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, 16 March 2015

at 6:00 pm**.**

D Kennedy
Chief Executive

AGENDA

1. APOLOGIES

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

2. MINUTES

(Copy herewith)

3. PROGRESS REPORT

4. DEPUTATIONS / PUBLIC ADDRESSES

5. DECLARATIONS OF INTEREST

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

7. TREASURY MANAGEMENT STRATEGY

Bev Dixon – Finance Manager

(Copy herewith)

8. FINANCIAL MONITORING REPORT

Glenn Hammons – Chief Finance Officer

(Copy herewith)

9. ACCOUNTING POLICIES

Glenn Hammons – Chief Finance Officer

(Copy herewith)

10. EXTERNAL AUDIT UPDATE

Andy Cardoza - KPMG

(Copy herewith)

11. INTERNAL AUDIT UPDATE Chris Dickens – PWC

(Copy herewith)

12. 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.”

SUPPLEMENTARY AGENDA

Exempted Under Schedule, 12A of L.Govt Act 1972, Para No: -

<TRAILER_SECTION>
A7666

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, 12 January 2015

PRESENT: Councillor Larratt (Chair); Councillors Flavell and Strachan.

1. APOLOGIES

Apologies were received from Councillors Hibbert, Nunn, Palethorpe and Conroy.

The Chair wished Councillor Conroy a speedy recovery.

2. MINUTES

The Minutes of the meeting held on 3rd November 2014 were confirmed and signed by the Chair as a true record.

3. PROGRESS REPORT

The Chair confirmed that the Statement of Accounts had been completed and the Empty Homes report would be updated at the next meeting.

RESOLVED: That the report be noted.

4. DEPUTATIONS / PUBLIC ADDRESSES

There were none.

5. DECLARATIONS OF INTEREST

There were none.

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

There were none.

7. TREASURY MANAGEMENT STRATEGY 2015-16

Bev Dixon, Finance Manager presented the report and confirmed that the draft Treasury Statement was presented to Council in December 2014 for consultation and the final version would be due in February 2015. The main changes were that the debt financing budgets were updated, an increase on the interest rate assumption to 0.7% and new borrowing for 4.25%. The maximum period to invest is two to three years which is dependent on counter policy. They have expanded overseas counter policies and the UK was on AA+. Sovereignty support was no longer as important as it was and was more reliant on the individual institution.

The report had a list of current counterparties.

In response to a question from Councillor Larratt, Bev Dixon confirmed that there were two loans maturing this year at a high rate which was advantageous as they could finance it internally. They could lock in any new borrowing at an advantageous rate but not use it for another year.

RESOLVED: That the report be agreed.

8. RISK REVIEW OF 2015/16 BUDGET OPTIONS

Glenn Hammons, Chief Finance Officer, presented the report and confirmed that Cabinet had issued a draft budget in mid-December and the key component parts were included in the report for Audit Committee. The appendix one and two was the general fund with the savings option and growth options. The HRA medium term planning options were in appendix four and appendix six was the draft allocation of budget following the creation of Northampton Partnership Homes (NPH). Overall he considered the budget levels of risk for 2015/2016 healthy as they made a contribution to reserves. This contribution to reserves would be a key part of managing the risks expected in the future.

One of the risks was that the Government austerity measures continue to apply pressure on service expenditure and also the waste contract was due for renewal in 2018. Further risks on the budget for 2015/16 include work ongoing for the Northamptonshire County Council draft budget proposal for collaboration and joint working on waste which may impact on the borough council and the delivery of service review and implementation of the 2014 employee cost review savings.

In response to a question from Councillor Flavell, Phil Morrison, Assistant Head of Finance, confirmed that the special services referred to in the report related to sheltered accommodation, call care and leaseholders.

RESOLVED: That the report and risk be noted and accepted. No concerns through Management System.

9. FINANCIAL MONITORING REPORT PERIOD

Phil Morrison, Assistant Head of Finance, presented the report and outlined the key points in the report. He confirmed that the car parking revenue is in line with the budget and usage had increased due to a number of factors including the extension of the free parking initiative

Councillor Larratt congratulated the officer who profiled the budget for the car parking. There had been a significant increase in ticket sales due to the changes in cost which had attracted more people into the town and was welcomed.

In response to a question from Councillor Strachan, Glenn Hammons confirmed that the £40,000 security costs was due to extra security at the Bus Station and at the old station as it had not been demolished yet. He confirmed that he would get a more detailed cost of the breakdown to Councillor Strachan.

RESOLVED:

1. **That the report and appendices be noted and agreed.**

2. **That Councillor Strachan receive a detailed breakdown of the bus station security costs.**

10. CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT 2013/14

Yola Geen of KPMG provided a brief report and confirmed that the Pooling of Capital Receipts had been subject to slight amendments.

The Housing Benefit subsidy claim work had been completed by the subsidies officer and initial testing carried out. There had been more errors in the report than in previous years which had led to additional testing being required. To ensure that matters did not escalate they would speak to the teams to get additional training to ensure errors are not made again. By 2015/2016 the work should be on an even keel.

An additional charge would be made for the extra work at a cost of between £1800 and £1900 which would be agreed with the Chief Finance Officer.

She noted that the subsidiary officer had been helpful and had made their job easier.

Resolved: That the report be noted.

11. EXTERNAL AUDIT UPDATE

As this was the last report that Yola Geen would be presenting to the Committee, Councillor Larratt expressed the Committee's thanks to her for her service in supporting the Council and wished her well in her role elsewhere. Neil Bellamy, KPMG, was also moving on to other areas of responsibility and Councillor Larratt also expressed the Committee's thanks to him for his service, wishing him well in his new role.

Yola Geen of KPMG confirmed that the 2013/2014 audit had now been completed but there was one objection which was still ongoing. They would be having a meeting this week to get the final information so that a decision could be made and they would consider whether to uphold or not. Their target was to complete this was the end of April and they were working towards that.

The 2014/2015 audit would be dealt with by their successors and would report to the Committee in March.

Resolved: That the update be noted..

12. INTERNAL AUDIT UPDATE

Chris Dickens of PWC extended his thanks to Yola Geen and Neil Bellamy and wished them the best of luck in the future.

He presented the internal audit update and confirmed that there had been a delay in getting the plan approved. The Governance questionnaire response had been disappointing but they had received enough to form some views.

He flagged a potential risk for accountability and responsibility between LGSS and NBC and advised that this had to be monitored in the future and thought given on how the relationship would continue to work.

F. Fernandes, Borough Secretary confirmed that the new arrangement was complex and wide ranging. In the restructure there would be a new Contracts Manager to develop the role and take things further. He confirmed that the accountability issues remained with NBC.

Councillor Larratt confirmed that there needed to be a culture change when dealing with LGSS as it was NBC's responsibility even though LGSS was doing the work.

Councillor Larratt confirmed there was an event on Tuesday 4th February for members, which was a development session in Castle Donnington. This event was free of charge.

Chris Dickens confirmed that they had had two events already and hoped to have an event in their Milton Keynes offices. Everybody was welcome.

Resolved: That the report be noted.

The meeting concluded at 6:52 pm

Appendices
1

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	TREASURY MANAGEMENT MID YEAR REPORT 2014-15

AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	16 March 2015
Policy Document:	No
Directorate:	LGSS
Accountable Cabinet Member:	Alan Bottwood

1. Purpose

1.1 To put the Treasury Management Mid-Year Report for 2014-15 before Audit Committee for scrutiny.

2. Recommendations

2.1 That Audit Committee reviews the Treasury Management Mid-Year Report for 2014-15 and makes comments or recommendations as they think appropriate.

3. Issues and Choices

3.1 Report Background

3.1.1 The CIPFA Treasury Management Code of Practice requires the Council to nominate the body (such as an audit or scrutiny committee) responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. The Audit Committee has been nominated for this role, which includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and for making recommendations to Council.

3.2 Issues

Treasury Management Mid-Year Report 2013-14

3.2.1 The Council's Treasury Management Mid-Year Report for 2014-15 is attached at Appendix 1. This report was presented to Cabinet on 14 January 2015 and to Council on 19 January 2015.

3.2.2 Audit Committee are asked to review the report and to make comments or recommendations as they think appropriate.

3.3 Choices (Options)

3.3.1 Audit Committee have the option to comment on the areas considered in the report and to make recommendations to Officers and to Cabinet and Council.

4. Implications (including financial implications)

4.1 Policy

4.1.1 See attached Cabinet report.

4.2 Resources and Risk

4.2.1 See attached Cabinet report.

4.3 Legal

4.3.1 See attached Cabinet report.

Equality

4.4.1 See attached Cabinet report.

4.5 Consultees (Internal and External)

4.5.1 See attached Cabinet report.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 See attached Cabinet report.

4.7 Other Implications

4.7.1 No other implications have been identified

5. Background Papers

None

Report Author: **Bev Dixon, Finance Manager (Treasury) – LGSS**
Tel: 01604 363719

Appendices 3

CABINET REPORT

Report Title	TREASURY MANAGEMENT MID YEAR REPORT 2014-15

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	14 January 2015
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	LGSS
Accountable Cabinet Member:	Alan Bottwood
Ward(s)	Not Applicable

1. Purpose

1.1 To provide a mid-year update on the Treasury Management Strategy 2014-15, approved by Council in February 2014.

2. Recommendations

2.1 Cabinet is recommended to:

a) Note the Treasury Management Mid-Year Report 2014-15
b) Recommend the report to full Council

3. Issues and Choices

Report Background

3.1 Treasury Management is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code). The Code has been developed to meet the needs of

Local Authorities and its recommendations provide a basis to form clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

3.1.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("the Treasury Management Code of Practice").

3.1.2 The Treasury Management Code of Practice and the associated guidance notes for local authorities include recommendations on reporting requirements, including the requirement for an annual mid year report on treasury activities.

3.1.3 Unless otherwise stated the figures and commentary in the report cover the period from 1 April 2014 to 30 November 2014.

3.2 Issues and Choices

Summary of Key Headlines

3.2.1 The main highlights for the mid-year report are:

- The average rate of investments to the end of November was 0.64%, which is 0.29% above the average 7 day Libid of 0.35%.
- The debt financing budget is currently reporting an underspend of £475k
- Compliance with agreed policies and practices has been monitored during the year to date. There have been no reported breaches.

Economic Environment and Interest Rates

3.2.2 A detailed economic commentary is provided in Appendix 1. This information has been provided by Capita Asset Services (CAS), the Council's treasury management advisors.

3.2.3 The key UK headlines from this analysis are:

- Market interest rate expectations have fallen with the general consensus now being for a Q2 2015 rise in UK Bank Rate at the earliest.
- The UK economy has delivered 3% growth (for the year ending September 2014)
- Currently CPI stands at 1% but is expected to fall further, at least in the near term, endorsing the market's view that interest rates will not rise until later this year.
- Average earnings have picked up to 1.8% and unemployment stands at 6%.

Summary Portfolio Position

3.2.4 A snapshot of the Council's debt and investment position is shown in the table below. The figures exclude borrowing to fund loans to third parties, Growing Places Fund (GPF) loans to be repaid from business rates retention (see paragraph 3.2.8 below), and finance leases.

	TMSS Forecast for March 2015 (As agreed by Council Feb 2014)		Actual as at 31 March 2014		Actual as at 30 November 2014		Revised Forecast to March 2015	
	£m	Average Rate %	£m	Average Rate %	£m	Average Rate %	£m	Average Rate %
Long term borrowing								
PWLB	211		190		190		190	
Market	9		9		9		9	
Other	1		1		1		1	
Total long term	**221**	**3.56**	**200**	**3.33**	**200**	**3.33**	**200**	**3.33**
Short term borrowing	-	-	16	6.03	16	6.03	-	-
Total borrowing	**221**	**3.56**	**216**	**3.53**	**216**	**3.53**	**200**	**3.33**
Investments	**35**	**0.5**	**73**	**0.8**	**87**	**0.6**	**65**	**0.6**
Total Net Debt / Borrowing	**186**	**-**	**143**	**-**	**129**	**-**	**135**	**-**

3.2.5 Further analysis of borrowing and investments is covered in the following two sections.

Borrowing

3.2.6 The Council can take out loans in order to fund spending for its Capital Programme. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, forecast reserves and current and projected economic conditions.

New loans and repayment of loans

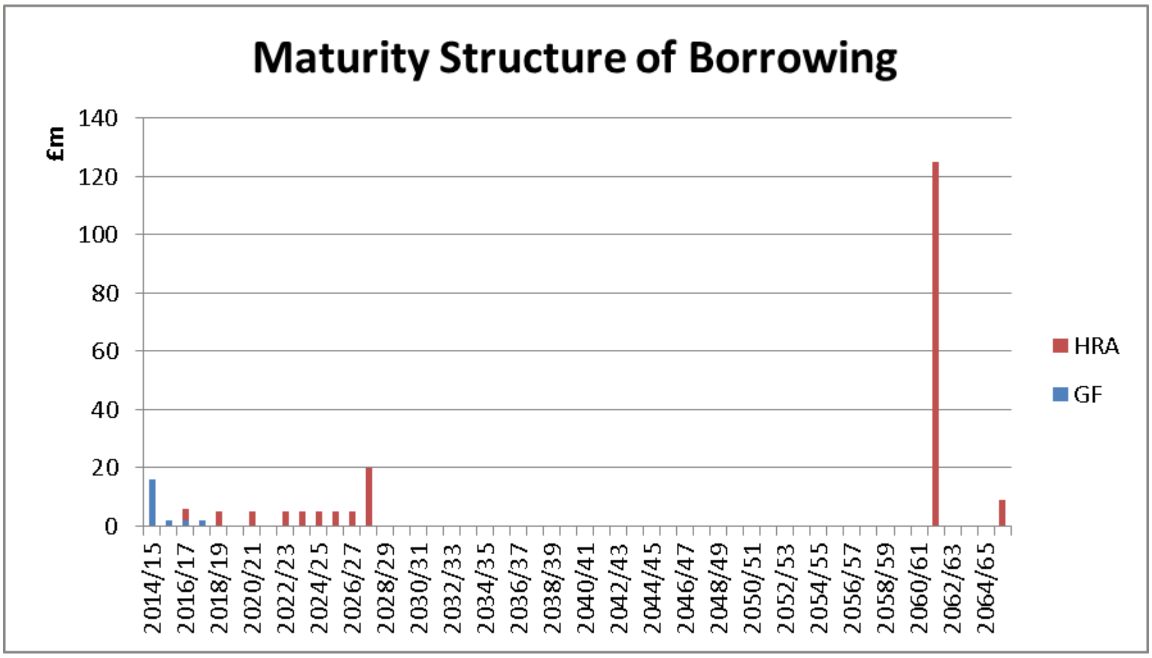
3.2.7 Four new PWLB loans to the total value of £5.75m were raised during the period to finance loans to Northampton Town Football Club (NTFC) to support local economic development.

3.2.8 In addition to the PWLB borrowing above, two loan drawdowns, totalling £3.5m, have been taken from the Growing Places Fund (GPF). This is a form of government funding, supporting capital expenditure in the Enterprise Zone. Loan repayments will be financed from business rate retention.

