,168	**Total**	-5,456
	Credited to Services	
-1,354	**DFG Grant Income**	-1,461
-200	Additional Housing Admin. Grant	-213
-1,044	Housing Benefit Admin. Grant	-958
-27,101	HRA Rent Rebates Grant	-25,698
-1,168	Non HRA Rent Rebates	-1,634
-34,907	Rent Allowance Grant	-34,936
0	EU Referendum Cost Reimbursement	0
0	Police & Crime Commissioner Election	0
-16	Property Searches New Burdens Payment	-0
-547	Discretionary Housing Payments	-441
-146	Section 106 Contributions	-158
-2,007	Northamptonshire County Council Recycling Credits	-1,615
-166	Northampton County Council Contribution for Grounds Maintenance	-155
-71	Joint Planning Unit Contribution	-83
-160	Total of Other Grants not included in the above	-1,233
-67,533	**Total**	-68,584

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

21. RELATED PARTIES

The Council is required to disclose material transactions with related parties, 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 access 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 and provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Grants received from government departments are set in Note 22 Grant Income.

Northampton Partnership Homes

Northampton Partnership Homes is a fully owned subsidiary of The Council, and is incorporated on the group accounts which are shown alongside the core financial statements. Northampton Partnership Homes was incorporated on the 30th April 2014 and commenced trading on the 5th January 2015. Northampton Partnership Homes is an Arm's Length Management Organisation that is wholly owned by the Council, but which has its own board of Directors. It is a company Limited by Guarantee (CLG) and is a not for profit organisation. Further information on Northampton Partnership Homes and details of transactions can be found in the Group Accounts section.

Members of the Council

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 19.

During 2018/19 expenditure to the value of £1.3m (2017/18 £1.7m) was paid or granted to parties where members had an interest or where they serve as a nominated representative on the outside body. Income to the value of £0.3m (2017/18 £0.3m) was receivable from these parties. Parties with transactions over £200k are shown below:

2017/18 £000s	Related Parties - Expenditure	2018/19 £000s
300	Northampton Theatres Trust	301
399	Brackmills Bid	403
290	Northampton Town Centre Bid	337
	Delapre Abbey Preservation Trust	
361	Revenue	59
47	Capital	

At 31st March 2019, the outstanding balances with these parties were debtors of £74k (2017/18 £299k); creditors of £310k (2018/19 £200k).

Contracts were entered into in full compliance with the Council's standing orders and all grants were made with proper consideration of declarations of interests. The relevant members did not take part in any discussions or decisions that involved their disclosed interests. The Register of Members' Interest is open to public inspection at The Guildhall, Northampton during office hours and is available on the Council's website.

A number of the Members of Northampton Borough Council are also members of Northamptonshire County Council. Material transactions with Northamptonshire County Council have been disclosed elsewhere in the accounts, see Notes 22 and 28.

Additionally, a number of Members are also Parish Councillors within the district of Northampton Borough Council. As above, these members did not take part in discussions related to these bodies.

One Member is also on the South East Midlands Local Enterprise Partnership (SEMLEP) Board. SEMLEP is the economic development partnership for the South East Midlands, a company operated jointly by the public and private sectors. SEMLEP is the lead body for the Enterprise Zone, administered by NBC. Additionally, SEMLEP is the accountable body (through Luton Borough Council, the administering body) for payments from DCLG's Growing Places Fund. NBC took out a £6.6m Growing Places Fund loan in 2014/15.

Delapre Abbey Preservation Trust is a separate company limited by guarantee and a charity. There is a provision subject to the restrictions of the LGHA 89 for NBC to have representation on the board (less than 20%). NBC own the freehold of Delapre Abbey. In 2018/19, NBC provided £58,544 of revenue funding for ongoing requirements.

Senior Officers of the Council

During 2018/19 there were two disclosures made in relation to related parties, Art Regeneration Ltd and Mind Tyneside and Northumberland. No transactions were identified in relation to these organisations.

Other Public Bodies

In 2013/14 the Council transferred the majority of its support services to LGSS, a Partnership established by the County Councils of Northamptonshire and Cambridgeshire, where NBC is an Added Value Partner. Following this transfer, an NBC member is now a representative on the LGSS Panel.

The Council is also involved in a number of joint working initiatives across the county with various other Local Authorities, for instance the Joint Planning Unit and Waste Management Partnership. In this capacity, a number of NBC Members have representations on their running boards. None of these relationships are considered material to either party involved both in terms of the value of transactions or the potential for the authority to control or influence NBC's actions to materially affect transactions or balances.

24. 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 –Public Private Partnership 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR) which is a measure of the capital expenditure incurred Financing Requirement (CFR) which reflects the capital expenditure incurred historically by the Authority that has yet to be financed.

	2018/19 £000	2017/18 £000
Opening Capital Financing Requirement	**301,900**	**302,815**
Capital Investment		
Property, Plant & Equipment	36,257	27,701
Heritage Assets	106	1,004
Investment Properties	0	18
Intangible Assets	74	46
Revenue Expenditure Funded from Capital Statute	1,439	1,519
Loans to Third Parties	0	0
Sources of finance		
Capital receipts	-8,564	-6,639
Sums set aside from capital receipts	0	-777
Government grants and other contributions	-2,897	-2,318
Sums set aside from revenue	-1,360	-2,110
Write Down of Third Party Loans	-896	-522
Direct Revenue contributions	-16,080	-18,837
Closing Capital Financing Requirement	**309,979**	**301,900**
Explanation of movements in year:		
Increase in underlying need to borrow	8,165	-915
Assets acquired under finance lease	0	0
Assets de-recognised as finance leases	0	0
Assets acquired under PFI/PPP	0	0
Increase/(decrease) in Capital Financing Requirement	**8,165**	**-915**

25. LEASES

Authority as Lessee

Finance Leases

a} The Council has a number of assets that are required to be treated as finance leases under IFRS accounting rules. These include recycling equipment, IT software and a specialist vehicle.
The assets acquired under these leases are carried in the Balance Sheet at the following net amounts:

31 March 2018 £000		31 March 2019 £000
50	Vehicles, Plant, Furniture and Equipment	0
52	Intangible Fixed Assets	0
102	**Total**	**0**

b) The Authority is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The present value of the leases and the future minimum lease payments at the balance sheet date are as follows:

31 March 2018	Leases - Authority as Lessee - Finance Leases	31 March 2019
£		£
	Future minimum lease payments	
46	Vehicles, Plant, Furniture and Equipment	0
56	Intangible Fixed Assets	0
102	**Future minimum lease payments**	**0**
	Net present value of minimum lease payments	
100	Current	0
0	Non-current	0
100	**Present value of minimum lease payments**	**0**
2	**Finance costs payable in future years**	**0**

c) The present value of the leases and the minimum lease payments at the balance sheet date split over the over future periods are as follows:

31 March 2018		Leases - Authority as Lessee - Finance Leases	31 March 2019	
Present value of leases	Minimum Lease payments		Present value of leases	Minimum Lease payments
£000	£000		£000	£000
100	102	Not later than one year	0	0
0	0	Later than one year and not later than five	0	0
0	0	Later than five years	0	0
100	**102**	**Minimum lease payments payable**	**0**	**0**

d) The Council has no sub leases required to be treated as finance leases

Operating Leases

e) The Council leases IT equipment, gym equipment and vehicles financed under the terms of operating leases. The future minimum lease payments due under non-cancellable leases in future years are:
The authority sub-leases housing contract hire vehicles to the Northampton Partnership Homes (NPH) for the provision of housing services.

31 March 2018	Local Authority as Lessee - Operating Leases	31 March 2019
£000		£000
33	Not later than one year	10
39	Later than one year and not later than five years	6
0	Later than five years	0
72	**Minimum lease payments**	**16**
(43)	**Future minimum lease sub lease payments receivable**	**0**

f) Charges to revenue -The expenditure charged to the Council's Comprehensive Income and Expenditure Statement during the year in relation to operating leases was:

Authority as Lessor

2017-18	Local Authority as Lessee - Operating Leases	2018-19
£000		£000
	Minimum Lease Payments	
107	Contract Hire	18
23	Other	4
0	Contingent Rents	0
(86)	Sublease payments received	(1)
44	**Total**	**21**

Finance Leases

g) The authority has two lessor property leases that have been assessed as finance leases.

The gross investment in the leases and the minimum lease payments receivable at the balance sheet date are as follows:

31 March 2018	Leases - Authority as Lessor - Finance Leases	31 March 2019
£000		£000
	Gross investment in leases	
124	Other Land and Buildings	107
	Net present value of minimum lease payments receivable	
10	Current	11
81	Non-current	70
91	**Present value of minimum lease payments receivable**	**81**
33	**Unearned finance income**	**26**

h) The gross investment in the leases and the minimum lease payments receivable at the balance sheet date split over the future periods are as follows:

31 March 2018		Leases - Authority as Lessor - Finance Leases	31 March 2019	
Gross investment in leases	NPV of minimum lease payments receivable		Gross investment in leases	NPV of minimum lease payments receivable
£000	£000		£000	£000
17	10	Not later than one year	17	11
69	48	Later than one year and not later than five years	69	52
37	33	Later than five years	20	18
123	**91**	**Minimum lease payments receivable**	**106**	**81**

In respect of pre-existing leases as at 31 March 2010 the Authority has adopted the mitigation contained in The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010.

Operating Leases

i) Periods

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

- The provision of other land and buildings including shops and industrial units to meet local demand for commercial premises.
- The provision of community assets to meet residents' community needs.
- To provide infrastructure enabling current and future construction to service local demand for housing and commercial property.

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

31 March 2018	Leases - Authority as Lessor - Operating Leases - Minimum Lease Payments	31 March 2019
£000		£000
1,932	Not later than one year	1,863
6,746	Later than one year and not later than five years	6,601
55,383	Later than five years	53,826
64,061	**Minimum lease payments**	**62,290**

The minimum lease payments receivable do not include rents that are contingent on future events, such as adjustments following rent reviews.

Note: Assets provided under operating leases, where the Council is lessor, have been included in the Council's disclosures on owned assets.

26. IMPAIRMENT LOSSES

No assets were impaired during 2017/18 or 2018/19.

