NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

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

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

on Monday, 18 January 2016

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

3. DEPUTATIONS / PUBLIC ADDRESSES

4. DECLARATIONS OF INTEREST

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

6. AUDIT COMMITTEE REVIEW OF LOAN TO NTFC AND DEVELOPMENT AT SIXFIELDS — Report of Chief Finance Officer

(Copy herewith)

7. DEBT ANALYSIS REPORT — Report of Chief Finance Officer

(Copy herewith)

8. TREASURY MANAGEMENT STRATEGY MID YEAR UPDATE 2015-16 — Report of Chief Finance Officer

(Copy herewith)

9. DRAFT TREASURY MANAGEMENT STRATEGY 2016-17 — Report of Chief Finance Officer

(Copy herewith)

10. RISK REVIEW OF 2015/16 BUDGET OPTIONS — Report of Chief Finance Officer

(Copy herewith)

11. FINANCIAL MONITORING REPORT (PERIOD 6) — Report of Chief Finance Officer

(Copy herewith)

12. EXTERNAL AUDIT UPDATE - CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2014/15 — Report of External Auditor

(Copy herewith)

13. INTERNAL AUDIT UPDATE — Report of Internal Auditor

(Copy herewith)

14. RISK BASED VERIFICATION (RBV) POLICY — Report of Chief Finance Officer

15. 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.”

PRIVATE APPENDICES

SUPPLEMENTARY AGENDA

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

<TRAILER_SECTION>
Appendix A and B to Item 14

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, 9 November 2015

PRESENT: Councillor Nunn (Chair); Councillors Lynch, Chunga, Kilbride, Marriott and Stone

1. APOLOGIES

Apologies were received from Councillor Golby.

2. MINUTES

The Minutes of the meeting held on 7th September 2015 were confirmed and signed by the Chair as a true record.

3. DEPUTATIONS / PUBLIC ADDRESSES

There were none.

4. DECLARATIONS OF INTEREST

Councillor Kilbride declared a personal non pecuniary interest as a Board Member on Northampton Partnership Homes.

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

Councillor Nunn spoke of the recommendation that had been made at the Special Council Meeting where a motion was passed on the NTFC loan, held on the 2nd November 2015 where it was resolved that:

"Audit Committee be asked to review our policies and procedures and make recommendations necessary for implementation in business arrangements of this nature. The Audit Committee would then present any recommendations to Full Council".

The Chair noted that there were on-going critical discussions and there was a need to focus on the Borough Council aspects of the NTFC loan and whilst examining the lessons that could be learned, it was imperative that the Committee did not prejudice any decision or outcome. The Chair proposed that for the initial assessment of the situation, it would be useful if the Committee could be provided with an overview of the timeline so that Members could choose what information they could drill more deeply into.

The Borough Secretary and Monitoring Officer explained that the internal auditors would not, at this stage, be asked to look into the loan agreement. He stated that the information available was extremely complex and examining the chronology would be more productive for Councillors.

Members of the Committee **AGREED** that a report on Northampton Town Football Club and Sixfields be included on the next Audit Agenda to meet on the 18th January 2016.

6. TREASURY MANAGEMENT OUTTURN 2014-15

The Finance Manager submitted a report on behalf of the Chief Finance Officer and elaborated thereon. She explained that the Council continued to make use of internal borrowing to fund its capital expenditure programme. It was noted that a return of 0.66% had been achieved on investments compared to the 7 day LIBID benchmarks of 0.35% and that the Council had significantly higher levels of cash balances throughout the year than budgeted. In response to questions asked, it was explained that the cash balance was not spare cash as it had been earmarked, but that it could be used as cash against borrowing. It was further explained that two certificates of deposit, taken out in 2014-15, were sold prior to maturity which was advantageous as a small gain could be made in order to re-invest.

RESOLVED:

That Audit Committee reviewed the Treasury Management Outturn Report for 2014-15.

7. FINANCE MONITORING REPORT

The Strategic Finance Manager submitted a report on behalf of the Chief Finance Officer. It was noted that a major forecast variation was the debt financing of £332K which was favourable, arising from a lower level of funding by borrowing in 2014/15 due partly to carry forwards in the capital programme. Members were also informed that the HRA to the end of July was forecasting a saving of £43k, due to non-dwelling rents. Referring to Appendix 6 'Managed Debt Analysis' it was explained that there was a significant increase in arrears being shown, however this was mainly down to timing, withsome big invoices being raised in August and September which have now been paid.

It was suggested that an officer from the Recovery Team be invited to a future meeting to explain the Managed Debt Analysis more in depth and provide an updated and more precise commentary. It was also suggested that if available national trends be provided so that comparisons could be made on performance. The Committee asked that a report on methods and analysis of debt be tabled for a future meeting and asked that further information on the car parking information be provided to reflect any changes to footfall in the Town Centre.

In response to a question asked, the Chief Finance Officer explained that the approved Capital Programme included £9.3m to fund the construction of 100 new Council dwellings, of this £8.6m was in the form of additional borrowing approvals from Government. The borrowing has not been undertaken as yet and will only be taken when required over the project.

RESOLVED:

1. That the Committee considered 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. That the position on car parking income and usage as at 31 July (Appendix 5 of the report) be noted.
3. That the latest position in relation to the Council's outstanding debts as at 31 September (Appendix 6 of the report) be noted.

That consideration be given to whether Committee requires any additional information in order to fulfil its governance role.

8. EXTERNAL AUDIT UPDATE

8.1 ANNUAL AUDIT LETTER REPORT

The External Auditor submitted his annual audit letter report and elaborated thereon. It was noted that there were no material statements or adjustments needed and that officers had assisted and co-operated fully. One risk area that had been identified was with Northampton Partnership Homes (NPH) but there had been no material errors or misstatements and no increased priority recommendations. He explained that KPMG were not auditors for NPH and therefore were not aware of their figures. In response to questions asked, the auditor explained that any weaknesses identified would have been reported in the ISO260 report published earlier in the year. He went on to confirm that members of the public were able to inspect to the statement of accounts.

RESOLVED:

That the report be noted.

9. INTERNAL AUDIT UPDATE

The Internal Auditor submitted a report, providing a progress update on the agreed 2015/16 internal audit plan. It was explained that they were currently reviewing the LGSS contract to ensure that the Council were receiving value for money. It was explained that the specific areas being reviewed were HR and Legal Services to ensure that the contractual obligations were being delivered. It was explained that with regards to Governance and Risks, Risks were being managed quite well but since the Risk Manager had transferred to LGSS there was a lack of strategic risk management, but that future work would be undertaken with senior managers to ensure that risk are being identified, prioritised and dealt with effectively and efficiently.

The meeting concluded at 7.27pm

Appendices

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Review of Northampton Football Club Loan and Development at Sixfields

AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	18th January 2016
Policy Document:	No
Directorate:	Chief Executive
Accountable Cabinet Member:	Mary Markham

1. Purpose

1.1 The purpose of this report is to provide a chronology of events in relation to the loan to Northampton Town Football Club (NTFC) and development of loan at Sixfields, and propose a scope for the Audit Committee review.

2. Recommendations

2.1 To agree the scope, proposed by the Council's internal auditors Price Waterhouse Coopers, of the review by the audit committee into the internal processes and procedures of the loan to NTFC, and, development of land at Sixfields.

2.2 To agree that the Council's internal auditors support the review to be undertaken by the Audit committee.

3. Issues and Choices

3.1 Report Background

3.1.1 On the 2nd November the Council passed a resolution that:

"This Council notes that Northampton Town Football Club owes this local authority £10.25 million and as yet has not repaid the debt. The club has missed three repayment deadlines and has been asked for the full amount to be repaid. This has not been forthcoming.

This Council further notes that HMRC has issued a winding up petition against Northampton Town Football Club for unpaid taxes. This case will be heard in the High Court in London on November 16th 2015.

This Council resolves to,

1. *Do whatever we can to help Northampton Town Football Club and the Supporters' Trust.*

2. *Retrieve the £10.25 million of public money.*

3. *Ask Audit committee to review our policies and procedures and make recommendations necessary for implementation in business arrangements of this nature. The Audit Committee would then present any recommendations to Full Council."*

3.1.2 At its meeting on 9th November 2015 the Audit Committee briefly discussed the process for implementing point 3. The Committee requested that a chronology of events and a scope for the review be produced for its meeting on 18th January 2016. The scope of the review was requested from Price Waterhouse Coopers (PwC), the Council's internal auditors.

Overview of Loan to NTFC and Development of Land at Sixfields

3.1.3 As has been well documented, the Council has advanced £10.25m to Northampton Town Football Club (NTFC) to carry out works to improve stadium facilities at Sixfields (£9m) and to develop a hotel at Sixfields (£1.25m). The Council has not agreed to advance further instalments or to transfer land assets under the conditional land transfer agreement held by County Developments Northampton Limited.

3.1.4 The loans were to be repaid through the provision of a first return to the Council on the development of land adjacent to Sixfields combined with some land previously leased to NTFC, and then through enhanced revenue streams available to NTFC through the hotel and stadium development.

3.1.5 Arrangements were made between NTFC and 1st Land Limited, a company established specifically for this purpose, which have resulted in a position whereby the work for which the Council advanced the funds is only partially complete. The funds which were advanced to NTFC by NBC as provided for by the Facility agreements. NTFC unilaterally passed these funds to 1st Land Limited. This latter company was placed in Administration after failing to pay its contractor, Buckingham Group Contracting Limited. Despite robust questioning of various parties, including the administrator of 1st Land, the Council has been unable to determine where these funds now are.

3.1.6 Following the Administration of 1st Land Limited, a settlement was arrived at between various parties involved, (the Council was not part of these discussions and therefore had no involvement with them) such that the completion of the Stadium works would be undertaken by Buckingham under contract to County Developments (Northampton) Limited (CDNL). Work on the Stadium recommenced but later stopped when CDNL failed to pay Buckingham.

3.1.7 Since May, officers have been working with NTFC and CDNL seeking to find a way forward by which NTFC could meet its obligations to the Council. The Council has made proposals to NTFC to seek to resolve the matter but received no firm proposals from NTFC or any other party to do so over the summer.

3.1.8 In September 2015 NTFC failed to pay due payments on the loans and indicated that it was uncertain when it would be able to pay. Discussions between NTFC and potential purchasers of a controlling interest in NTFC did not progress with any urgency. An examination of NTFC finances at the time indicated that the club was unlikely to be able to meet its outgoings in the near future. In addition it became known that Buckingham had petitioned for liquidation of CDNL.

3.1.9 In order to protect the public purse, the Council exercised its rights under the loan agreements to give notice that it may, after the notice period, require the repayment of the loans. Despite assurances that the proposed sale of NTFC would probably meet this requirement, this was not delivered and the planned purchasers withdrew. The Council then took action to formally cancel the loan agreements.

3.1.10 Following difficulties in being paid monies due by NTFC, Her Majesty's Revenue and Customs (HMRC) issued a Winding Up petition against NTFC on the 15th October 2015.

3.1.11 On the 21st October, the Council cancelled its conditional land transfer agreement with CDNL due to CDNL's impending liquidation. On the 22nd October the petition was granted and CDNL placed in liquidation.

3.1.12 Since mid-October, officers were in discussion with possible purchasers of the controlling interest in NTFC introduced by the then Chairman led by Mr. Kelvin Thomas. The Council has also engaged experienced professional advisors, including financial and legal insolvency experts, to guide officers though this very complicated situation.

3.1.13 On the 2nd November the Council met and passed a resolution that is set out in paragraph 3.1.1.

3.1.14 Cabinet was provided with a progress update at its meeting on 11th November.

3.1.15 During November the Council have met with a number of parties introduced by the previous majority shareholders of NTFC as potential purchaser of their holding. The talks and negotiations with these parties have been lengthy and subject to appropriate due diligence having been undertaken by the Council. During this period the Council also made a formal complaint to the Police regarding the monies.

3.1.16 Cabinet met on 24th November to approve a Memorandum of Understanding (MoU) with the potential new majority shareholders of NTFC. The MoU at this stage was not legally binding and required further work to make it legally enforceable.

3.1.17 NTFC was sold to a new majority shareholder (the consortium led by Kelvin Thomas) on 26th November. Following this HMRC withdrew their winding up petition against NTFC when outstanding monies were paid. However, the administration petition against NTFC from the Council was extended whilst the MoU was turned into a legally binding document. Once it was legally binding the Council removed the administration petition.

3.1.18 The Council will and is doing all that is necessary to recover the loan monies, including working with the police and the liquidators of First Land.

3.1.19 A summary chronology of events is shown at Appendix 1.

3.2 Issues

Scope of Review by Audit Committee

3.2.1 The Audit Committee has been asked by Council to "review our policies and procedures and make recommendations necessary for implementation in business arrangements of this nature". The Council's internal auditors, PwC, have developed the scope for the Audit committee. This is included at Appendix 2.

3.2.2 The internal auditor will undertake this work and report back to the Audit Committee.

Review by External Auditor

3.2.3 The Council's External Auditor, KPMG, will also be undertaking a separate independent review. The review will consider the impact on the Council's Accounts and value for money position. Similarly to the Audit Committee review it will focus on the Council's policies and procedures, as well as its governance. It will be upto KPMG to determine how they wish to report on the matter.

Police Investigations

3.2.4 In addition to the above reviews the Police are currently investigating matters. It is important to note that, unlike the reviews being undertaken by the Audit Committee and External Auditor, the Police investigations are much wider ranging than the processes, procedures and governance within the Council. However, it is expected that the Audit Committee and External Auditor review will work in conjunction with the Police to ensure they do not compromise their investigations.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The report does not impact on Council Policy. However, the recommendations arising from the review may influence future policies of the Council.

4.2 Resources and Risk

4.2.1 The cost of the review undertaken by PwC is anticipated to be managed within the current planned audit days from the Council's Audit Plans in 2015/16 and 2016/17. If this is not achievable the balance will be funded from the Council's reserves as outlined in the report to Cabinet on 24th November 2015.

4.2.2 The key risks in relation to the Audit Committee review are:

- The potential to cover the same ground as the review undertaken by the External Auditor, KPMG.
- The length of time taken to complete the review.
- The review cuts across the police investigation (which must retain primacy).

4.3 Legal

4.3.1 The Council has fiduciary duties to the tax payer and must ensure that it has proper procedures and processes in place to ensure that public monies are protected. The Audit Committee review will be helpful in identifying any procedures and processes that need to be developed / strengthened in order to heed the above duty.

4.4 Equality

4.4.1 The report does not have any equality implications.

4.5 Consultees (Internal and External)

4.5.1 The report has been prepared with input from council officers, audit committee chair and the Council's internal auditor, PwC.

5. Background Papers

5.1 Report to Cabinet on 24th November 2015

Glenn Hammons, Chief Finance Officer, 01604 236512

Sixfields Summary Chronology   APPENDIX 1

Date	Detail
17 July 2013	• Cabinet report approved • Agree the loan in principle
13 Sept 2013	• Lease dated 13 September 2013 • Between NBC and CDNL • 150 years (running track)
13 Sept 2013	• Contract for Sale Agreement dated 13 September 2013 • Between NBC and CDNL
18 Sept 2013	• Loan Facility Agreement signed
20 Sept 2013	• Security on the leasehold interest for Sixfields Stadium - signed
20 Sept 2013	• Tranche 1 • Loan advance £1.5m

26 Nov 2013	• Application N/2013/1048 - approved
	• Planning Committee 26 November 2013 – agenda Item 10d
	  ○ Part demolition of the East Stand to provide addition of new seating to terrace to increase seating capacity from 7,653 to 10,000
	  ○ New conference and or banqueting hall with ancillary accommodation to include kitchen, service area and toilets, gymnasium and service core, office space, parking for 44 cars including 7 for disabled users, hard and soft landscaping area to include North and South Piazza and provision of new access road of Edgar Mobbs Way

2 Dec 2013	• Tranche 2 • Loan advance £1.5m
28 Feb 2014	• Tranche 3 • Loan advance £1.5m
14 March 2014	• Sod cutting ceremony
21 March 2014	• Payment received • Tranche 1
11 April 2014	• Lease dated 11 April 2014 • Between NBC and CDNL (for HCA land)
11 April 2014	• Supplemental Agreement - Land Development Agreement

	○ (It amended the agreement of 13 Sept 2013) between NBC/CDNL and NTFC • Dated 11 April 2014 between NBC and CDNL
14 April 2014	• Clawback Deed dated 14 April 2014 • Between HCA and NBC • Clawback based on if development generated over a certain value
14 April 2014	• Signed Agreement • Additional loan i.e. Facility Agreement and Legal Mortgage. The Loan was for an additional £1.5m
14 April 2014	• Signed Mortgage
17 April 2014	• Additional Facility Agreement loan advance £1.5m
6 May 2014	• Application number: N/2014/0388 - Approved • Planning Committee 6 May 2014 • Agenda item 10g • Extension to front face of existing West Stand to provide new suite of Directors boxes
12 May 2014	• Tranche 4 • Loan advance £1.5m
23 July 2014	• Hotel Facility Agreement Signed
23 July 2014	• Tranche 1 • Loan advance £1.25m
19 Aug 2014	• Tranche 5 – loan drawdown of £1.5m
2 Sept 2014	• Application N/2014/0889 - Approved • Planning Committee 2 September 2014 • Agenda Item 11k • Application for variation of Condition 2 of Planning Approval • N/2013/1048 to alter the layout and accommodation within the East stand
22 Sept 2014	• Payment received • Tranche 1
March/April 2015	• Buckingham started on the completion of the stadium works and working for CDNL
Oct 2014	• Work ceased on site when payments were not being made
17 Oct 2014	• Payment received • Facility agreement 2