3.2.9 Repayments of loan principal under annuity and EIP (Equal Instalment Payments) loan arrangements have totalled £134k in the year to date.

Maturity profile of borrowing

3.2.10 The following graph shows the maturity profile of the Council's mainstream loans (excluding borrowing for third party loans, and GPF Loans to be repaid from business rates retention), split by HRA and GF. All the loans are at a fixed interest rate, which limits the Council's exposure to interest rate fluctuations. The weighted average years to maturity of the portfolio is 32.4 years (GF 0.1 years; HRA 32.3 years).



The maturity structure presented above differs from that in the treasury indicators in Appendix 2 in that LOBO loans are included at their final maturity rather than their next call date. In the current low interest rate environment the likelihood of the interest rates on these loans being raised and the loans requiring repayment at the break period is extremely low

Loan restructuring

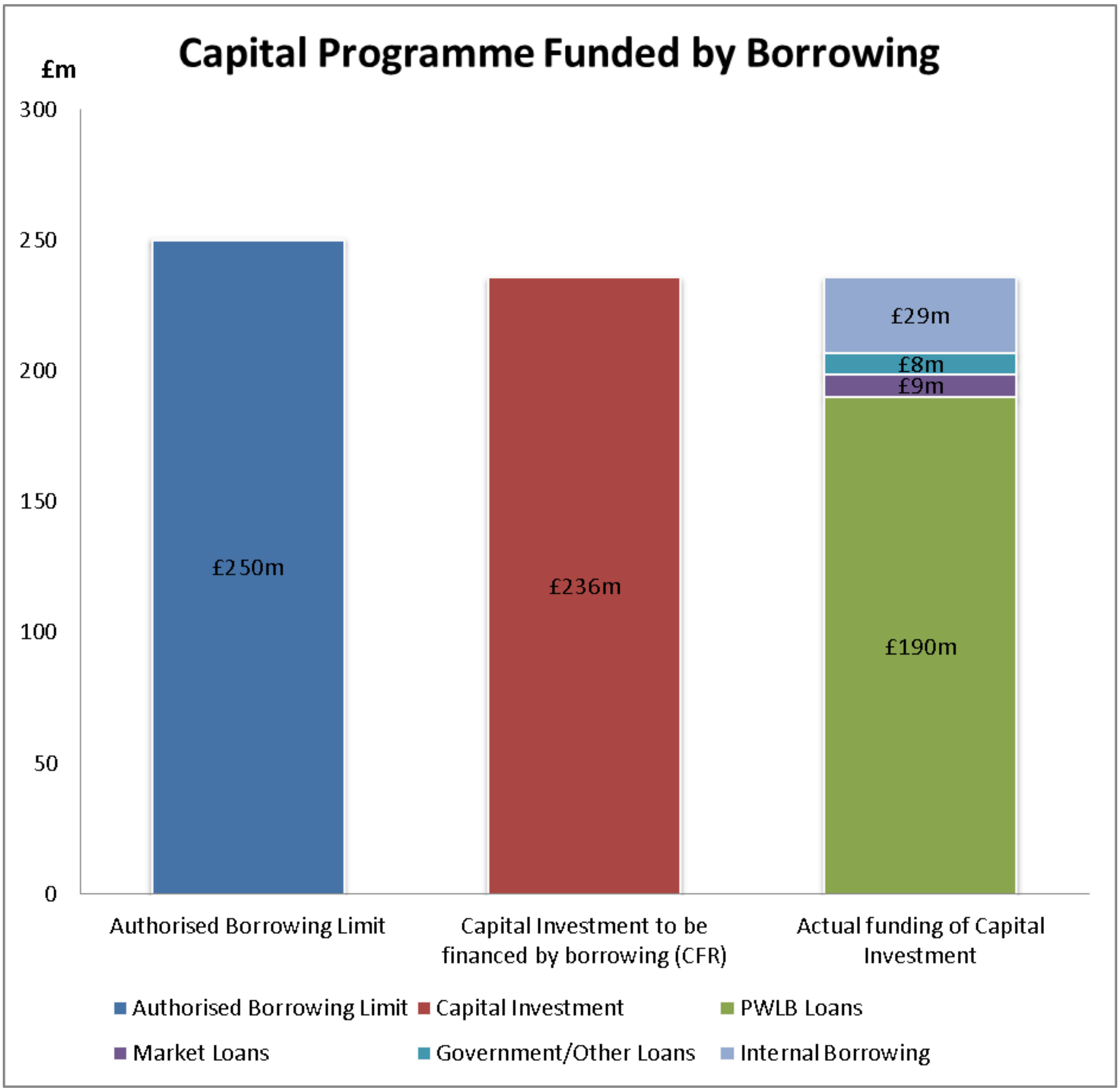
When market conditions are favourable long term loans can be restructured to generate cash savings, reduce the average interest rate and/or enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility. (Volatility is determined by the fixed/variable interest rate mix.)

3.2.11 During the first eight months of 2014-15 there were no opportunities for the Council to restructure its borrowing, due to the position of the Council's borrowing portfolio compared to market conditions. Further debt rescheduling will be considered subject to conditions being favourable but it is unlikely that opportunities will present themselves during this year. The position will be kept under review, and when opportunities for savings do arise, debt rescheduling will be undertaken to meet business needs.

Funding the Capital Programme

3.2.12 The Treasury Management Strategy Statement (TMSS) sets out the plan for treasury management activities over the next year. It identifies where the authority expects to be in terms of borrowing and investment levels. When the 2014-15 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR), the Council's liability for financing the agreed Capital Programme, at year end, excluding third party loans, would be £229m. This figure is naturally subject to change as a result of changes to the approved capital programme and the optimisation of financing.

3.2.13 The graph below compares the maximum the Council could borrow in 2014-15 (the affordable borrowing limit) with the forecast CFR at 31 March 2015 and forecast of how this will be financed. The figures in the graph include both HRA and GF borrowing. However the majority of external borrowing (£193m) relates to the HRA, arising from the HRA self-financing reforms in March 2012, whereby the Council was required by central government to take on the debt associated with its housing stock. The figures exclude borrowing for third party loans



3.2.14 The graph shows the Council's current capital investment funded by borrowing is £14m below the Authorised Borrowing Limit set for the Council at the start of the year.

3.2.15 In addition, the graph shows how the Council is currently funding its borrowing requirement. As at 30 November the Council was forecast to be using £29m of internal borrowing by the end of the year, to finance capital investment. Internal borrowing is the use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally.

Investments

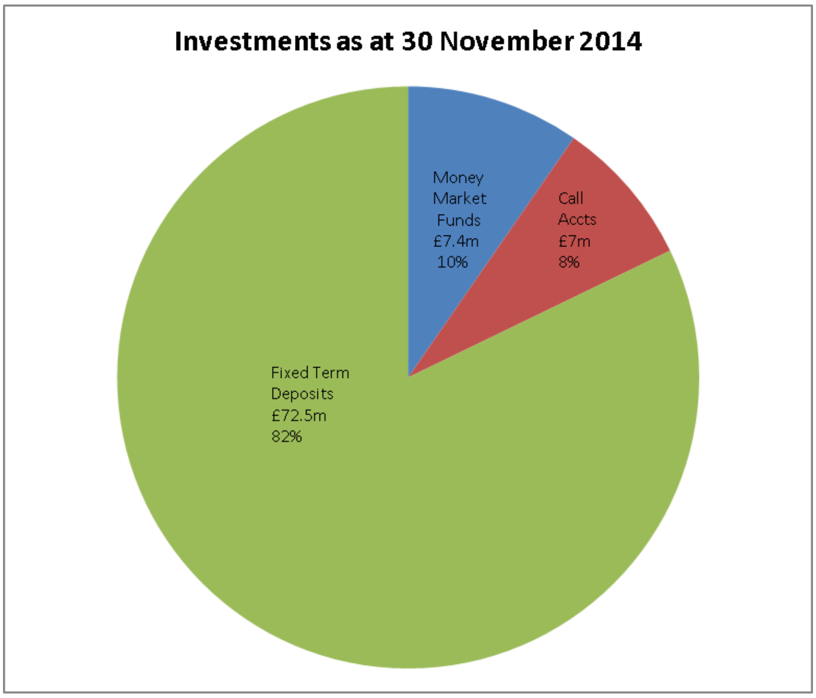
3.2.16 Investment activity is carried out within the Council's counterparty policies and criteria, and with a clear strategy of risk management in line with the Council's treasury strategy for 2014-15. This ensures that the principle of considering security, liquidity and yield, in that order (SLY), is consistently applied. The Council will therefore aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity. Any variations to agreed policies and practices are reported to Cabinet and

Council.

3.2.17 The strategy currently employed by the Council of internal borrowing also has the effect of limiting the Council's investment exposure to the financial markets, thereby reducing credit risk.

3.2.18 As at 30 November the level of investments totalled £86.9m. The level of cash available for investment is as a result of reserves, balances and working capital the Council holds. These funds can be invested in money market deposits, placed in funds or used to reduce external borrowings.

3.2.19 All investments are made according to the requirements of the Council's Investment Strategy and agreed credit worthiness criteria. A breakdown of investments by type (Fixed Term, Money Market Funds, Call Accounts) are shown in the pie chart below.



3.2.20 The table below compares the investment returns achieved over the eight month period with 7 day Libid rate, which is used to benchmark performance.

Investment Returns			
	7 day Libid	Average rate	Uplift to 7 day Libid Rate
	%	%	%
Apr-14	0.34	0.61	0.27
May-14	0.34	0.61	0.27
Jun-14	0.35	0.63	0.28
Jul-14	0.35	0.64	0.29
Aug-14	0.35	0.64	0.29
Sep-14	0.36	0.66	0.30
Oct-14	0.36	0.67	0.31
Nov-14	0.35	0.67	0.32
Average to end of November	**0.35**	**0.64**	**0.29**

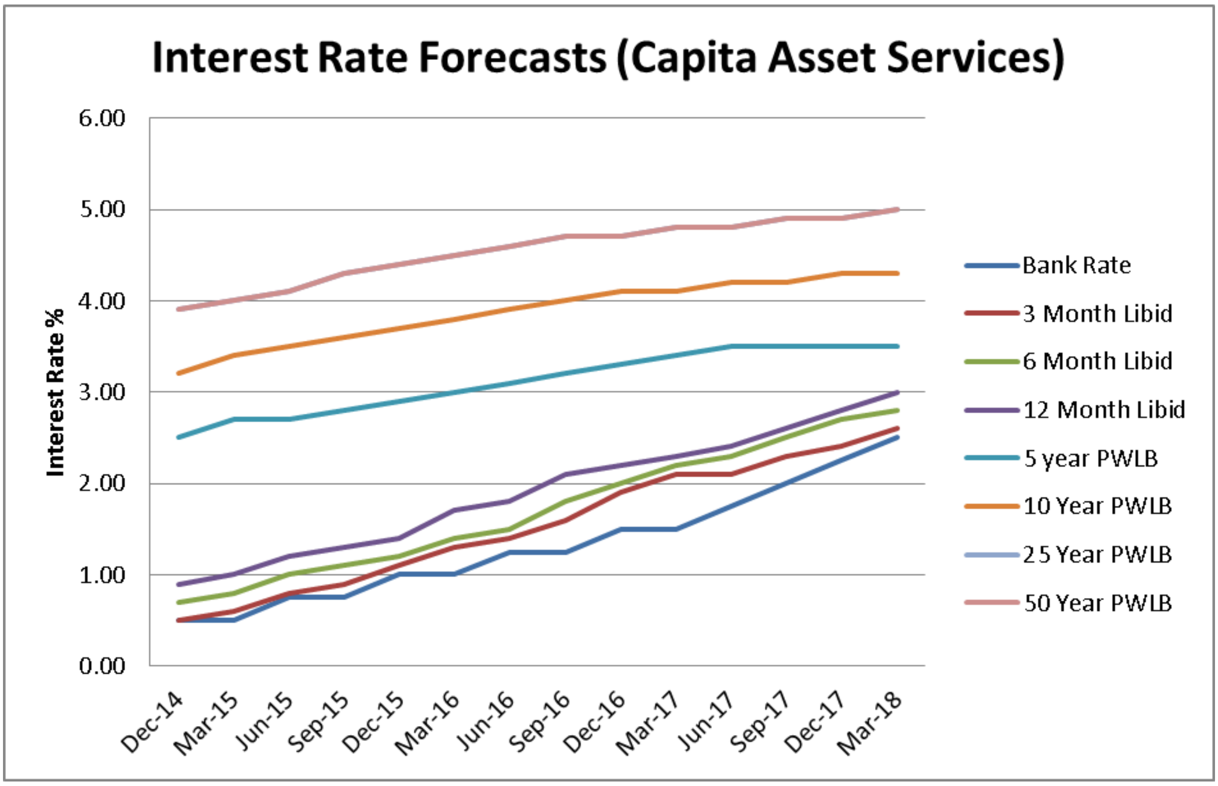
3.2.21 From the table, it can be seen that average rate of investments over the period was 0.64%, which is 0.29% above the average 7 day Libid of 0.35%.

3.2.22 Where appropriate, investments have been locked out for periods of up to one year with suitable counterparties, including the UK part nationalised banks, at higher rates of interest. In a rising interest rate environment it is appropriate to keep investments fairly short in duration so as to take advantage of interest rate rises as soon as they occur. The weighted average time to maturity of investments at 30 November is 109 days.

3.2.23 Leaving market conditions to one side, the Council's return on investment is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument. Credit risk is a measure of the likelihood of default and is controlled through the creditworthiness policy approved by Council. The duration of an investment introduces liquidity risk; the risk that funds can't be accessed when required, and interest rate risk; the risk that arises from fluctuating market interest rates. These factors and associated risks are actively managed by the LGSS Treasury team together with the Council's Treasury Advisors.

Outlook

3.2.24 The graph below shows interest rate forecasts for the period to March 2018.



3.2.25 The first increase in Bank Rate is forecast for the second quarter of 2015. However there are downside risks to this central forecast; market interest rate expectations have fallen, with the general consensus now being that this is the earliest likely date for the UK bank Rate.

3.2.26 Recent demands for the safe haven of gilts have depressed gilts yields and PWLB rates. Geopolitical events make forecasting PWLB rates highly unpredictable in the shorter term. It is assumed that at some point these fears will subside and that safe haven flows will unwind and rates will rise back again.

3.2.27 As confidence is clearly emerging in the economy it is expected that we will see an upward trend in medium and long term gilt yields over the coming years, although this won't be without volatility.

3.2.28 From a strategic perspective, the Council is currently reviewing options as to the timing of any future borrowing, including the possibility of setting up forward loan deals. Further utilisation of cash balances and undertaking shorter term borrowing could also potentially generate savings subject to an assessment of the interest rate risks involved.

Regular monitoring

3.2.29 An investment register is maintained, and updated on a daily basis, showing current investments and deposit account balances with counterparties used, investment durations and interest rates achieved.

3.2.30 Monthly reconciliations are completed for outstanding investment principal, interest received, outstanding borrowing principal and interest paid to ensure all transactions have been made and recorded accurately.