27. TERMINATION BENEFITS

There were no material or significant termination benefits paid in 2018/19 as set out in note 18c.

28. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes:

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

The Authority participates in one post-employment scheme:

The Local Government Pension Scheme, administered locally by Northamptonshire County Council, is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension’s liabilities with investment assets

Transactions Relating to Post-employment Benefits:

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

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Local Government Pension Scheme 2017/18 £000	Comprehensive Income and Expenditure Statement	Local Government Pension Scheme 2018/19 £000
	Cost of Services:	
	Service cost comprising:	
3,220	Current service cost	3,440
-	Past service cost (including curtailments)	- 2,088
-	Gain from settlements	-
9	Pension contribution adjustment	-3,180
	Financing and Investment Income and Expenditure	
3,530	Net interest expense	3,473
6,759	**Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**1,645**
	Other Post-employment Benefits charged to the	
	Remeasurement of the net defined benefit liability comprising:	
6	Return on plan assets (excluding the amount included in the net interest expense)	9,551
0	Actuarial gains and losses arising on changes in demographic assumptions	0
5,356	Actuarial gains and losses arising on changes in financial assumptions	-15,400
602	Other experience	-418
12,723	**Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement**	**-4,622**
	Movement in Reserves Statement	
-786	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	-11,092
	Actual amount charged against the General Fund Balance for pensions in the year:	
6,102	Employers' contributions payable to scheme	3,440

Pension Assets and Liabilities Recognised in the Balance Sheet:

The amounts included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans are as follows:

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Present value of the defined benefit obligatio	326,226	325,877	13,714	13,791	339,940	339,668
Fair value of plan assets	-202,555	-205,736			-202,555	-205,736
Net liability arising from defined benefit oblig	**123,671**	**120,141**	**13,714**	**13,791**	**137,385**	**133,932**

Reconciliation of the Movements in Fair Value of Scheme (Plan) Assets:

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total £000	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Opening fair value of scheme assets	202,975	202,555	0	0	202,975	202,555
Interest income	5,003	5,008	0	0	5,003	5,008
Remeasurement gain/(loss): - The return on plan assets, excluding the amount included in the net interest expense	6	12,134	0	0	6	12,134
Contributions from employer	5,248	5,760	845	860	6,093	6,620
Contribution from employees into the Scheme	529	590	0	0	529	590
Benefits Paid	-11,206	-11,479	-845	-860	-12,051	-12,339
Assets Distributed in Settlements	0	-8,832	0	0	0	-8,832
Closing fair value of scheme assets	**202,555**	**205,736**	**0**	**0**	**202,555**	**205,736**

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Opening balance at 1 April	330,805	326,226	14,862	13,714	345,667	339,940
Current service cost	3,220	3,440	0	0	3,220	3,440
Interest cost	8,533	8,370	0	0	8,533	8,370
Contribution from scheme participants	529	590	0	0	529	590
Remeasurement gain/(loss):	0	0	0	0	0	0
- Actuarial gains/losses arising from changes in demographic assumptions	0	0	0	0	0	0
- Actuarial gain/losses arising from changes in financial assumptions	-5,356	-15400			-5,356	-15,400
- Other experience	-299	-418	-303	937	-602	519
Past service cost (Including Curtailments)	0	9,551			0	9,551
Liabilities assumed on entity combinations	0		0	0	0	0
Benefits Paid	-11,206	-11,479	-845	-860	-12,051	-12,339
Liabilities extinguished on settlements	0	4,997	0	0	0	4,997
Closing present value of scheme liabilities	**326,226**	**325,877**	**13,714**	**13,791**	**339,940**	**339,668**

Local Government Pension Scheme assets comprised:

Fair value of scheme assets[1] 2017/18 £000	Assets comprised of:	Fair value of scheme assets[1] 2018/19 £000
3,861	Cash and cash equivalents	4,642
	Equity instruments:	
	By industry type[2]	
14,351	Consumer	21,700
1,030	Manufacturing	7,610
11,450	Energy and utilities	11,286
14,839	Financial institutions	12,313
6,330	Health and care	7,757
13,865	Information technology	10,622
11,909	Other	0
73,774	**Total equity**	**71,288**
	Bonds:	
	By sector	
0	Corporate	0
17,632	Government	16,927
0	Other	0
17,632	**Total bonds**	**16,927**
	Private Equity:	
1,502	Overseas	3,569
1,502	**Total private equity**	**3,569**
	Property	
	By type	
15,924	Retail	16,137
15,924	**Total property**	**16,137**
	Investment Funds and Unit Trusts:	
74,420	Equities	70,014
15,442	Bonds	14,356
0	Commodities	879
0	Infrastructure	
89,862	**Total investment funds and unit trusts**	**85,249**
202,555	**Total assets**	**197,811**

Notes

[1] All scheme assets have quoted prices in active markets

[2] The risks relating to assets in the scheme are also analysed by company size below

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated 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 April 2013.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2017/18	2018/19
Mortality Assumptions:		
Longevity at 65 for Current Pensioners:		
- Men	22.1	22.1
- Women	24.2	24.2
Longevity at 65 for Future Pensioners:		
- Men	23.90	23.90
- Women	26.10	26.10
Rate of Increase in Pensions	2.4%	2.4%
Rate of Increase in Salaries	2.7%	2.7%
Rate for Discounting Scheme Liabilities	2.5%	2.6%

*Where provided by The Actuary, the split between LGPS and Discretionary Benefits Arrangements has been disclosed.
** Salary Increases are assumed to be 1% p.a. until 31 March 2016 reverting to the long-term assumption thereafter.
The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Change in assumptions at 31 March 2019:	Approximate increase to Employer Liability %	Approximate Monetary Amount £000s
0.5% decrease in Real Discount Rate	8%	27,765
0.5% increase in the salary increase rate	1%	2,135
0.5% increase in the Pension Increase Rate	7%	25,389

Asset and Liability Matching (ALM) Strategy

The pensions committee of Northamptonshire County Council has agreed to an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of asset invested to the liabilities in the defined benefit obligation. The fund has matched assets to the pensions' obligations by investing in long-term fixed interest securities and index linked gilt-edged investment with maturities that match the benefits payments as they fall due. This is balanced with a need to maintain the liquidity of the fund to ensure that it is able to make current payments. As is required by the pensions and (where relevant) investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (71% of scheme assets) and bonds (18%). These percentages are materially the same as the comparative year. The scheme also invests in properties as a part of the diversification of the scheme's investments.

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2020.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales).

The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

29. CONTINGENT LIABILITIES

Contingent Liabilities

The Council is potentially liable for the following:

Northampton Partnership Homes

- As set out in the explanatory forward and Group Accounts, NBC set up an Arm's Length Management Organisation on 5th January 2015, Northampton Partnership Homes (NPH). NPH is a company limited by guarantee, and as such, NBC is liable for all losses experienced by NPH, and is also the guarantor for NPH's pension liabilities. See Group Accounts for disclosure of the financial performance of NPH in 2018/19

Other – various

- The Council has received Deposits under Section 106 agreements, which may be repayable if the conditions for each agreement are not met. No provision has been made in the Accounts for any interest that may become repayable under the terms of the individual agreements. If every one of these deposits becomes repayable with interest, the Council's maximum liability for interest payable as at 31st March 2018 is estimated to be £0.7m.

- Employment tribunal claims for discrimination – age, and age related, harassment £175k.

- Financial guarantee for Home Group - a Housing Association. Under the 1987 (Bond issue)
  "Under the 1987 [bond issue] Home Group raised finance to carry out development in a number of local authority areas. In so doing they entered into arrangements with local authorities for the purchase of land in return for nomination rights over 50% of the properties constructed. In addition the local authorities agreed to indemnify bond holders against a fixed percentage of indebtedness under the bonds incurred by Home Group. Home Group in turn gave a counter indemnity to the said local authorities in the same amount. Thus, for so long as Home Group remains solvent, there is no practical likelihood of a claim under the indemnity being made against a participant local authority.
  The NBC proportion is 1.35% of £82.55m representing a value of £1.114m.

- There are a number of outstanding insurance claims that have been received of £1.27m as assessed by our Insurance Actuary. These have been assessed and an estimated provision has been charged to the accounts of £391,278, therefore the estimated value of the insurance claims outstanding is £877,032.

- There are a number of small appeals, and claims, estimated at £79,000.

- Errors, anomalies and poor record keeping have been identified in the administration of the Council's Empty Homes Scheme (2012-14). The amount of money that the Council can expect to recover from the property owners will need to be recalculated £100k.

30. CONTINGENT ASSETS

The Council is currently monitoring the following contingent assets:

- Northampton Waterside Enterprise Zone is funded from Business Rates uplift within its boundaries. Expenditure relating to administration and infrastructure loan costs has exceeded income receipts from business rates uplift, these sums will be reimbursed when the income from the projects exceeds expenditure. To date, the value to be reimbursed from Business rates uplift totals £16,900.

- NBC have lodged a court claim for money lent to Northampton Town Football club to the value of £2.76m.

- There is an obligation upon National Grid (NG) (owners of property) to pay to NBC part of monies advanced by WNDC to NG for remediation of land. Retention payment due to NBC by 2024 is £300k.

31. 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 Authority;
- **Liquidity risk** – the possibility that the Authority might not have funds available to meet its commitments to make payments; and
- **Market risk** – the possibility that financial loss might arise for the Authority because of changes in interest rates and stock market movements.

The Council's risk management processes consider the unpredictability of financial markets and seek to minimise potential adverse effects on the resources available to fund services. The Local Government Act 2003 places a statutory duty on the Council to have regard to guidance issued or specified by the Secretary of State. This guidance includes the CIPFA Treasury Management Code of Practice. Treasury risk management is undertaken by the LGSS treasury team under policies approved by the Council in its Treasury Management Policy Statement, Treasury Management Practices and accompanying Schedules and the annual Treasury Management Strategy. These contain overall principles for risk management and specific risks which include credit and counterparty risk, liquidity risk, interest rate risk, exchange rate risk, refinancing risk, legal and regulatory risk, and market risk.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures from the Authority’s customers.