12 Nov 2014	• Payment received • Tranche 4
2 Dec 2014	• Payment received • Tranche 2
16 Dec 2014	• Application N/2014/0596 – Approved in principle. Subject to signing of the Section 106 agreement and other conditions (as included in the addendum document) • Planning Committee 16 December 2014 • Agenda Item 10a • Outline planning application for mixed use development of land adjacent to Sixfields Stadium • To include single storey retail buildings (13,380 sqm) single storey buildings for use within classes A3, A4 and A5 (695 sqm) with associated car parking areas, petrol filling station, residential development of up to 255 units comprising of 2-3 storey town houses and 4 storey apartment blocks • Extension at first floor level of the existing West Stand to form a conference centre together with a linked 4 storey up to 100 bedroom hotel, landscaping and open space • Referred to the Secretary of State
18 Dec 2014	• Buckingham applied to put 1st Land Limited into Administration
2 Jan 2015	• Administration of 1st Land Limited granted
Early 2015	• Amending to shareholding of CDNL
23 Jan 2015	• Payment received • Hotel Facility Agreement Tranche 1
25 Feb 2015	• Payment received • Tranche 5
2 March 2015	• Payment received • Tranche 3
23 March 2015	• Payment received • Tranche 1
17 April 2015	• Payment received • Facility Agreement 2
22 April 2015	• Statement of Administrators Proposals • Administrators report • 1st Land Limited

22 May 2015	• Payment received • Tranche 4
9 June 2015	• NBC's detailed questions regarding works to the stadium, 1st Land Limited, monies, the settlement with 1st Land Limited sent to NTFC
11 June 2015	• Payment received • Tranche 2
11 June 2015	• Letter to 1st Land Limited Administrators raising a number of issues around conduct of company's affairs
24 June 2015	• NBC were informed by the NTFC Chairman that he had agreed terms for the sale of the club to a consortium and that the new owners would fully repay the Council as part of their purchase
26 June 2015	• Default interest on late payment received
10 July 2015	• Notice before action to NTFC regarding rights under Facility Agreements • Notice before action to NTFC/CDNL regarding notice in respect of change of ownership
14 Aug 2015	• Part payment received • Hotel Facility Agreement Tranche 1
18 Aug 2015	• Balance of payment received • Hotel Facility Agreement Tranche 1
24 Aug 2015	• Letter to NTFC – Notice before action, non-payment of interest (Tranche 5)
4 Sept 2015	• Payment received • Tranche 5
24 Sept 2015	• Notice to NTFC to repay all monies under the Facility Agreement
Prior to 24 Sept	• NTFC indicated that it would be uncertain when the loan would be repaid • NBC had examined NTFC finances ○ Clear that NTFC would not be able to meeting their outgoings
16 Sept	• Buckingham had petitioned for the liquidators of CDNL
15 Oct 2015	• HMRC petitioned for liquidation against NTFC • NBC had not petitioned at this point
21 Oct 2015	• NBC cancelled its conditional land transfer agreement with CDNL due to CDNL's impending liquidation
22 Oct 2015	• CDNL was placed into liquidation
Mid Oct 2015 to End Nov 2015	• Extensive discussions with potential purchasers
19 Oct 2015	• First meeting with Northampton Town Ventures Limited consortium

2 Nov 2015	• Full Council special meeting • This case will be heard in the High Court in London on November 16th 2015
9 Nov 2015	• Audit Committee meeting ○ Agreed to undertake the review
11 Nov 2015	• Cabinet update report on NTFC
16 Nov 2015	• HMRC winding up petition hearing, adjourned to 30 November 2015
24 Nov 2015	• NBC Cabinet meeting agreed Memorandum of Understanding
26 Nov 2015	• Purchase of NTFC by Northampton Town Ventures Limited consortium
9 Dec 2015	• Memorandum of Understanding converted to a legally binding document
9 Dec 2015	• Debt claims assigned to NBC
9 Dec 2015	• Loan waiver document signed ○ Loan transferred away from NTFC
11 Dec 2015	• NTFC Administration Hearing ○ The administration for NTFC was cancelled

Northampton Borough Council

Terms of reference – Review of policies and procedures relating to the provision of loan finance to Northampton Town Football Club

To: Francis Fernandes, Borough Secretary and Monitoring Officer
Glenn Hammons, Chief Finance Officer and Section 151 Officer

Cc: David Kennedy, Chief Executive

From: Chris Dickens, Internal audit senior manager

This review is being undertaken outside of the 2015/2016 internal audit plan approved by the Audit Committee although the review will be conducted as part of the internal audit service to the council and under the terms of our engagement with the Council.

Background

In July 2013, the Cabinet of Northampton Borough Council ('NBC' or 'the Council') approved a decision to loan monies to Northampton Town Football Club (NTFC) to pay for improvements to its Sixfields Football Stadium and to build a hotel. A loan agreement was prepared and funding was passed to the football club between September 2013 and August 2014. In addition, the Council also entered into an agreement to develop land around Sixfields. The receipts from this development and additional revenues arising from the improved facilities at the Stadium would repay the loan.

In late 2014 the works to improve the east stand at the stadium ceased following a dispute between the Football Club, the developers and the building contractors. These parties resolved their dispute and works recommenced on the stadium in early 2015. However, in the spring of 2015 works ceased on the stadium again when the contractor was not paid. At this time loan repayments to the Council started to be late or were missed but still eventually paid until early autumn 2015 when payments stopped. Consequently, the loan agreement was cancelled and the development company put into liquidation by the contractor.

The Council continued to try and find a solution to the situation, including ensuring a financially sustainable Football Club. During this period the Football Club was placed under the threat of a winding up petition from HMRC which would have led to the Football Club going into liquidation. This prompted more serious action by the Council.

The Football Club has now been sold to a new buyer and a legally binding memorandum of understanding is in place with the new owner. The Council has informed the police of the situation and has initiated a series of workstreams to investigate the details of the loan agreement and whether there has been any fraudulent action.

The Audit Committee has asked Internal Audit to conduct a review into the circumstances surrounding the loan to the Football Club and in particular to consider the relevant policies and procedures that are applicable to a transaction of this nature. This review will focus on whether the current policies and procedures are adequate and whether they were adhered to in this instance.

We will produce a report for the Audit Committee on the adequacy and effectiveness of the existing policies and procedures and any that were in place at the time of this agreement. We will also consider lessons learned that should be incorporated into policies and procedures going forward.

Scope

The objectives included in this review are as follows:

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Objective	Work to be completed
Business case and decision making process	
A suitably detailed and costed business case was produced to support the decision to make financing available to the Football Club.	We will review the report submitted to the Cabinet to ensure that the decision was based on sound information in accordance with council policies. We will ensure that the supporting paper / business case contains sufficient detail on costs and payment mechanisms in order to understand the financial obligations on the Council
Decisions are based on adequate, accurate information and are in accordance with council financial regulations	We will review the minutes of Council meetings where decisions were taken relating to this transaction to ensure that there was sufficient information provided and debate undertaken. We will review Council policies and financial regulations to ensure that decisions were taken in accordance with these regulations.
Loan agreement	
Decision taken by the Council is translated into a formal loan agreement	We will review the agreement in place to ensure that it reflects the decision taken by the Council
Appropriate professional advice has been obtained in producing the agreement	We will review the way in which the agreement was produced to ensure that appropriate professional advice was obtained and that the agreement was produced in accordance with council regulations.
Governance	
Adequate governance arrangements were established to oversee the agreement.	We will review the governance processes established against best practice to ensure that adequate oversight was in place for the agreement. We will understand the reporting arrangements to the executive and members to ensure that appropriate oversight and governance was in place.
Risk management	
A formal risk assessment was undertaken as part of the decision making process. Risks were identified, assessed and appropriate mitigations put in place to manage identified risks.	We will ascertain what actions were taken to identify and manage risks associated with this decision.
Risks associated with the agreement were reviewed on a regular basis and necessary actions undertaken to protect the council's	We will review the arrangements to manage risk on an ongoing basis and to understand arrangements for

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Objective	Work to be completed
interests.	reporting on risk and issues management.
Performance management	
Arrangements were established to monitor and manage performance of the agreement.	We will review what arrangements were made to review performance including performance reporting arrangements We will review performance reporting arrangements and ensure that those charged with governance were kept informed of any performance issues.
Management information	
Format and content of management information is adequate for effective governance and performance management.	We will review management information arrangements and ensure that these are appropriate for an agreement of this nature. We will review actions taken where management information identified performance issues or increased risk.
Financial controls	
The agreement contains adequate information to ensure that all parties understand the financial obligations and payment mechanisms.	We will review the agreement to ensure that there is sufficient information around financial controls and payment arrangements.
Any financial exposure is identified and reported at an early stage in order to protect the council's interests	We will ascertain the escalation procedures established in the event of any payment problems to ensure that the Council's financial exposure is limited.
Project management	
Arrangements were established to project manage the agreement and financial arrangements.	We will understand the project management arrangements put in place to oversee this agreement.
Regular reviews were undertaken of the project management arrangements to ensure that the Council's interests were protected and any risks mitigated.	We will review project reporting including risk and issue management

Limitations of scope

The scope of our work will be limited to those areas outlined above and is focused on internal arrangements within Northampton Borough Council. We will liaise with other parties involved in investigating the circumstances surrounding this agreement in order to avoid any duplication of effort and to ensure that our review does not compromise other reviews being undertaken, particularly the police investigation. Our review will not consider the conduct of council members.

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Audit approach

Our audit approach is as follows:

- Review Council minutes and documents to understand the rationale behind the agreement;
- Review all relevant documentation including (but not limited to) the loan agreement;
- Review relevant council policies and procedures including Financial Regulations;
- Consider the control objectives detailed previously and consider adherence to Council policies and procedures for each of these objectives;
- Identify any gaps and weaknesses in the processes, including any examples of non-compliance, and work with key personnel to produce agreed actions for improvement;
- Consider 'lessons learnt' to improve processes for future agreements of a similar nature;

Internal audit team

Name	Role
Chris Dickens	Senior Audit Manager
Matthew Plummer	Forensics Senior Manager
Jodie Stead	Audit Manager

Key contacts – Northampton Borough Council

Name	Title	Role
Francis Fernandes	Borough Secretary and Monitoring Officer	Audit sponsor of review. Approve terms of reference and receive draft and final reports.
Glenn Hammons	Chief Finance Officer and Section 151 Officer	Key contact for review. Receive terms of reference and draft/final reports.
David Kennedy	Chief Executive	Approve scope of review and receive final report
Audit Committee		Approve scope of review and receive final report

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Timetable

Fieldwork start	20th January 2016
Fieldwork completed	TBC
Draft report to client	TBC – 2 weeks from clearance meeting
Response from client	TBC – 1 week from issue of draft report
Final report to client	TBC – 1 week from receipt of response from client

Agreed timescales are subject to the following assumptions:

- all relevant documentation, including source data, reports and procedures, will be made available to us promptly on request; and
- staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

Information request

- Access to a copy of the loan agreement and other relevant documentation;
- Access to relevant personnel involved in, or with knowledge of, the loan agreement.

DRAFT

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Appendices
3

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Debt Analysis Report

Audit Committee Meeting Date:	18 January 2016
Policy Document:	No
Directorate:	Finance Directorate LGSS
Accountable Cabinet Member:	Cllr Mike Hallam

1. Purpose

1.1 Previously the chair of the audit committee has requested a report to be provided to each audit committee that shows analysis of debt and the age of outstanding debt across Northampton Borough Council (NBC)

2. Recommendations

2.1 That the audit committee note the latest updated analysis of debt.

3 Issues and Choices

3.0 Report Background

3.1 The corporate debt recovery team, part of LGSS Revenues and Benefits, is responsible for the recovery of all overdue debt across the Council. Initially requests for payment should be requested from individual service areas, with the appropriate reminder notices issued to ensure income is collected as soon as possible. Where this has been completed and debts are still outstanding the debt is then passed to the Councils recovery team in order to seek payment of the debt. The recovery team have responsibility for recovery of overdue debt as follows:

- Council Tax
- Business Rates (NNDR)
- Business improvement district levy (NNDR)
- Council Tenants but not current rent arrears

- Former Council Tenants
- Service Charges for leaseholders
- Re-chargeable repairs – current tenants
- Re-chargeable repairs – former tenants
- Housing benefit overpayments
- Sundry debts (i.e. Council services)

3.2 The corporate debt recovery team liaise with all service departments to ensure that income collection and debt avoidance practices are incorporated across the Council. This ensures that the quality of debts passed to the section is improving and that the requirements of the Councils Debt recovery policy can be followed in a timely manner. This activities such as:

- Minimising debt occurring in the first place, particularly through the timely assessment of benefits,
- Ensuring that services by the Council are paid up front where possible i.e. housing repairs, rental of meeting rooms etc.
- Ensuring the completion of housing benefit forms in respect of temporary accommodation,
- Maximising benefit through prompt completion of benefit forms at tenancy sign-ups,
- Completion of processes and procedures between departments and debt recovery team to ensure all debt referred / showing as overdue is accurate i.e. all appropriate reminders, efforts to ensure prompt payment, reconciliation of actual payments have been completed prior to referral / when picked up as overdue by the debt recovery team.

3.3 In 2010 the Council introduced a methodology across all debt types to differentiate between managed and unmanaged debt (sometimes called "inactive" debt).

3.4 Managed debt is where a debt type is within a specific set of clearly measureable criteria, and unmanaged debt is outside these criteria. An example of this is:

Criteria "Invoiced debt will be sent a reminder if it remains unpaid after 28 days". All debts invoiced and outstanding less than 29 days is "managed", any debt outstanding after 28 days, outstanding and not issued with a reminder is "unmanaged". The debt that has just had a reminder issued would then become subject to a new set of criteria for invoices at reminder stage, which it is measured against.

3.5 This principle supports the theory that managed debt is more likely to be paid, and more promptly. It can be applied to all stages in the life of a debt, how long a disputed debt is on hold, how long a debt is with enforcement agents, or how long it takes to through a legal process etc.

3.6 The process supports evidence gathering for process change and improvement, identifying blockages, removing hearsay and myth busting, and the write-off of irrecoverable debts at an earlier stage.

3.7 Each service area has a detailed recovery timetable, with definitions of debt type and criteria that recovery is taken against.

3.8 The amount of unmanaged debt is a corporate KPI. Currently being no more than 4.5%.

3.9 Since 2010, the amount of unmanaged debt has continued to reduce, whilst at the same time processes and criteria have strengthened over the same period.

4.0 Issues

4.1 Debt is harder to collect than ever, with more long term arrangements being made, and there is a need to look at a customer’s total indebtedness

4.2 There is a need to balance the recovery action as being appropriate, whilst not raising unnecessary recovery costs, which add to the debt and unnecessary stress for customers.

4.3 Comparing debt types against each other is difficult as they are measured in different ways, Council Tax and NNDR are measured on current year debt and all previous years debt is arrears, regardless of what recovery stage the debt is at, or when the debt is raised. The other debts can be measured on an age basis.

4.4 All debt types have different recovery options and consequences, and priorities, therefore good collection against Council Tax and on-going rent, could have a detrimental impact on the collection of sundry debts, Former Tenant Arrears and overpaid Housing Benefit.

4.5 Excellent progress has been made in taking a single approach to debt recovery and the Revenues debt management team will continue to work across service areas, and with the voluntary sector, to ensure we take a truly corporate approach to debt avoidance and recovery.

5.0 Progress

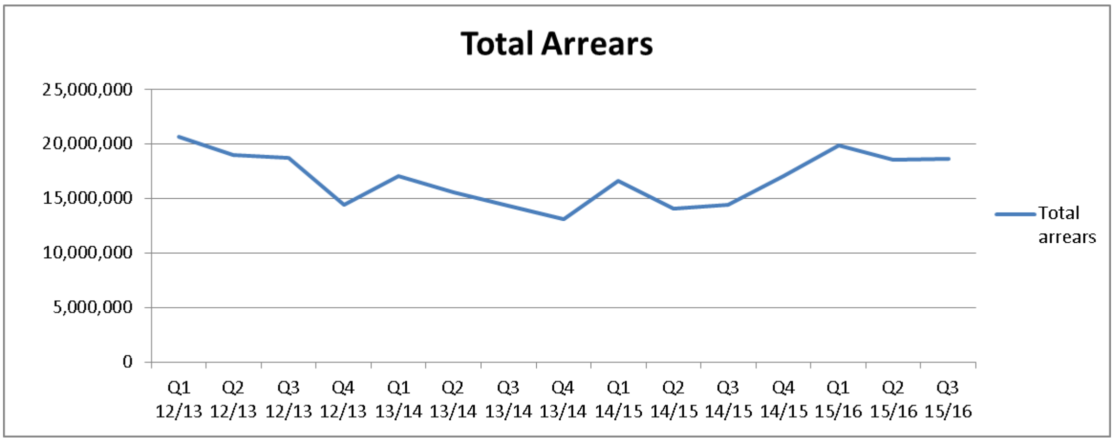
5.1 We have compiled corporate debt matrix that monitors the % of debt not currently managed within the Council. This offers “at a glance” view of all debt across the Council, along with the current status of debt. This has improved the way our Cabinet Member and management board review our position on debt.