3.2.31 The debt financing budget has been monitored monthly since the start of the year, with any significant variances reported as part of the corporate financial performance reports.

3.2.32 Prudential and treasury indicators are monitored on a regular basis, and any variances or breaches of the indicators are reported to Cabinet and Council on a timely basis.

Debt Financing Budget

3.2.33 The debt financing budget is currently forecast to underspend by £475k, as set out in the table below.

DEBT FINANCING BUDGET 2014-15	**As at 30 November 2014**		
	Budget	**Forecast**	**Variance to Budget**
	£000	**£000**	**£000**
Debt Financing & Interest			
Interest Payable	1,399	1,647	248
Interest Receivable	(215)	(957)	(742)
Minimum Revenue Provision	1,058	1,003	(55)
Recharges from/(to) HRA - Interest on cash balances	136	210	74
Total Debt Financing & Interest	**2,378**	**1,903**	**(475)**

3.2.34 The forecast underspend is due to:

- **MRP** - £55k underspend arising from a lower level of funding by borrowing in 2013-14 than expected, due to carry forwards in the capital programme to 2014-15.

- **Interest on new and replacement borrowing** - £211k gross saving on new long term borrowing, premised on the likelihood of using internal borrowing (from cash balances) in the current year to finance both the 2014-15 capital expenditure due to be funded by borrowing and the replacement borrowing for maturing loans in 2014-15.

- **Interest earned on investments** - £211k underspend due to significantly higher levels of cash balances than anticipated (partly due to carry forwards in the capital programme as above), and a higher rate of interest earned compared to budget.

Compliance with Treasury Limits and Prudential Indicators

3.2.35 With effect from 1st April 2004 The Prudential Code became statute as part of the Local Government Act 2003 and was revised in 2011.

3.2.36 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable. To ensure compliance with this the Council is required to set and monitor a number of Prudential Indicators.

3.2.37 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (TMSS) and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 2. There have been no breaches of any indicators during the first eight months of the financial year.

Variations (if any) from or to agreed policies and practices

3.2.38 Compliance with agreed policies and practices has been monitored during the year to date. There have been no reported breaches in the first eight months of this year.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Council is required to adopt the latest CIPFA Treasury Management Code of Practice, and to set and agree a number of policy and strategy documents. These policy documents are reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2014-15 was approved by Council on 24 February 2014.

4.1.2 This report complies with the requirement to submit a mid-year treasury management review report to Council.

4.2 Resources and Risk

4.2.1 The resources required for the Council's debt management and debt financing budgets are agreed annually through the Council's budget setting process. The latest debt financing budget position is shown in the body of the report.

4.2.2 The risk management of the treasury function is specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually. Treasury risk management forms an integral part of day-to-day treasury activities.

4.3 Legal

4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance.

4.4 Equality

4.4.1 An Equalities Impact Assessment was carried out on the Council's Treasury Strategy for 2014-15, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. The EIA assessment is that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified

4.5 Consultees (Internal and External)

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury advisors, Capita Asset Services, and with the Portfolio holder for Finance.

4.5.2 Under the regulatory requirements, the Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council. This report will be presented to Audit Committee at their meeting of 16 March 2015.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Management of performance in relation to treasury management activities supports the Council's priority of making every £ go further.

4.7 Other Implications

4.7.1 No other implications have been identified.

5. Background Papers

None

Glenn Hammons, Chief Finance Officer 0300 330 7000

Economic Update provided by Capita Asset Services for the period to 30 November 2014

General

The markets seem to have determined that UK Bank Rate is now on hold until at least the end of 2015. A fall in global raw material prices and a slowdown in China have acted as a catalyst for inflation to fall significantly. Currently CPI stands at 1% but is expected to fall further, at least in the near term. Whilst the UK economy has delivered 3% growth, for the year ending September 2014, much of this has been driven by the services sector so overall growth looks a little unbalanced at present and is potentially susceptible to a reversal of the prevailing positive consumer sentiment.

Average earnings have picked up to 1.8% and unemployment stands at 6%. The claimant count stands at 2.6%. This positive set of data is partially negated by an increasing unease in the markets that long-term growth prospects are not that bright whilst deflationary factors may also have a bigger role to play in 2015. Accordingly, at the time of writing, FTSE100 has fallen below 6400 and long-dated gilts are yielding below 2.5% (15th Dec) suggesting that growth could be tepid for a prolonged period.

On the positive side, the US continues to move forward with non-farm payroll figures emphasising a sustained improvement in employment prospects whilst the boost to the US oil supply has inspired a fall in oil prices to below $60 per barrel – which should act to boost global economic performance at a time when other major economies are struggling somewhat e.g. Eurozone and Japan.

Bank of England Inflation Report (November 2014)

The outlook for global growth weakened in the previous quarter, as market interest rate expectations have fallen with the general consensus now being for a Q2 2015 rise in UK Bank Rate at the earliest. Declines in the more risky asset prices, such as equities, added to the gloomy outlook and caused considerable market volatility in October. Expectations for where interest rates will be in three years' time have dramatically dropped off, with rates now expected to remain below 2% in the UK over this period.

Unemployment continued to fall at a quicker pace than expected in the previous Inflation Report. In the three months to August, the rate was 6.0%, with the Bank of England (BoE) forecasting this to drop to 5.4% by late 2015. In a similar vein, the BoE expect inflation to fall below 1.0% in the next six months, endorsing the market's view that the Bank will not raise interest rates until later in 2015. If inflation does dip below 1.0%, Governor Mark Carney will have to write a letter of explanation to the Chancellor, George Osborne.

UK GDP

Britain's rapid economic growth slowed slightly between July and September. Gross domestic product rose 0.7%, compared with 0.9% in the April-June period. A slowdown in services output and manufacturing expanding at its weakest pace in eighteen months held growth back. However, the UK still looks set to be the fastest growing advanced economy in 2014, confounding economists' views that the growth seen since the start of 2013 could not be sustained. Indeed, the latest Services sector PMI (Purchasing Managers Index) survey suggests 2015 will start with continued solid growth, albeit heavily reliant on the services sector.

UK Inflation

UK inflation fell sharply in November to stand at its lowest level in five years, 1%, further easing pressure on the BoE to raise interest rates, regardless of the aforementioned economic recovery. Consumer prices were impacted by a fall in the prices of food and motor fuels, whilst wage growth picked up to 1.8% signalling a return to positive real wages.

ECB

In September, the European Central Bank (ECB) cut their interest rates to 0.05%, with the deposit rate standing at -0.2%. This cut in rates was an attempt to spur economic growth and stave off the threat of deflation and is currently still in place. In the third quarter, GDP rose at 0.2%. This was stronger than expected, with France beating market expectations and the bloc's largest economy, Germany, steering clear of a recession. Year on year, Eurozone growth was 0.8% higher in the third quarter but it remains under severe economic pressure, particularly in the major economies, whilst potential political unrest in Greece could bring about further destabilising factors in 2015.

Appendix 2

Prudential and Treasury Indicators as at 30 November 2014

Prudential Indicators

Affordability

a) Estimate of the ratio of financing costs to net revenue stream

Ratio of financing costs to net revenue stream		
	2014-15	2014-15
	Estimate %	Forecast as at 30 November 2014
General Fund	8.58%	6.87%
HRA	34.18%	34.05%

b) Estimate of the incremental impact of capital investment decisions on the council tax

Estimates of incremental impact of new capital investment decisions on the Council Tax	
	2014-15
	Estimate £.p
General Fund	2.22

This indicator is set before the start of the financial year, in the context of the budget setting process, which feeds into the setting of Council Tax and Housing Rents. As these are set and fixed for the financial year ahead, any capital investment decisions made during the year cannot impact on the existing Council Tax and Housing rent levels. This means that new capital investment plans approved during the year must be funded externally or from within existing resources.

c) Estimate of the incremental impact of capital investment decisions on the housing rents

Estimates of incremental impact of new capital investment decisions on weekly housing rents	
	2014-15
	Estimate £.p
HRA	6.27

This indicator is set before the start of the financial year, in the context of the budget setting process, which feeds into the setting of Council Tax and Housing Rents. As these are set and fixed for the financial year ahead, any capital investment decisions made during the year cannot impact on the existing Council Tax and Housing rent levels. This means that new capital investment plans approved during the year must be funded externally or from within existing resources.

Prudence

d) Gross debt and the capital financing requirement (CFR)

Gross external debt less than CFR					
	Excluding third party loans			Including third party loans	
	2014-15 Budgeted	2014-15 Forecast at 30 Nov 2014		2014-15 Budgeted	2014-15 Forecast at 30 Nov 2014
	£000	£000		£000	£000
Gross external debt at 30 Nov 2014	216,441	220,448		228,441	236,088
2013-14 Closing CFR	222,454	222,042		234,454	232,042
Changes to CFR:					
2014-15	6,879	14,089		34,380	21,354
2015-16	2,418	2,133		26,418	3,382
2016-17	429	11,205		429	8,759
Adjusted CFR	235,989	249,469		299,490	265,537
Gross external debt less than adjusted CFR	Yes	Yes		Yes	Yes

Capital Expenditure

e) Estimate of capital expenditure

Capital Expenditure		
	2014-15	2014-15
	Estimate £000	Outturn Forecast at 30 Nov 2014 £000
General Fund	18,352	30,220
HRA	46,700	43,752
Total	**65,052**	**73,972**
Loan to Third Parties	27,500	8,975
Total	**92,552**	**82,947**

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)		
	2014-15	2014-15
	31 March 2014 Estimate £000	31 March 2014 Forecast at 30 Nov 14 £000
General Fund	42,531	47,383
HRA	186,803	186,803
Total	**229,334**	**234,186**
Loan to Third Parties	39,500	19,210
Total	**268,834**	**253,396**

External Debt

g) Authorised limit for external debt

Authorised Limit for external debt		
	2014-15	2014-15
	Boundary £000	Actual as at 30 Nov 2014 £000
Borrowing - NBC	245,000	219,812
Borrowing - Third Party Loans	40,000	15,640
Other long-term liabilities	5,000	636
TOTAL	**290,000**	**236,088**

h) Operational boundary for external debt

Operational boundary for external debt		
	2014-15	2014-15
	Boundary £000	Actual as at 30 Nov 2014 £000
Borrowing - NBC	235,000	219,812
Borrowing - Third Party Loans	40,000	15,640
Other long-term liabilities	5,000	636
TOTAL	**280,000**	**236,088**

i) HRA Limit on Indebtedness

HRA Limit on Indebtedness	
2014-15	2014-15
£000	Forecast Closing HRA CFR 31 March 2014 as at 30 Nov 2014 £000
208,401	186,803

i) Adoption of the CIPFA code of Practice for Treasury Management in the Public Services

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Code). The adoption is included in the Council's Constitution (Feb 2013) at paragraph 6.10 of the Financial Regulations.

Treasury Indicators

1a. Upper Limits on interest rate exposures – investments

Upper limits on interest rate exposures - Investments		
	2014-15	2014-15
	Limit %	Actual as at 30 November 2014 %
Fixed Interest Rate Exposures	100%	83%
Variable Interest Rate Exposures	100%	17%

1b. Upper limits on interest rate exposures – Borrowing

Upper limits on interest rate exposures - Borrowing		
	2014-15	2014-15
	Limit %	Actual as at 30 November 2014 %
Fixed Interest Rate Exposures	100%	89%
Variable Interest Rate Exposures	100%	11%

Figures exclude borrowing for third party loans

1c. Upper limits on interest rate exposures - Net borrowing

Upper limits on interest rate exposures - Investments and Borrowing		
	2014-15	2014-15
	Limit %	Actual as at 30 November 2014 %
Fixed Interest Rate Exposures	150%	92%
Variable Interest Rate Exposures	150%	8%

Figures exclude borrowing for third party loans

2. Total principal sums invested for periods longer than 364 days

Upper limit on investments for periods longer than 364 days		
	2014-15	2014-15
	Upper Limit £000	Actual at 30 Nov 2014 £000
Investments longer than 364 days	6,000	0

3. Maturity Structure of Borrowing

Maturity structure of borrowing			
	2013-14	2013-14	2013-14
	Lower Limit %	Upper Limit %	Actual at 30 Nov 2014 %
Under 12 months	0%	20%	12%
1-2 years	0%	20%	1%
2-5 years	0%	20%	6%
5-10 years	0%	20%	7%
10 -20 years	0%	40%	17%
20-30 years	0%	60%	0%
30-40 years	0%	80%	0%
Over 40 years	0%	100%	58%

The table shows the maturity structure of Council's mainstream loans (excluding borrowing for third party loans, and GPF Loans to be repaid from business rates retention).

The guidance for this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity. All three of the Council's LOBO loans are therefore included in the figure maturing in less than 12 months.

Appendix 3

NBC Investment Portfolio as at 30 November 2014

Type	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Fixed	29/01/14	28/01/15	DBS Bank Ltd	Maturity	0.6000%	-3,000,000.00
Fixed	31/01/14	30/01/15	Wolverhampton City Council	Maturity	0.6500%	-5,000,000.00
Fixed	27/02/14	26/02/15	Bank of Scotland plc	Maturity	0.9500%	-3,000,000.00
Fixed	27/03/14	26/03/15	Bank of Scotland plc	Maturity	0.9500%	-2,000,000.00
Fixed	10/04/14	09/04/15	Royal Bank of Scotland plc	Maturity	0.7700%	-5,000,000.00
Fixed	22/04/14	21/04/15	Bank of Scotland plc	Maturity	0.9500%	-2,000,000.00
Fixed	16/05/14	15/05/15	National Westminster Bank plc	Maturity	0.8200%	-3,000,000.00
Fixed	16/05/14	16/02/15	National Westminster Bank plc	Maturity	0.6700%	-3,000,000.00
Fixed	21/05/14	20/05/15	Bank of Scotland plc	Maturity	0.9500%	-3,000,000.00
Fixed	21/05/14	20/02/15	Nordea Bank Finland	Maturity	0.5500%	-5,000,000.00
Fixed	17/06/14	17/12/14	Nordea Bank Finland	Maturity	0.5600%	-3,000,000.00
Fixed	14/08/14	16/02/15	Deutsche Bank AG	Maturity	0.6700%	-5,000,000.00
Fixed	20/08/14	20/02/15	DBS Bank Ltd	Maturity	0.6000%	-3,000,000.00
Fixed	27/08/14	26/08/15	Bank of Scotland plc	Maturity	0.9500%	-3,000,000.00
Fixed	03/09/14	03/03/15	DBS Bank Ltd	Maturity	0.6500%	-5,000,000.00
Fixed	09/09/14	09/06/15	DBS Bank Ltd	Maturity	0.6500%	-4,000,000.00
Fixed	09/09/14	08/09/15	Bank of Scotland plc	Maturity	0.9500%	-2,000,000.00
Fixed	10/09/14	12/12/14	Bank of Scotland plc	Maturity	0.6200%	-2,500,000.00
Fixed	12/09/14	11/09/15	National Australia Bank Ltd	Maturity	0.7500%	-3,000,000.00
Fixed	30/09/14	30/09/15	East Lothian Council	Maturity	0.7000%	-3,000,000.00
Fixed	14/11/14	14/05/15	Credit Suisse AG	Maturity	0.6500%	-5,000,000.00
Fixed Total						**-72,500,000.00**
Call	31/03/14		HSBC Bank plc	Maturity	0.0700%	-10,000.00
Call	31/03/14		National Westminster Bank plc	Maturity	0.5000%	-7,000,000.00
Call Total						**-7,010,000.00**
MMF	31/03/14		Ignis Sterling Liquidity 2 GBP	Maturity	0.4896%	-7,235,000.00
MMF	31/03/14		Insight Liquidity Sterling C3	Maturity	0.4321%	-70,000.00
MMF	01/07/14		LGIM Sterling Liquidity 4	Maturity	0.4451%	-75,000.00
MMF Total						**-7,380,000.00**
						-86,890,000.00

Appendices: 6

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Financial Monitoring Report

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date:	16 March 2015
Policy Document:	No
Directorate:	Finance Directorate LGSS
Accountable Cabinet Member:	Cllr Alan Bottwood

1. Purpose

1.1 To present Committee with the financial position to 31 January.

1.2 To update Committee on car parking income and usage to 31 January.

1.3 To update Committee on the position regarding the Council's outstanding debts as at 31 January.

2. Recommendations

2.1 To consider the contents of the following finance reports:

- General Fund Revenue Monitoring (Appendix 1);
- General Fund Capital Monitoring (Appendix 2);
- HRA Revenue Monitoring (Appendix 3);
- HRA Capital Monitoring (Appendix 4).