The risk exposure from investment counterparties is minimised through policies and procedures set out in the Council's Treasury Management Practices and accompanying Schedules and its Annual Investment Strategy. These require that deposits are not made with financial institutions unless they meet identified minimum credit criteria that include, but is not entirely dependent on, external credit ratings, including sovereign ratings.
The Annual Investment Strategy also imposes value and investment period limits for each category of approved counterparty. In 2018-19 the maximum limits for placements with individual or group counterparties were £m and 3 years for the UK government and UK nationalised or part nationalised banking institutions, £m and 3 years for other UK counterparties and overseas counterparties with AAA sovereign ratings, £m for AAA CNAV Money Market Funds and £m and 3 years for UK local authorities and overseas counterparties with AA+ sovereign rating. Within this ceiling, lower limits apply in many instances depending on credit ratings and other factors specific to each institution.

Due to the nature of its business, the Council does not assess operational customers for credit worthiness and does not set credit limits on customers. In relation to mortgages, the Authority holds an equity stake in each relevant property as collateral against the mortgage outstanding. There are also certain exceptional circumstances under which the Council has placed a charge on a property as collateral against a specific debt. Business customers are not given individual credit limits. However, business customers are assessed, taking into account their financial position, past experience, and other factors, in line with parameters set by the council, when contracts are entered into. This forms part of the Council’s procurement procedures.
To support local economic regeneration the Council has made third party loans to local organisations. Assessment of the credit risk to the authority from the loans is undertaken as part of the due diligence work.
In 2015-16 the Council experienced default on a loan to a third party, however due to the individual circumstances of this default, this does not increase the likelihood of default on other third party loans.

The Council's maximum exposure to credit risk in relation to its investments totalling £m in banks, building societies and other institutions cannot be assessed generally as the risk of any counterparty 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 non-recoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2018 that this was likely to crystallise.

The following analysis summarises the Council's potential maximum exposure to credit risk based on experience of default and non-collectability over the last five to six financial years adjusted to reflect current market conditions.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. The Council held no investments in the form of bonds during 2018-19.
With the exception of third party loans and mortgages, the Council does not generally allow credit for its customers.

As shown in Table 1, at 31st March there were outstanding loans to third parties of £m. Such loans, by their nature, do carry a degree of risk. However, all are secured according to the terms of the individual loan agreement.
Of the £m total exposure to credit risk £m is past its due date for payment.
Impairment on the debtor’s financial asset has been identified, standing at a total of £m at the end of 2018-19

Collateral

The authority holds collateral against a number of mortgages. The balance sheet value of the principal amount outstanding is currently £k (£14k in 2017-18). The terms and conditions relating to the pledge are standard in all the mortgages held and set out the rights and responsibilities of the Council and the mortgage holder

All loans made by the Council to third parties are secured according to the terms of each individual loan agreement.

Liquidity Risk

The Council has a comprehensive cash flow management system in place that seeks to ensure that cash is available as needed. In the event of unexpected movements to the downside, the Council has ready access to borrowings from the money markets and (for capital expenditure purposes) from the Public Works Loan Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to manage loans that are due to mature within any rolling three-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

Amounts maturing within one year include short-term creditors, short-term grants and Section 106 funding commitments, short-term borrowing, principal due within 12 months on annuity and EIP (Equal Interest Instalment) loans, and long-term loans maturing within the next 12 months. PWLB loans totalling £m are due for maturity during 2018-19. Repayment of these will be funded from internal borrowing, new loans, or a combination of both. Longer-term maturities consist of long-term debt (including finance leases), and long-term grants and Section 106 funding.

Market Risk

Interest Rate Risk

The authority is exposed to significant risk in respect of interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For example, a rise in interest rates would have the following effects:

- Borrowing at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;

- Borrowing at fixed rates – the fair value of the liabilities will fall;
- Investment 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 affect 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 authority has a number of strategies for managing interest rate risk. For example, during periods where interest rates are falling or where economic circumstances are favourable, fixed rate loans may be repaid early to minimise costs.

The Council has an active strategy for assessing interest rate exposure that is applied in setting the annual budget and is used to update the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

Price Risk

The authority does not invest in equity shares and therefore has no exposure to loss arising from movements in share prices.

Foreign Exchange Risk

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

32. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2017/18 £000	Operating Activities	2018/19 £000
15,365	Depreciation	0
428,552	Impairment and downward valuations	26,041
27	Amortisation	163
8,340	Increase(-)/Decrease in Creditors	8,188
(1,855)	Increase/Decrease (-) in Debtors	(12,984)
(9)	Increase/Decrease (-) in Inventories	25
657	Movement in Pension Liability	(1,795)
9,717	Carrying amount of non-current assets and non-current assets held for sale, sold or	823
(278,431)	Other non-cash items charged to the deficit on the provision of services	307
182,363	**Total**	**20,768**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2017/18 £000	Items removed from net cost of service that are investing/financing activities	2018/19 £000
2,893	Proceeds from the sale of property, plant and equipment	0
58,380	Grants for financing capital expenditure	0
(28,114)	Any other items for which the cash effects are investing or financing activities	0
33,159	**Total**	**-**

33. CASH FLOW STATEMENT – OPERATING ACTIVITIES (INTEREST)

2017/18 £000s	Operating Activities (Interest)	2018/19 £000s
1,468	Interest Received	0
-7,961	Interest Paid	0
-6,493	**Total**	**0**

34. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2017/18 £000	Cash Flows from Investing Activities	2018/19 £000
96,633	Purchase of Property, Plant and Equipment	0
28,170	Purchase of short-term and long-term investments	4,996
0	Proceeds from short-term and long-term investments	0
-3,407	Proceeds from the Sale of Property, Plant and Equipment	0
-72,089	Capital Grants Received	0
49,307	**Total**	**4,996**

35. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2017/18 £000	Cash Flows from Financing Activities	2018/19 £000
-300,000	Cash Receipts of short and long-term borrowing	-10,429
	Other Receipts from financing actvities	0
1,731	Cash Payments for the reduction of the outstanding liabilities relating to	0
242,162	Repayments of short and long-term borrowing	0
- 56,107	**Total**	**- 10,429**

F1. HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance, and sale of Council houses and flats. The account has to be self-financing and there is a legal prohibition on cross subsidy to or from local taxpayers.

2017/18 £000s		2018/19 £000s	£000s
	Income		
-49,798	Dwelling Rents	-48,945	
-1,064	Non Dwelling Rents	-1,045	
-2,520	Charges for services & facilities	-3,023	
-2	Contributions Towards Expenditure	3	
-53,385	**Total Income**		**-53,009**
	Expenditure		
14,506	Repairs & Maintenance	13,911	
	Supervision & Management		
8,403	General Management	9,133	
5,469	Special Services	6,158	
188	Rent, Rates, Taxes & other charges	247	
159,915	Depreciation, Impairment & Revaluation of Fixed Assets	20,065	
80	Debt Management Costs	80	
332	Increased in provision for bad/doubtful debts	502	
188,893	**Total Expenditure**		**50,096**
135,508	**Net Cost of Services**		**-2,913**
919	HRA Services share of Corporate and Democratic Core		744
0	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services		0
136,427	**Net Cost of HRA Services**		**-2,169**
-203	Gain (-) or Loss on sale of HRA Fixed Assets		7,871
	Interest Payable and other similar charges		
6,195	Interest and Investment Income		6,156
2	Pensions interest cost and expected return on pensions assets		3
0	Non Specific Grant Income		0
-176,534	Surplus or deficit on revaluation of non current assets		-14,180
-34,113	**Surplus (-) or Deficit for the year on HRA services**		**-2,320**

F2. MOVEMENT IN HOUSING REVENUE ACCOUNT RESERVE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to account for the net costs of Council Housing in a different way.

This statement below and the detailed reconciling items on the following page summarise the differences between the outturn on the HRA Income and Expenditure Account and the Housing Revenue Account Balance.

2017/18 £000s		2018/19 £000s
-34,113	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Account	-2,320
34,113	Net additional amount required by statute to be debited or credited to the HRA Balance for the year	2,320
0	**Increase (-) / Decrease in the HRA Balance for the Year**	**0**
-5,000	HRA Balance brought forward	-5,000
-5,000	**HRA Balance carried forward**	**-5,000**

2017/18 £000s		2018/19 £000s
	Amounts included in the HRA Income and Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the year	
6,791	Capital Expenditure	2,466
-205,617	Revaluation Losses	-16,143
58,492	Revaluation Gains	9,359
0	Amortisation of intangible non-current assets	0
0	Capital Grants and Contributions Transferred to the Capital Adjusment A/c	0
203	Gain or Loss on sale of HRA non-current assets	-7,871
-4	HRA share of contributions to or from the pensions reserve	-4
0	Revenue Expenditure Funded from Capital Under Statute	0
0	Application of Capital Grants and Contributions to capital financing passing through CI&E	0
-140,135	**Total**	**-12,193**
	Amounts not included in the HRA Income and Expenditure Account but required by statute to be included when determining the Movement on the HRA Balance for the year	
0	Transfer to / from (-) Major Repairs Reserve	0
0	Transfers to / from (-) Housing Repairs Account	0
176,534	Transfers to / from (-) Revaluation Reserve	14,180
3	Employer's contributions payable to the Northamptonshire County Council Pension Fund and retirement benefits payable direct to pensioners	4
0	Amount by which officer remuneration charged to CI&E on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0
0	Capital expenditure charged in-year to the HRA Balance	0
-2,289	Net transfers to / from (-) earmarked reserves	328
174,248	**Total**	**14,512**
34,113	**Net additional amount required to be credited or debited to the HRA balance for the year**	**2,320**

F3. NOTES TO THE HRA

1. PRIOR YEAR ADJUSTMENTS

There are no prior year adjustments in relation to the Housing Revenue Account in 2017/18.