5.2 Quarterly performance for 12/13 and 13/14 (Please see appendix 5.1)

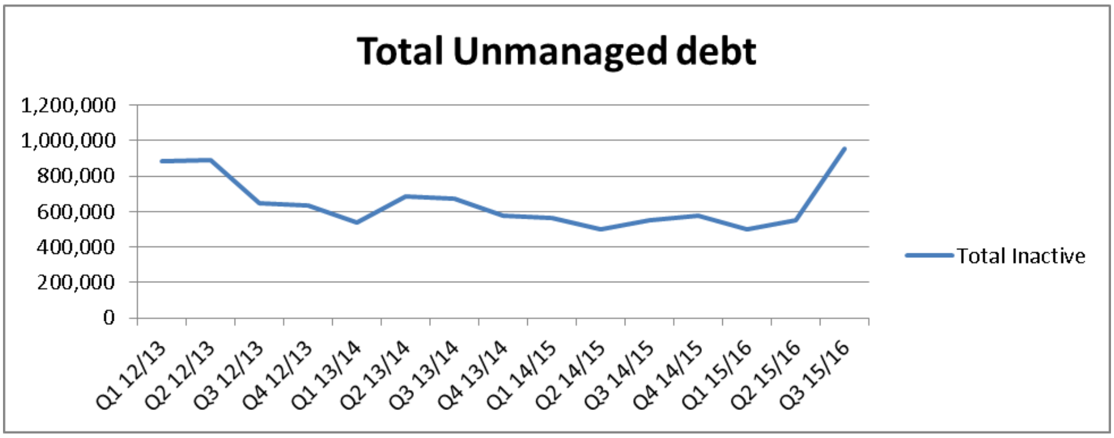
5.3 Quarterly performance for 14/15 and 15/16 to date (Please see appendix 5.2)

5.4 Rolling 12 month comparative performance (Please see appendix 5.3)

5.5 <u>Overall debt levels as at 30th November 2015</u>

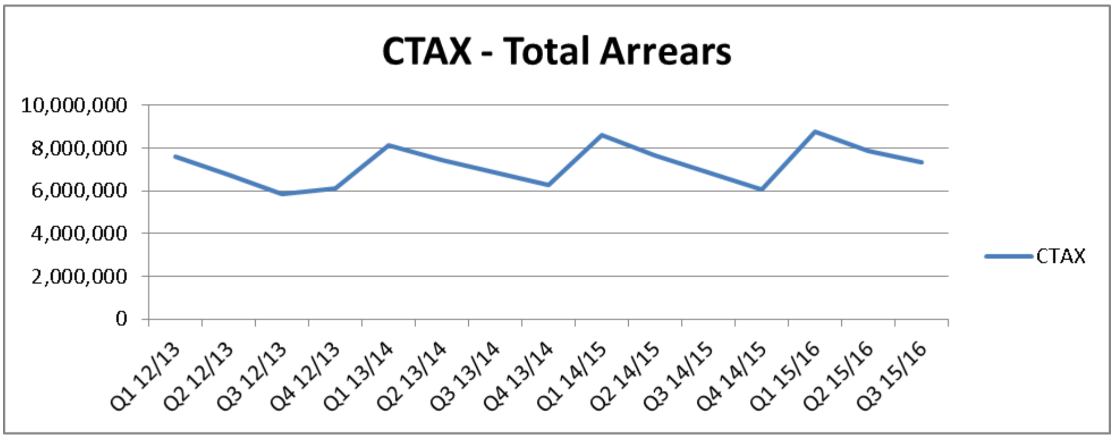


The overall outstanding arrears have increased by £3,591k compared to the same point last year. Please see individual debt types for explanation of increase.

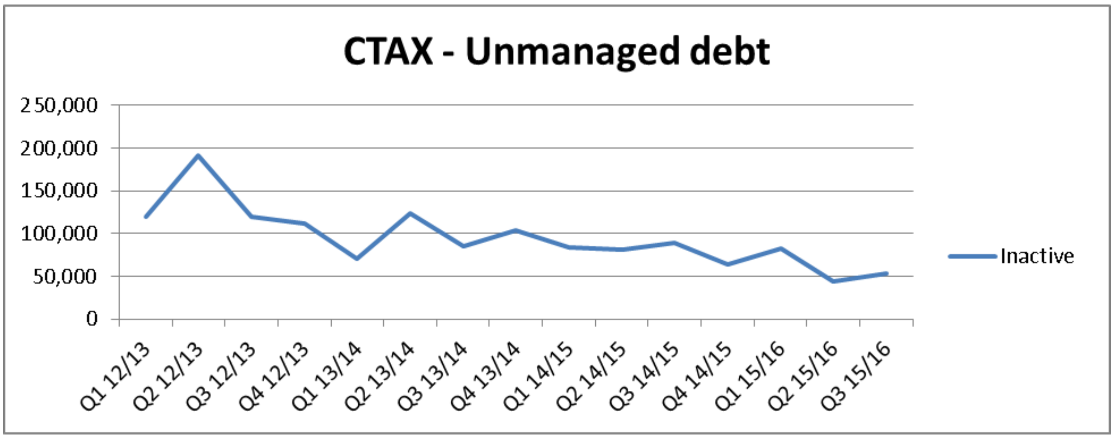


Unmanaged debt is £371k more than the same time last year. If the specific issue already identified within sundry debt figures was addressed, it would have reduced the proportion of unmanaged debt against the overall arrears, demonstrating that overall the Council is working much harder to maximise its income.

5.6 <u>Council Tax as at 30th November 2015</u>



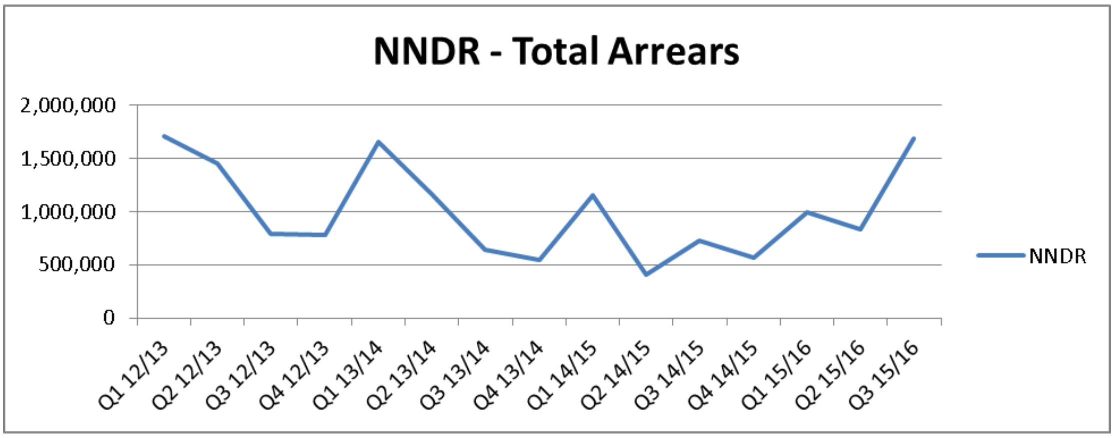
The overall outstanding arrears are £369k more than at the same point last year, which is due to an increase in Council Tax charge in 2014/15 and a reduction in the 2014/15 Council Tax Reduction Scheme.



Unmanaged debt is £53k less than the same time last year, which demonstrates that despite the increase in arrears, the debt is being worked harder. This has resulted in £76k more arrears being collected in this financial year to date.

The Welfare Reform measures are definitely making it harder for those Council Tax payers on low incomes being able to pay their Council Tax, and there has been a significant rise in the number of attachment of benefits orders.

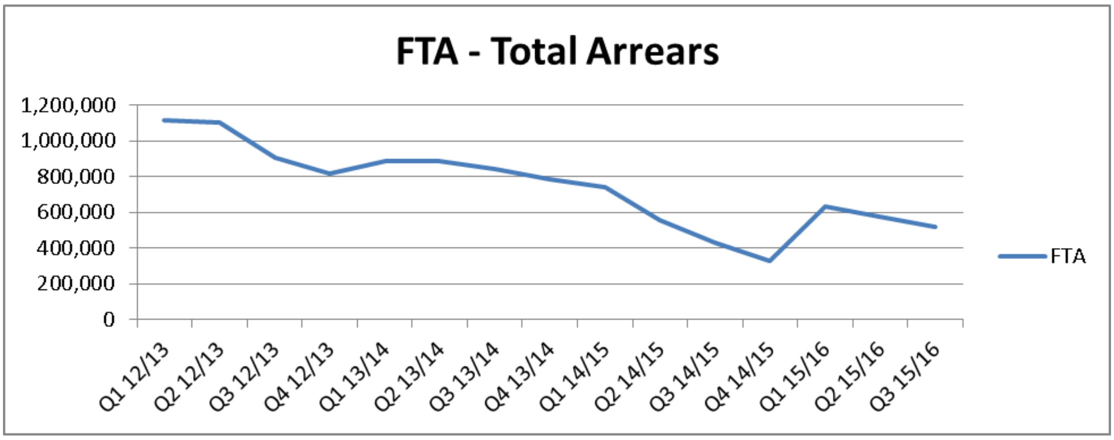
5.7 Business Rates (NNDR) as at 30th November 2015



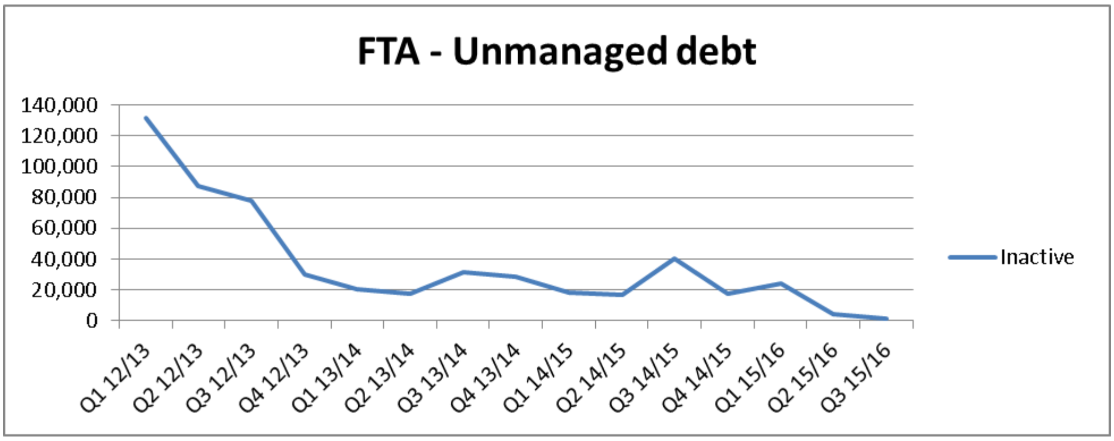
The overall outstanding arrears are £839k more than at the same point last year. This is primarily due to increased rateable values being backdated into 2014/15, which has raised additional arrears of £867k in the last month alone. This is expected to be paid by the end of March 2016.

There is no unmanaged debt remains unchanged in NNDR as all accounts continue to be monitored on a monthly basis, due to the low number and high value of cases.

5.8 Former Tenant Arrears as at 30th November 2015

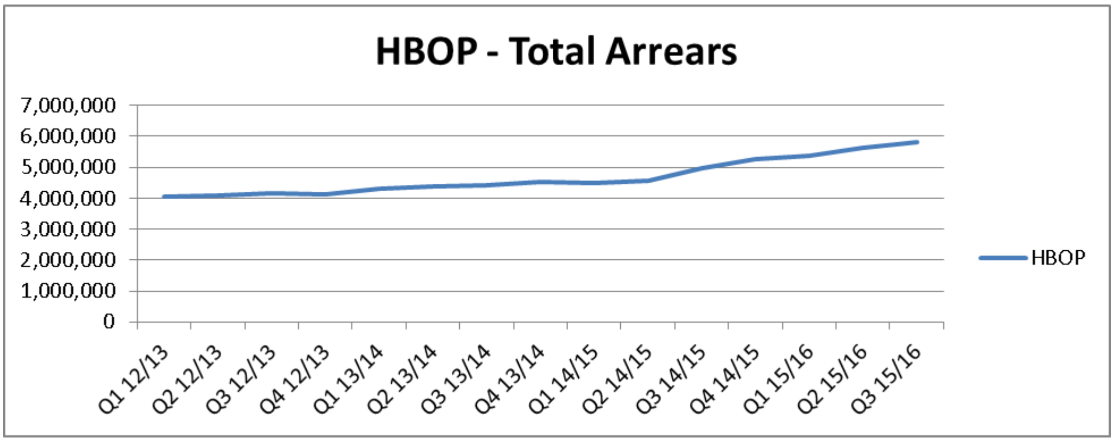


The overall outstanding arrears are £411k more than at the same point last year. This is due to a rise in the number of evictions, absconders and other terminations of tenancy.

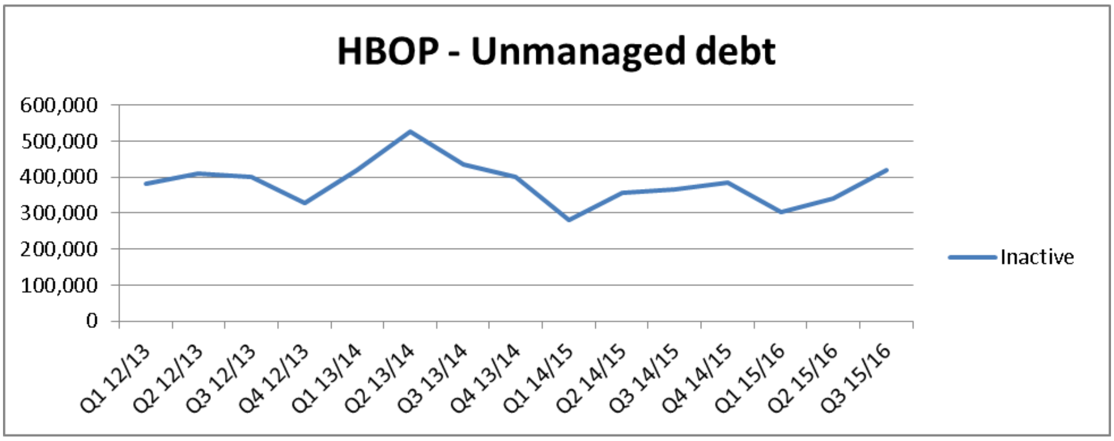


Unmanaged debt is £44k less than the same time last year, which demonstrates that despite the increase in arrears, the debt is being worked harder. This is the lowest amount of inactive debt to date.

5.9 Housing Benefit Overpayments Payments as at 30th November 2015

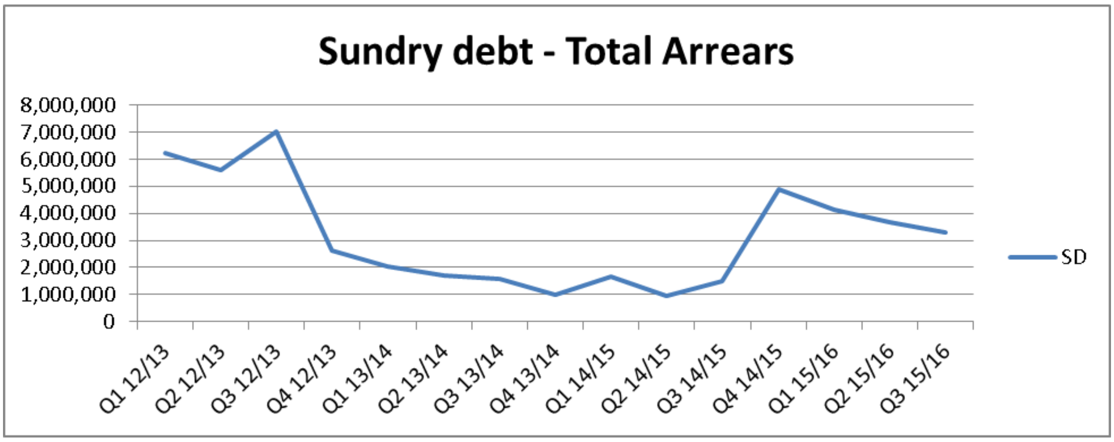


The overall outstanding arrears are £986k more than at the same point last year. This is a national trend as the DWP has introduced two major initiatives, being “Real Time Information” and “Fraud and Error Reduction Incentive Scheme”, which the Council is fully supporting. These are designed to drive error and fraud out of the benefit system, however the consequence is that it creates overpayments that need collecting. The current benefit team’s performance has lessened the comparable impact on the Council, and coupled with working the debt harder, as demonstrated in the reduction in the percentage of unmanaged debt, these debts remain very difficult to collect due recovery methods available to us, and the economic climate.

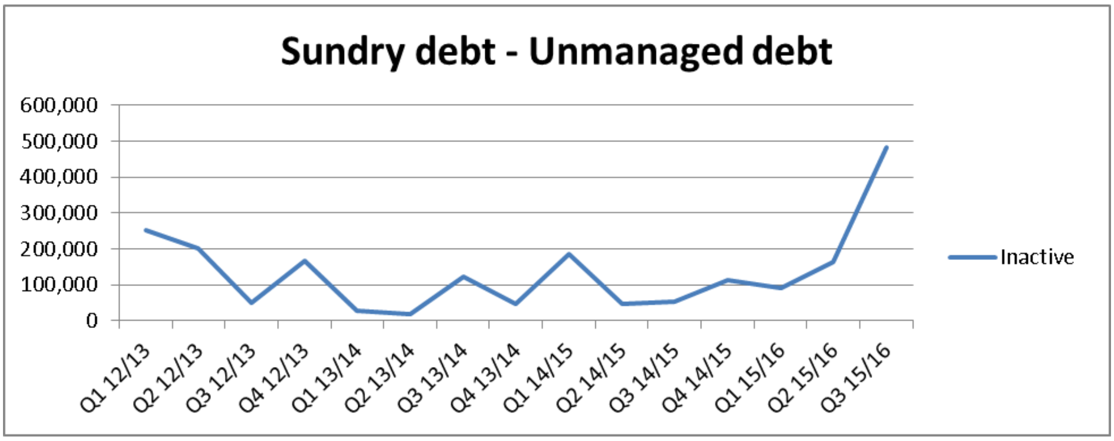


Unmanaged debt is £23k is more than the same time last year, but as a proportion of the outstanding balance it has reduced. The Welfare Reform measures are definitely making it harder for these debtors to pay, and as the debt is deemed as "low priority", when compared to other debt types, and arrangements tend to be small amounts over a long period of time. We have also seen an increase in direct debit payers for this type of debt, but once again small amounts over a longer period of time.

5.9 <u>Sundry Debts as at 30th November 2015</u>



The overall outstanding arrears are £1,355k more than at the same point last year, however this is slightly distorted. Of the invoices over £100k outstanding as at the 30th November, totalling £1,897k, only an NPH invoice totalling £682k remains due for payment.



The unmanaged debt is £446k more than the same time last year. This is due to a higher than normal amount of unmanaged Sundry Debt amounting to around £399k. All of this controlled recovery activity is undertaken within the individual service areas in the Council. Around £364k lies within Asset Management, who are aware of this recent spike and are taking measures to address this in the coming months. The unmanaged debt element of the Sundry Debt measure under direct control of the corporate debt recovery team is 0%

6.0 Resources and Risk

We are still reviewing the implications of welfare reform on the collection of debts across the Council. Reductions in benefits, which started to have an impact during 2011/12 continue and despite the number of claimants reducing during the same period, it has left a core of households with limited, or less, income to allocate to debts they may owe to the Council. This situation is not expected to improve significantly in the next few years.