2.2 To note the position on car parking income and usage as at 31 January (Appendix 5).

2.3 To note the latest position in relation to the Council's outstanding debts as at 31 January (Appendix 6).

2.4 To consider whether Committee requires any additional information in order to fulfil its governance role.

3. Issues and Choices

3.1 Report Background

3.1.1 A Finance and Performance report is presented to Cabinet quarterly (including the outturn report). Finance reports are published monthly on the intranet except at the beginning and during the final months of the financial year.

3.1.2 Committee has asked to receive these reports which are brought to the first available meeting following their production.

3.1.3 Committee has also asked for more detailed information regarding car parking income and usage, and debt recovery.

3.2 Issues

3.2.1 The Council's revenue and capital position as at 31 January 2015 (Period 10) is set out in Appendices 1-4.

3.2.2 Significant variances at this point in the year are as follows:

3.2.2.1 General Fund Revenue – (£27k) favourable

Note: for ease of understanding adverse variations (i.e. additional costs or reductions income) are shown without brackets, while favourable variations (increased income or cost savings) are shown within them.

	£000
Controllable Service Budgets	(27)
Debt Financing & HRA Recharges	(573)
Contribution From Reserves	0
General Fund Revenue	**(600)**

The major variations are detailed below.

Asset Management

- Asset Management £250k - reflects mainly temporary staff engaged to help with the delivery of higher volumes of property projects. Increased volume of projects has meant forecast of costs higher than budgeted.

Head of Planning and Major Projects and Enterprise

- Total service area (£190k) favourable and £132k adverse respectively – reflecting a number of forecast vacant post savings across the service. The budgeted higher level of income by this service is forecast to be achieved in year. This has offset the costs of an Interim Enterprise Zone Coordinator.

Housing

- Housing Services (£116k) favourable is mainly due to a number of staffing savings from vacant posts, mainly the Director of Housing position. This is partly offset by an adverse variance forecast on Private Sector Housing relating to Disabled Facilities Grant administration.

Borough Secretary

- Local Government Shared Service (£187k) favourable position due to pension auto-enrolment not starting in 2014/15 and transition costs not being incurred.

Head of Customers and Cultural services

- Events £151k adverse - The events budgeted sponsorship income is forecast not to be achieved due to a change in approach. Additional costs have been incurred delivering the extended events programme.
- Car Parking £69k adverse - due to the implementation of additional free car parking offers directly affecting the income received.
- Bus Station £127k adverse – forecast reflecting the actual security costs and NNDR costs of the bus station.

Corporate Budget

- Debt Financing (£573k) favourable - mainly arising from a lower level of funding by borrowing in 2013/14 due to carry forwards in the capital programme. A further saving is forecast on new long term borrowing premised on the likelihood of using internal borrowing to finance instead of externalising. In addition to this, due to carrying higher level of cash balances, the interest earned is forecast to exceed the budget.

3.2.2.2 HRA Revenue – (£477k) favourable

- General Management / Special Services (£113k and (£324k) favourable respectively. This largely reflects the work carried to restructure the service ahead of the move to Northampton Partnership Homes and the forecast underspend on the Service Enhancement budget.
- Provision for Bad Debts (£400k) favourable. This reflects the current good work being carried out around arrears keeping arrears levels lower that budgeted and reflects the delayed impact of Welfare Reform rules, (that the budget had assumed would impact earlier) on those arrears. The Bad Debt Provision continues to be monitored.
- Dwelling rents due in year is forecasted to be under-recovered by £175k due to increased Right to Buys in 13/14 and current year. Rent Rebate Subsidy deductions are forecast to be nil for the year resulting in a (£100k) saving to the HRA.

3.2.2.3 Capital Programme -

- GF Capital Programme – The programme is currently forecast a saving of (£1.8m) with a forecast £2.7m carry forward into 2015/16. The forecast saving is mainly due to lower demand on Disabled Facilities Grants (DFG) from owner occupiers (£1,442k). The carry forwards mainly reflect a number of re-phasing issues on a number of schemes including St Crispins Changing Rooms, Toilet and Car Park project, Delapre Abbey Restoration, Superfast Broadband and Moulton Athletics Track.

- HRA Capital Programme – is forecasted to be underspent by £5.9m. This reflects savings being forecast to be achieved on the delivery of the Decent Homes programme through changes made in year to the work being delivered. The forecast roll forward of £3.7m mainly reflects the Decent Homes project expected to be delivered by May.

3.2.3 Appendix 5 shows the monthly levels of car parking usage and income to 31 January.

3.2.4 The managed debt analysis and commentary to 31 January are shown at Appendix 6.

3.3 Choices (Options)

3.3.1 None

4. Implications (including financial implications)

4.1 Policy

4.1.1 There are no specific policy implications arising from this report.

4.2 Resources and Risk

4.2.1 Ongoing monitoring of the Council's budget and capital programme enables early intervention and appropriate remedial action, thus mitigating risks to the Council's financial viability and to its reputation.

4.3 Legal

4.3.1 There are no specific legal implications arising from this report.

4.4 Equality

4.4.1 There are no specific equalities implications arising from this report.

4.5 Consultees (Internal and External)

4.5.1 None at this stage.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Regular reporting of the Council's financial position helps to ensure the proper stewardship of the Council's resources. Active financial management contributes to the delivery of value for money services, enabling public money to be used to maximum benefit.

4.7 Other Implications

4.7.1 Not applicable

5. Background Papers

None

Glenn Hammons
Chief Finance Officer, Telephone 01604 366521

NB General Fund

Revenue Budget Forecasts 2014/15

January 2014

NORTHAMPTON
BOROUGH COUNCIL

Division	Ksa	Service Area	Revised Budget £000's	Forecast £000's	Forecast Variance £000's	RAG Status	Notes on Forecast Variances
	FA01	Asset Management	1,350	1,600	250	R	Temporary staff engaged to help with a high volume of property projects and to provide capacity to get both capital and revenue works delivered £80k. Volume of work requests for repairs and maintenance is exceeding budget profile, additional £87k. £85k reduced NNDR appeal income.
	FA06	Other Buildings & Land	(1,532)	(1,566)	(34)	G	
Asset Management			**(182)**	**34**	**216**	**R**	
	DR02	Director of Regeneration, Enterprise and Planning	290	294	4	G	
Director of Regeneration, Enterprise & Planning			**290**	**294**	**4**	**G**	
	RG01	Head of Major Projects and Enterprise	45	118	74	A	£115k costs of Interim Enterprise Zone Co-Ordinator. Offset by other employee savings of (£40k).
	RG02	Major Projects and Enterprise	2,110	2,168	58	A	Unrealised Corporate Savings and vacancy factor.
Major Projects and Enterprise			**2,155**	**2,286**	**132**	**R**	
	PE02	Building Control	(49)	(73)	(24)	G	
	PE03	Development Control	6	(15)	(21)	G	
	PE06	Head of Planning	109	89	(20)	G	
	PE15	Joint Planning Unit	228	228	0	G	
	PE17	Planning & Regn Project Support	106	74	(32)	G	
	PE18	Town Centre Team	119	82	(37)	G	
	RG04	Planning Policy & Heritage	650	594	(56)	G	Staff cost savings as a result of vacant posts.
	RG09	Bus Service Contribution	0	0	0	G	
Head of Planning			**1,170**	**980**	**(190)**	**B**	
Director of Regeneration, Enterprise & Planning			**3,432**	**3,594**	**162**		
	DR05	Director of Housing	127	3	(124)	B	Vacant posts savings.
Director of Housing			**127**	**3**	**(124)**	**B**	
	HS05	Home Choice & Resettlement	469	371	(98)	G	Staff cost savings as a result of vacant posts.
	HS12	Housing Options	729	640	(90)	G	Staff cost savings as a result of vacant posts.
	HS13	Head of Housing Needs	132	134	2	G	
	PE09	Travellers Sites	25	36	11	G	
	PE12	Private Sector Housing Solutions	127	296	169	R	Lower forecast income for DFG administration fees £117k and additional staff costs across the service.
	RG03	Housing Strategy	50	64	14	G	
Head of Strategic Housing			**1,533**	**1,541**	**8**	**G**	
Housing			**1,659**	**1,544**	**(116)**		

Division	Ksa	Service Area	Revised Budget	Forecast	Forecast Variance	RAG Status	Notes on Forecast
	DR03	Director of Resources	167	167	0	G	
	FA02	Financial Services	0	0	0	G	
	FA03	Audit	215	189	(27)	G	
	FA04	Non Distributed Costs	4,879	4,877	(2)	G	
	FA05	Investments	0	0	0	G	
	FA20	Corporate Finance	123	123	0	G	
	HS01	Benefits	(1,631)	(1,631)	0	G	
	HS03	Revenues	(913)	(913)	0	G	
	PR01	Procurement	0	0	0	G	
Corporate			**2,839**	**2,812**	**(28)**	**G**	
	GC08	Communications	289	316	27	G	
	GC15	Emergency Planning	52	52	0	G	
	HR01	Human Resources	0	0	0	G	
	HR14	Business Improvement	0	0	0	G	
	PI20	Performance and change	123	118	(5)	G	
Business Change			**464**	**486**	**22**	**G**	
	CX01	Chief Executive	182	180	(2)	G	
	GC02	Civic and Mayoral Expenses	93	89	(4)	G	
	GC05	Overview & Scrutiny	44	45	1	G	
	GC06	Councillor & Managerial Support	535	535	(0)	G	
	LD02	Electoral Services	187	187	(0)	G	
	LD03	Land Charges	0	0	0	G	
	LD04	Legal	79	86	7	G	
	LD08	Democratic Services	266	253	(13)	G	
Borough Secretary			**1,386**	**1,375**	**(11)**	**G**	
	LGSS	Local Government Shared Service	9,799	9,612	(187)	B	(£115k) saving due to pension auto-enrolment not starting in 2014/15 and (£72k) transition costs not incurred in 2014/15
LGSSX			**9,799**	**9,612**	**(187)**	**B**	
Borough Secretary			**14,488**	**14,285**	**(203)**		
	DR01	Director of Customers & Communities	251	253	2	G	
Director of Customers & Communities			**251**	**253**	**2**	**G**	
	CE03	Events	197	348	151	R	£90K events sponsorship has not been achieved due to a change in approach. Additional costs of £61k have been incurred in delivering the extended events programme.
	CE06	Museums and Arts	700	738	37	G	Additional staffing costs have been incurred.
	CE23	Town Centre Management	43	52	10	G	
	CE24	Car Parking	(868)	(799)	69	A	£31k due to additional Christmas free Parking, £20k unrealised employee savings.
	CE26	Bus Station	83	210	127	R	The Northgate Bus Station has incurred £89k of additional security costs and £46k of additional NNDR costs.
	CS02	Call Care	82	54	(28)	G	
	CS03	Head of Customer & Cultural Services	89	82	(8)	G	

Division	Ksa	Service Area	Revised Budget	Forecast	Forecast Variance	RAG Status	Notes on Forecast
	CS04	Customer Services	1,221	1,171	(50)	G	Underspend on employees of (£40k) is due to vacant posts savings less agency costs required, due to being a front line service. There is an additional saving of (£14k) on annual membership.
	CS05	Print Unit	37	96	58	A	£36k shortfall in external income.
	FA08	Office Accommodation	1,423	1,381	(42)	G	
	FA09	Markets	8	14	6	G	
	PI02	Information Technology	0	0	0	G	
	PI14	Telephones	0	0	0	G	
Head of Customer & Cultural Services			**3,016**	**3,347**	**330**	**R**	
	CE02	Community Safety	471	466	(5)	G	
	CE04	Leisure Contract	570	560	(10)	G	
	GC04	Policy	8	8	0	G	
	GC09	Community and Other Grants	1,265	1,262	(3)	G	
	GC10	Community Developments	76	76	(1)	G	
	GC11	Community Centres	170	164	(6)	G	
	LD05	Licensing	(243)	(286)	(43)	G	
	LS01	Head of Partnership Support	0	0	0	G	
	PE07	Pest Control	17	6	(11)	G	
	PE10	Commercial Services	284	285	1	G	
	PE11	Environmental Protection	1,241	1,219	(22)	G	
	PE16	Head of Public Protection	81	81	(0)	G	
	SS01	Neighbourhood Management	0	0	(0)	G	
	SS09	Environmental Services Contract	7,090	7,016	(74)	G	(£60k) Underspend on TUPE Staff Costs.
	SS20	Environmental Services	225	196	(29)	G	
Head of Communities and Environment			**11,255**	**11,053**	**(202)**	**B**	
Director of Customers & Communities			**14,522**	**14,652**	**130**		
Total Service Budgets			**34,102**	**34,075**	**(27)**		

Division	Ksa	Service Area	Revised Budget	Forecast	Forecast Variance	RAG Status	Notes on Forecast
Item 01		Debt Financing	2,378	1,805	(573)	B	This is mainly due to: **MRP** A £55k underspend arising from a lower level of funding by borrowing in 2013-14 due to carry forwards in the capital programme to 2014-15. **Interest on new borrowing** A £202k gross saving on new long term borrowing, arising from the use of internal borrowing (from cash balances) to finance both the 2014-15 capital expenditure due to be funded by borrowing and the replacement borrowing for maturing loans in 2014-15. Borrowing costs of government loans to fund the Enterprise Zone have been factored in. **Interest earned on investments** A £216k underspend due to significantly higher levels of cash balances than anticipated and a higher rate of interest earned compared to budget. This figure is net of the additional costs from reduced cash balances arising from internal borrowing to fund the capital programme discussed above. I**nterest earned on loans to third parties** Unbudgeted interest of £100k on a loan (to Cosworth) to support development in the Enterprise Zone.
Item 02		Recharges to the HRA	0	0	0	G	
Item 03		Council Tax and other funding	0	0	0	G	
Item 04		Contribution to GF Balances	0	0	0	G	
Total Corporate Budgets			**2,378**	**1,805**	(573)		
Total General Fund			**36,480**	**35,880**	**(600)**		