2. HRA ASSETS AND CAPITAL TRANSACTIONS

a) At 31st March 2018 the Council was responsible for managing 11,472 units of accommodation (excluding shared ownership properties):

Type of Property	Number of Bedrooms				Total
	One	Two	Three	Four+	
Flats-Low Rise	1,420	376	3	0	**1,799**
Flats-Medium Rise	1,658	807	113	4	**2,582**
Flats-High Rise	396	82	20	0	**498**
Houses & Bungalows	879	2,408	2,981	325	**6,593**
Total	**4,353**	**3,673**	**3,117**	**329**	**11,472**

b) The movement in housing stock can be summarised as follows:

Type of Property	Stock at 01/04/2018	Stock Movements			Stock at 01/04/2019
		Sales	Additions	Lost Units	
Flats (Column D, Bedsit Flat Maisonette WP2)	4,878	-49	73	-2	4,900
Houses & Bungalows	6,594	-76	2	-3	6,517
Dwellings (excl. Shared)	11,472	-125	75	-5	11,417
Rec	0				0
Shared Ownership	75	-4			71
Totals	**11,547**	**-129**	**75**	**-5**	**11,488**

c) Capital Receipts

2017/18	Housing Capital Receipts	2018/19
£000		£000
0	Land Sales	0
-8,855	Dwelling Sales	-8,594
0	Other Property Sales	0
-8,855	**Total**	-8,594
1,072	Payable to the Secretary of State	1,072
0	Other	0
-7,783	**Useable Capital Receipts**	**-7,521**

e) Capital Expenditure and Financing

2017/18	HRA Capital Expenditure and Financing	2018/19
£000s		£000s
	Expenditure	
0	Land Purchase	0
22,973	Dwellings	23,480
288	Re-Purchase of Former Council Housing	90
500	Other Property	377
23,761	**Total Expenditure**	**23,947**
	Financing	
	Dwellings	
0	Borrowing	2,845
4,971	Useable Capital Receipts	5,021
6,792	Revenue Contributions	2,466
12,000	Major Repairs Reserve	13,614
0	Grants	0
0	Third Party Contributions	0
23,761		**23,947**
	Other Property	
0	Borrowing	0
0	Useable Capital Receipts	0
0	Revenue Contributions	0
0	Major Repairs Reserve	0
0	Grants	0
0	Third Party Contributions	0
0		**0**
23,761	**Total Financing**	**23,947**

3 ARREARS

During 2017/18, arrears as a proportion of gross income was 3.8%. This represents an increase of 0.1% since 2016/17 when the proportion was 3.7%. The figures for rent arrears are detailed below

2017/18	Arrears	2018/19
£000s		
1,882	Gross Arrears at 31 March	2,040
-928	Prepayments	-1,004
953	**Net Arrears at 31 March**	**1,036**
909	Provision for bad debts	1,062

G1. COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund is to isolate the income and expenditure relating to Council Tax and National Non-Domestic Business Rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses/deficits declared by the Billing Authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. For NBC, the Council Tax precepting bodies are Northamptonshire County Council and Northamptonshire Police and Crime Commissioner.

In 2013/14, the Local Government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the Borough. It does, however, also increase the financial risk to the authority due to non-collection and the volatility of the NNDR tax base.

The scheme allows the Council to retain a proportion of the total NNDR received. The initial Northampton Borough Council share is 40% with the remainder paid to precepting bodies. For NBC, the NNDR precepting bodies are Central Government (50% share) and Northamptonshire County Council (10% share). The NBC share is then subject to a tariff payment to Government, which was £29.1m in 2017/18 (£33.0m in 2016/17). The residual amount is then compared to the assessment in the Local Government Finance Settlement and any growth above the Settlement level is subject to a levy payment to Government.

NNDR surpluses/deficits declared by the Billing Authority in relation to the Collection Fund are apportioned to the relevant precepting bodies and Government in the subsequent financial in their respective proportions.

The Code of Practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure account is included in the Council's accounts. The Collection Fund balance sheet meanwhile is incorporated into the Council's consolidated balance sheet.

The statement on the next page shows the statutory transactions relating to this fund.

2017/18 Council Tax	2017/18 NNDR	2017/18 Total		2018/19 Council Tax	2018/19 NNDR	2018/19 Total
£000's	£000's	£000's		£000's	£000's	£000's
			INCOME			
-108,549	0	-108,549	Council Tax (net of benefits, discounts & transitional relief)	-115,842	0	-115,842
0	-105,641	-105,641	Income collectable from business ratepayers	0	-102,675	-102,675
-108,549	**-105,641**	**-214,190**	**TOTAL INCOME**	**-115,842**	**-102,675**	**-218,517**
			EXPENDITURE			
			Precepts & demands:-			
76,656	0	76,656	Northamptonshire County Council	82,680	0	82,680
13,736	0	13,736	Northamptonshire Police and Crime Commissioner	14,782	0	14,782
15,066	0	15,066	Northampton Borough Council	15,794	0	15,794
			National Non-Domestic Rates			
0	46,098	46,098	Payments to Central Government	0	48,917	48,917
0	9,220	9,220	Payments to Northamptonshire County Council	0	9,788	9,788
0	36,878	36,878	Amount retained by Northampton Borough Council	0	39,137	39,137
0	283	283	Cost of collection	0	283	283
0	1,261	1,261	Other - Enterprise Zone	0	1,344	1,344
0	5,231	5,231	Transitional Protection Payments	0	2,162	2,162
			Bad & Doubtful Debts / Appeals			
1,329	5,934	7,263	Provisions	-567	1,009	441
			Contributions			
2,636	-2,799	-162	Towards previous years' Collection Fund surplus/ (deficit)	2,680	-2,212	468

0	0	0	Prior Year Adjustments (deferrals)	0	0	0
109,423	**102,106**	**211,529**	**TOTAL EXPENDITURE**	**115,368**	**100,427**	**215,795**
873	-3,535	-2,662	**Net (Surplus)/deficit for the year**	-474	-2,248	-2,723
			COLLECTION FUND BALANCE			
-3,504	4,105	601	Balance brought forward at 1st April	-2,631	570	-2,061
873	-3,535	-2,662	Net Deficit/(surplus) for the year (as above)	-474	-2,248	-2,723
-2,631	570	-2,061	**Balance carried forward at 31 March**	-3,105	-1,679	-4,784
			Allocated to:-			
0	285	285	Central Government	0	-839	-839
-1,912	57	-1,855	Northamptonshire County Council	-2,270	-168	-2,438
-343	0	-343	Northamptonshire Police and Crime Commissioner	-399	0	-399
-376	228	-148	Northampton Borough Council	-436	-671	-1,107
-2,631	570	-2,061	**Fund Balance c/fwd**	-3,105	-1,678	-4,783

2017/18 Council Tax	2017/18 NNDR	2017/18 Total		2018/19 Council Tax	2018/19 NNDR	2018/19 Total
£000's	£000's	£000's		£000's	£000's	£000's
			INCOME			
-108,549	0	-108,549	Council Tax (net of benefits, discounts & transitional relief)	-115,842	0	-115,842
0	-105,641	-105,641	Income collectable from business ratepayers	0	-102,675	-102,675
-108,549	**-105,641**	**-214,190**	**TOTAL INCOME**	**-115,842**	**-102,675**	**-218,517**
			EXPENDITURE			
			Precepts & demands:-			
76,656	0	76,656	Northamptonshire County Council	82,680	0	82,680
13,736	0	13,736	Northamptonshire Police and Crime Commissioner	14,782	0	14,782
15,066	0	15,066	Northampton Borough Council	15,794	0	15,794

0	46,098	46,098	National Non-Domestic Rates Payments to Central Government	0	48,917	48,917
0	9,220	9,220	**Payments to Northamptonshire County Council**	0	9,788	9,788
0	36,878	36,878	Amount retained by Northampton Borough Council	0	39,137	39,137
0	283	283	**Cost** of collection	0	283	283
0	1,261	1,261	Other - Enterprise Zone	0	1,344	1,344
0	**5,231**	**5,231**	**Transitional Protection** Payments	**0**	**2,162**	**2,162**
1,329	5,934	7,263	**Bad & Doubtful Debts / Appeals Provisions**	-567	1,009	441
2,636	-2,799	-162	Contributions **Towards previous years' Collection Fund surplus/** (deficit)	2,680	-2,212	468
0	0	0	Prior Year Adjustments (deferrals)	0	0	0
109,423	102,106	211,529	TOTAL EXPENDITURE	115,368	100,427	215,795
873	-3,535	-2,662	**Net (Surplus)/deficit for the year**	-474	-2,248	-2,723

G2. NOTES TO THE COLLECTION FUND

1. NATIONAL NON DOMESTIC RATES (NNDR)

The total non-domestic rateable value as at 31 March 2018 was £248.3m and the equivalent figure for 2016/17 was £241.2m. The National Non-Domestic Rate multiplier for 2017/18 was 47.9p and the equivalent figure for 2016/17 was 49.7p. The small business non-domestic rating multiplier for 2017/18 was 46.6p and the equivalent figure for 2016/17 was 48.4p.

2. COUNCIL TAX

The Council's tax base, i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings for 2012/13, was calculated as follows: -

2017/18 Band D Equivalents	Band	Estimated no of taxable properties 2018/19 after discounts	Ratio	2018/19 Band D Equivalents
20.8	A(-)	38.3	5/9	21.3
14,259.8	A	21,816.5	6/9	14,544.4
13,477.0	B	17,501.5	7/9	13,612.3
18,115.6	C	20,549.8	8/9	18,266.5
9,930.5	D	9,936.9	9/9	9,936.9
6,423.1	E	5,279.8	11/9	6,453.1
3,402.2	F	2,376.8	13/9	3,433.1
2,012.0	G	1,207.3	15/9	2,012.1
100.5	H	49.3	18/9	98.5
67,741.5	**Gross Council Tax Base**			**68,378.0**
2,032.2	Non-collection provision			1,504.3
65,709.3	**Council Tax Base Used for setting the Precept**			**66,873.7**

The provision for non-collection was set at 3.0% for 2018/19

3. ANALYSIS OF IN-YEAR CONTRIBUTIONS TO FUND DEFICITS

2017/18 £000s	In Year Contribution to Deficit NNDR	2018/19 £000s
-1,399	Central Government	-1,106
-280	Northamptonshire County Council	-221
-1,120	Northampton Borough Council	-885
-2799	**Total Deficit Recovered**	**-2,212**

2017/18 £000s	Allocation Of Collection Fund Surplus Council Tax	2018/19 £000s
1,902	Northamptonshire County Council	1,948
351	Northamptonshire Police & Crime Commissioner	349
384	Northampton Borough Council	383
2,636	**Total Surplus paid out**	**2,680**

4. PROVISION FOR BAD AND DOUBTFUL DEBTS

2017/18	Bad and Doubtful Debts - Council Tax	2018/19
£000s		**£000s**
10,010	Bad Debt Provision B/fwd	10,016
-1,296	Write-offs	-1,076
-27	Council tax benefit transferred to reserve	-25
1,329	Provision Made in Year	-567
10,016	**Bad Debt Provision c/f**	**8,347**

The Collection Fund now also provides for Bad debts on NNDR arrears:

2017/18 Re-stated	Bad and Doubtful Debts - NNDR	2018/19
£000s		£000s
620	Bad Debt Provision B/fwd	1,649
-620	Write offs of uncollectible debt	-1,321
1,649	Allowance for non collection	951
1,649	**Bad Debt Provision c/f**	**1,279**
-1,721	**Amounts written off in year not charged to provision**	-328

The Collection Fund account also provides for provisions for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31st March 2019:

2017/18	Provision for Appeals - NNDR	2018/19
£000s		£000s
11,867	Appeals Provision B/fwd	14,431
-1,095	Amounts used in year	-1,898
3,660	Additional provisions made	2,284
14,431	**Appeals Provision c/f**	**14,817**

GLOSSARY OF TERMS

Accruals

Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

Actuary

An independent and appropriately qualified adviser who carries out statutorily required pension fund valuations.