7.0 Legal

7.1 Corporate Debt Policy
7.2 Corporate Debt Principles
7.3 Financial Instruction AR04 – Write-offs

8.0 Equality

An equality impact assessment, initial screening has been completed.

9.0 Consultees (Internal and External)

We will continue to work closely with the public and the voluntary sector in order to ensure that we take a fair approach to debt recovery.

10.0 Implications

N/A

11.0 Background Papers

N/A

Report Authors: Robin Bates, Head of Revenues and Benefits, and Ian Tyrer, Revenues Manager

Appendix 5.1

YEAR on YEAR PERFORMANCE	2012/13				2013/14			
	JUN	SEP	DEC	MAR	JUN	SEP	DEC	MAR
TOTAL ARREARS	**20,686,484**	**18,990,764**	**18,708,429**	**14,448,119**	**17,025,467**	**15,552,879**	**14,348,298**	**13,133,970**
Total Awaiting Action	882,816	889,537	650,088	635,627	538,313	686,348	672,446	578,997
Managed Debt	19,803,668	18,101,227	18,058,341	13,812,492	16,466,850	14,866,531	13,675,852	14,052,291
% unmanaged debt [PI]	**4.27%**	**4.68%**	**3.47%**	**4.40%**	**3.16%**	**4.41%**	**4.69%**	**4.41%**
CTAX	7,590,716	6,748,461	5,851,338	6,090,189	8,149,267	7,430,390	6,857,434	6,281,511
unmanaged debt	118,927	190,988	119,645	111,528	71,102	123,521	84,934	103,752
managed debt	7,471,789	6,557,474	5,731,693	5,978,660	8,078,165	7,306,869	6,772,500	6,177,759
unmanaged debt	**1.57%**	**2.83%**	**2.04%**	**1.83%**	**0.87%**	**1.66%**	**1.24%**	**1.65%**
NNDR	1,709,394	1,454,169	792,303	776,782	1,650,440	1,162,504	639,286	543,491
unmanaged debt	0	0	0	0	0	0	0	0
managed debt	1,709,394	1,454,169	792,303	776,782	1,630,136	1,162,504	639,286	543,491
unmanaged debt	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
FTA	1,112,712	1,101,424	907,131	814,503	883,694	886,670	845,330	784,750
unmanaged debt	131,638	87,568	78,244	30,016	20,639	17,649	31,602	28,324
managed debt	981,074	1,013,856	828,887	784,487	863,054	869,021	813,728	756,426
unmanaged debt	**11.83%**	**7.95%**	**8.63%**	**3.69%**	**2.34%**	**1.99%**	**3.74%**	**3.61%**
HBOP	4,062,784	4,090,115	4,152,394	4,122,698	4,313,173	4,381,953	4,413,462	4,515,411
unmanaged debt	380,956	409,456	402,007	328,701	418,400	528,023	434,249	399,861
managed debt	3,681,828	3,680,659	3,750,387	3,793,997	3,894,773	3,853,930	3,979,213	4,115,550
unmanaged debt	**9.38%**	**10.01%**	**9.68%**	**7.97%**	**9.70%**	**12.05%**	**9.84%**	**8.86%**
Sundry Debt	6,210,878	5,596,594	7,005,263	2,643,948	2,028,893	1,691,362	1,592,786	1,008,807
unmanaged debt	251,296	201,526	50,191	165,382	28,172	17,155	121,661	47,060
managed debt	5,959,582	5,395,068	6,955,072	2,478,566	2,000,722	1,674,207	1,471,125	961,747
unmanaged debt	**4.05%**	**3.60%**	**0.72%**	**6.26%**	**1.40%**	**1.01%**	**7.64%**	**4.66%**

Appendix 5.2

YEAR on YEAR PERFORMANCE	2014/15				2015/16		
	JUN	**SEP**	**DEC**	**MAR**	**JUN**	**SEP**	**NOV**
TOTAL ARREARS	**18,208,120**	**14,124,390**	**14,440,723**	**17,079,190**	**19,855,282**	**22,074,394**	**18,642,332**
Total Awaiting Action	567,258	499,008	550,951	580,064	498,052	552,182	954,877
Managed Debt	17,640,862	13,625,382	13,889,772	16,499,126	19,357,231	21,522,212	17,687,455
% unmanaged debt [PI]	**3.12%**	**3.53%**	**3.82%**	**3.40%**	**2.51%**	**2.50%**	**5.12%**
CTAX	8,597,465	7,664,327	6,851,511	6,053,552	8,739,169	7,857,713	7,342,207
unmanaged debt	83,329.16	81,410	89,457	63,263	81,903	43,391	53,786
managed debt	8,514,136	7,582,917	6,762,054	5,990,289	8,657,265	7,814,322	7,288,422
unmanaged debt	**0.97%**	**1.06%**	**1.31%**	**1.05%**	**0.94%**	**0.55%**	**0.73%**
NNDR	1,148,540	407,858	721,649	568,644	991,831	830,958	1,688,848
unmanaged debt	0	0	0	0	0	0	0
managed debt	1,148,540	407,858	721,649	568,644	991,831	830,958	1,688,848
unmanaged debt	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
FTA	742,327	557,708	429,510	328,049	635,801	573,762	518,318
unmanaged debt	18,007	16,431	40,378	17,761	24,097	4,015	933
managed debt	724,320	541,277	389,132	310,288	611,704	569,747	517,385
unmanaged debt	**2.43%**	**2.95%**	**9.40%**	**5.41%**	**3.79%**	**0.70%**	**0.18%**
HBOP	4,489,715	4,555,039	4,960,760	5,243,926	5,356,015	5,645,801	5,805,170
unmanaged debt	280,033	355,323.49	366,800	386,239	302,154	340,936	418,648
managed debt	4,209,682	4,199,716	4,593,960	4,857,687	5,053,861	5,304,865	5,386,522
unmanaged debt	**6.24%**	**7.80%**	**7.39%**	**7.37%**	**5.64%**	**6.04%**	**7.21%**
Sundry Debt	1,645,384	939,457.37	1,477,293	4,885,020	4,132,467	7,166,160	3,287,789
unmanaged debt	185,889	45,844.00	54,316	112,802	89,897	163,839	481,509
managed debt	1,459,495	893,613	1,422,977	4,772,218	4,042,570	7,002,321	2,806,280
unmanaged debt	**11.30%**	**4.88%**	**3.68%**	**2.31%**	**2.18%**	**2.29%**	**14.65%**

Appendix 5.3

Rolling Year	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
TOTAL ARREARS	15,050,831	14,440,723	14,644,727	15,079,585	17,079,191	20,082,983	19,036,952	19,855,283	18,778,191	19,509,096	22,074,394	17,558,291	18,642,332
unmanaged debt	583,173	550,951	474,560	594,959	580,065	447,272	528,392	498,052	634,254	972,351	552,182	642,253	954,877
Debt in Progress	14,467,660	13,889,772	14,170,165	14,484,626	16,499,126	19,635,711	18,508,560	19,357,231	18,143,937	18,536,745	21,522,213	16,916,038	17,687,455
% unmanaged debt [PI]	3.87%	3.82%	3.24%	3.95%	3.40%	2.23%	2.78%	2.51%	3.38%	4.98%	2.50%	3.66%	5.12%
CTAX	6,972,411	6,851,511	6,522,015	4,942,578	6,053,552	9,287,298	8,955,238	8,739,169	8,257,344	8,030,662	7,857,713	7,481,719	7,342,207
unmanaged debt	107,575	89,457	52,642	85,331	63,263	84,246	108,172	81,903	100,483	114,602	43,391	67,135	53,786
managed debt	6,864,836	6,762,054	6,469,373	4,857,247	5,990,289	9,203,051	8,847,066	8,657,265	8,156,861	7,916,060	7,814,322	7,414,584	7,288,422
unmanaged debt	1.54%	1.31%	0.81%	1.73%	1.05%	0.91%	1.21%	0.94%	1.22%	1.43%	0.55%	0.90%	0.73%
NNDR	849,273	721,649	774,634	1,047,581	568,644	1,293,525	906,635	991,831	1,165,951	1,104,323	830,958	821,547	1,688,848
unmanaged 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%	0.00%
managed debt	849,273	721,649	774,634	1,047,581	568,644	1,293,525	906,635	991,831	1,165,951	1,104,323	830,958	821,547	1,688,848
unmanaged 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%	0.00%
FTA	477,453	429,510	407,920	334,727	328,049	734,540	689,855	635,801	630,916	625,536	573,762	542,714	518,318
unmanaged debt	44,671	40,378	11,755	6,896	17,761	4,757	11,404	24,097	22,356	39,267	4,015	2,732	933
managed debt	432,782	389,132	396,164	327,831	310,288	729,782	678,451	611,704	608,560	586,269	569,747	539,981	517,385
unmanaged debt	9.36%	9.40%	2.88%	2.06%	5.41%	0.65%	1.65%	3.79%	3.54%	6.28%	0.70%	0.50%	0.18%
HBOP	4,819,186	4,960,760	5,108,120	5,208,681	5,243,926	5,341,081	5,324,474	5,356,015	5,400,878	5,563,545	5,645,801	5,664,808	5,805,170
unmanaged debt	395,902	366,800	352,444	445,013	386,239	313,673	338,524	302,154	371,648	651,923	340,936	425,958	418,648
managed debt	4,423,285	4,593,960	4,755,676	4,763,668	4,857,687	5,027,408	4,985,951	5,053,861	5,029,230	4,911,622	5,304,865	5,238,850	5,386,522
unmanaged debt	8.22%	7.39%	6.90%	8.54%	7.37%	5.87%	6.36%	5.64%	6.88%	11.72%	6.04%	7.52%	7.21%
Sundry Debt	1,932,508	1,477,293	1,832,038	3,546,018	4,885,020	3,426,540	3,160,750	4,132,467	3,323,102	4,185,029	7,166,160	3,047,503	3,287,789
unmanaged debt	35,025	54,316	57,719	57,719	112,802	44,595	70,293	89,897	139,767	166,559	163,839	146,428	481,509
managed debt	1,897,484	1,422,977	1,774,318	3,488,299	4,772,218	3,381,945	3,090,457	4,042,570	3,183,335	4,018,470	7,002,321	2,901,075	2,806,280
unmanaged debt	1.81%	3.68%	3.15%	1.63%	2.31%	1.30%	2.22%	2.18%	4.21%	3.98%	2.29%	4.80%	14.65%

Appendices
1

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	TREASURY MANAGEMENT MID YEAR REPORT 2015-16

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date:	18 January 2016
Policy Document:	No
Directorate:	LGSS
Accountable Cabinet Member:	Mike Hallam

1. Purpose

1.1 To put the Treasury Management Mid-Year Report for 2015-16 before Audit Committee for scrutiny.

1.2 To advise Audit Committee of plans for treasury management training for members to be delivered in the new financial year

2. Recommendations

2.1 That Audit Committee reviews the Treasury Management Mid-Year Report for 2015-16 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 2015-16

3.2.1 The Council's Treasury Management Mid-Year Report for 2015-16 is attached at Appendix 1. This report was presented to Cabinet on 9 December 2015 and to Council on 14 December 2015.

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

Treasury Management Training for Members

3.2.3 The Council's agreed Treasury Management Practices (TMPs) state that

> "The responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.
>
> Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively."

3.2.4 It is planned to offer a two hour session of treasury management training early in the new financial year, to be delivered by Capita, the Council's treasury management advisers, Training will be offered initially to Cabinet and Audit Committee members, as they have specific governance responsibilities in respect of treasury management, but may be extended to other members if there is sufficient demand.

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

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Appendices:
3

CABINET REPORT

Report Title	TREASURY MANAGEMENT MID YEAR REPORT 2015-16

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	9 December 2015
Key Decision:	NO
Within Policy:	YES
Policy Document:	NO
Directorate:	LGSS
Accountable Cabinet Member:	Mike Hallam
Ward(s)	Not Applicable

1. Purpose

1.1 To provide a mid-year update on the Treasury Management Strategy 2015-16, approved by Council in February 2015.

2. Recommendations

2.1 Cabinet is recommended to:

a) Note the Treasury Management Mid-Year Report 2015-16
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 2015 to 30 September 2015.

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 September was 0.73%, which is 0.37% above the benchmark average 7 day Libid of 0.36%.
- The debt financing budget is currently reporting a saving of £439k in 2015-16, due to the postponement of external borrowing and to higher than anticipated cash balances being available for investment.
- A loan of £300k has been made to Unity Leisure to facilitate the purchase a soft play facility in the town.
- Legal steps are under way to recover outstanding monies due to the Council on third party loans to the football club.
- 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:

- UK GDP growth rates in 2013 and 2014 were the strongest growth rates of any G7 country, and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. The Bank of England August Inflation Report had included a forecast for growth to remain around 2.4% to 2.8% over the next three years, driven mainly by strong consumer demand. However worldwide economic statistics and UK consumer and business confidence have distinctly weakened since then, and it is anticipated that the next Inflation Report in November may cut those forecasts.
- CPI inflation has fallen to, or near to, zero over the last quarter.
- There are considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make

it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently.

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, and finance leases.

	TMSS Forecast for March 2016 (As agreed by Council Feb 2015)		Actual as at 31 March 2015		Actual as at 30 September 2015		Revised Forecast to March 2016	
	£m	Average Rate %	£m	Average Rate %	£m	Average Rate %	£m	Average Rate %
Long term borrowing								
PWLB	196		190		190		193	
Market	9		9		9		9	
Other	9		9		9		9	
Total long term	**214**		**208**	**3.28**	**208**	**3.28**	**211**	**3.27**
Short term borrowing	0		0		0		0	
Total borrowing	**214**	**3.34**	**208**	**3.28**	**208**	**3.28**	**211**	**3.27**
Investments	**27**	**0.70**	**64**	**0.66**	**84**	**0.75**	**75**	**0.75**
Total Net Debt / Borrowing	**187**		**144**		**124**		**136**	

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

Borrowing

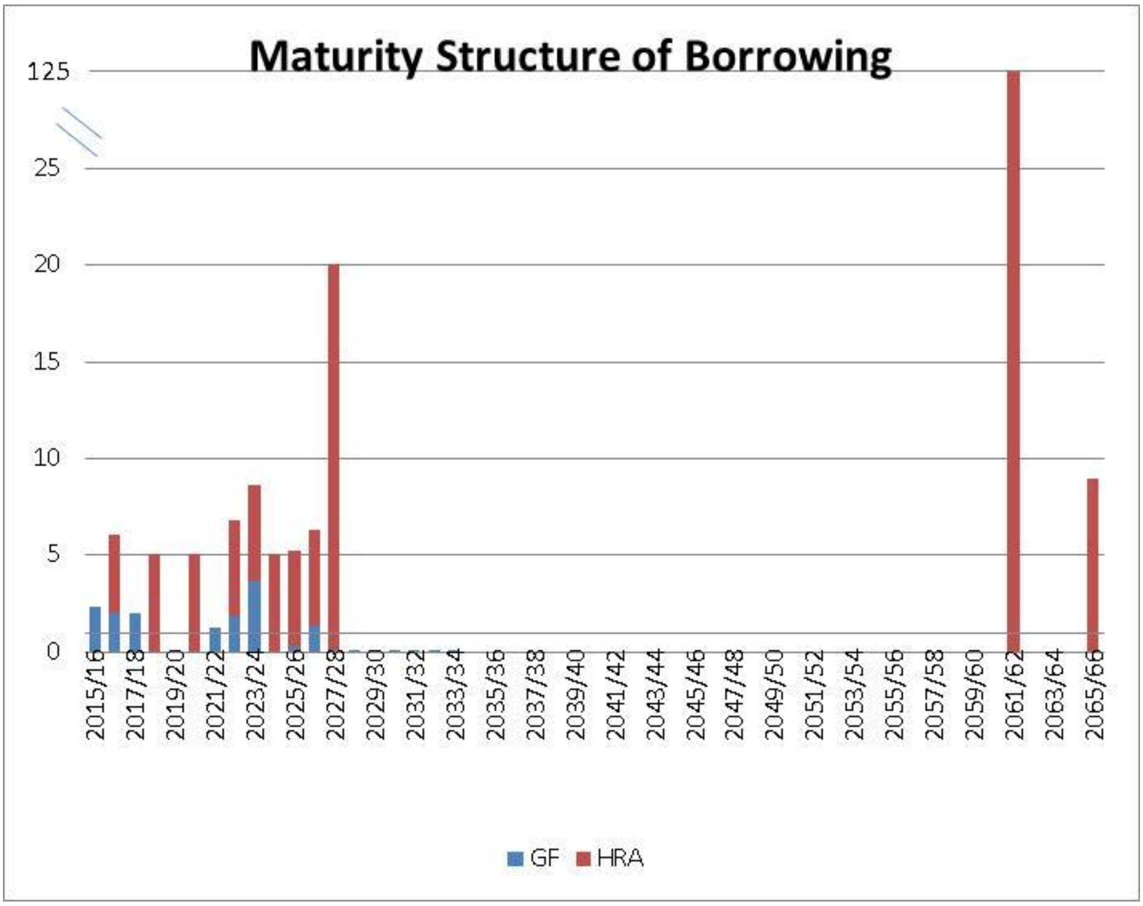
3.2.6 The Council can take out loans in order to fund spending for its Capital Programme. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, forecast reserves and current and projected economic conditions.

New loans and repayment of loans

3.2.7 No new borrowing has been undertaken so far this financial year. Repayments of loan principal under annuity and EIP (Equal Instalment Payments) loan arrangements, mainly but not exclusively relating to borrowing to fund third party loans, have totalled £150k in the year to date.

Maturity profile of borrowing

3.2.8 The following graph shows the maturity profile of the Council's mainstream loans (excluding borrowing for third party loans) 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 33.2 years.