Capital Monitoring

Capital GF Budget Forecasts 2014/15

January 2015

Head of Service	Scheme Code	Scheme Description	Original Budget £000's	Approved Changes In Year £000's	Latest Approved Budget £000's	YTD Actual Expenditure £000's	Committed Expenditure £000's	Forecast Year End Spend £000's	Expected Carry Forward £000's	Forecast Under/Overspend £000's	Notes
	BA132	St Crispin Changing Rooms, Toilet, Car park	0	751	751	0	0	0	751	0	No spend planned this year, s106 funded
	BA133	St Crispin Football Pitches and Play Provision	0	15	15	11	0	11	0	(4)	Section 106 funded, no saving to NBC
	BA213	Leisure Sport & Fitness Equipment (Duston Leisure Centre)	0	50	50	3	47	50	0	0	
	BA368	Upton Park Pedestrian & Cycle Bridge	0	77	77	41	3	50	0	(27)	Section 106 funded, no saving to NBC
	BA385	Town Centre Enhancements	0	0	0	0	2	0	0	0	
	BA645	S106 Contributions to Other Local Authorities	0	170	170	75	0	75	0	(95)	S106 funds have gone straight to NCC
	BA648	Allotments	0	42	42	25	0	42	0	0	
	BA649	Skate Park Toilet & Kiosk	0	37	37	0	1	1	36	0	Due to start on site 2015/16
	BA652	Visitor Signage in Town Centre	0	80	80	5	0	80	0	0	
	BA653	Delapre Abbey Restoration	997	31	1,028	144	16	177	851	(0)	Programme slipped due to delays in finalising HLF funding agreement
	BA654	St Lukes Field - Improvement works	0	50	50	50	0	50	0	0	
	BA656	Victoria Street Bus Shelters		0	0	0	9	9	0	9	Outstanding invoice - JC Decaux
	BA657	Billing Lane Park Public Art Project	0	26	26	26	0	26	0	(0)	
	BA663	Duston Wetlands Development & Implementation	0	240	240	22	21	30	210	0	
	BA667	Eastfield Park - Cross Park Pathway	0	26	26	15	0	15	0	(11)	Section 106 funded, no saving to NBC
	BA668	Abington Street - Opening Up to Traffic	2,850	39	2,889	2,031	1,065	2,889	0	0	
	BA669	Town Centre Realm Improvements	1,400	(265)	1,135	532	599	1,135	0	0	Adjusted for NCC works directly funded.
	BA670	Waterside Improvements (Southbridge)	0	60	60	11	1	11	0	(49)	Section 106 funded, no saving to NBC
	BA671	Heritage Gateway	100	0	100	30	56	100	0	0	
	BA678	Site 11 Land Remediation	0	339	339	352	0	339	0	0	
	BA679	Albion Brewery Heritage Infrastructure Support	0	15	15	0	0	0	0	(15)	Forecast underspend although discussions continuing with Brewery
	BA680	Bradlaugh Statue Refurbishment	0	13	13	11	2	13	0	0	
	BA681	Site 11 Construction	3,000	982	3,982	3,982	2	3,982	0	0	Additional allocation for Site 11 (£230K pre-development studies + £152K electricity connection) from EZ budget
	BA682	St Peters Way Improvements	1,600	0	1,600	0	0	1,600	0	0	
	BA683	St James Mill Way - Electricity Substation Upgrade	750	492	1,242	285	283	1,242	0	0	Additional LIF Funding approved
	BA684	Superfast Broadband	500	(250)	250	0	0	0	250	0	Rephasing of contribution
	BA685	Northampton Bike Hire Scheme	0	38	38	28	10	28	10	0	Section 106 funded
	BA686	Northampton Growth Management Scheme	0	1,796	1,796	1,796	0	1,796	0	0	
	BA687	St Peters Waterside	0	100	100	0	0	100	0	0	
	BA688	Play Equipment St Crispins Park	0	50	50	45	4	46	0	(5)	Section 106 funded, no saving to NBC
	BA689	NCC Education Contribution	0	1,586	1,586	0	1,586	1,586	0	0	
	BA690	Quarry Park Play Area	0	20	20	19	1	20	0	0	
	BA693	Headlands CC Car Park	0	20	20	19	0	19	0	(1)	Section 106 funded, no saving to NBC
	BA695	East Hunsbury and Wootton Greenspace	0	30	30	0	41	30	0	0	
	BA696	Pig and Whistle Refurbishment Works	0	185	185	159	26	185	0	0	Fully approved budget to be paid in 2014/15
	BA698	Delapre Abbey Tea Rooms	0	50	50	0	0	50	0	0	
	BA883	Planning IT Improvements (HPDG)	0	41	41	2	29	32	0	(9)	
	BA891	Bus Interchange	0	286	286	176	89	286	0	0	
	BK013	Empty Homes Programme	632	108	740	222	79	555	0	(185)	reduction in units for conversion
Carol Cooper Smith (CC11)			**11,830**	**7,329**	**19,158**	**10,118**	**3,971**	**16,660**	**2,108**	**(391)**	
	BA676	Vehicles	38	0	38	38	0	38	0	0	
Francis Fernandes (FF1)			**38**	**0**	**38**	**38**	**0**	**38**	**0**	**0**	

Head of	Scheme Code	Scheme Description	Original Budget	Approved Changes In Year	Latest Approved Budget	YTD Actual Expenditure	Committed Expenditure	Forecast Year End Spend	Expected Carry Forward	Forecast Under/Overspend	Notes
	BA660	Northampton Town Fc Loan	0	7,500	7,500	5,750	0	7,500	0	0	
	BA692	Loan to Cosworth	0	1,400	1,400	1,400	0	1,400	0	0	
	BA693	Web Capture Implementation	0	39	39	0	0	39	0	0	
Glen Hammons (GH11)			**0**	**8,939**	**8,939**	**7,150**	**0**	**8,939**	**0**	**0**	
	BA145	Cliftonville Move; New ways of working	0	0	0	(10)	17	0	0	0	
	BA165	COM; Document Management	0	24	24	0	0	24	0	0	
	BA173	Multi-Function Devices (MFD's)	0	0	0	0	0	0	0	0	
	BA207	IT Infrastructure - Servers and Network Storage	119	8	127	107	0	119	0	(8)	Forecast saving, however could be required therefore currently earmarked for
	BA212	A Knights Trail (Public Art)	0	40	40	0	26	40	0	0	
	BA646	Re-furbishment of the Great Hall kitchen	0	4	4	0	2	2	0	(2)	
	BA647	IT Infrastructure - PC Replacement with VDI Terminals	0	47	47	0	0	47	0	0	
	BA659	Call Care Project (part of prevention programme)	0	14	14	0	0	18	0	4	more equipment required than originally planned
	BA665	Grosvenor Car Park - Pay on Foot	0	23	23	5	0	6	0	(17)	Final cost for project, grant funded therefore no saving to NBC
	BA677	Art from the Golden Age	0	3	3	0	0	3	0	0	
	BA697	Town Centre Free Public Wifi	0	63	63	0	0	63	0	0	
	BA764	One Stop Shop, CRM	0	29	29	(4)	0	25	0	(4)	
	BA786	Data Network Improvements	0	10	10	(2)	0	10	0	0	
	BA808	IT Network Replacement Programme	0	11	11	5	0	11	0	0	
	BA893	Microsoft Office 2010 Upgrade	0	110	110	37	0	73	0	(37)	
Marion Goodman (MG3)			**119**	**386**	**505**	**137**	**45**	**442**	**0**	**(64)**	
	BA122	Fire Safety Improvement Works	0	5	5	5	0	5	0	0	
	BA136	Water Management Works	0	16	16	18	1	18	0	2	
	BA138	Cemeteries Refurbishment Works	0	11	11	10	0	11	0	0	
	BA146	Water Hygiene - Monitoring Improvements	0	47	47	54	0	54	0	7	
	BA180	Strategic Property Investment	0	500	500	0	0	500	0	0	Purchase of Albion House
	BA188	Royal and Derngate Roof Replacement Works	0	48	48	48	17	48	0	0	
	BA189	Corporate Asset Improvements	0	112	112	112	5	118	0	5	
	BA190	Investment Properties Enhancements	0	0	0	2	4	7	0	7	
	BA194	Guildhall Renewals	0	0	0	4	1	4	0	4	
	BA197	Delapre Abbey Restoration Minor Projects	200	264	464	413	17	464	0	0	
	BA211	Extension of Duston Cemetery	0	108	108	2	1	108	0	(0)	
	BA214	St Johns MSCP Storage Facility	0	30	30	0	0	0	30	0	Delays in finalising agreement with R&D
	BA215	Moulton Athletics Track	0	800	800	0	0	400	400	0	Delays in finalising funding agreements
	BA356	Community Centres Refurbishment	0	2	2	0	4	2	0	(0)	
	BA650	Lifts - Improvement Works	0	0	0	0	0	0	0	0	
	BA666	Greyfriars Bus Station Demolition	3,500	751	4,251	2,929	2,358	4,251	0	0	
	BA672	Capital Improvements - Regeneration Areas	250	0	250	111	66	189	34	(27)	Remaining funds to offset other overspends and/or be carried forward
	BA674	Operational Buildings - Enhancements	400	(170)	230	68	185	246	(16)	0	Overspends to be funded from 2015/16 block allocation
	BA675	Commercial Landlord Responsibilities	270	(113)	157	12	12	24	133	0	Delays in projects - Home Farm Windows/Guildhall Air conditioning/community centre windows
	BA691	Pig & Whistle Lease Surrender	0	50	50	49	0	49	0	(1)	
	BA889	Mayorhold Car Park - Drainage Works	0	77	77	0	0	0	77	0	Works to be carried out in 2015/16
	BA892	Urgent Lift Renewals	0	0	0	1	11	1	0	1	
	BA894	Mounts Baths Roof	0	4	4	4	0	4	0	0	
Simon Dougall (SD6)			**4,620**	**2,541**	**7,161**	**3,844**	**2,681**	**6,503**	**658**	**(0)**	
	BA186	Improvement to Parks Infrastructure	0	355	355	127	81	355	0	0	Budget increased to meet urgent needs
	BA673	Parks / Allotments / Cemeteries Enhancements	270	(270)	0	10	0	0	0	0	
	BA895	Allotment Provision	0	3	3	0	1	3	0	0	
Steve Elsey (SE3)			**270**	**88**	**358**	**137**	**82**	**358**	**0**	**0**	
	BK015	DFG's Owner Occupiers	2,075	367	2,442	381	361	1,000	0	(1,442)	Total anticipated commitment for 2014/15 estimated at £1m, due to slowdown in occupational therapist referrals. No carry forward required as 2015/16 budget deemed sufficient.
	BK051	Fuel Poverty Fund County Wide	0	0	0	(4)		0	0	0	
David Kennedy			**2,075**	**367**	**2,442**	**377**	**361**	**1,000**	**0**	**(1,442)**	
Total Scheme Budgets			**18,952**	**19,650**	**38,602**	**21,801**	**7,139**	**33,939**	**2,766**	**(1,896)**	

Housing Revenue Account
Revenue Budget Forecasts 2014/15
January 2015

NORTHAMPTON BOROUGH COUNCIL

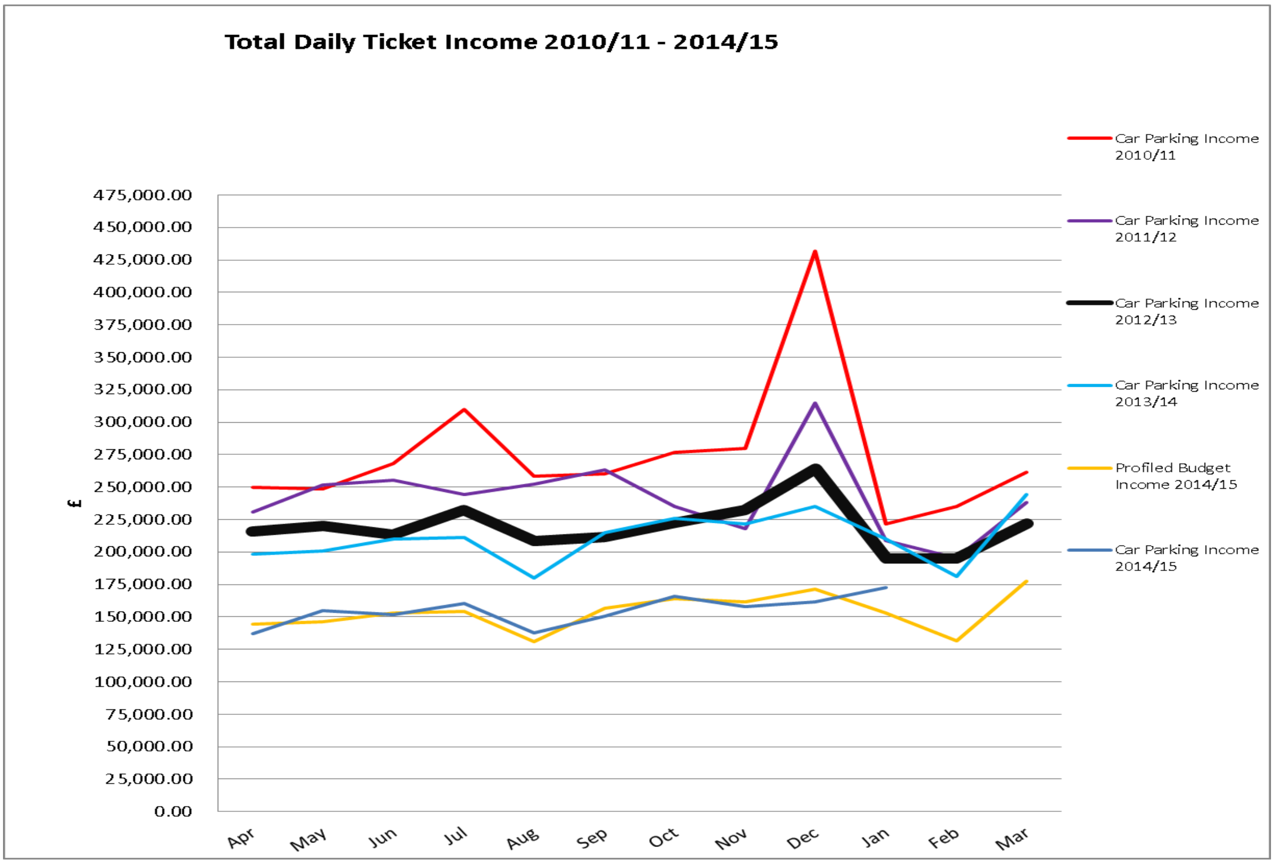
Type	SEADIV	Service Area	Current Budget £000's	Actuals £000's	Forecast Outturn £000's	Forecast Variance £000's	RAG Status	Narrative
INCOME								
	H1	Dwelling Rents	(50,557)	(39,945)	(50,382)	175	R	Higher level of Right to Buy Sales than expected.
	H2	Non-Dwelling Rents	(1,087)	(935)	(1,087)	0	G	
	H3	Other Charges for Services	(2,388)	(2,058)	(2,368)	21	G	
	H4	Contribution To Expenditure	(85)	(33)	(40)	45	G	
Total Income			**(54,117)**	**(42,970)**	**(53,876)**	**241**	**R**	
EXPENDITURE								
	H10	Repairs & Maintenance	15,525	13,037	15,564	39	G	
	H8	General Management	7,861	7,504	7,748	(113)	B	Largely reflects the anticipated underspend on the Service Enhancement budget.
	H9	Special Services	4,053	2,814	3,729	(324)	B	Primarily reflects savings as a result of a restructure within the service (Sheltered Accommodation)
	H7	Rents, Rates, Taxes	78	111	258	180	R	Additional Council Tax due on void dwellings following changes to legislation.
	H13	Provision For Bad Debts	750	292	350	(400)	B	Lower arrears than anticipated resulting in a reduction in the required contribution to the Bad Debt Provision.
	H15	Rent Rebate Subsidy Deductions	100	0	0	(100)	B	Rent Rebate Subsidy Liability reduced as a result of de-pooling of service charges.
Total Expenditure			**28,367**	**23,758**	**27,650**	**(717)**	**B**	
Net Cost of Services			**(25,750)**	**(19,212)**	**(26,226)**	**(477)**	**B**	
		Net Recharges from the General Fund	6,112	5,093	6,112	0		
		Interest & Financing Costs	6,246	5,141	6,169	(77)		Higher interest earned on investments
		Depreciation/MRA	12,211	10,176	12,211	0		
		Net Contribution (from) / to Earmarked Reserves	1,181	1,445	1,734	554		Higher contribution to Reserves / Capital
Net Transfer From / (To) Working Balance			**0**	**2,643**	**0**	**0**	**G**	
Working Balance b/f			(5,000)	(5,000)	(5,000)	0		
Working Balance Outturn			**(5,000)**	**(2,357)**	**(5,000)**	**0**	**G**	