Actuarial Basis

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

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 or the actuarial assumptions have changed.

Actuarial Valuation

An actuary undertakes valuations by checking what a pension scheme's assets are worth compared to its liabilities. The actuary then works out how much needs to be paid into the scheme by the employer and the members to make sure that there will be enough money to pay the pensions when they are due.

Admitted Bodies

Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

Amortisation

A charge to the comprehensive income and expenditure statement which spreads the cost of the value of an asset or liability over its useful life in line with the Council's accounting policies.

Appointed Auditors

From 1 April 2015 the appointment of External Auditors to local Authorities has been undertaken by Public Sector Audit Appointments (PSAA), an independent company incorporated by the Local Government Association. KPMG was the Council's appointed Auditor for 2017/18, Ernst Young became the appointed auditor with effect from 1 April 2018.

Balance Sheet

A statement of the assets, liabilities and other balances at the end of an accounting period.

The Balance Sheet combines all the accounts of an authority, excluding trust funds, as they are not at the disposal of the council.

Capital Adjustment Account

This account contains the resources set aside to meet the cost of past expenditure. These include capital receipts, released grants and contributions and sums set aside for debt redemption.

Capital Expenditure

Expenditure on acquisition, Improvement or enhancement of either the council's or third party assets are defined as capital expenditure. Expenditure, which merely maintains the value, e.g. repairs and maintenance is charged to revenue.

Capital Receipts

Proceeds from the sale of capital assets such as land or buildings. They are available to finance new capital outlay and to repay existing loan debt. (Subject to the provisions contained within the Local Government Act 2003)

Cash Equivalents

Funds invested in call accounts and 30 day notice accounts which are readily available convertible to known amounts of cash with insignificant risk of change in value

Code

The rules and regulations governing the information and layout of the council's Statement of Accounts.

Community Assets

Assets which are held for the benefit of the community where there is no determinable useful life, such as works of art. These may have restrictions on their disposal.

Council Tax

Council Tax is a local taxation that is levied on dwellings within the local Council area, and funds all Council services.

Creditor

Represents the amount that the Council owes other parties at the balance sheet date.

Current assets

An Asset where the value changes because the volume held varies from day to day e.g. Inventories. It is reasonable to expect that these assets will either be consumed or realised during the next accounting period e.g. cash and bank balances, debtors.

Current Liabilities

An amount which will become payable or could be called in within the next accounting period e.g. creditor,

Debtor

Represents the amounts owed to the Council not received at the balance sheet date.

Deferred Grants

Amounts received or receivable that have been used to finance capital expenditure. Under the capital accounting arrangements these amounts will be released to offset depreciation in respect of the fixed assets to which they relate.

Deferred Capital Receipts

These represent capital income still to be received after disposals have taken place and wholly consists of principal outstanding from the sale of council houses

Defined Benefit Scheme

A pension where the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded

Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of a long-term asset.

DRC

Depreciated Replacement cost. A method of valuation which provides the current cost of replacing an asset with its modern equivalent

Dividend

The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall.

Earmarked Reserves

Reserve balances which have been set aside for future spending in a specific area.

External Audit

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

Fair Value

Usually the amount that would be paid for an asset in an active market, however where there is no market for a certain type of asset (such as schools) other methods to determine fair value are used.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a liability of another, it covers both financial assets and liabilities.

General Fund (GF)

This is the main revenue account of the council. Day to day transactions are conducted through this account, with the exception of those relating to the Housing Revenue Account, Collection Fund or any other trust funds held by the Council.

Grants

Payment towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

Housing Benefit

An allowance to persons receiving little or no income to meet their rent. Benefits can be paid by Local Authorities but refunds in part are received from Central Government.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits, a deterioration in the service provided by an asset, or by a general fall in prices of that particular asset.

Infrastructure Assets

Expenditure on works of construction or improvement but which have no tangible value, such as construction of, or improvement to highways.

Intangible Assets

Non-monetary assets that cannot be seen, touched or physically measured, but can be identified as a separate asset.

Reporting Standards

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

Inventory

Fair value of current assets purchased which have not yet been consumed.

Member

A Councillor, a member of the Council.

Ministry of Housing, Communities and local Government (MHCLG)

MHCLG is a Central Government Department with the overriding responsibility for determining the allocation of general resources to Local Authorities.

Minimum Revenue Provision (MRP)

This is the amount we have to set aside out of our revenue to repay loans.

Net Book Value (NBV)

The value of an asset after depreciation.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non Current Asset

A tangible asset with a benefit beyond one financial year, which has a realisable value e.g. land, buildings and plant

Non-Distributable Costs

Costs that cannot be specifically applied to a service and are held centrally.

Non Operational Assets

Non-current assets held by the council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets would be investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Officer

Employee of the Council.

Operating Leases

Leases other than a finance Lease

Operational Assets

Non-Current Asset 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.

Payment in Advance

A charge taken into account when preparing the financial statements, which are for benefits to be received in a period after the accounting date.

PFI Credits

The financial support provided to Local Authorities to part fund PFI capital projects. These are provided to the County Council direct.

Precept

This is an amount we receive from district and borough Councils (for Council Tax collected on our behalf) so that we can cover our expenses less our income. We also pay precepts to authorities such as the Environment Agency.

Private Finance Initiative (PFI)

A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.

Provision

Potential costs that the Council may incur in the future because of something that happened in the past, which are likely or certain to be incurred and a reliable estimate can be made to the costs.

Provision for Bad and Doubtful Debts

A prudent reduction in the reported level of income owed to the Authority for non-payment of invoices and other debt.

Prudential Borrowing

Borrowing which is financed from the Council's own resources and conforms to the Prudential Code.

Public Works Loan Board (PWLB)

A government body set up specifically to lend money to local authorities.

PVEQ

Plant, Vehicles and Equipment.

Reserves

Amounts earmarked in the accounts for purposes falling outside the definition of provisions can be classified as reserves. The movements in year being charged or generated as an appropriation to the Movement in Reserves Statement rather than directly to Service Revenue Accounts.

Revaluation Gain

The increase to the fair value of an asset following a valuation.

Revenue Support Grant (RSG)

Government funding which provides general support for council services.

Straight Line Basis

The method of calculating depreciation via charging the same amount each year over the life of the asset.

Subsidiary

An organisation that is under the control of the Council aka the Council is the majority shareholder.

Surplus

The remainder after taking away all expenses from income.

Treasury Management Strategy

A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.

Useful Life

The period with which an asset is expected to be useful to the Authority in its current state.

J1. ACCOUNTING POLICIES

Appendix 1 – Accounting Policies 2018/19

1.1 INTRODUCTION

The accounting policies for the Authority have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code for Local Authority Accounting. Where there is no specific guidance in the CIPFA Code, the Authority has developed its own accounting policy, which is aimed at creating information, which is:

- Relevant to the decision-making needs of users; and
- Reliable, in that the financial statements:
    - Represent faithfully the financial position, financial performance and cash flows of the entity;
    - Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
    - Are neutral i.e. free from bias;
    - Are prudent; and
    - Are complete in all material respects.

This document outlines how Northampton Borough Council (the Council) will account for all income, expenditure, assets and liabilities held and incurred during the 2018/19 financial year.

The accounting policies of the Authority are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authorities' accounts.

The accounting policies of the Authority as far as possible have been developed to ensure that the accounts of the Authority are understandable, relevant, reliable and comparable, and free from material error or misstatement.

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 certain categories of financial instrument.

A **Glossary of Terms** can be found in section I.

1.2 ACCOUNTING PRINCIPLES

a Going Concern

The Authority prepares its accounts on the basis that the Authority is a going concern; that is that there is the assumption that the functions of the Authority will continue in operational existence. In the case of a pending local government reorganisation, where assets and liabilities are due to be redistributed, the Authority would still account on the basis of going concern as the provision of services would continue in another authority.

b Accruals Concept

The Authority accounts for income and expenditure in the period to which the service to which it relates has taken place, rather than when cash payments are received or made.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet respectively. Equally, where cash has been received or paid which is not yet recognised as income or expenditure, a creditor (income in advance) or debtor (payment in advance) is recorded in the Balance Sheet respectively and the Comprehensive Income and Expenditure Statement adjusted accordingly.

c Overheads and Support Costs

The costs of overheads and support services are charged to service segments in accordance with the authorities' arrangements for accountability and financial performance.

d Value Added Tax

Income and expenditure treated as either capital or revenue, excludes any amounts related to VAT. All VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it. Any amounts outstanding (payment or receipt) at the year-end date is held as a creditor or debtor after netting off the amounts due / owed.

e Changes in Accounting Policy

Where there is a known future change in accounting policy required by the CIPFA Code, the Authority will disclose in the notes to the accounts:

- The nature of the change in accounting policy;
- The reasons why applying the new accounting policy provides reliable and more relevant information;
- For both the current reporting period, and the previous year comparatives reported, the extent to which the change in accounting policy would have impacted on the financial statements if it had been adopted in that year;
- The amount of adjustment relating to years previous to those reported in the set of financial statements, had the proposed policy been adopted retrospectively;
- If retrospective application is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

The Authority will also disclose information relating to an accounting standard, which has been issued but not yet adopted.

f Previous Year Adjustments

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

i) Was available when financial statements for those periods were authorised for issue; and

ii) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

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

Where those errors are thought to be material, an adjustment will be entered into the financial statements comparative year balances, and the columns headed restated. In addition full disclosure as to the nature, circumstance, and value of the adjustment will be disclosed in the notes to the accounts.

g Events after the Balance Sheet date

Where there is a material post balance sheet event, a disclosure in the notes to the accounts will be included. If this event provides additional evidence of conditions that existed at the Balance Sheet date, and materially affects the amounts to be included in the accounts; adjusting items will have been shown in the accounts.

h Exceptional and extraordinary items and prior period adjustments

Exceptional and extraordinary items will have been disclosed separately on the face of the Comprehensive Income and Expenditure Statement and details will be disclosed in the notes to the accounts.

i Contingent assets and liabilities

Where the Council has a contingent asset or liability this will be disclosed as a note to the accounts.