3.2.9 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

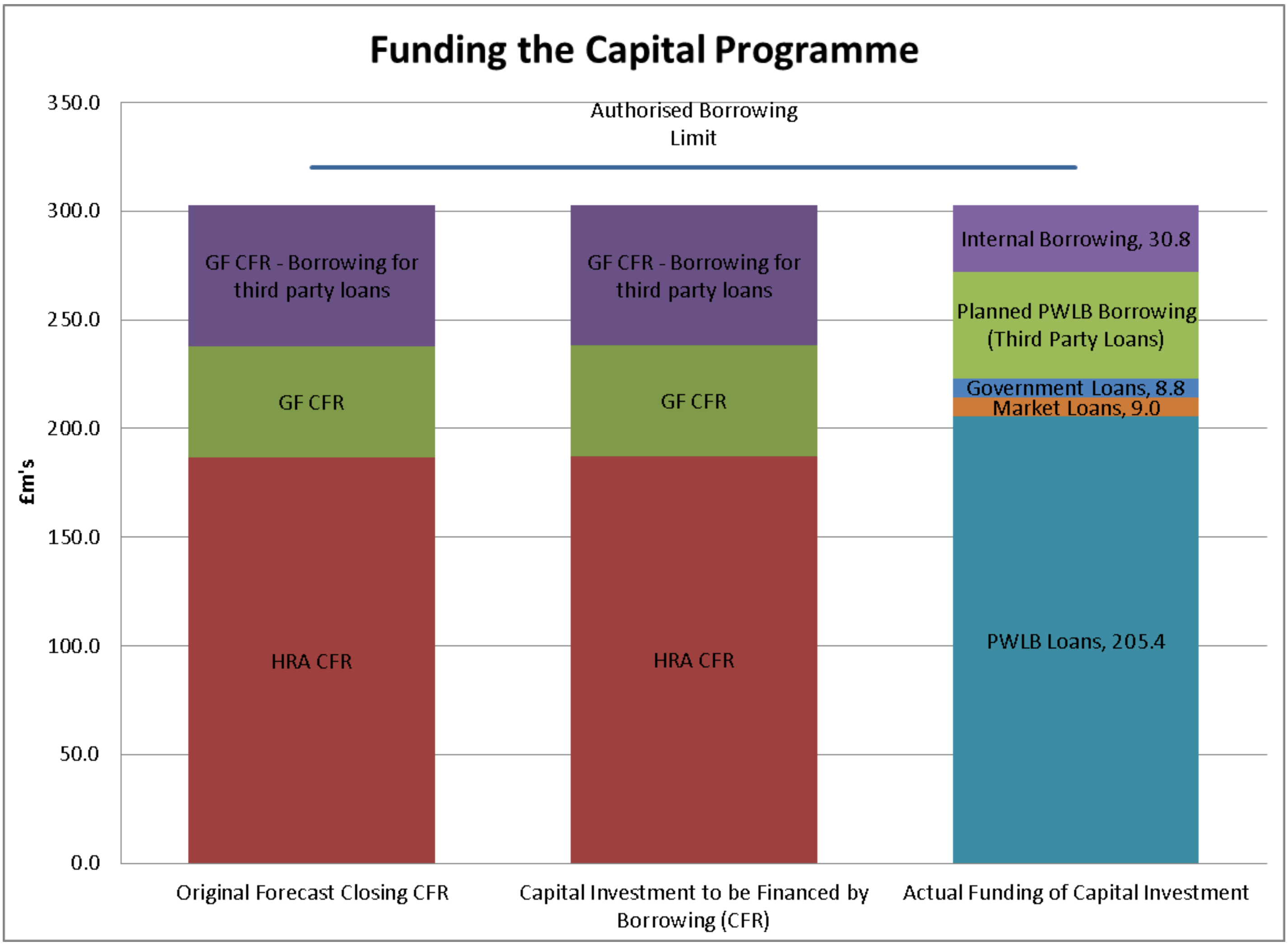
3.2.10 When market conditions are favourable long term loans can be restructured to generate cash savings, reduce the average interest rate and/or enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility (determined by the fixed/variable interest rate mix.)

3.2.11 During the first six months of 2015-16 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 2015-16 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 would be £303m (including borrowing to fund third party loans). 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 2015-16 (the affordable borrowing limit) with the forecast CFR at 31 March 2016 and the forecast of how this will be financed. The figures in the graph include both HRA and GF borrowing, including borrowing to fund third party loans. The majority (£193m) of external borrowing 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.



3.2.14 The graph shows that the Council's planned capital investment funded by borrowing is £17m below the Authorised Borrowing Limit set for the Council at the start of the year.

3.2.15 The graph also shows how the Council is planning to fund its 31 March 2016 borrowing requirement. £49m of external borrowing from the PWLB is expected to be undertaken to fund loans to third parties (primarily the University of Northampton); and £31m of internal borrowing is forecast 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.

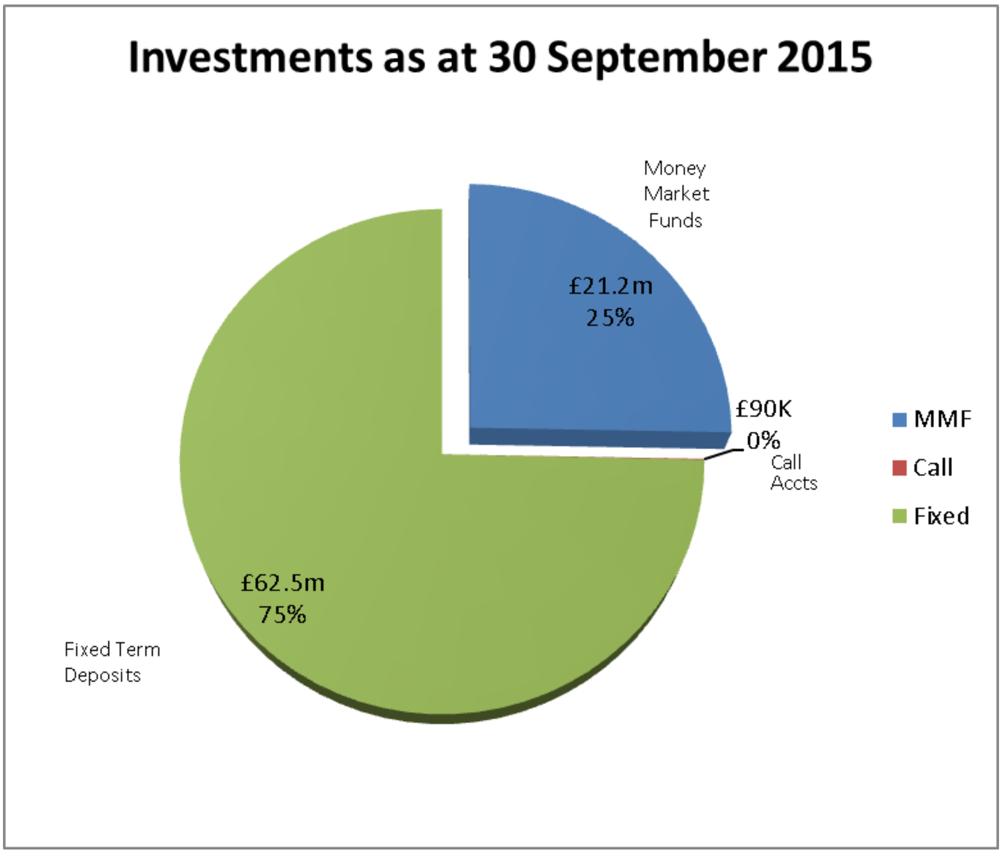
Investments

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 2015-16. 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 September the level of investments totalled £83.7m. 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 six 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-15	0.36	0.69	0.33
May-15	0.36	0.72	0.36
Jun-15	0.36	0.73	0.37
Jul-15	0.36	0.75	0.39
Aug-15	0.36	0.74	0.38
Sep-15	0.36	0.73	0.37
Average to end of September	**0.36**	**0.73**	**0.37**

3.2.21 From the table, it can be seen that average rate of investments over the period was 0.73%, which is 0.37% above the average 7 day Libid of 0.36%.

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 September is 138 days, and 191 days when excluding Call

Accounts and Money Market Fund investments.

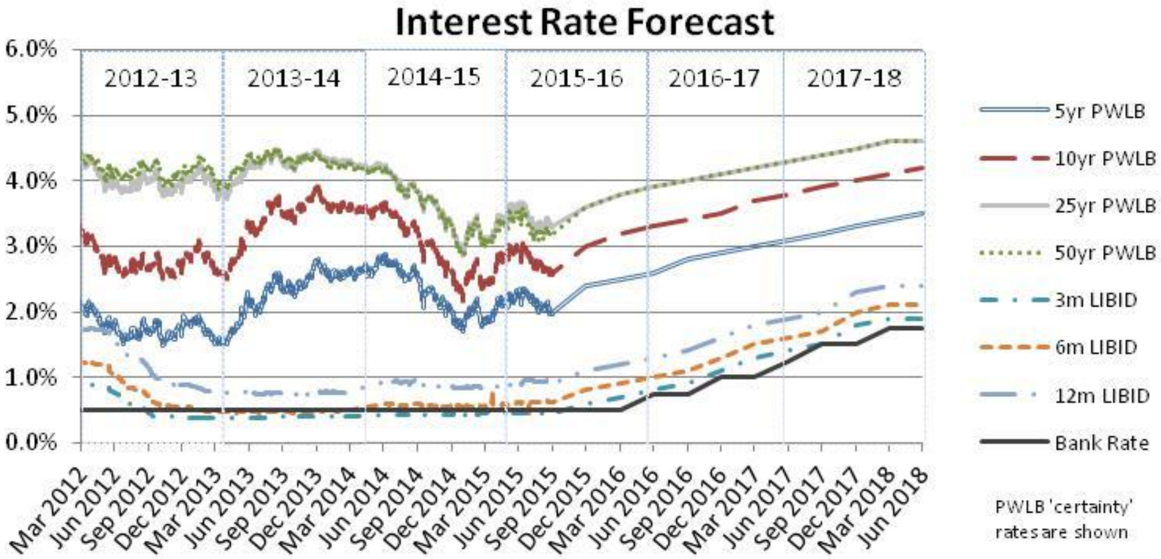
3.2.23 Leaving market conditions to one side, the Council's return on investment is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument. Credit risk is a measure of the likelihood of default and is controlled 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.

3.2.24 During the six month period, two of the Council's counterparties with live investments have been affected by changes that have resulted in downgrades by Capita to the recommended investment period.

- Lloyds/ Bank of Scotland – The government announced its intention to continue to reduce its stake in the Lloyds banking group, and this resulted in a reduction in the Capita approved investment period from 12 months to 6 months, and a reduction in the NBC total approved exposure from £20m to £15m. NBC has reduced its exposure since May 2015 from £20m to £12m as at 30 September; of which £2m still remains outside the 6 month limit (maturing 26 April)
- Standard Chartered Bank – In late September, due to an upward trend in its CDS (Credit Default Swap) price this counterparty was removed from the Capita recommended counterparty list. The bank still currently has a relatively strong credit rating, but the CDS overlay in the credit rating methodology provided by Capita provides more current market intelligence around credit worthiness. NBC has a total of £7m invested with Standard Chartered Bank in the form of CDs (certificates of deposit), with maturity dates of 2 Nov 2015, 10 March 2015 and 4 May 2016. Currently there are no plans to sell these CDs before maturity, but treasury staff are monitoring the position and will take action if required. The Council will no longer place deposits with this bank unless or until the Credit Default Swap improves.

Outlook

3.2.25 The current interest rate forecast from Capita Asset Services is shown in the graph below.



3.2.26 The forecast for the first increase in Bank Rate remains in quarter 2 of 2016. However there are risks to this central forecast as the economic recovery in the UK is currently finely balanced.

3.2.27 Recent demands for the safe haven of gilts have depressed gilts yields and PWLB rates recently. Geopolitical events make forecasting PWLB rates highly unpredictable in the shorter term. It is assumed that these fears will subside and that safe haven flows into UK Gilts will unwind and rates will rise back again over the coming quarters.

3.2.28 The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

3.2.29 From a strategic perspective, the Council is continually reviewing options as to the timing of any potential borrowing and also the alternative approaches around further utilising cash balances and undertaking shorter term borrowing which could potentially generate savings subject to an assessment of the interest rate risks involved. Cash flows in the last couple of years have been sufficiently robust for the Council to use its balance sheet strength and avoid taking on new borrowing. New external borrowing will be required at some point in the near to medium term to support the Councils capital programme.

Third Party Loans

3.2.30 As at 30 September a total of £17.1m of third party loans to local organisations were in place, of which £15.4m were funded by PWLB borrowing.

3.2.31 Unity Leisure – A loan of £300k was made Northampton Leisure Trust (NLT) in July 2015 to facilitate purchase a soft play facility, based in Northampton. The loan is repayable over 5 years on an EIP basis.

3.2.32 University of Northampton –The Council has worked with the South East Midlands Local Enterprise Partnership (SEMLEP) to secure the LEP project rate from PWLB for a loan facility of £46 million to support the creation of a waterside campus. The loan is expected to be drawn down during the last quarter of 2015-16. Alongside this Northamptonshire Enterprise Partnership (NEP) has worked with Northamptonshire County Council to secure a further £14m at the LEP project rate from PWLB for the same project.

3.2.33 The Cabinet received a report at its meeting on 24th November about the future of the loan to Northampton Town Football Club. Legal steps are under way to recover outstanding monies due to the Council on £10.2m of third party loans to the football club. The loans were granted to support stadia expansion and associated development.

3.2.34 Interest and principal repayments for all other loans have been paid in accordance with the loan agreements.

Regular monitoring

3.2.35 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.

3.2.36 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.

3.2.37 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.

3.2.38 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

3.2.39 The debt financing budget is currently forecast to underspend by £439k, as set out in the table below.

DEBT FINANCING BUDGET 2015-16	As at 30 September 2015		
	Budget	Forecast	Variance to Budget
	£000	£000	£000
Debt Financing & Interest			
Interest Payable	1,119	885	(234)
Interest Receivable	(670)	(1,116)	(445)
Soft Loan Adjustments	0	0	0
Minimum Revenue Provision	1,229	1,204	(26)
Recharges from/(to) HRA - Interest on cash balances	102	367	266
Total Debt Financing & Interest	**1,780**	**1,341**	**(439)**

3.2.40 The forecast underspend is primarily due to the following:

- **Interest on borrowing (£242k)** – The anticipated timing of new and replacement borrowing has been postponed from the budgeted assumption of 1 April, due to the availability of cash resource to fund internal borrowing.

- **Investment interest (net of HRA recharge) (£173k)** - Investment balances are significantly higher than budgeted. Work is being carried out to scrutinise and verify the cash balances position.

- **MRP (£26k)** – There was a lower level of funding by borrowing in 2014-15 due to carry forwards in the capital programme.

Compliance with Treasury Limits and Prudential Indicators

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

3.2.42 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.

3.2.43 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 half of the financial year.

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

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

Bank Overdraft Facilities

3.2.45 A cost-benefit exercise was undertaken in late 2014-15 to determine what level of overdraft facility represented best value for money for the Council, based on a risk assessment of possible overdrawn scenarios. As the Council maintains very tight control of its cash balances, it was determined that the most cost effective approach was not to renew the overdraft facility when it came up for renewal in April 2015. This change to the Council's Treasury Strategy was approved by the Chief Finance Officer.

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 2015-16 was approved by Council on 23 February 2015.

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 2015-16, 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 18 January 2016.

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

Appendix 1

Economic Update provided by Capita Asset Services for the period to 30 September 2015

UK

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

USA

The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

EZ

In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

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		
	2015-16	2015-16
	Estimate %	Forecast as at 30 September 2015
General Fund	7.04%	5.30%
HRA	35.94%	35.45%

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	
	2015-16
	Estimate £.p
General Fund	0.47

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	
	2015-16
	Estimate £.p
HRA	20.10

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**	
	2015-16 Budgeted	2015-16 Forecast at 30 Sep 2015		2015-16 Budgeted	2015-16 Forecast at 30 Sep 2015
	£000	£000		£000	£000
Gross external debt at 30 Sep 2015	206,850	207,366		222,396	220,508
2014-15 Closing CFR	236,473	235,714		253,738	251,229
Changes to CFR:					
2015-16	1,533	2,433		49,082	51,732
2016-17	910	8,760		657	8,508
2017-18	7,379	7,230		7,125	6,976
Adjusted CFR	246,295	254,137		310,602	318,445
Gross external debt less than adjusted CFR	Yes	Yes		Yes	Yes

Capital Expenditure

e) Estimate of capital expenditure

Capital Expenditure		
	2015-16	2015-16
	Estimate £000	Outturn Forecast at 30 Sep 2015 £000
General Fund	13,187	21,203
HRA	26,593	36,148
Total	**39,780**	**57,351**
Loan to Third Parties	47,800	49,550
Total	**87,580**	**106,901**

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)		
	2015-16	2015-16
	Estimate £000	Forecast at 30 Sep 15 £000
General Fund	51,203	50,744
HRA	186,803	187,403
Total	**238,006**	**238,147**
Loan to Third Parties	64,814	64,814
Total	**302,820**	**302,961**

<u>External Debt</u>

g) Authorised limit for external debt

Authorised Limit for external debt		
	2015-16	2015-16
	Boundary £000	Actual as at 30 Sep 2015 £000
Borrowing	315,000	223,404
Other long-term liabilities	5,000	496
TOTAL	**320,000**	**223,900**

h) Operational boundary for external debt

Operational boundary for external debt		
	2015-16	2015-16
	Boundary £000	Actual as at 30 Sep 2015 £000
Borrowing	305,000	223,404
Other long-term liabilities	5,000	496
TOTAL	**310,000**	**223,900**

i) HRA Limit on Indebtedness

HRA Limit on Indebtedness	
2015-16	2015-16
£000	Forecast Closing HRA CFR 31 March 2015 as at 30 Sep 2015 £000
290,001	187,403

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		
	2015-16	2015-16
	Limit %	Actual as at 30 September 2015 %
Fixed Interest Rate Exposures	100%	75%
Variable Interest Rate Exposures	100%	25%

1b. Upper limits on interest rate exposures – Borrowing

Upper limits on interest rate exposures - Borrowing		
	2015-16	2015-16
	Limit %	Actual as at 30 September 2015 %
Fixed Interest Rate Exposures	100%	96%
Variable Interest Rate Exposures	100%	4%

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		
	2015-16	2015-16
	Limit %	Actual as at 30 September 2015 %
Fixed Interest Rate Exposures	150%	110%
Variable Interest Rate Exposures	150%	-10%

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		
	2015-16	2015-16
	Upper Limit £000	Actual at 30 Sep 2015 £000
Investments longer than 364 days	4,000	2,500

3. Maturity Structure of Borrowing

Maturity structure of borrowing			
	2015-16	2015-16	2015-16
	Lower Limit %	Upper Limit %	Actual at 30 Sep 2015 %
Under 12 months	0%	20%	5%
1-2 years	0%	20%	3%
2-5 years	0%	20%	3%
5-10 years	0%	20%	13%
10 -20 years	0%	40%	15%
20-30 years	0%	60%	0%
30-40 years	0%	80%	0%
Over 40 years	0%	100%	60%

The table shows the maturity structure of Council’s mainstream loans (excluding borrowing to fund third party loans).