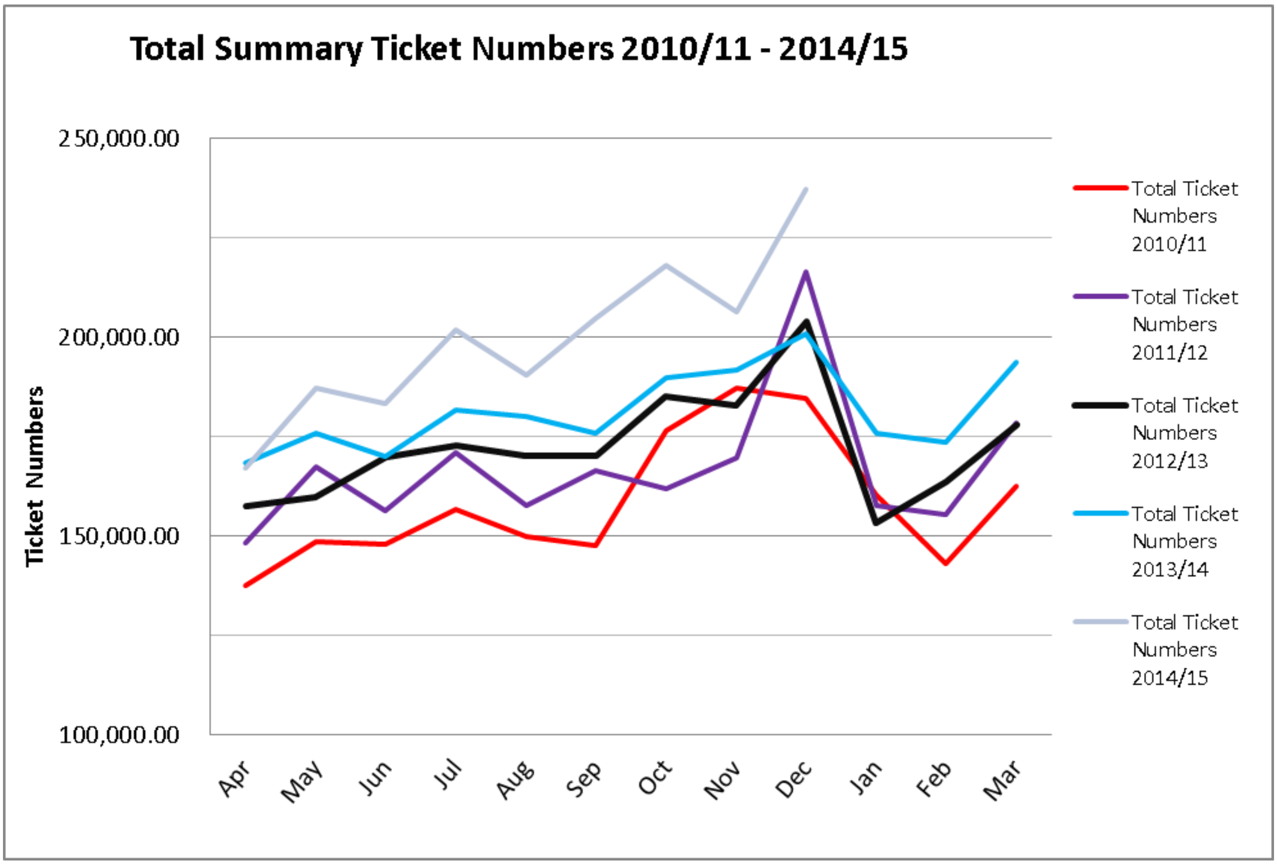
Capital Monitoring

Capital HRA Budget Forecasts 2014/15

January 2015

Head of Service	Scheme Code	Scheme Description	Original Budget £000's	Approved Changes In Year £000's	Latest Approved Budget £000's	YTD Actual Expenditure £000's	Committed Expenditure £000's	Forecast Year End Spend £000's	Expected Carry Forward £000's	Forecast Under/Overspend £000's	Summarised Transaction Description
	BH003	Garages Roofs & Doors Replacement	100	0	100	17	36	79	0	(21)	Balance to transfer to Fire Safety Works
	BH009	Fire Safety Works - communal areas	150	0	150	115	63	291	0	141	Pushing forward on Fire door replacement
	BH013	Digital Aerial Upgrade	10	0	10	0	0	10	0	0	
	BH014	Estate Regeneration	0	0	0	(4)	0	(4)	0	(4)	
	BH020	Periodical Electrical Works	125	0	125	15	0	115	0	(10)	Works being raised but unlikely to fully commit budget
	BH021	New Communal Boilers	0	0	0	(1)	0	0	0	0	
	BH022	Community Energy Savings Programme (CESP)	0	659	659	621	58	679	0	20	To be funded from underspends elsewhere
	BH140	Disabled Grant - Major Repairs	0	0	0	170	4	174	0	174	Balanced by underspend on BH380
	BH302	Minor Adaptations for People with Disabilities	0	0	0	21	4	26	0	26	Balanced by underspend on BH380
	BH304	Complete Roofs	0	45	45	15	28	45	0	0	
	BH305	Structural Repairs	200	0	200	42	17	150	0	(50)	Funds to be transferred to BH329
	BH317	Decent Homes	39,305	(4,000)	35,305	17,685	1,071	27,466	2,050	(5,789)	Programme forecast to complete by May 2015, below budget
	BH321	Door & Window Replacement	0	100	100	1	0	100	0	0	
	BH324	Gas Appliance Replacement - Planned Ptnrship	0	60	60	42	0	60	0	0	
	BH325	Gas Appliance Replacement - Responsive	0	1,600	1,600	814	0	1,395	0	(205)	£100k to be shifted to BH009 Fire Safety
	BH329	Asbestos Remedial Action	100	(85)	15	44	0	52	0	37	Funds to be brought in from BH305
	BH345	Kitchen replacement	0	0	0	4	0	4	0	4	
	BH351	Door Entry Updates	150	0	150	127	14	150	0	0	
	BH354	Lift Refurbishment	0	25	25	24	2	25	0	0	
	BH365	Walkways	100	(97)	4	3	0	4	0	0	
	BH368	Communal Area Upgrades	0	0	0	9	27	60	0	60	Balanced by underspend on BH373
	BH373	Change of Use	250	(150)	100	(2)	0	34	0	(66)	Transfer to BH373
	BH374	CCTV	50	(30)	20	0	0	20	0	0	
	BH375	Lift Refurbishment St Katherines Court	0	97	97	81	13	97	0	0	
	BH376	Little Cross Street Walkway Renewal	0	200	200	20	2	30	130	(40)	Works to progress later in 2015
	BH377	Heating Replacements	900	(900)	0	0	0	0	0	0	
	BH378	Property Improvements outside Decent Homes	230	(230)	0	0	0	0	0	0	
	BH379	SCATE	640	0	640	327	35	640	0	0	
	BH380	Disabled Adaptations	1,140	0	1,140	52	0	980	0	(160)	Underspend to cover other adaptations costs
	BH383	Sotheby Rise and Dallington Haven Car Park Improvements	0	145	145	0	118	145	0	0	Additional Footpath works - variation form expected
	BH370	Repurchase of Former Council Houses	2,000	(668)	1,332	324	0	683	649	0	
	BH372	Green Deal Contribution & Energy Efficiency	50	0	50	2	0	2	48	0	Works to be carried forward
	BH366	Sheltered Housing Improvements	1,000	0	1,000	4	7	200	800	0	Works to Eleonore House to start later in 2015
	BH367	IT Capital	200	246	446	0	0	440	0	(6)	Contingency allocated and also reduced due to successful project implementation
Total Scheme Budgets			**46,700**	**(2,983)**	**43,717**	**20,570**	**1,500**	**34,151**	**3,677**	**(5,889)**	





Notes:

1) The volume of tickets issued up to and including the end of period 9 (December) was 162k higher than

2) Income as at the end of January is very slightly above the profiled budget which was heavily reduced

APPENDIX 6

Managed Debt Analysis - Rolling Year 2013/14 into 2014/15

	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN
TOTAL ARREARS	**14,739,676**	**13,133,970**	**20,078,884**	**18,942,746**	**18,208,120**	**15,287,033**	**15,417,088**	**14,124,390**	**13,808,212**	**15,050,832**	**14,440,723**	**14,644,726**
Awaiting Action	687,385	578,997	434,308	532,365	567,258	352,385	548,146	499,008	472,632	583,173	550,951	474,562
Debt in Progress	14,052,291	14,052,291	19,644,576	18,410,381	17,640,862	14,934,648	14,868,942	13,625,382	13,335,579	14,467,659	13,889,772	14,170,165
% Inactive debt [PI]	**4.66%**	**4.41%**	**2.16%**	**2.81%**	**3.12%**	**2.31%**	**2.31%**	**3.56%**	**3.53%**	**3.42%**	**3.87%**	**3.82%**
CTAX	6,479,327	6,281,511	8,835,048	8,835,048	8,597,465	8,365,670	7,939,315	7,664,327	7,250,531	6,972,411	6,851,511	6,522,015
Inactive	100,021	103,752	93,891	91,369	83,329	82,245	74,090	81,410	78,261	107,575	89,457	52,642
In progress	6,379,306	6,177,759	8,741,157	8,743,679	8,514,136	8,283,424	7,865,225	7,582,917	7,172,269	6,864,836	6,762,054	6,469,373
Inactive debt	**1.54%**	**1.65%**	**1.06%**	**1.03%**	**0.97%**	**0.98%**	**0.93%**	**1.06%**	**1.08%**	**1.54%**	**1.31%**	**0.81%**
NNDR	894,658	543,491	2,169,560	1,509,467	1,148,540	640,088	1,486,672	407,858	731,350	849,273	721,649	774,634
Inactive	0	0	0	0	0	0	0	0	0	0	0	0
In progress	894,658	543,491	2,169,560	1,509,467	1,148,540	640,088	1,486,672	407,858	731,350	849,273	721,649	774,634
Inactive debt	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
FTA	819,024	784,750	775,168	774,838	742,327	617,066	585,430	557,708	551,422	477,453	429,510	407,920
Inactive	17,306	28,324	14,896	36,250	18,007	12,797	13,116	16,431	18,164	44,671	40,378	11,755
In progress	801,718	756,426	760,271	738,588	724,320	604,269	572,314	541,277	533,258	432,782	389,132	396,164
Inactive debt	**2.11%**	**3.61%**	**1.92%**	**4.68%**	**2.43%**	**2.07%**	**2.24%**	**2.95%**	**3.29%**	**9.36%**	**9.40%**	**2.88%**
HBOP	4,503,010	4,515,411	4,530,153	4,412,947	4,489,715	4,526,582	4,547,044	4,555,039	4,652,897	4,819,186	4,960,760	5,108,120
Inactive	509,969	399,861	289,684	278,255	280,033	228,780	418,174	355,323	348,271	395,902	366,800	352,444
In progress	3,993,041	4,115,550	4,240,468	4,134,692	4,209,682	4,297,802	4,128,870	4,199,716	4,304,627	4,423,285	4,593,960	4,755,676
Inactive debt	**11.33%**	**8.86%**	**6.39%**	**6.31%**	**6.24%**	**5.05%**	**9.20%**	**7.80%**	**7.49%**	**8.22%**	**7.39%**	**6.90%**
SD	2,043,657	1,008,807	1,562,532	1,880,511	1,645,384	1,137,628	858,626	939,457	622,011	1,932,508	1,477,293	1,832,038
Inactive	60,089	47,060	35,836	126,492	185,889	28,563	42,766	45,844	27,936	35,025	54,316	57,719
In progress	1,983,568	961,747	1,526,696	1,754,020	1,459,495	1,109,065	815,860	893,613	594,075	1,897,484	1,422,977	1,774,318
Inactive debt	**2.94%**	**4.66%**	**2.29%**	**6.73%**	**11.30%**	**2.51%**	**4.98%**	**4.88%**	**4.49%**	**1.81%**	**3.68%**	**3.15%**

- <u>Overall debt levels as at 31st January 2015</u>
  Compared to the same period last year, unmanaged debt is £59,871 less than the same period last year and the overall total arrears are £440,949 less

- <u>Council Tax as at 31st January 2015</u>
  Unmanaged debt is £50,162 less than the same period last year and the overall outstanding arrears are £135,255 less. Arrears collection is up on last year.

- <u>Business Rates as at 31st January 2015</u>
  Unmanaged debt remains unchanged at £0. The overall outstanding arrears are £218,054 more than the same period last year..

- <u>Former Tenant Arrears as at 31st January 2015</u>
  Unmanaged debt is £2,139 more than the same period last year but the overall outstanding arrears are £398,926 less.