Capital Accounting

j Recognition of Capital Expenditure (de-minimis Policy)

In accordance with International Accounting Standard 16 (IAS 16), the Council recognises non-current assets when all four of the following tests are met:

- Assets held for use in the production or supply of goods or services, rental to others, or for administrative purposes.
- Assets expected to be used for more than one financial period.
- Assets where it is expected that future economic benefit will flow to the Authority.
- Assets where the cost can be measured reliably.

The capital cost of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner required by management.
- Initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the Authority incurred either when the asset was acquired or as a consequence of having used the asset during a particular period for purposes other than producing inventories during that period.
- Subsequent expenditure that will substantially increase the market value of the asset.
- Subsequent expenditure that will substantially increase the extent to which the Authority can use the asset for the purpose, or in conjunction with the functions of the Authority.

The Authority has a general de-minimis level of £6,000 for capital expenditure purposes. Where an asset has been acquired for less than £6,000 but has been funded by ring fenced capital funding, this will be treated as capital.

Capital Assets are held on the balance sheet as non-current assets, unless otherwise stated.

k Non-Current Asset Classification

The Authority manages its assets in the following categories:

- **Intangible Assets.**

  In line with International Accounting Standard 38 (IAS 38), the Authority recognises intangible assets as non-monetary assets without physical substance, where that asset meets the capital expenditure criteria set out in accounting policy j.

- **Property, Plant and Equipment Assets**

  Property Plant and Equipment Assets are subcategorised into Operational Land and Building, Community Assets, Vehicles Plant and Equipment, Infrastructure Assets, Assets Under Construction and Non-Operational Assets.

  - **Land and/or Buildings Assets**, in line with IAS 16, are recorded, valued and accounted for based on their significant components.
  - **Community Assets** are assets that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect for sale or change of use.

    If the asset is used for a specific operational purpose, it does not qualify as a community asset and should be valued accordingly.

    Test for Community Assets:

    - Is the intent to hold the asset forever?
    - Does the asset have an indeterminable useful life?
    - Are there restrictions on disposal?

    The answers for the first two questions have to be yes, while an affirmative answer to the third question is not obligatory but may help determine the correct classification.

  - **Infrastructure Assets**, include all tangible (physical) assets required within the authorities land drainage system, and cemetery roadways. There is no prospect for sale of infrastructure assets; expenditure is only recoverable through continued use of the asset.
  - **Vehicles, Plant and Equipment Assets and Assets under Construction** are also classified as Property Plant and Equipment where they do not meet the criteria for Investment Property Assets or Assets Held for Sale.
  - **Surplus Assets** are assets, which the Authority no longer operates from, however do not meet the definition of held for sale. All surplus assets are treated in the same way as operational assets of the same type (valuation, depreciation, recognition etc.).
  - **Heritage Assets** are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that make it important to ensure that they are preserved for future generations. They may be any kind of asset including buildings, works of art, furniture, exhibits, artefacts, etc. or intangible assets such as recordings of significant historical events.

    As such, assets in this category are held principally for their contribution to knowledge and/or culture.

  - **Investment Property Assets** are items of land and / or buildings held by the Authority solely for the purpose of rental income generation or capital appreciation or both.

    Therefore, where there is a service of the Authority being delivered from the property, this is not classified as Investment Property Assets. This includes where the intention of the asset is to generate economic growth to an area such as below market value rental.

Some 'Assets UnderConstruction' will also be classified as 'Investment Property Assets' where the intended eventual use is rental income generation or capital appreciation.

- **Assets Held for Sale**

  The Authority will classify assets as held for sale where:

  - The asset is in the condition required for sale and is vacant.
  - The assets sale is highly probable.
  - The asset has been advertised for sale and a buyer sought.
  - The completion of the sale is expected within 12 months.

  Assets which become non-operational / surplus which do not meet all of the requirements set out as assets held for sale continue to be classified and accounted for as their previous category. In addition, if the asset later no longer meets the criteria, it is restored to its previous classification and all transactions, which would have occurred, shall be retrospectively applied as though the asset had never been held for sale. Investment properties, which become available for sale, remain as Investment Properties.

  Assets meeting the criteria as held for sale are held as current assets on the balance sheet as income is expected within 12 months.

  It is possible that assets meet the criteria to be held for sale; however a change in circumstance beyond the control of the Authority means that the sale is delayed beyond 12 months. In these instances the Authority follows the policies outlined for assets held for sale; however disclosure of the value for these assets is within non-current assets.

l Non-Current Asset Valuation Methodology

The various classifications of assets as outlined in accounting policy k are valued on differing basis. Where not explicitly stated otherwise, property revaluations are completed by an RICS qualified valuer, on a 5 year rolling programme i.e. 20% of the Council's assets are revalued each year. Valuations are carried out in accordance with IFRS Fair Value Measurement.

Where there is an upward revaluation, the carrying value is increased and the associated credit charged directly to the revaluation reserve. This is then reflected in the MIRS as a revaluation gain. Where there is a revaluation, which results in a lower than carrying amount valuation, this is treated in line with accounting policy m impairment of assets. Exceptionally, gains might be credited to the Surplus/Deficit on Provision of Services where they arise from the reversal of a loss previously charged to a service.

Valuations are completed as follows:

- **Intangible Assets -** the Authority recognises Intangible Assets at cost. The Authority will revalue intangible assets annually where there is determinable market value for the asset.
- **Property Plant and Equipment -** Property Assets are held at fair value, which is the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of exiting use value (EUV) in accordance with IFRS 13. As a matter of last resort, where no other valuation method can be used, depreciated replacement cost is used.

  - **Council Dwellings –** Land and building structure are valued at EUV for Social Housing, being an appropriate percentage of market value. Individual components are valued at Depreciated Historic Cost.
  - **Plant Vehicles and Equipment -** are held at depreciated historic cost.

- **Assets Under Construction –** are held at historic cost**.**
- **Community Assets -** the Authority recognises Community Assets at depreciated historic cost.
- **Surplus Assets –** are held at fair value.
- **Infrastructure Assets -** the Authority recognises Infrastructure Assets at depreciated historic cost (not revalued).

- **Investment Property Assets -** Investment Properties are annually revalued at fair value, which is to be interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value. This includes investment property under construction. The fair value of investment property held under a lease is the lease interest.
- **Assets Held for Sale -** Assets held for sale are held at fair value.
- **Heritage Assets –** Heritage Assets are held at valuation where practicable (and at depreciated historic cost where it is not practicable to obtain a valuation).

m Impairment of Non-Current Assets

The accounting policy has been created in accordance with IAS 36.

Impairment is the amount to which the carrying amount of an asset exceeds the recoverable amount.

At the end of each reporting period the Authority assesses whether there is any indication that an asset may be impaired

The Authority recognises impairment as:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an assets market value during the period;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Authority to undertake a significant reorganisation; and
- A significant adverse change in the statutory or other regulatory environment in which the Authority operates.

Where there has been a previous revaluation taken to the revaluation reserve, an impairment up to that value would reverse the previous revaluation. Any further impairment or if there has been no previous revaluation, the impairment is charged to revenue. This is then reversed through the movement in reserves statement and charged to the capital adjustment account.

n Disposal of Non-Current Assets

Where an asset is identified as surplus to requirements, and meets the definition of an asset held for sale (see note k) it will be accounted for in accordance with note k, where an asset does not meet the classification of available for sale it will be tested for impairment, prior to being made available for disposal. There will be no impairments at the point of disposal. When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Sale proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts are credited to the Useable

Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Reserve from the movement in reserves statement. The value of the asset is transferred to the capital adjustment account via the movement in reserves statement.

Sale proceeds below £10k are below de-minimis and are credited straight to the Comprehensive Income and Expenditure Statement.

o Depreciation / Amortisation Methodology

Depreciation is provided for on all completed assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. Depreciation is calculated using the Straight-Line method over the determined life of the asset. The Council depreciates assets in the year of disposal. Where an asset has major components with different estimated useful lives, these are depreciated separately.

Residual values

Asset Type	**Assumed Residual Value**
Property Assets	Land Value only
Vehicles, Plant and Equipment	Nil
Intangible Assets	Nil

Useful Economic Lives of assets are:

Asset Group	**Useful economic Lives (UELs)**
Council Dwellings	50 years
Housing Buildings	10-70 years*
Other Buildings	4-69 years*
Land	Not depreciated
Community Assets	15-50 years*
Heritage Assets	Not depreciated*
Infrastructure Assets	25 years
Intangible Assets	3-10 years*
Vehicles, Plant and Equipment	3-25 years*
Investment Properties	Not depreciated
Assets Held for Sale	Not depreciated
Surplus Assets	5-60 years*

* Depending on the nature of the specific asset

In the Year of disposal, the Authority charges a quarter of the annual depreciation where the asset is owned on the first day of the financial year.

Individual components within Council Dwellings are depreciated separately from the building structure, using the following lives:

Asset Group	Useful Economic Lives (UELs)
Kitchens	20 years
Bathrooms	30 years
Windows and Doors	30 years
Heating Systems	20 years
Lights and Electric	25 years

p Component Accounting

For **Council Dwellings** the following components are valued, enhanced and depreciated separately – Kitchen, Bathroom, Windows and Doors, Heating Systems and Lights and Electrics. No other components are material and are therefore treated as part of the building structure. The separately identified components will be depreciated over their useful lives. They will be derecognised when replaced by new components.