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

Appendix 3

NBC Investment Portfolio as at 30 September 2015

Class	Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Deposit	Fixed	NBC/LT/77	16/12/14	16/12/16	Blaenau Gwent County Borough Council	Maturity	0.9300%	-2,500,000.00
Deposit	Fixed	NBC/ST/79	07/01/15	06/01/16	Bank of Scotland plc	Maturity	1.0000%	-2,500,000.00
Deposit	Fixed	NBC/ST/82	16/02/15	15/02/16	Bank of Scotland plc	Maturity	1.0000%	-2,500,000.00
Deposit	Fixed	NBC/ST/83	20/02/15	19/02/16	DBS Bank Ltd	Maturity	0.7000%	-3,000,000.00
Deposit	Fixed	NBC/ST/84	26/02/15	25/02/16	Bank of Scotland plc	Maturity	1.0000%	-3,000,000.00
Deposit	Fixed	NBC/ST/93	26/03/15	24/03/16	Bank of Scotland plc	Maturity	1.0000%	-2,000,000.00
Deposit	Fixed	NBC/ST/95	15/04/15	15/10/15	Nationwide Building Society	Maturity	0.6600%	-3,000,000.00
Deposit	Fixed	NBC/ST/96	28/04/15	26/04/16	Bank of Scotland plc	Maturity	1.0000%	-2,000,000.00
Deposit	Fixed	NBC/ST/97	01/05/15	02/11/15	Standard Chartered Bank	Maturity	0.6900%	-2,000,000.00
Deposit	Fixed	NBC/ST/98	06/05/15	06/11/15	Nationwide Building Society	Maturity	0.6600%	-3,000,000.00
Deposit	Fixed	NBC/ST/99	06/05/15	04/05/16	Standard Chartered Bank	Maturity	0.8700%	-2,000,000.00
Deposit	Fixed	NBC/ST100	14/05/15	13/05/16	Royal Bank of Scotland plc	Maturity	0.8700%	-5,000,000.00
Deposit	Fixed	NBC/ST/101	01/06/15	27/05/16	Skandinaviska Enskilda Banken AB	Maturity	0.8100%	-5,000,000.00
Deposit	Fixed	NBC/ST/102	04/06/15	02/06/16	Royal Bank of Scotland plc	Maturity	0.8900%	-5,000,000.00
Deposit	Fixed	NBC/ST/106	09/06/15	09/12/15	DBS Bank Ltd	Maturity	0.6000%	-4,000,000.00
Deposit	Fixed	NBC/ST/107	10/06/15	10/03/16	Standard Chartered Bank	Maturity	0.7800%	-3,000,000.00
Deposit	Fixed	NBC/ST/108	24/06/15	18/12/15	Goldman Sachs International Bank	Maturity	0.7650%	-2,000,000.00
Deposit	Fixed	NBC/ST/109	04/08/15	02/08/16	Skandinaviska Enskilda Banken AB	Maturity	0.7700%	-3,000,000.00
Deposit	Fixed	NBC/ST/110	09/09/15	07/09/16	Royal Bank of Scotland plc	Maturity	0.9400%	-5,000,000.00
Deposit	Fixed	NBC/ST/111	10/09/15	10/03/16	Landesbanken Hessen-Thueringen Girozentrale (Helaba)	Maturity	0.7700%	-3,000,000.00
Fixed Total								**-62,500,000.00**
Deposit	Call	NBC/CE/1	31/03/14		HSBC Bank plc	Maturity	0.0500%	-90,000.00
Call Total								**-90,000.00**
Deposit	MMF	NBC/CE/3	31/03/14		SLI Sterling Liquidity/Cl 2	Maturity	0.4997%	-6,170,000.00
Deposit	MMF	NBC/CE/4	31/03/14		Insight Liquidity Sterling C3	Maturity	0.4585%	-155,000.00
Deposit	MMF	NBC/CE/63	01/07/14		LGIM Sterling Liquidity 4	Maturity	0.4861%	-14,850,000.00
MMF Total								**-21,175,000.00**
Deposit Total								**-83,765,000.00**

Appendices
1

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	TREASURY MANAGEMENT STRATEGY 2016-17

AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	18 January 2016
Policy Document:	Yes
Directorate:	LGSS
Accountable Cabinet Member:	Mike Hallam

1. Purpose

1.1 To put the draft Treasury Management Strategy for 2016-17 before Audit Committee for review and to invite Audit Committee to put forward any recommendations that they think appropriate.

2. Recommendations

2.1 That Audit Committee:

a) Review the draft Treasury Management Strategy for 2016-17

b) Put forward any recommendations that 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.

3.1.2 The Council has nominated the Audit Committee 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 Strategy 2016-17

3.2.1 The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. It is a requirement under the Treasury Code of Practice to produce an annual strategy report on proposed treasury management activities for the year. The Council's draft Treasury Management Strategy (TMS) for 2016-17 is attached at **Appendix A**.

3.2.2 The draft TMS was included in the Draft General Fund MTFP 2015/16- 2020-21 and Draft Budget 2016-17 report to Cabinet on 16 December 2015 and approved for consultation. Formal consultation with the public and local businesses will continue until the budget is formally adopted in February 2015.

3.2.3 The TMS takes into account the impact of the Council's Medium Term Financial Plan, its revenue budget and capital programme, the balance sheet position and the outlook for interest rates. It includes:

- The Affordable Borrowing Limit for 2016-17
- The Council's policy on the Minimum Revenue Provision (MRP) for the repayment of debt
- The Investment Strategy for 2016-17
- The Prudential and Treasury Indicators for 2016-17 to 2020-21
- The Council's policy on borrowing in advance of need
- The Council's counterparty creditworthiness policy

3.2.4 The main changes from the TMS adopted in 2015-16 are:

- Updates to Prudential and Treasury Indicators
- Updates to interest rate forecasts
- Updates to debt financing budget forecasts
- Updates to the MRP policy
- Expansion of the Council's counterparty policy to include appropriate counterparties with a sovereign rating of AA.

- Re-wording of the 50% restriction on overseas counterparties to take out Money Market Funds and instant access deposit accounts

3.2.5 Some details included in the draft TMS will need to be updated before going to Cabinet and Council for final approval in February. This is because of events (e.g. economic conditions) moving on in the intervening period; the need to interface the TMS with the Council's approved capital programme and other budget setting reports; and any changes that may arise from the consultation process.

3.2.6 Audit Committee are asked to review the report and to put forward any recommendations that 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 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. Council has nominated the Audit Committee 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 the making of recommendations to Council.

4.2 Resources and Risk

4.2.1 The resources required to deliver the Council's treasury management strategy and policies in 2016-17 are incorporated into the Council's draft debt financing and debt management budgets.

4.2.2 Effective risk management is a fundamental requirement for the treasury management function, and this theme runs clearly throughout the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Council's Treasury Management Policy, Treasury Management Practices (TMPs) and Schedules, and Treasury Management Strategy for 2016-17 cover the ways in which treasury management risk will be determined, managed and controlled.

4.2.3 The Council's appetite for risk must be clearly identified in its strategy report. The TMS affirms that priority will be given to the security and liquidity of capital when investing funds. This will be carried out by strict adherence to the risk management and control strategies set out in the Schedules to the Treasury Management Practices and the Treasury Management Strategy.

Responsibility for risk management and control lie within the Council and cannot be delegated to an outside organisation.

4.2.4 Risks in the debt financing budget have been taken into account in earmarked reserves and in the Risk Assessment of General Fund Reserves.

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 Equalities Impact Assessment (EIA) screening has been carried out on the Council's TMS for 2016-17. This has determined that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified. The EIA screening is published on the internet and will be updated to take account of feedback from the public consultation and re-published with the final budget proposals in February 2016.

4.5 Consultees (Internal and External)

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's external treasury advisers and with the Cabinet Member for Finance.

4.5.2 The draft TMS for 2016-17 was approved for consultation by Cabinet on 16 December 2015. Formal consultation with the public and local businesses will continue until the budget is formally adopted in February 2015.

4.5.3 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.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Effective treasury management is key ingredient of good financial governance, which contributes to the priority of making every pound go further.

4.7 Other Implications

4.7.1 No other implications have been identified.

5. Background Papers

None

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Northampton Borough Council Treasury Management Strategy 2016-17

Contents

1 Introduction

CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes

1.1 CIPFA has defined treasury management as "the management of the organisation's investments and 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."

1.2 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.

CIPFA Prudential Code for Capital Finance in Local Authorities

1.3 The CIPFA Prudential Code for Capital Finance in Local Authorities (the **Prudential Code**) is a professional code of practice. Local authorities have a statutory requirement to comply with the Prudential Code when making capital investment decisions and carrying out their duties under Part 1 of the Local Government Act 2003 (Capital Finance etc and Accounts).

1.4 The CIPFA Prudential Code sets out the manner in which capital spending plans should be considered and approved, and in conjunction with this, the requirement for an integrated treasury management strategy.

1.5 Councils are required to set and monitor a range of prudential indicators for capital finance, covering affordability, prudence, capital expenditure, external debt and treasury management, as well as a range of treasury indicators.

Treasury Management Policy Statement

1.6 The Council's Treasury Management Policy Statement was approved by Council at their meeting of 25 February 2013. The policy statement follows the wording recommended by the latest edition of the CIPFA Treasury Code.

Treasury Management Practices

1.7 The Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities. The TMPs are split as follows:

- Main Principles
- Schedules

1.8 The Council's TMP Main Principles were approved by Council at their meeting of 25 February 2013. They follow the wording recommended by the latest edition of the CIPFA Treasury Code.

1.9 The Council's TMPs Schedules cover the detail of how the Council will apply the TMP Main Principles in carrying out its operational treasury activities. They are reviewed annually and approved by the Council's Chief Finance Officer

The Treasury Management Strategy

1.10 It is a requirement under the Treasury Code to produce an annual strategy report on proposed treasury management activities for the year.

1.11 The Council's Treasury Management Strategy is drafted in the context of the key principles of the Treasury Code, as follows:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.
- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

1.12 The purpose of the Treasury Management Strategy is to establish the framework for the effective and efficient management of the Council's treasury management activity, including the Council's investment portfolio, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse.

1.13 The Treasury Management Strategy incorporates:

- The Council's capital financing and borrowing strategy for the coming year
- The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
- The Affordable Borrowing Limit as required by the Local Government Act 2003.
- The Annual Investment Strategy for the coming year as required by the CLG revised Guidance on Local Government Investments issued in 2010.

1.14 The strategy takes into account the impact of the Council's Medium Term Financial Plan, its revenue budget and capital programme, the balance sheet position and the outlook for interest rates.

1.15 The Treasury Management Strategy for 2016-17 also includes the Council's:

- Policy on borrowing in advance of need
- Counterparty creditworthiness policies

1.16 The main changes from the Treasury Management Strategy adopted in 2015-16 are

- Updates to Prudential and Treasury Indicators
- Updates to interest rate forecasts
- Updates to debt financing budget forecasts
- Updates to the MRP policy
- Expansion of the Council's counterparty policy to include appropriate counterparties with a sovereign rating of AA.
- Re-wording of the 50% restriction on overseas counterparties to take out Money Market Funds and instant access deposit accounts

Scheme of Delegation

1.17 The Treasury Management Scheme of Delegation at Appendix 1 is taken from the Council's TMP Schedules. It sets out the delegated treasury management responsibilities of Council, Cabinet, Audit Committee and the Section 151 Officer. .

General Fund and HRA

1.18 The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA. This is set out at Appendix 2

Equalities Statement

1.19 Equalities Impact Assessment (EIA) screening has been carried out on the Council's Treasury Strategy for 2016-17, and the associated Treasury Management Practices (Main Principles and Schedules).

1.20 The EIA screening has determined that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified.

2 Current Treasury Management position

2.1 The Council's projected treasury portfolio position at 31 March 2016, with forward estimates is summarised below. The table shows the external borrowing, against the Capital Financing Requirement (CFR), which is a measure of the need to borrow for capital expenditure purposes, highlighting any forecast over or under borrowing.

2.2 The figures exclude any borrowing undertaken or planned for third party loans so as to focus on the Council’s own cash position.

£m	2015-16 Projected	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
External borrowing						
Borrowing at 1 April	218	216	221	230	241	247
Expected change in borrowing	-2	5	9	11	6	4
Borrowing at 31 March	**216**	**221**	**230**	**241**	**247**	**251**
CFR at 31 March	**248**	**260**	**270**	**278**	**280**	**285**
Under/(over) borrowing	**32**	**39**	**40**	**37**	**33**	**34**
Investments						
Investments at 1 April	64	68	61	60	63	66
Expected change in investments	4	-7	-1	3	3	0
Investments at 31 March	**68**	**61**	**60**	**63**	**66**	**66**
Net borrowing	**148**	**160**	**170**	**178**	**181**	**185**

3 Prospects for interest rates

3.1 The Council has appointed Capita Asset Services (CAS) as its treasury advisors. Part of their service is to assist the Council to formulate a view on interest rates. The following table gives the CAS central view for the forecast bank rate, short term LIBID rates, and longer term PWLB rates (as at 12 Nov 2015).

Capita Asset Services Interest Rate View														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB View	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB View	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

3.2 **UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

3.3 The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

3.4 **USA.** The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 1.5% in quarter 3. The downbeat news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision at its September meeting to pull back from a first rate increase. However, the nonfarm payrolls figure for growth in employment in October was very strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided, has now firmly opened up the possibility of a first rate rise in December.

3.5 **EZ.** In the Eurozone, the ECB acted in January 2015 by unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

3.6 During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

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3.7 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

4 Borrowing strategy

Capital Financing

4.1 The Council's capital programme is financed by borrowing and by other available sources such as capital receipts, grants, third party contributions and revenue contributions.

4.2 Where borrowing is used to finance the Council's capital expenditure this is done under the prudential borrowing regime, with the Council funding the full costs of borrowing from its own revenue resources. This method of funding, sometimes referred to as unsupported borrowing, is particularly suitable for 'spend to save' schemes, where the financing costs of borrowing can be funded from revenue savings. However lack of capital resources means that it may also be used for other essential capital schemes where no other resources can be identified. As the repayment of principal is spread over the life of the asset it is most suitable for financing capital assets with long useful economic lives.

4.3 The Council also makes use of operating and finance leases to fund some types of expenditure where these offer better value for money than straightforward purchase and capital financing. Examples of the types of assets that might be leased are IT equipment and office furniture.

4.4 The accounting treatment for operating and finance leases is very different. The annual costs of operating leases are treated as revenue expenditure in the accounts and are not included in the Council's capital programme. In contrast, finance leases have to be treated as capital expenditure items in the Council's accounts. Changes to accounting regulations mean that leases are increasingly being classified as finance leases.

Borrowing

4.5 The Council as a whole is currently maintaining an under borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt. Instead, cash supporting the Council's reserves, balances and cash flow has been used to fund borrowing.

4.6 This strategy of internal borrowing, has served the Council well in the current economic climate, as investment returns are low and counterparty risk is relatively high. However, the decision to maintain internal borrowing to generate short term savings must be evaluated against the potential for incurring additional long term borrowing costs in futurer years, when long term interest rates are forecast to be significantly higher.

4.7 Against this background and the risks within the economic forecast, caution will be adopted with the 2016-17 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.8 The Council will continue to use a mix of its own cash balances and long term borrowing to finance capital expenditure and to repay maturing loans, in order to maximise short term savings and manage interest rate risk.

4.9 The Council has access to Public Works Loan Board (PWLB) loans for its long term external borrowing needs at the 'certainty rate', which is 20 basis points below the standard PWLB rate.

4.10 Loans are also available from major banks via the money market, depending on market conditions, and these may be considered when they offer better value for money than PWLB loans. The Council will in particular consider forward funding deals to mitigate the interest rate risks associated with internal borrowing.

4.11 Other forms of borrowing such as bonds or private placements, either acting alone or through a collective agency such as the newly formed Municipal Bonds Agency, may be considered if available and appropriate.

4.12 Decisions on the timing and type of borrowing are taken in consultation with the Council's external treasury management advisors. All long-term external borrowing requires the express approval of the Chief Finance Officer, who has the delegated authority to take the most appropriate form of borrowing from approved sources.

Loans to Third Parties

4.13 The Council may make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This will usually be to support local economic development, and may be funded by external borrowing.

4.14 The Council also has powers to provide financial support to organisations under general powers of competence under the Localism Act 2011.

4.15 Loans currently in place are to Northampton Town Rugby Football Club (NTRFC), Unity Leisure and Cosworth.

4.16 The following loans to third parties are in the pipeline at the time of preparing this report:

- University of Northampton –The Council has worked with the South East Midlands Local Enterprise Partnership (SEMLEP) to secure the LEP project rate from PWLB for a loan facility of £46 million to support the creation of a waterside campus. .The loan is expected to be drawn down during the last quarter of 2015-16. Alongside this Northamptonshire Enterprise Partnership (NEP) has worked with Northamptonshire County Council to secure a further £14m at the LEP project rate from PWLB for the same project.

- Northamptonshire County Cricket Club (NCCC) – Cabinet have approved in principle the granting of secured loan finance to NCCC up to an amount of £250k to enable them to implement a new financially sustainable business plan. This loan will be funded from the Council's internal cash balances. Work is in hand regarding an initial advance of up to £100k, with any further advances being at a future date and dependant on additioinal security.