- <u>Housing Benefit Overpayments Payments as at 31st January 2015</u>
  Unmanaged debt is £25,305 less than the same period last year and the overall outstanding arrears are £556,073 more.

- <u>Sundry Debts as at 31st January 2015</u>
  Unmanaged debt is £13,455 more than the same period last year and the overall outstanding balance is £680,894 more. There are currently8 accounts with balances over £100,000.

Appendices
1

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	**Accounting Policies**

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date:	16th March 2015
Policy Document:	Yes
Directorate:	LGSS Finance
Accountable Cabinet Member:	Cllr A Bottwood

1. Purpose

1.1 The purpose of the report is to bring the Accounting Policies to Audit Committee for approval.

2. Recommendations

2.1 It is recommended that Audit Committee approve the Accounting Policies for the 2014/15 Statement of Accounts, as set out at Appendix 1.

3. Issues and Choices

3.1 Report Background

3.1.1 The accounting policies outline how Northampton Borough Council will account for all income, expenditure, assets and liabilities held and incurred during the financial year.

3.1.2 It is good practice to bring these policies to those charged with governance for approval each year.

3.1.3 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.

3.1.4 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.

3.1.5 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.

3.1.6 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.

3.2 Issues

3.2.1 There are no changes to the underlying accounting policies from the policies approved and included in the audited Statement of Accounts 2013/14.

3.2.2 There are however two minor amendments where '2013/14' has been updated to show '2014/15'.

3.3 Choices (Options)

3.3.1 The Committee can approve the 2014/15 accounting policies as appended.

3.3.2 The Committee can not approve the 2014/15 accounting policies as appended.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The report agrees the accounting policies for Northampton Borough Council.

4.2 Resources and Risk

4.2.1 The Accounting Policies outline how the Council will account for all income, expenditure, assets and liabilities held and incurred during the financial year.

4.2.2 If the Council does not comply with the required standards there is a risk that its Statement of Accounts could receive an adverse audit opinion.

4.2.3 There are no resource requirements.

4.3 Legal

4.3.1 There are no legal implications arising from this report.

4.4 Equality

4.4.1 There are no equalities implications arising from this report.

4.5 Consultees (Internal and External)

4.5.1 There has been a degree of discussion with the Council's auditors, KPMG, as part of the audit of the Statement of Accounts which included these policies last summer.

4.6 Other Implications

4.6.1 There are no other implications.

5. Background Papers

5.1 Statement of Accounts for Northampton Borough Council 2013/14.

5.2 Code of Practice for Local Authority Accounting in the United Kingdom 2014/15 Accounts.

5.3 Code of Practice for Local Authority Accounting in the United Kingdom 2014/15 Accounts – Guidance notes.

5.4 Service Reporting Code of Practice for Local Authorities 2014/15.

Kelly Watson, Strategic Finance Manager, LGSS
01604 363099

Accounting Policies

Accounting Principles and General 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 Cost of Services

Internal service costs (e.g. Human Resources) are apportioned across the core service areas to represent the total cost of delivering that service to the public.

This is in accordance with the costing principals of the CIPFA Service Reporting Code of Practice 2014/15 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-democratic organisation.
- Non-Distributed Costs – the costs of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account as part of the Net Cost of Services.

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 Under Construction 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.

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.

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 UKPS 1.3 of the RICS Valuation Standards. 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 34% of market value. Individual components are valued at Depreciated Historic Cost.
    - **Vehicles and Assets under construction** within PPE are held at fair value.
    - **Community Assets -** the Authority recognises Community Assets at depreciated historic cost (not revalued).
    - **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 acquisition and disposal. This is in accordance with regulations. 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 acquisition and disposal, the Authority charges a quarter of the annual depreciation where the asset is owned on the first day of each financial quarter.

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.

PFI Credits are treated as general revenue government grants.

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.

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.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives are assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it is grouped together in a manner that reflects the nature of the main component of expenditure and is only be divided up in cases where there are two or more major components with substantially different useful economic lives.

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 £3.1m for 2014/15. This 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 derecognition 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 derecognition 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 has no material interests in companies and other entities that have the nature of subsidiaries, associates, and joint ventures and so there is no requirement to prepare group accounts. 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.

cutting through complexity

External Audit Plan 2014/15

Northampton Borough Council

March 2015

Contents

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Page

Report sections

- Introduction 2
- Headlines 3
- Our audit approach 4
- Key financial statements audit risks 10
- VFM audit approach 11
- Deliverables, timeline, fees and audit team 15

Appendices

1. Independence and objectivity requirements 19
2. Quality assurance and technical capacity 20
3. Assessment of Fraud Risk 22
4. Transfer of Audit Commission's functions 23

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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 appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1st Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Section one

Introduction

This document describes how we will deliver our audit work for Northampton Borough Council.

69

Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for Northampton Borough Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *Use of Resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM arrangements work and sets out our initial risk assessment for the VFM conclusion.
- Section 6 and 7 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

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

Headlines

Audit approach	Our overall audit approach remains similar to last year with no fundamental changes. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Chief Finance Officer. Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.
Key financial statements audit risks	We have completed our initial risk assessment for the financial statements audit and have identified the following significant risk: ■ **Group accounts** – The Authority are currently undertaking an assessment over whether they will be required to produce group accounts for the first time this year, in order to consolidate its new subsidiary company, Northampton Partnership Homes. The Authority will need to ensure that they undertake a detailed and controlled review of the relationship that exists with Northampton Partnership Homes and assess whether consolidation is required, in order to ensure that the financial statements are prepared in accordance with the requirements of the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15 (the Code).* This is described in more detail on page 10. We will assess these risk areas as part of our interim work and conclude this work at year end.
VFM audit approach	We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage. However our risk assessment process is an on going process. If we identify any new VFM risks during this on going process we will communicate that to you.
Audit team, deliverables, timeline and fees	We have refreshed our audit team this year. Andrew Cardoza is the Director and Daniel Hayward is the Audit Manager. Our year end audit is currently planned to commence on July. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*. The planned fee for the 2014/15 audit is £107,700. This is £900 more than the fee set out in our *Audit Fee Letter 2014/15* and is due to the increase in work required in relation to NNDR following the removal of the certification requirement for the NNDR3 return. This increase has been approved by the Audit Commission.

Our audit approach

We undertake our work on your financial statements in four key stages during 2015:

- **Planning (February).**
- **Control Evaluation (March to April).**
- **Substantive Procedures (July to August).**
- **Completion (September).**

71

We have summarised the four key stages of our financial statements audit process for you below:

Jan Feb Mar Apr May Jun Jul Aug Sep

1	Planning	Update our business understanding and risk assessment. Assess the organisational control environment. Determine our audit strategy and plan the audit approach. Issue our *Accounts Audit Protocol*.
2	Control evaluation	Evaluate and test selected controls over key financial systems. Review the work undertaken by the internal audit on controls relevant to our risk assessment. Review the accounts production process. Review progress on critical accounting matters.
3	Substantive procedures	Plan and perform substantive audit procedures. Conclude on critical accounting matters. Identify audit adjustments. Review the Annual Governance Statement.
4	Completion	Declare our independence and objectivity. Obtain management representations. Report matters of governance interest. Form our audit opinion.

Our audit approach – planning (continued)

We will complete our planning work during February 2015.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes including the Authority's IT systems, that would impact on our audit.

72

Our planning work takes place in February 2015. This involves the following aspects:

Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks including risk of fraud affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.

Our audit approach –planning (continued)

When we determine our audit strategy we set a monetary materiality level for planning purposes.

For 2014/15 we have set this at £4.5 million.

We will report all audit differences over £225k to the Audit Committee.

Materiality

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

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

Materiality for planning purposes has been set at £4.5million, which equates to 2 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(UK&I) *'Communication with those charged with governance'*, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) 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 (UK&I), *'Evaluation of misstatements identified during the audit',* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £225k.

If 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.

Our audit approach – control evaluation

During March 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our on site interim work is planned to start on 2 March. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority’s key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We 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.

Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2014/15.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in September 2015.

Our audit approach – substantive procedures

During July to August 2015 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit Committee in September 2015.

Our final accounts visit on site has been provisionally scheduled to start on 29 June. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Strategic Finance Manager in July 2015, prior to reporting to the Audit Committee in September 2015.

Audit adjustments

During our on site work, we will meet with the Strategic Finance Manager on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. 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.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

Our audit approach – other matters

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2014/15 have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 15.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of 16 March 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Section four

Key financial statements audit risks

In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.

For each key significant risk area we have outlined the impact on our audit plan.

77

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry 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.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Appendix 3 covers more details on our assessment of fraud risk.

The table on the next slide sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2014/15. We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
Group Accounts	**Risk** The Authority is currently assessing whether they will be required to produce Group Accounts for the first time this year, in order to consolidate its new subsidiary company, Northampton Partnership Homes. The Authority will need to ensure that they undertake a detailed and controlled review of the relationship that exists with Northampton Partnership Homes and assess whether consolidation is required, in order to ensure that the financial statements are prepared in accordance with the requirements of the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15 (the Code).* **Our proposed audit work** We will hold discussions with key officers to understand the Authority's proposed approach to assessing whether consolidated financial statements are required. During our interim audit we will review the Authority's assessment of the possible group relationship. We will assess the plans in place to ensure complete and accurate accounting, including its liaison with the subsidiary company in order to obtain sufficient and appropriate supporting information to support the process. Should Group Accounts be prepared, we will liaise with the subsidiary auditors to assess if their work completed on the subsidiary accounts is sufficient for the purposes of the Group Accounts. At year end, we will review the consolidation accounting entries and supporting work papers to ensure appropriate and accurate accounting entries and disclosures are made in compliance with the *Code.*

VFM audit approach

Our approach to VFM work follows guidance provided by the Audit Commission.

78

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- Plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- Carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ Manage effectively financial risks and opportunities; and ■ Secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ Achieving cost reductions; and ■ Improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

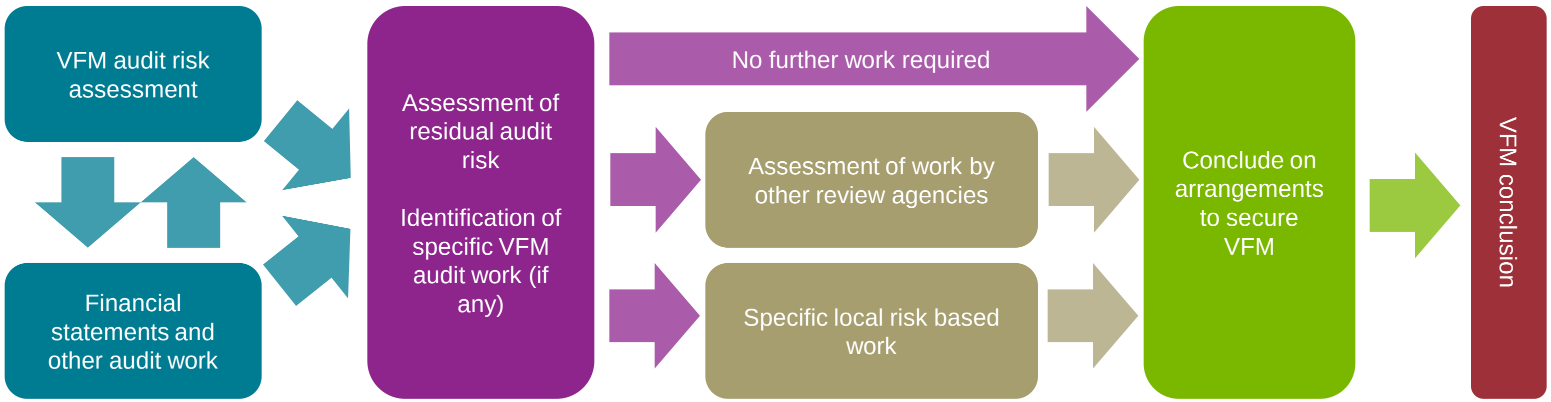
VFM audit approach (continued)

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

79

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Audit Commission's VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.

VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

80

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VFM audit work	If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have not identified any risks to our VFM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as: ■ Local savings review guides based on selected previous Audit Commission national studies; and ■ Update briefings for previous Audit Commission studies. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We have completed our initial VFM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our *ISA260 Report*. We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Audit deliverables

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures.	**March 2015**
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements.	**September 2015**
Completion		
Auditor's Report	■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2015**
Whole of Government Accounts	■ Provide our assurance statement on the Authority's WGA pack submission.	**September 2015**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2015**

Audit timeline

We will be in continuous dialogue with you throughout the audit.

Key formal interactions with the Audit Committee are:

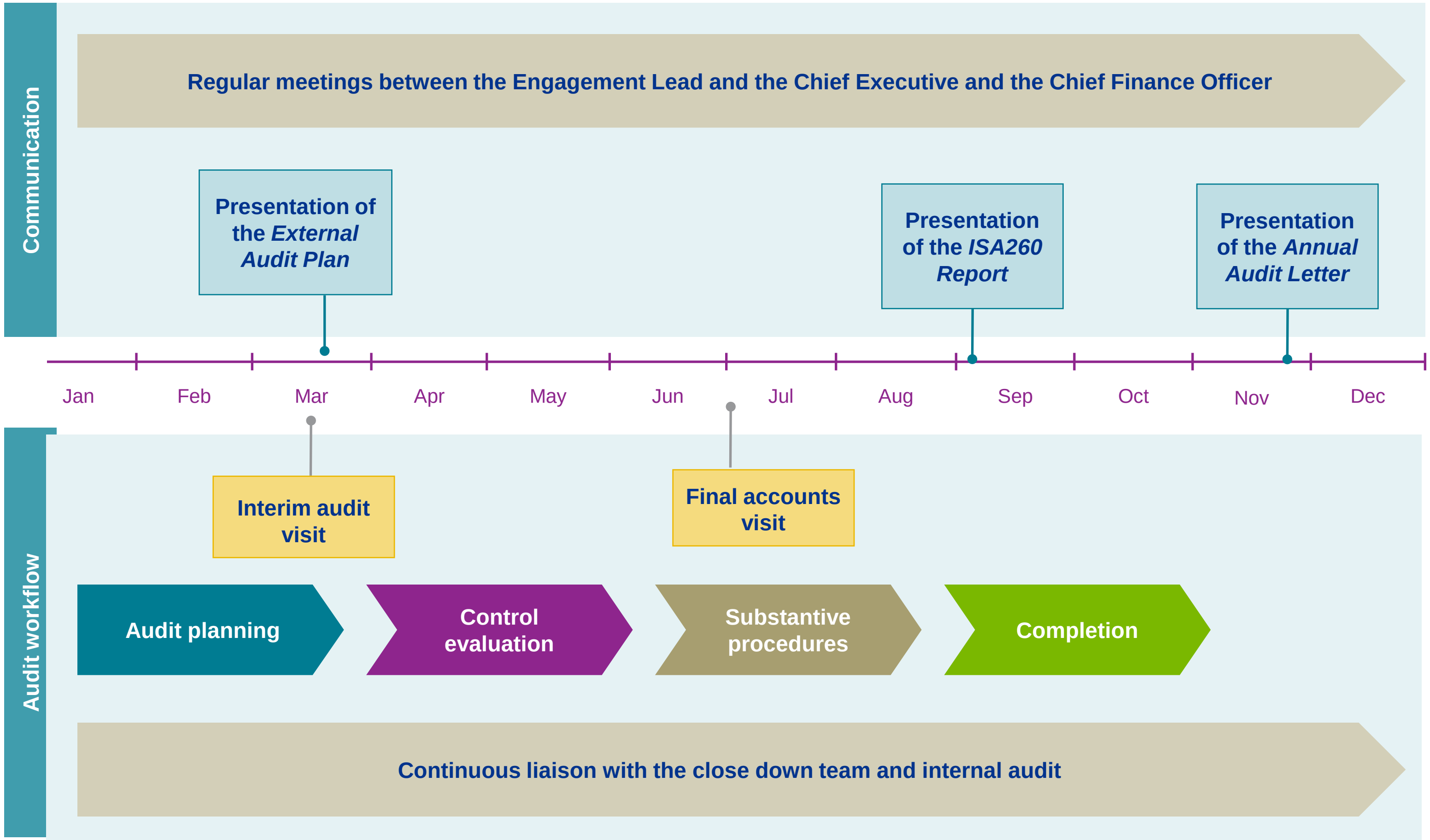
- **March – External Audit Plan;**
- **September – ISA 260 Report;**
- **November – Annual Audit Letter.**

83

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- **Interim audit visit during March.**
- **Final accounts audit during July.**



Key: ● Audit Committee meetings.