For **all other assets**, components will only be shown separately in the asset register if they are significant i.e. if they cost more than £250,000 and their cost amounts to more than 25% of the total cost of the asset. Where the value of an asset is not known, Gross Book Value will be used as a proxy for the determination of significant components.

Land and buildings will be separately valued. The building component will be fully depreciated over its useful life, the residual value of the whole asset being the land component.

The nature of property assets is such that any revaluation relates mainly to the land and structure so will not be passed down to any individual components that have been identified.

Non-dwelling assets will be considered for componentisation if they are material, i.e. have a total building valuation in excess of £1m. Components will only be separately valued if they are significant, i.e. above the de-minimis level of 25% detailed above.

Components will only be separately valued if they are significant, i.e. above the de-minimis level detailed above.

Components will be derecognised if their replacement is deemed to be significant under this policy, i.e. if the cost of it is more than £250,000 and amounts to more than 25% of the total cost of the asset.

Where significant components, as defined above, have been separately recorded on the Asset Register they will be depreciated over their useful lives.

q Leases

In line with the interpretation IFRIC 4, the Authority recognises a lease to be any agreement, which transfers the right to use an asset for an agreed period in exchange for payment, or a series of payments.

This includes; leases, hire purchase, rental, contracts of service, service level agreements and any other arrangement where the ability to use an asset is conveyed.

r Defining a Finance Lease

A finance lease is where substantially all of the risks and rewards incidental to ownership transfer to the lessee.

Tests to give an indication of the transfer of risk and reward are:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. hire purchase).
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised.
- If the lease term is for the major part of the economic life of the asset even if title is not transferred.
  - The economic life of the asset is deemed to be that which is consistent with the class of asset in the depreciation policy.
  - The Authority recognises major part to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
  - The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease.
  - If this rate cannot be determined the incremental borrowing rate applicable for that year is used.
  - The Authority recognises "substantially all" to mean 90% of the value of the asset. In some circumstances, a level of 75% can be used if the Council believes that using this level will give a result that better reflects the underlying transaction.
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- If the lessee cancels the lease, the losses of the lessor, associated with the cancellation are borne by the lessee.
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

A suitably experienced accountant, with assistance from qualified valuers, will make a judgement based on the level of risk and reward held by the Authority as to whether an asset is operating or finance.

s Defining an Operating Lease

Any lease which is not a finance lease is recognised by the Authority to be an operating lease.

t Lessee Accounting for a Finance Lease

Where the Authority is tenant in a property, or is, by definition of IFRIC 4, leasing an asset which is deemed under IAS 17 to be a finance lease the Authority will recognise that asset within the asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the asset, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease payments are made. Lease payments made to the lessor, are split between the repayment of borrowings, and interest, which is charged to the Income and Expenditure account.

u Lessor Accounting for a Finance Lease

Where the Authority is the lessor for a finance lease, the asset is not recognised in the asset register; however a long-term debtor at the present value of minimum lease payments is recognised. Income received is split between capital - credited against the debtor, and finance income credited to the Comprehensive Income and Expenditure Statement as interest receivable.

v Lessor Accounting for an Operating Lease

Where the Authority is the lessor for an operating lease, normally the asset is classified as an investment property. Any rental income is credited to the relevant service income.

w Lessee Accounting for an Operating Lease

Costs associated with operating leased assets where the Authority is the lessor are charged immediately to the relevant revenue service expenditure within the net cost of services on an accruals basis.

x Service Concession Agreements (PFI and other similar contracts)

PFI and similar arrangements are usually agreements with the private sector for the construction or enhancement of fixed assets needed to provide services to a public sector body. PFI and similar contracts are assessed against criteria within IFRIC 12 (Service Concession Arrangements) to determine whether the risks and rewards incidental to ownership lie with the Authority or the contractor.

Where these lie with the contractor, all payments made during the life of the contract are chargeable to revenue as incurred.

Where these lie with the Authority, the Authority shall assess them against two tests:

a) The local authority controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and where

b) The local authority controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

Where test a) is met but not test b) the arrangement is reviewed to see if it contains an embedded lease, in which case this will be accounted for in accordance with the Authority's leasing policies.

Where test b) is met but not test a) the Authority will recognise the difference between the expected value of the fixed assets at the end of the arrangement and the amount (if any) it will have to pay the contractor then.

Where both tests are met the Authority will recognise a Property, Plant or Equipment asset in the Balance Sheet for value of the construction costs. Once recognised this asset is treated in line with the Authority's other PPE assets. A corresponding long-term liability of equal value is also recognised.

Payments made during the life of the contract are split into finance costs, capital costs and service costs. The split of payments is calculated at the inception of the contract and is based on the inherent interest rate within the original agreement. Finance costs are chargeable to the Comprehensive Income and Expenditure Statement as Interest payable. Capital Costs reduce the level of liability in the Balance Sheet. Service costs are chargeable to the relevant revenue service expenditure. Pre-payments or Dowry payments reduce the level of liability at the start of the contract.

y Capital Grants and Contributions

The Authority recognises capital grants and contributions as being related to capital assets and uses them to fund capital expenditure on those assets. Grants, contributions, and donations are recognised as income at the date that the Authority has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received.

Any grant received before these recognition criteria were satisfied would be held as a capital grant received in advance. Any grant, which had met the recognition criteria but had not been received, would be shown in the Comprehensive Income and Expenditure Account with a corresponding debtor. This is in line with the accruals concept policy.

Once the recognition criteria above have been satisfied, capital grants are recognised as income in the relevant service revenue account within the net cost of services.

In order to not impact on the level of Council Tax, the Authority removes the credit from the General Reserves through the Movement in Reserves Statement, and crediting to the Capital Grants Unapplied Reserve.

Once expenditure has been incurred on the related asset, the credit is removed from the Capital Grants Unapplied Reserve and credited to the Capital Adjustment Account.

Relevant Government Grants are treated in accordance with this policy.

z Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions or that is capital in nature but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of Council Tax. Examples of this expenditure are improvement grants and disabled facility grants.

aa Minimum Revenue Provision (MRP)

The Council has implemented the 2012 CLG Minimum Revenue Provision (MRP) guidance, and assessed their MRP in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Where a historical debt liability was created prior to 1st April 2008, MRP will be charged at the rate of 4% on the reducing balance, in accordance with Option 1 of the guidance, the “regulatory method”.

The debt liability relating to capital expenditure incurred from 2008-09 onwards is subject to MRP under option 3, the “asset life method”, and is charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, is related to the estimated life of that building.

Estimated life periods are determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council generally adopts these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

The Council seeks to spread MRP charges prudently in relation to asset lives, and with regard to the revenue impact of MRP charges. Where prudent to do so, capital receipts are used to repay borrowing previously taken out in relation to assets with a short life. MRP on residual debt is based on the lives of the remaining asset for which borrowing was undertaken.

MRP is charged from the financial year after the asset comes into use. In cases where the Council has approved the use of capital receipts to fund the asset, this funding is assumed when the receipt is contractually certain, even if not actually received. In such cases no MRP charge is made.

Where finance leases are held on the balance sheet, the MRP is set at a charge equivalent to the element of the annual lease charge that goes to write down the balance sheet liability, thereby applying Option 3 in a modified form.

The Council has taken advantage of any transitional arrangements introduced to minimise or negate the impact of retrospective accounting adjustments as a result of the transfer to the balance sheet of finance leases previously treated as operating leases under the introduction of IFRS.

ab Capital Reserves

The Authority holds capital reserves for the purpose of financing capital expenditure. Reserves will be disclosed as either usable (available to fund capital expenditure) or unusable (reserves held as a result of timing differences associated with recognition of capital expenditure and related financing).

Movements in capital reserves are accounted for through the Movement in Reserves Statement.

Revenue Accounting

ac Recognition of Revenue Expenditure.

The Authority recognises revenue expenditure as expenditure, which is not capital.

ad Employee Costs

In accordance with IAS 19, the Authority accounts for the total benefit earned by employees during the financial year.

Employee Costs are split into 3 categories; short term benefits, termination benefits and pensions costs.

Short-term employee benefits:

- **Salaries and Wages -** The total salary and wages earned by employees within the financial year have been charged to the revenue expenditure account. Where the amount accrued exceeds the amount paid at the 31st March, a creditor will be reflected in the accounts.
- **Leave Owed -** The Authority allows employees to earn time off in one period and carry forward amounts of accrued leave into the following period, such as annual leave, flexi-time and time off in lieu. The cost associated with this leave is attributable to the period in which it is earned, rather than when it is exercised. As such a charge has been made to the service revenue account and a creditor accrual has been reflected in the Balance Sheet.
- **Maternity/Paternity Leave -** The obligation upon the Authority to allow maternity leave and pay maternity pay occurs in mid stages of pregnancy. The cost associated with this leave is attributable to the period in which the obligation is created, rather than when it is exercised. As

such a charge has been made to the service revenue account and a creditor accrual has been reflected in the Balance Sheet for time off owed at the 31st March.

Termination Benefits

- **Redundancy Costs -** The obligation to pay redundancy costs occurs when there is a formal plan to create redundancies, which has been approved. The plan would include the location, function and approximate number of employees affected; the termination benefits offered; and the time of implementation. When these recognition criteria have been met the Authority recognises the costs associated with this in the service revenue expenditure and create a creditor in the Balance Sheet.

  In the case of an offer to encourage voluntary redundancy, the Authority has recognised the estimated cost based on the expected number of employees taking the offer.

- **Pensions Costs**

  Employees of the Council are members of the Local Government Pension Scheme administered by Northamptonshire County Council. The Scheme provides benefits to members (retirement lump sums and pensions) earned as employees of the Council.

  The Local Government Pension Scheme is a defined benefit scheme. The liabilities of the scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to

  retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of earnings for current employees.

  Pension liabilities are measured using the projected unit method and discounted at the balance sheet date rate of return on high quality corporate bonds of equivalent term to the liabilities. The discount rate is the weighted average of spot yields on AA rated corporate bonds.