- Delapre Abbey – Cabinet have approved the provision of revenue funding in the form of a capped £100k loan facility to Delapre Abbey Preservation Trust (DAPT) to ensure that in-year deficits in their business plan are cash flowed in the initial stages of their operation. This loan will be funded from the Council's internal cash balances.

Prudential & Treasury Indicators

4.17 The Council's prudential and treasury indicators for 2016-17 to 2020-21 are set out at Appendix 3.

Policy on borrowing in advance of need

4.18 Under the Local Government Act 2003 local authorities are able to borrow in year for the current year capital programme and for the following two years. The Council's policy on borrowing in advance of need is that this will not be undertaken purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

4.19 The Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- Consider the merits and demerits of alternative forms of funding
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

Debt rescheduling

4.20 The debt portfolio will be kept under review, with debt rescheduling opportunities being investigated for potential cash savings and / or discounted cash flow savings or to enhance the balance of the portfolio.

4.21 As short term borrowing rates tend to be cheaper than longer term fixed interest rates, there can be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Furthermore, changes to accounting regulations and to the structure of PWLB rates in recent years mean that rescheduling opportunities for the Council's PWLB loans are very much more limited than in the past. Decisions will be based on appropriate advice from the Council's external treasury management advisers.

4.22 The reasons for any rescheduling to take place will include:

- The generation of cash savings and or discounted cash flow savings.
- Helping to fulfil the treasury strategy.
- Enhancing the balance of the portfolio (by amending the maturity profile and/or the balance of volatility).

4.23 Any debt rescheduling undertaken will subsequently be reported to Cabinet in the next treasury report following the decision.

Affordable Borrowing Limit

4.24 The Local Government Act 2003 and supporting regulations require the Council to determine and keep under review how much it can afford to borrow. The amount determined is termed the "Affordable Borrowing Limit". This is equivalent to the treasury indicator for the authorised limit.

4.25 The Council's affordable borrowing limit for 2016-17 is set at £325m. The table below shows the limits for next year and the following four years, broken down between the limit required for the Council's own capital expenditure purposes and that anticipated for the provision of loans to third parties.

Affordable Borrowing Limit					
	2016-17	2017-18	2018-19	2019-20	2020-21
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
NBC CFR plus headroom	279	289	295	295	300
To support loans to third parties	51	51	50	50	50
Affordable Borrowing Limit	**330**	**340**	**345**	**345**	**350**

Temporary Borrowing

4.26 The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position. The maximum amount of temporary borrowing that the Council will borrow from any one counterparty will be £5m.

4.27 In addition, under long standing arrangements, the Council manages deposits from two local organisations. Formal agreements were set up with these organisations in April 2009. These contain the following operational arrangements:

- Interest rates set in line with the average rate of interest achieved by the Council in the preceding period, less 0.5%
- Quarterly review of interest rates
- Withdrawal notice periods of 7 days
- Termination notice of 7 days

4.28 The CFO may also authorise the taking of short-term deposits under mutually agreed and documented terms from other local not for profit organisations.

Overdraft Facilities

4.29 A cost-benefit exercise was undertaken in late 2014-15 to determine what level of overdraft facility represented best value for money for the Council, based on a risk assessment of possible overdrawn scenarios. As the Council maintains very tight control of its cash balances, it was determined that the most cost effective approach was not to renew its overdraft facility when it came up for renewal in April 2015.This change was approved by the Chief Finance Officer and reported to Cabinet and Council in the 2014-15 Treasury Management Mid Year report

4.30 Unauthorised bank overdrafts are charged at a standard debit interest rate of 19.50% per day, plus a fee of £8 per day.

5 Minimum Revenue Provision

5.1 The Council is required to repay an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP). The Housing Revenue Account is not subject to a mandatory MRP charge.

5.2 CLG Regulations have been issued which require full Council to approve an MRP Policy Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

5.3 The Council's policy statement on MRP for 2016-17 is set out at Appendix 4. . The policy is considered by the Section 151 Officer to provide for the prudent repayment of debt.

6 Investment strategy

6.1 Government Guidance on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. The Guidance permits the Treasury Management Strategy Statement (TMSS) and the AIS to be combined into one document.

6.2 The Council's general policy objective is to invest its surplus funds prudently, and its investment priorities in priority order are

- the security of the invested capital
- the liquidity of the invested capital
- the yield received from the investment

6.3 The Council's Annual Investment Strategy for 2016-17 is set out at Appendix 5.

7 Sensitivity of the forecast and risk analysis

Risk Management

7.1 The Council 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. Treasury management risks are identified in the Council's approved Treasury Management Practices. The main risks to the treasury activities are:

- Credit and counterparty risk (security of investments)
- Liquidity risk (adequacy of cash resources)
- Interest rate risk (fluctuations in interest rate levels)
- Exchange rate risk (fluctuations in exchange rates)
- Refinancing risks (impact of debt maturing in future years)
- Legal and regulatory risk (non-compliance with statutory and regulatory requirements)
- Fraud, error and corruption, and contingency management (in normal and business continuity situations)
- Market risk (fluctuations in the value of principal sums)

7.2 The TMP Schedules set out the ways in which the Council seeks to mitigate these risks. Examples are the segregation of duties (to counter fraud, error and corruption), and the use of creditworthiness criteria and counterparty limits (to minimise credit and counterparty risk).Council officers, in conjunction with the treasury advisers, will monitor these risks closely.

Sensitivity of the Forecast

7.3 The sensitivity of the forecast is linked primarily to movements in interest rates and in cash balances, both of which can be volatile. Interest rates in particular are subject to global external influences over which the Council has no control. In terms of interest rates, with the forecast average investment portfolio of £64.5m for 2016-17, each 0.1% increase or decrease in investment rates equates to £64.5k, the revenue impact of which is shared between the HRA and the General Fund.

7.4 Both interest rates and cash balances will be monitored closely throughout the year and potential impacts on the Council's debt financing budget will be assessed. Action will be taken as appropriate, within the limits of the TMP Schedules and the treasury strategy, and in line with the Council's risk appetite, to keep negative variations to a minimum. Any significant variations will be reported to Cabinet as part of the Council's regular budget monitoring arrangements.

8 Reporting arrangements

8.1 In line with best practice full Council is required to receive and approve, as a minimum, three main treasury management reports each year, as follows.

- Annual Treasury Management Strategy
- Treasury Management Mid Year Report
- Treasury Management Outturn Report

8.2 The reports include the Council's treasury and prudential indicators.

8.3 Full details of the Council's treasury management reporting arrangements are contained in the Council's Schedules to the Treasury Management Practices (TMP 6 – Reporting Requirements and Management Information Arrangements)

9 Debt financing budget

9.1 The following table sets out the Council's debt financing budget for 2016-17 to 2020-21. Interest payable and reimbursements in respect of loans to third parties already in place as at Dec 2015 are included.

9.2

Debt Financing Budget – NBC					
	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Interest payable	922	1,080	1,152	1,228	1,200
Interest Receivable	(965)	(1,345)	(1,647)	(1,773)	(1,902)
MRP	1,379	1,474	1,495	1,572	1,622
Recharges from/(to) the HRA	482	770	1,017	1,126	1,230
Total	**1,818**	**1,979**	**2,017**	**2,153**	**2,150**

9.3 The interest rate assumptions behind the budgeted figures are as follows:

Interest Rate Assumptions					
	2016-17 %	2017-18 %	2018-19 %	2019-20 %	2020-21 %
Investments	0.90	1.50	2.00	2.25	2.50
GF Borrowing 10 year PWLB	3.30	3.70	4.00	4.10	4.10
GF Borrowing 25 year PWLB	4.00	4.20	4.40	4.50	4.50

Assumptions on HRA interest on borrowing may differ slightly as they have been aligned to the HRA Business Plan assumptions.

9.4 MRP charges are in line with the Council's MRP policy at Appendix 4.

10 Policy on the use of external service providers

10.1 Treasury management consultants are used to support the Council's treasury management activities by providing expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, creditworthiness of counterparties etc

10.2 The current supplier of service is Capital Asset Services, under a framework contract with LGSS. The costs of the service are met by LGSS. The existing contract expires at 31 Oct 2016, and a procurement exercise will be undertaken to put the contract out for re-tender.

10.3 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the external service providers. However it also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

11 Current and future developments

11.1 Local Authorities have to consider innovative strategies towards improving service provision to their communities. This approach to innovation also applies to councils' treasury management activities. The Government is introducing new statutory powers and policy change which will have an impact on treasury management approaches in the future. Examples of such changes are:

Localism Act 2011

11.2 A key element of the Act is the "General Power of Competence": "A local authority has power to do anything that individuals generally may do." The Act opens up the possibility that a local authority may be able to use derivatives as part of their treasury management operations. However the legality of this has not yet been tested in the courts. The Council has no plans to use financial derivatives under the powers contained in this Act.

Enterprise Zone

11.3 The Council continues to take forward infrastructure improvements to enable development and to attract investment into the Enterprise Zone, supporting employment growth. Loans have been granted from the Government's Growing Places Fund (GPF) and Local Infrastructure Fund (LIF). The repayment of funding (principal and interest) will be met, for the most part, from business rates uplift in line with the Enterprise Zone financial model.

Tax Incremental Financing

11.4 The Government has outlined its plans to give local authorities the tools to promote growth, including giving more freedom for local authorities to make use of additional revenues to drive forward economic growth in their areas. infrastructure projects

11.5 To this aim they are looking to introduce new borrowing powers to enable authorities to carry out Tax Incremental Financing (TIF) for infrastructure projects. This will require new legislation and will be closely linked to another Government initiative concerning the localisation of business rates i.e. local retention of business rate income.

11.6 In determining the affordability of borrowing for capital purposes, local authorities take account of their current income streams and forecast future income. Currently this does not factor in the full benefit of growth in local business rate income. TIF will enable local authorities to borrow against a future additional uplift to their business rates base. It will be important to manage the costs and risks of this borrowing alongside wider borrowing under the Prudential Code.

11.7 The Council will explore these new opportunities and assess their impact on the Treasury Management Strategy, particularly in terms of risk to the sustainability, prudence and affordability to the Council's finances.

Spending Review and Autumn Statement 2015

11.8 The government spending review, published as part of the Chancellor's Autumn Statement in November 2015, includes as a government priority, investment in housing to support home ownership. The statement sets out a five point plan for housing, including the delivery of 400,000 affordable housing starts by 2020-21, focussed on low cost home ownership. Given the scale of the programme the government expects that all sectors will play a role in delivery. The government will be offering £2.3bn in loans to help regenerate large council estates and invest in infrastructure needed for major housing developments. The Council will keep abreast of developments in order to maximise opportunities for funding and other incentives as they become available. .

12 Training

12.1 A key outcome of investigations into local authority investments following the credit crisis has been an emphasis on the need to ensure appropriate training and knowledge in relation to treasury management activities, for officers employed by the Council, in particular treasury management staff, and for members charged with governance of the treasury management function

12.2 Policies for reviewing and addressing treasury management training needs are out in the TMP Schedules (TMP10 – Training and Qualifications)

13 List of appendices

Appendix 1:	Treasury Management Scheme of Delegation and Role of Section 151 Officer
Appendix 2	Policy for attributing income and expenditure and risks between the General Fund and the HRA
Appendix 3:	Prudential and Treasury Indicators
Appendix 4:	Minimum Revenue Provision (MRP) Policy Statement
Appendix 5:	Annual Investment Strategy

Appendix 1

Treasury Management Scheme of Delegation and role of the Section 151 Officer

Treasury Management Scheme of Delegation

Council

The Council is responsible for:

- Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services
- Approval of the Treasury Management Policy Statement
- Approval of the annual Treasury Management Strategy and annual Investment Strategy
- Setting and monitoring of the Council's prudential and treasury indicators.
- Approval of the treasury management mid-year and outturn reports
- Approval of the debt financing revenue budget as part of the annual budget setting process

Cabinet

The Cabinet is responsible for:

- Consideration of the all of the above and recommendation to Council
- Receiving monitoring information on the debt financing budget as part of the revenue budget monitoring process.
- Approving the selection of external service providers and agreeing terms of appointment in accordance with the Council's procurement regulations

Audit Committee

Audit Committee is the body responsible for scrutiny and will have responsibility for the review of treasury management policy and procedures, the scrutiny of all treasury management reports to Cabinet and Council, and for making recommendations to Cabinet and Council

Treasury management role of the Section 151 Officer

The Council's Chief Finance Officer is the officer designated for the purposes of section 151 of the Local Government Act 1972 as the Responsible Officer for treasury management at the Council.

The Council's Financial Regulations delegates responsibility for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Responsible Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

The Responsible Officer may delegate his power to borrow and invest to members of his staff.

The Responsible Officer is responsible for:

- Ensuring that the schedules to the Treasury Management Practices (TMPs) are fully reviewed and updated annually and monitoring compliance to the Treasury Management in the Public Services: Code of Practice and Guidance Notes.
- Submitting regular treasury management reports to Cabinet and Council.
- Submitting debt financing revenue budgets and budget variations in line with the Council's budgetary policies.
- Receiving and reviewing treasury management information reports
- Reviewing the performance of the treasury management function and promoting value for money
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers (e.g. treasury management advisors) in line with the approval limits set out in the Council's procurement rules.
- Ensuring that the Council's Treasury Management Policy is adhered to, and if not, bringing the matter to the attention of elected members as soon as possible.

Appendix 2

Policy for attributing income and expenditure and risks between the General Fund and the HRA

1.1 The Council is required to have a clearly agreed policy for attributing income and expenditure and risks between the General Fund and the HRA. This is set out at Appendix 5.

1.2 The Council uses a two pool approach to splitting debt between the HRA and General Fund, whereby loans are assigned to either the HRA or the General Fund.

1.3 The Council applies the requirements of the CLG Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012 in recharging debt financing and debt management costs between the HRA and the General Fund. The interest rates to be applied are determined as follows:

Principal Amount		**Interest Rate**
HRA Credit Arrangements CFR: concession agreements and finance leases		Average rate on HRA credit arrangements
HRA Loans CFR: long term loans (external)		Average rate on HRA external debt
HRA Loans CFR: short term loans payable (under funded CFR)		Average rate on GF external debt/or for formally agreed borrowing from GF resources an agreed PWLB equivalent rate.
HRA Loans CFR: short term loans receivable (over funded CFR)		Average rate on external investments/or for earmarked medium term reserves an actual external investment rate
HRA Cash balances: short term loans payable (cash balances overdrawn)		Average rate on external investments
HRA Cash balances: short term loans receivable (cash balances in hand)		Average rate on external investments/or for earmarked medium term reserves an actual external investment rate

1.4 For the purpose of calculating interest rates:

- HRA cash balances are based on the average of opening and closing HRA cash balances.
- HRA CFR external debt is based on actual external debt
- Other HRA CFR balances is based on the mid year position

1.5 Debt management costs are charged to the HRA on an apportioned basis that takes into account the weighting of time spent on managing debt and investments respectively.

1.6 Risk associated with external loans sit with either the GF or HRA depending on which of these the loan has been earmarked to. This will include interest rate risk, for example the risk of interest rate rises associated with LOBOs.

1.7 Similarly, risk associated with any external investment of earmarked medium term HRA reserves sits with the HRA. This will include the risk of impairment, in the event of the failure of a counterparty.

1.8 Where risk cannot be earmarked specifically to either the General Fund or HRA, it is apportioned fairly between the two, using relevant available data. For example, in the event of impairment of an investment counterparty, the loss will be apportioned between the two funds based on an estimated proportion of cash balances held.

Appendix 3

Prudential and Treasury Indicators

The prudential indicators for 2016-17 to 2020-21 are set out below, each one with a commentary and risk analysis.

Affordability

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

Commentary

The indicator has been calculated as the estimated net financing costs for the year divided by the amounts to be met from government grants and local taxpayers for the non-HRA element, and by total HRA income for the HRA element. The objective is to enable trends to be identified.

General Fund - The gently rising trend shown below reflects the cumulative impact of borrowing costs (interest and MRP) for capital programme schemes agreed each year, set against the backdrop of a reducing net revenue stream in future years.

HRA – The rising trend shown below reflects the cumulative impact of borrowing costs (interest only) for capital programme schemes agreed each year, set against the backdrop of a reducing net revenue stream in future years.

Estimate of the ratio of financing costs to net revenue stream					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Estimate %	Estimate %	Estimate %	Estimate %	Estimate %
General Fund	5.72%	6.14%	6.12%	6.16%	6.28%
HRA	35.56%	37.00%	39.08%	39.69%	40.76%

Risk Analysis

Debt financing costs relating to past and current capital programmes have been estimated in accordance with proper practices. Actual costs will be dependent on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Carry forwards in the capital programme, whether planned or unplanned, will delay the impacts of debt financing costs to future years

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

Commentary

This indicator represents an estimate of the incremental impact of new capital investment decisions on the annual Council Tax (Band D). It is intended to show the effect on the Council Tax of approving additional capital expenditure.

Revenue budget impacts may arise from the following:

- Direct revenue contributions
- Lost interest on use of capital receipts
- Lost interest on use of internal borrowing
- Lost interest on use of earmarked reserves
- Interest on use of external borrowing
- Revenue running costs or savings

The figure represents the incremental impact on Council Tax from agreed capital expenditure schemes continuing from 2015-16 and prior years, starting in 2016-17 and planned for 2017-18 to 2020-21.

Estimates of incremental impact of new capital investment decisions on the Council Tax					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p
General Fund	0.59	4.61	8.92	11.85	13.21

Risk Analysis

The calculation of this indicator produces a notional figure. In practice the incremental costs of capital programme expenditure, including borrowing costs, are incorporated into the calculations for the revenue budget build along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Additions to the Capital Programme are supported by a capital appraisal or a report to Cabinet setting out the costs and funding, as well as the benefits and risks of the project, and these should include any additional revenue costs associated with a scheme.

These procedures are designed to ensure that capital expenditure schemes are not included in the planned programme unless they have been demonstrated to be affordable, as well as prudent and sustainable.

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

Commentary

This indicator represents an estimate of the incremental impact of new capital investment decisions on average weekly housing rents.