Audit fee

The fee for the 2014/15 audit of the Authority is £107,700. The fee has not changed from that set out in our *Audit Fee Letter 2014/15* issued in April 2014.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The audit scale fee for 2014/15 has been set by the Audit Commission and is £107,700. This is £900 more than the fee set out in our *Audit Fee Letter 2014/15* and is due to the increase in work required in relation to NNDR following the removal of the certification requirement for the NNDR3 return.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- The level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- You will inform us of any significant developments impacting on our audit;
- You will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- You will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - The financial statements are made available for audit in line with the agreed timescales;
  - Good quality working papers and records will be provided at the start of the final accounts audit;
  - Requested information will be provided within the agreed timescales;
  - Prompt responses will be provided to queries and draft reports.
- Internal audit meets appropriate professional standards;
- Internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- Additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- New significant audit risks emerge;
- Additional work is required of us by the Audit Commission or other regulators; and
- Additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Chief Finance Officer.

Section seven

Audit team

Your audit team has been drawn from our specialist public sector assurance department.

We have refreshed the audit team this year and Andrew Cardoza is the new Director and Daniel Hayward is the new Manager.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.

Andrew Cardoza - **Director**

"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.
I will be the main point of contact for the Audit Committee and Chief Executive."

Daniel Hayward - **Manager**

"I am responsible for the management, review and delivery of the audit of the Authority.
I will liaise with the Chief Finance Officer and Head of Internal Audit."

Laura Bedford – **Assistant Manager**

"I will be responsible for the on-site delivery of our work on the Authority's financial statements. I will liaise with the Finance Team.
I will also supervise the work of our audit assistants."

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- Carry out their work with independence and objectivity;
- Exercise their professional judgement and act independently of both the Commission and the audited body;
- Maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- Resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity;
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership;
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority;
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm;
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work;
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis;
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body; and
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

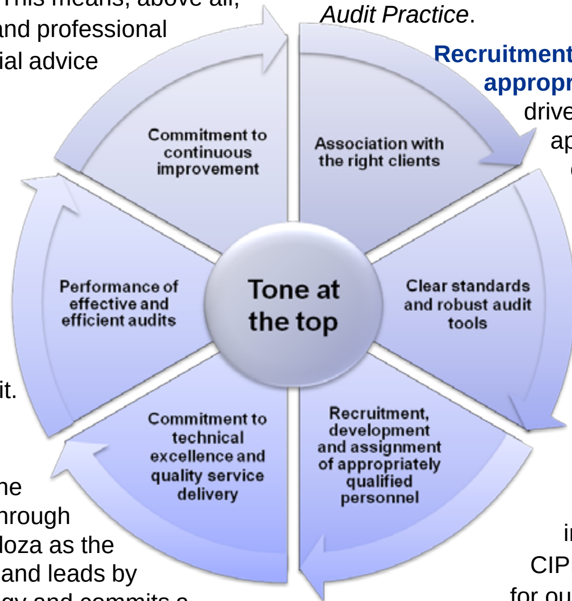
We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.



KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Andrew Cardoza as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

-A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- Timely Engagement Lead and manager involvement;
- Critical assessment of audit evidence;
- Exercise of professional judgment and professional scepticism;
- Ongoing mentoring and on the job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- If relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- Clear reporting of significant findings;
- Insightful, open and honest two-way communication with those charged with governance; and
- Client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

Appendix 3 : Assessment of fraud risk

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

89

Members /Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - Any significant deficiencies in internal controls.
  - Any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management/officers.

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.

Appendix 4: Transfer of Audit Commissions’ functions

The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission’s regulatory and other functions.

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission’s audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA’s responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors’ work. The responsibility for making arrangements for publishing the Commission’s value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission’s other functions will transfer to new organisations:

- Responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- The Commission’s responsibilities for local value for money studies will also transfer to the NAO; and
- The National Fraud Initiative (NFI) will transfer to the Cabinet Office.

cutting through complexity™

Internal Audit Progress Report

Northampton Borough Council

March 2015

pwc

Introduction

We are committed to keeping the Audit Committee up to date with internal audit progress and activity throughout the year. This summary has been prepared to update you on our activity since the last meeting of the Audit Committee and to bring to your attention matters that are relevant to your responsibilities as members of the Authority's Audit Committee.

2014/15 audit plan

An initial draft audit plan was presented to the Audit Committee in May 2014. Following input from the Chief Executive, a revised draft plan was presented in July. This was taken to the Management Board Meeting in October 2014 and the final draft plan was approved by the Audit Committee in November 2014.

Since then we have undertaken work in accordance with the plan. An outturn statement detailing assignments activity for the year to date is shown in Appendix One.

Activity and Progress

Engagement with senior personnel

We have met with responsible parties to monitor progress, highlight any issues and plan for the delivery of the remaining elements of the audit plan. This has involved the following meetings:

- 19/11/14 – meeting with Francis Fernandes
- 17/12/14 – meeting with Francis Fernandes
- 19/1/15 – meeting with Kelly Watson
- 3/3/15 – meeting with Francis Fernandes

Availability of information for audit

Since the internal audit plan was approved we have experienced significant delays in delivery of the Directorate and Financial Delegations review due to difficulties in obtaining the information requested from both NBC and LGSS on a timely basis. Where information has been provided this has often been received outside of our agreed timescale for the review and has not been supported by adequate explanations or access to supporting documents to evidence the application of relevant controls.

Draft reports

Draft reports have been issued and are with management for review for the following areas:

- Good Governance questionnaire
- Data protection compliance review

Work in progress

Draft reports are being prepared / fieldwork is in progress in the following areas:

- Risk management / business continuity
- Environmental Services contract review
- Directorate Review – Customers & Communities (refer Appendix 2)
- Directorate Review – Regeneration, Enterprise and Planning (refer Appendix 2)
- Financial delegations

Planned reviews

Fieldwork has been planned for the following reviews:

- Section 151 officer review

Proposed changes to the 2014/15 audit plan

The audit plan was approved by the Audit Committee in November 2014. We have continued to review the plan to ensure that it is focused on Northampton Borough Council's risks. On that basis, we have made the following revisions to the November 2014 Audit Plan as outlined below:

- Directorate Review: Housing - Following the transfer of housing stock to Northamptonshire Partnership Homes (NPH) in January 2015, our internal audit review of Housing is no longer within the scope of our audit plan. We intend to reflect this in our annual report and encourage the Council to obtain assurance from NPH auditors over the risk management, internal control and governance of its operations.

- Procurement review – having held the scoping meeting to identify potential risks in this area it was identified that the main area of concern related to the management override of procurement controls through the use of contract waivers. This has been considered as part of the Financial Delegations review. It is considered most effective to address the risks identified through the completion of the Financial Delegations review. The procurement process is managed by the LGSS.

- Recruitment and Insurance reviews – having held scoping meetings with the Monitoring Officer it is understood that the majority of these processes fall within the remit of LGSS. We have considered the processes involved with recruitment as part of our directorate governance reviews. Owing to the delays experienced in approving the annual audit plan and timescale before the year end these reviews will not considered as part of the 2014/15 internal audit work performed.

We have also changed the scope of work to be undertaken as part of the Directorate reviews. See Appendix 2 for more details.

Previously agreed changes to the 2014/15 audit plan

- LGSS contract follow up review – at the request of the Monitoring Officer this review has been put on hold until a responsible person has been recruited and established in post. The Council are currently trying to recruit for this post, which will sit within the Borough Secretary Directorate, however it is unclear when this will be.

- Information Governance and Data Protection compliance reviews – these reviews are defined separately on the Audit Plan, however it is considered most effective to combine these reviews into one review and complete on this basis. The audit days will remain the same.

Appendix 1 - Internal audit progress

Auditable Unit	Actual days / planned days	Status	Comments
Cross Cutting Processes – Governance, Risk Management and Compliance			
Risk management and business continuity	3 /30	Scope of work agreed	22/1/15 initial scoping meeting held with Jennie Daughtry (PwC), Francis Fernandes and Silvina Katz (NBC)
Information Governance: Data Protection	60 / 80	Draft report issued	Draft report issued
Financial delegations and exemptions		In progress	Fieldwork started January 2015. Testing sample selected and awaiting evidence to be provided.
Corporate fraud		Not started	Terms of reference drafted, scoping meeting to be arranged
Governance questionnaire and follow up	12/ 12	Draft report issued	Draft report issued 5/2/15. Only 21 people (31%) responded to the questionnaire therefore making it difficult to draw any meaningful conclusions.
Contracted services			
LGSS contract management	4/28	On hold	Review on hold until responsible person appointed
Section 151 officer review		Scope of work agreed	Opening meeting to be held 16/03/15
Environmental Services Contract	3 / 20	Scope of work agreed	Fieldwork to start w/c 9 March
Directorate Governance and Accountability			
Regeneration, Enterprise and Planning	15 /15	In progress	Refer Appendix 2
Customers and Communities	15 / 15	In progress	Refer Appendix 2
Borough Secretary	2 / 10	Not started	Terms of reference approved. Fieldwork to be arranged

Appendix 2 – Directorate reviews

Background

We planned to examine the controls in place across each Directorate to ensure that the Council's established processes for governance and financial accountability are operating consistently across the organisation and are suitably robust to achieve the Council's objectives. In particular, we wanted to focus on how decisions are made and the procedures which are followed to ensure that decisions are efficient and transparent and in accordance with the Council's Constitution.

Scope of work

The scope of work was developed during various meetings, starting in September 2014. The terms of reference were formally agreed on 21 October 2014 to include the following areas:

Directorate governance processes:

- Departmental structure
- Decision making and accountability
- Objective setting and risk assessment
- Budget and performance monitoring
- HR processes

Compliance with financial processes and controls:

- Payments
- Income
- Capital assets
- Payroll
- Cash

As part of the prior year internal audit, following the transition to LGSS, we spent a significant amount of time understanding the financial processes, identifying controls and determining if they were based within the Council or LGSS. We developed a series of diagrams to show the processes for all the main financial transactions and key financial controls and provided these to the Council and LGSS. As part of the Directorate reviews we intended to review and test only those controls which operate within the Council. Where controls operate within LGSS, assurance is provided by the LGSS Internal Audit team.

Fieldwork performed

We started the review of the Customers & Communities Directorate in December 2014 and Regeneration, Enterprise and Planning Directorate in January 2015.

In both Directorates we were able to assess the governance controls in operation. Our work in this area is being finalised but to date no significant issues have been identified.

We have updated our understanding of the key financial controls and transaction processes within each Directorate and note that there have not been any significant changes to the processes as described in the prior year.

To test the operation of the financial controls, transaction population listings are required from which samples can be selected and subsequently evidence obtained to assurance the accuracy, validity and approval of the transaction. This information was initially requested when the terms of reference were shared with each Directorate however this information was not available when fieldwork commenced in December/January.

Since then we have chased both the LGSS and the Council to obtain the relevant listings. In some instances the information has now been received, outside the timescale of our review, but we have still been unable to identify relevant personnel who can support us with our testing and provide subsequent evidence to support samples selected.

Our original scope of work and audit approach has been limited due to these issues. A revised approach was developed and agreed with the Monitoring Officer and Deputy Section 151 Officer.

All financial transactions are recorded within the Agresso system. System controls, under the operation of LGSS, prevent transactions being processed without appropriate authorisation. This means that the key control in all financial transactions is the set-up of authorisation rights with the within the Agresso workflow.

As such, we have developed the scope of the Financial Delegations review to include the process and controls around which the Council's scheme of delegated authorities is set up in Agresso and subsequently updated and reviewed. We will perform testing to ensure that where individuals have access to approve transactions that this has been appropriately authorised and is suitable given their grade and authority within the Council.

Fieldwork is currently underway and any findings will be reported as part of the Financial Delegations report.

Appendix 2 -Thought leadership publications

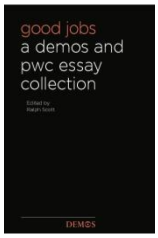
As part of our regular reporting to you we plan to keep you up to date with the emerging thought leadership we publish. The PwC Public Sector Research Centre produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.

All publications can be read in full at ***www.psrc.pwc.com/***

European governments need to regain citizens' trust in public finances - December 2014

Only one in five Europeans have trust in their government's ability to manage public finances, according to a new ICAEW-PwC report. Trust in public finances: A survey of citizens in 10 European countries shows that the majority of those surveyed struggle to assess and understand the state of the public finances, believing their government doesn't provide sufficient information.

The report, based on a survey of 10,000 citizens in ten EU countries (Belgium, Finland, France, Germany, Italy, Poland, Spain, Sweden, The Netherlands and the UK), reveals that this crisis of confidence is evident among citizens of all ages and across all the countries surveyed, although of deeper concern in some countries than in others.



Good Jobs: A Demos and PwC essay collection- December 2014

This Demos and PwC collection of essays brings together a wide range of contributors to share their views on what might be meant by 'good jobs', productive and rewarding in all senses, and how more of them can be created through changes in the approach to job design, learning and development and reward.

In our essay contribution, PwC's Ian Tomlinson-Roe shares the views of the public from a Citizens' Jury we held at the autumn party conferences. Opportunities for progression, job satisfaction and having a stake in the business are all conditions the public consider important for a good job.

Smart moves: Tapping into growth in public transport - December 2014

There's a growing customer demand for smarter forms of ticketing; passengers are seeing the value of smart over conventional ticketing and more people are ready to adopt new technologies. However, despite technological advances, the public transport sector has yet to fully embrace the potential of these new technologies and there is more that government and transport operators can do to enable smart technology and integrated ticketing.