  The change in the net pension liability is analysed into seven components:

  - Current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
  - Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.
  - Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.
  - Gains/losses on settlements and curtailments the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Comprehensive Income and expenditure.
- Contributions paid to the Northamptonshire County Council Pension Fund – cash paid as employers contributions to the Pension Fund.

In relation to retirement benefits, statutory provisions require the General Reserves to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Adjustments are therefore made in the Movement in Reserves Statement.

- **Early Retirement, Discretionary Payments -** the Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ae Revenue Grants and Contributions

Grants, contributions, and donations are recognised as income at the date that the Authority has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received. Any grant received before these recognition criteria were satisfied would be held as a creditor (receipts in advance). Any grant, which had met the recognition criteria but had not been received, would be shown as a debtor. This is in line with the accruals concept policy.

Revenue grants will either be received to be used only for a specific purpose, or can be used for general purpose. Those for a specific purpose are recognised as income in the relevant service revenue account (wherever the related expenditure is incurred) within the net cost of services. Those, which are for general purpose, are shown in the foot of the Comprehensive Expenditure and Income Statement, before the net surplus or deficit.

af Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Authority recognises an obligation, based on the best estimate of the likely settlement. When payments are eventually made, it is charged to the provision.

Estimated settlements are reviewed at the end of each financial year and adjustments with the service revenue account are made as required.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

ag Revenue Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the

Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax in that year for the expenditure.

The Council maintains earmarked reserves for a number of reasons including: -

- Setting aside money for future policy initiatives;
- To finance expenditure on future projects;
- To mitigate the impact between financial years of expenditure and income on general working balances;
- To mitigate the effect of specifically identified significant risks; and
- To protect the Authority against unexpected events and change in legislation.

The Council's risk-based assessment of the required level of General Fund working balance is shown within the Movement in Reserves Statement. The level of general working balance is considered reasonable due to the mitigation of some risks through the holding of earmarked reserves.

Certain reserves are kept to manage the accounting processes for tangible fixed assets, retirement benefits, and financial instruments and these reserves do not represent usable resources for the Council. The usable Earmarked Reserves are set out in the notes to the Statement of Accounts.

ah Council Tax Recognition

Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The Authority's share of the accrued Council Tax income is obtained from the information that is required by billing authorities in the production of the Collection Fund Statements.

If the net cash paid to the Authority in the year is more than its proportionate share of net cash collected from Council Tax debtors in the year the Authority will recognise a credit adjustment for the same amount in creditors after adjusting for the previous year brought forward and vice versa if net cash paid is less than the proportionate share.

The Cash Flow Statement includes within operating activities the net Council Tax cash received from the Collection Fund in the year (i.e. the precept for the year plus its share of Collection Fund surplus for the previous year, or less the amount paid to the Collection Fund in respect of its share of the previous year's Collection Fund deficit). The difference between the net cash received from the Collection Fund and the Authority's share of cash collected from Council Tax debtors by the billing authority in the year is included within financing activities in the Cash Flow Statement.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

ai Inventories and long-term contracts

Inventories include goods held for future use. Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Inventories are recorded in terms of average cost. Work in progress on long term contracts is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works. The Council currently does not have any contracts that fulfil this criterion.

aj Provisions for bad and doubtful debts

In order to suitably reflect the varied nature of debtors within the Council, the basis for providing for bad debts is specific to the circumstances in each individual department. The general policy followed is:

- No public sector debt is provided for (other Local Authorities, NHS, or Central Government).
- Aged debt is reviewed and a reasonable percentage provided for.

Significant individual invoices are reviewed and wholly provided for where it is thought to be necessary.

Treasury Management

ak Definition of Treasury Management Activities

The Authority has adopted the following definition of Treasury Management activities:

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

The Authority regards the successful identification, monitoring, and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.

The Authority acknowledges that effective treasury management will provide support towards the achievement of its service objectives. It is therefore committed to the principals of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

al Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. 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 any interest accrued to 31st March 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 Net Operating Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Reserves to be spread over future years.

The Authority has a policy of spreading the gain/loss over the term of the replacement loan subject to a minimum period of 10 years with the case of discounts. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

am 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.

  Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any interest accrued to 31st March and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, the Council could make loans to organisations or individuals at less than market rates (soft loans).

  When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Reserves is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

  Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

- **Available-for-sale assets -** assets that have a quoted market price and/or do not have fixed or determinable payments.

  Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

  Values are based on the following principles:

  - Instruments with quoted market prices the market price.
  - Other instruments with fixed and determinable payments discounted cash flow analysis.

  Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Movement in Reserves Statement. The exception is where impairment losses have been incurred these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/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, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

- **Financial assets at fair value through income and expenditure** – The council does not generally deal in derivatives but may take out forward loans from time to time as part of its overall Treasury Management Strategy.

an Interests in Companies and Other Entities

The Council owns one subsidiary, Northampton Partnership Homes, and has prepared Group Accounts, see policy ar. The Council has one Joint Arrangements that is Not an Entity (JANEs), the Joint Planning Unit (JPU): this is not material to the accounts.

ao Business Improvement Districts

The Council collects Business Rates in respect of two Business Improvement Districts (BIDs), the first based on the Brackmills Industrial Estate geographic area, and the second based on the Town Centre geographic area. For both of these BIDs, the Council collects the business rates and pays the amount collected over to the BID on a monthly basis. The money collected is treated as a creditor in the Council's accounts to reflect the fact that the cash received will be paid to the BID and any balances are only there because of a timing issue.

ap Cash and Cash Equivalents

Cash is represented by notes and coins held by the Authority and deposits available on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts only arise as part of the Council's cash management and are therefore netted off against Cash and Cash Equivalents.

Bank overdrafts will only be shown separately as liabilities in the Balance Sheet where they are not an integral part of the Council's cash management; no such instances currently exist that would require separate disclosure from cash and cash equivalents.

aq General Government Grants

General government grants and contributions in the form of Revenue Support Grant, Retained Business Rates, New Homes Bonus, etc. are disclosed on the face of the Comprehensive Income and Expenditure Statement in the line Taxation and Non-Specific Grant Income.

ar Group Accounts

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Council has involvement with a company, and has concluded that the requirement to produce Group Accounts applies in relation to its interest in Northampton Partnership Homes. In the Council's single-entity accounts, the interest in the company is recorded as financial assets at cost less any provisions for losses.

as Non Domestic Rates

The Local Government Finance Act 2012 amended the 1988 Local Government Finance Act to give local authorities the power to retain a proportion of funds obtained from business rates in their area.

The changes under the 'Localisation of Business Rates' means that from April 2013, local authorities retain a share of the income they collect from business rates as funding to meet the cost of service provision. Prior to this date, all business rates in England were paid to Central Government from the billing authorities, and a proportion was then paid back to each authority as Formula Grant.

The Department for Communities and Local Government guidance indicates that each billing authority should formally set a Business Rate Baseline each year. This baseline will be the authority's estimate of the business rates it forecasts to collect in the following financial year, net of any reductions such as reliefs and estimated cost of appeals.

As such, the business rates the Council collected and retained are adjusted for the anticipated outcome of the on-going national backlog of Business Rate appeals cases, which are still currently being assessed by the Valuation Office.

J2. GENERAL INFORMATION

1. PRIOR YEAR ADJUSTMENTS

There have been no material prior periods adjustments identified that require disclosure within Note 1 of the accounts for 2018/19.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT BEEN ADOPTED

The Code of practice on Local Authority Accounting in the United Kingdom (The Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2019/2020 Code:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS standards 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advanced Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment features with Negative Compensation.

These changes are not expected to have a material impact on the Council's single entity statements or Group statements

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies laid out in Appendix J1, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

In the accounts these are as follows:

There is a high degree of uncertainty regarding future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. However the Council takes the view that this uncertainty is not yet sufficient indication that the value of the Council's assets might need to be impaired due to reduced levels of service provision or the need to close facilities.

Valuations of Council Dwellings have been based on the latest Government guidance.
Useful economic lives are based on estimates either from professional (RICS qualified) valuers in the case of property, and service experts in relation to other assets. Infrastructure has a useful economic life of 25 years in line with CIPFA guidance.
Estimates and judgements are evaluated based on historical experience and other factors including horizon scanning for future events that are believed to be reasonable under the circumstances.
Actual events may differ from these expectations.

The existing 2016/17 valuation of Delapre Golf Course was completed using the investment method of valuation. The rental income was considered and the passing rent was capitalised at a yield that was felt to be sufficient to reflect the risk profile of the property as an investment, taking into account the covenant strength of the tenant, the likely sustainability of the rent and the length of the lease.

However, Royal Institution of Chartered Surveyors (RICS) guidance suggests that as Golf Course valuation is a specialised sector of the market and comparable evidence is scarce, the accurate valuation of golf courses will depend on many issues, some of which are not found when valuing other property types, including:

- An understanding of golf, its development and operation;
- An appreciation of the physical features of the property in question and other factors influencing value;
- A thorough understanding of the trading accounts of the business;
- An ability to prepare accurate forecasts for the fair maintainable trade; and
- A detailed knowledge of the market.

For 2016/17, the Council did not have all of the required information to fully undertake a valuation of the Course based on RICS Guidance. The impact of substituting the investment method of valuation is currently unknown and therefore does present an element of uncertainty on the valuation figure which it has not been possible to quantify.

For 2017/18 and 2018/19, the valuation of Delapre Golf Course was completed by the same specialist valuer, using a methodology based on the RICS guidance and the latest trading accounts provided by the tenant.

4. EVENTS AFTER THE BALANCE SHEET DATE

In March 2018 the Secretary of State for Housing, Communities and Local Government invited all eight principal councils in Northamptonshire to "develop and submit locally led proposals for establishing new unitary authorities across the county which will be right for the communities and people they serve". The Secretary of State's invitation stemmed primarily from the well-documented severe financial and operational plight that Northamptonshire County Council (NCC) faced, continues to face and is expected to otherwise face in future.

A proposal to create two new Unitary Councils for West and North Northamptonshire from April 2020 was submitted to the Secretary of State at the end of August 2018. The Secretary of State has now approved the move to two unitary authorities, but with a vesting date of 1st April 2021. This will see Northampton Borough forming part of the West Northamptonshire authority along with the current Daventry and South Northamptonshire Council and the current county council services in these areas.