Revenue budget impacts may arise from the following:

- Direct revenue contributions
- Lost interest on use of revenue contributions
- Lost interest on use of capital receipts
- Lost interest on use of internal borrowing
- Lost interest on use of earmarked reserves
- Lost interest on use of Major Repairs Allowance (MRA)
- Interest on use of external borrowing
- Revenue running costs or savings

The figures represent the incremental impact on weekly housing rents from agreed capital expenditure schemes continuing from 2015-16 and prior years, starting in 2016-17 and planned for 2017-18 to 2020-21.

The availability of additional revenue (reserve) funds to support capital expenditure is linked to the HRA self financing reforms; the abolition of subsidy payments to government (replaced by debt financing costs) has supported capital investment, initially to meet decent homes standards, and subsequently to maintain those standards and to invest in estate regeneration and/or new homes build. Actual rent rises will remain in line with the government rent restructuring policy, now laid down in legislation.

Estimates of incremental impact of new capital investment decisions on Housing Rents					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p	Estimate £.p
HRA	0.25	1.15	2.34	3.50	4.86

Risk Analysis

The calculation of this indicator produces a notional figure. In practice the incremental costs of capital programme expenditure, including borrowing costs, are incorporated into the calculations for the HRA revenue budget build along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Additions to the HRA Capital Programme are supported by a capital appraisal or a report to Cabinet setting out the costs and funding, as well as the benefits and

risks of the project, and these should include any additional revenue costs associated with a scheme.
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These procedures are designed to ensure that HRA capital expenditure schemes are not included in the planned programme unless they have been demonstrated to be affordable, as well as prudent and sustainable.

Prudence

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

Commentary

This is a key indicator of prudence. It is intended to show that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and new two financial years. This demonstrates that the Council's borrowing has only been undertaken for a capital purpose.

Gross debt and the capital financing requirement		
	2015-16 £000 Excluding Third Party Loans	2015-16 £000 Including Third Party Loans
Gross external debt	**215,998**	**267,328**
2014-15 Closing CFR (forecast)	248,431	299,761
Increases to CFR**:		
2015-16	11,738	11,458
2016-17	10,126	9,846
2017-18	7,215	6,935
Adjusted CFR	**277,510**	**328,000**
Gross external debt less than adjusted CFR	**Yes**	**Yes**

*** Where the change to the CFR is negative the adjustment is treated as zero.*

Risk Analysis

Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual strategy.

Capital Expenditure

e) Estimates of capital expenditure

Commentary

This indicator requires reasonable estimates of the total of capital expenditure to be incurred during the forthcoming financial year and at least the following two financial years.

The draft capital programme for 2016-17 to 2020-21 is included elsewhere on this agenda and the prudential indicator figures are based on that report.

Estimates include continuation schemes from previous years, new bids for the coming year, and block programmes for the coming and future years. The programme is agreed annually and will be adjusted in the context of future bids submitted and available resources when the annual programmes for the future years are agreed. Variations to the existing programme may also be agreed during the year.

Capital Expenditure					
	2016-17	2017-18	2018-19	2019-20	2020-21
	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
General Fund	14,532	12,380	2,937	2,275	2,695
HRA	34,592	24,643	23,208	21,657	22,809
Total	**49,124**	**37,023**	**26,145**	**23,932**	**25,504**
Loans to third parties	0	0	0	0	0
Total	**49,124**	**37,023**	**26,145**	**23,932**	**25,504**

Risk Analysis

There is a real risk of cost variations to planned expenditure against the capital programme, arising for a variety of reasons, including tenders coming in over or under budget, changes to specifications, and slowdown or acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the capital programme. The risks are managed by officers on an ongoing basis, by means of active financial and project monitoring. Any significant issues are reported to Cabinet as part of the finance and performance reporting cycle.

The availability of financing from capital receipts, grants and external contributions also carries significant risk. This can be particularly true of capital receipts, where market conditions are a key driver to the flow of funds, causing particular problems in a depressed or fluctuating economic environment. The financing position of the capital programme is closely monitored by officers on an ongoing basis and any significant issues are reported to Cabinet as part of the finance and performance reporting cycle.

f) Estimates of capital financing requirement (CFR)

Commentary

External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The CFR can be understood as the Council's underlying need to borrow money long term for a capital purpose – that is, after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions.

The Council is required to make reasonable estimates of the total CFR at the end of the forthcoming financial year and the following two years thereafter. A local authority that has an HRA must identify separately estimates of the HRA and General Fund CFR.

The CFR has been calculated in line with the methodology required by the relevant statutory instrument and the guidance to the Prudential Code. It incorporates the actual and forecast borrowing impacts of the Council's previous, current and future capital programmes.

The table below splits out the impacts of loans to third party organisations funded by borrowing, where these are included in the Council's capital programme.

The General Fund CFR (excluding third party loans) shows a gentle increase over the forthcoming five-year period. The impact of proposed new capital expenditure funded by borrowing is offset by annual repayments of principal (Minimum Revenue Provision).

The HRA CFR shows an increase of £13m over the five year period as additional borrowing is planned to support the HRA capital programme, including £8m to fund new council house building at Dallington Beck in 2016-17. The HRA does not make an annual revenue provision towards debt repayment.

The changes to CFR for future years (2017-18 to 2020-21) are subject to future Council decisions in respect of the capital programme for those years

Capital Financing Requirement (Closing CFR)					
	2015-16	2016-17	2017-18	2018-19	2019-20
	31 March 2016 Estimate £000	31 March 2017 Estimate £000	31 March 2018 Estimate £000	31 March 2019 Estimate £000	31 March 2020 Estimate £000
General Fund	65,651	66,854	67,221	67,341	67,832
HRA	194,518	203,441	210,289	213,129	217,001
Total	**260,169**	**270,295**	**277,510**	**280,470**	**284,833**
Loans to third parties (GF)	51,050	50,770	50,490	50,210	49,960
Total	**311,219**	**321,065**	**328,000**	**330,680**	**334,793**

Risk Analysis

The capital financing requirement will vary from the estimates if there are changes to capital programme plans that result in reduced or increased borrowing to support expenditure. This will include adjustments between years as a result of carry forwards in the capital programme, which can impact on the profile of capital expenditure and the profile of the minimum revenue provision.

All borrowing plans must be affordable in revenue terms and to this end additional borrowing to fund capital expenditure will only be approved through the normal capital project approval process and where it has been demonstrated to be prudent affordable and sustainable.

External Debt

g) Authorised limit for external debt

Commentary

For the purposes of this indicator the authorised limit for external debt is defined as the authorised limit for borrowing plus the authorised limit for other long term liabilities.

This requires the setting for the forthcoming financial year and the following four financial years of an authorised limit for total external debt (including temporary borrowing for cash flow purposes), gross of investments, separately identifying borrowing from other long term liabilities.

The authorised limit represents the maximum amount the Council may borrow at any point in time in the year. It has to be set at a level the Council considers is “prudent” and be consistent with plans for capital expenditure and financing. It contains a provision for forward funding of future years capital programmes, which may be utilised if current interest rates reduce significantly but are predicted to rise in the following year.

This limit is based on the estimate of the most likely but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. It includes headroom for any planned loans to third party organisations where aplicable.

The authorised limit is set at an amount that allows a contingency for any additional unanticipated or short-term borrowing requirements over and above the operational boundary during the period (see (h) below).

Other long-term liabilities relate to finance leases and credit arrangements.

The Council’s S.151 Officer will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to the Council at the next meeting following the change.

Authorised limit for external debt					
	2016-17	2017-18	2018-19	2019-20	2020-21
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
Borrowing	325	335	340	340	345
Other long-term liabilities	5	5	5	5	5
Total	**330**	**340**	**345**	**345**	**350**

Risk Analysis

Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of the Council’s cash flow requirements.

h) Operational boundary for external debt

Commentary

The proposed operational boundary is based on the same estimates as the authorised limit. However it excludes the additional headroom included within the authorised limit to allow for unusual cash movements.

The operational boundary represents a key management tool for in year monitoring by the S.151 Officer.

Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The borrowing element of the operational boundary has been set with reference to the maximum Capital Financing Requirement (CFR) over the coming three years. It includes headroom for any planned loans to third party organisations.

Other long-term liabilities relate to finance leases and credit arrangements.

The Council's S.151 Officer will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to the Council at the next meeting following the change.

Operational boundary for external debt					
	2016-17	2017-18	2018-19	2019-20	2020-21
	Limit £m	Limit £m	Limit £m	Limit £m	Limit £m
Borrowing	315	325	330	330	335
Other long-term liabilities	5	5	5	5	5
Total	**320**	**330**	**335**	**335**	**340**

Risk Analysis

Risk – Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of the Council's cash flow requirements.

i) HRA Limit on Indebtedness

Commentary

The local authority is required to report the level of the limit imposed (or subsequently amended) at the time of implementation of self-financing by the Department for Communities and local Government. It is the HRA capital financing requirement that will be compared to this limit.

Indicator

The HRA limit on indebtedness is **£217.001m**. This is the HRA debt cap imposed by the Department for Communities and Local Government (DCLG). The original debt cap of £208.401m has been increased by DCLG to allow for additional borrowing to fund new council house building at Dallington Beck in 2015-16 and 2016-17.

Risk Analysis

The current HRA business plan has been modelled with full regard to the DCLG debt cap requirements. The risk assessment of the business plan does not identify the breach of the debt cap as a risk. However there is an identified risk around the Government's rent setting policy which is now laid down in legislation and also that inflation levels may change more than expected. This could result in the financial assumptions in the business plan proving to be inaccurate, leading to reduced headroom for borrowing with the need for a combination of savings and a re-phased Asset Management Plan . In this instance borrowing may reach (but not breach) the debt cap.

Treasury Management

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

Commentary

The Prudential Code requires that the local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward looking treasury management strategy, and recognition of the pre-existing structure of the authority's borrowing and investment portfolios.

Indicator

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

Risk Analysis

Effective risk management is a fundamental requirement for the treasury management function, and this theme runs explicitly through the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

The prime policy objectives of the Council's investment activities are the security and liquidity of funds, and return on investments will be considered only once these two primary objectives have been met. The Council will thereby avoid exposing public funds to unnecessary or unquantified risk.

The Council's Treasury Management Strategy Report for 2015-16 to 2019-20 discusses the ways in which treasury management risk will be determined, managed and controlled.

Treasury Indicators

k) Maturity structure of borrowing

This indicator sets both upper and lower limits with respect to the maturity structure of the Council's borrowing.

The indicator represents the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period where the periods in question are:

- Under 12 months;
- 12 months and within 24 months;
- 24 months and within 5 years;
- 5 years and within 10 years;
- 10 years and within 20 years;
- 20 years and within 30 years;
- 30 years and within 40 years;
- 40 years and above.

The Treasury Management Code of Practice Guidance Notes requires that the maturity is determined by the earliest date on which the lender can require payment, which in the case of LOBO loans is the next break period. However 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.

The proposed limits for the forthcoming year are:

Maturity Structure of Borrowing		
	Lower Limit %	Upper Limit %
Under 12 months	0%	20%
Between 1 and 2 years	0%	20%
Between 2 and 5 years	0%	20%
Between 5 and 10 years	0%	20%
Between 10 and 20 years	0%	40%
Between 20 and 30 years	0%	60%
Between 30 and 40 years	0%	80%
Over 40 years	0%	100%

Risk – The debt maturity profile is actively managed to ensure that debt maturity is prudently spread across future years. This ensures that the Council can properly plan for the maturity of its borrowings, and is not exposed to unmanageable risks.

l) Upper limits on interest rate exposures

The Council must set for the forthcoming financial year and the following two financial years, upper limits to its exposure to the effect of changes in interest rates. These limits relate to both fixed interest rates and variable interest rates, and are referred to as the upper limits on fixed interest rate and variable interest rate exposures.

The purpose of the indicator is to express the Council's appetite for exposure to variable interest rates, which may, subject to other factors, lead to greater volatility in payments and receipts. However this may be offset by other benefits such as lower rates, as in the case of LOBOs.

These limits can be expressed either as absolute amounts or as a percentage. They may be related either to the authority's net principal sum outstanding on its borrowing/investments or to the net interest on these.

As a result of advice from the Council's treasury advisors, these indicators have been set as percentages rather than absolute values. Separate indicators are set and monitored for debt and investments, as well as for the net borrowing position.

It is proposed to maintain the upper limits on interest rate exposures for borrowing at 100% for both fixed and variable rate debt. This will allow officers to make judgements on the most appropriate form of borrowing dependant on the market conditions and rates on offer, rather than being artificially constrained by the indicator. In practice there is likely to be a mix of fixed and variable rate borrowing in the Council's debt portfolio.

Upper limits on interest rate exposures - borrowing		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2015-16	100%	100%
2016-17	100%	100%
2017-18	100%	100%
2018-19	100%	100%
2019-20	100%	100%

Upper limits on interest rate exposures - investments		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2015-16	100%	100%
2016-17	100%	100%
2017-18	100%	100%
2018-19	100%	100%
2019-20	100%	100%

The interest rate exposures for net borrowing are distorted when debt and investment are combined. However, this combined indicator is included here for completeness, and as required by the Treasury Management Code of Practice. The percentages in the table below allow for both borrowing and investments to independently reach limits of 100% for both fixed and variable rates. Actual percentages on net borrowing may sometimes be in excess of 100% or below zero (ie negative percentages).

Upper limits on interest rate exposures – net borrowing		
	Fixed Interest Rate Exposures	Variable Interest Rate Exposures
2015-16	150%	150%
2016-17	150%	150%
2017-18	150%	150%
2018-19	150%	150%
2019-20	150%	150%

m) Total principal sums invested for periods longer than 364 days

Under the Local Government Act 2003 and the CLG Guidance on Local Authority Investments 2004 (revised 2010), all Councils are permitted to invest for periods exceeding 1 year (or 364 days). The Council is required to set a limit to the level of such investments it might wish to make.

This limit can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount as officers consider this to be the most transparent method and the more straightforward to monitor.

The limit has been set at a level that would allow for monies not anticipated to be spent in year to be invested for longer periods if interest rates are favourable.

The proposed limits for the forthcoming, and following four financial years are as follows.

Upper limit on investments for periods longer than 364 days					
	2015-16	2016-17	2017-18	2018-19	2019-20
	Upper Limit £m	Upper Limit £m	Upper Limit £m	Upper Limit £m	Upper Limit £m
Investments > 364 days	6	6	6	6	6

This upper limit has been calculated at a prudent level with regard to cashflow liquidity, based on a maximum of 10% of forecast average general (HRA & GF) cash balances in year.

Appendix 4

Minimum Revenue Provision Policy Statement

1.1 The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008, which came into force in February 2008, require local authorities to make ‘prudent provision’ for the repayment of its General Fund debt. This debt repayment is known as the Minimum Revenue Provision (MRP).

1.2 A number of options for prudent provision are set out in the regulations. The underlying principle is that the repayment of debt should be aligned to the useful life of the asset or assets for which the borrowing has been carried out.

1.3 Since 2007-08 the Council has used the transitional measures available to calculate MRP for all capital expenditure prior to 1 April 2008 as if the previous regulations were still in force.

1.4 The authority is required, under the 2008 regulations, to prepare an annual statement of their policy on making MRP for submission to Council.

1.5 The Council’s policy statement on MRP for 2016-17 is set out below. The policy is considered by the Section 151 Officer to provide for the prudent repayment of debt.

1.5.1 The Council has implemented the 2008 CLG Minimum Revenue Provision (MRP) guidance from 2008-09 onwards, and assessed their MRP from 2008-09 onwards 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.

1.5.2 MRP relating to the historic debt liability incurred for years up to and including 2007-08 will continue to be charged at the rate of 4% on the reducing balance, in accordance with option 1 of the guidance, the “regulatory method”.

1.5.3 The debt liability relating to capital expenditure incurred from 2008-09 onwards will be subject to MRP under option 3, the “asset life method”, and will be 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, will be related to the estimated life of that building.

1.5.4 Estimated life periods will be 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 will generally adopt 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.

1.5.5 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be 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 will be grouped together in a manner that reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

1.5.6 The Council will seek 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 will be used to repay borrowing previously taken out in relation to assets with a short life. MRP on residual debt will be based on the lives of the remaining asset for which borrowing was undertaken.

1.5.7 MRP will be charged from the financial year after the asset comes into use.

1.5.8 In cases where the Council has approved the use of capital receipts to fund the asset, this funding will be assumed when the receipt is contractually certain, even if not actually received. In such cases no MRP charge will be made.

1.5.9 No MRP will be charged in respect of capital expenditure funded by borrowing where the expectation is that a future capital receipt will be applied to the CFR as a voluntary debt repayment for the borrowing - for example capital expenditure on preparing assets for sale. Where this approach is used it will be reviewed on an annual basis, in consideration of updated expectations over the timing and certainty of capital receipts, and to ensure that the latest estimate of proceeds is sufficient to cover the MRP liability.

1.5.10 In respect of the borrowing undertaken to fund loans to Northampton Town Football Club, the capital receipt from the proposed sale of the associated development land will be utilised to reduce the outstanding CFR liability and finance the loan impairment when the land is sold and the capital receipt is realised. This approach will be reviewed on an annual basis to ensure that the latest estimate of proceeds is sufficient to cover the MRP liability. In the event that they are not, the Council will make a charge to revenue, either immediately or over a period of time, to reduce the CFR accordingly.

1.5.11 Where finance leases are held on the balance sheet, the MRP will be 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.

1.5.12 The Council will take 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.

1.5.13 In respect of loans to third parties supported by borrowing, where these are treated as capital expenditure, and contractual terms are in place to secure repayment over a period not exceeding the life of the asset, the Council will not charge MRP on the related expenditure; the CFR will be reduced by the third party loan repayments as and when these are received.

1.5.14 In respect of infrastructure improvements and other capital schemes where repayment of the funding (principal and interest) will be met from business rates uplift in line with the Enterprise Zone financial model, and the repayment does not exceed the life of the asset, the Council will not charge MRP on the related expenditure; the CFR will be reduced by the amount of repayment of principal through business rates as and when these are made.

Appendix 5

Annual Investment Strategy

1 Investment policy

1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

1.2 The Council's appetite for risk must be clearly identified in its strategy report. The Council affirms that its investment policies are underpinned by a strategy of prudent investment of funds held on behalf of the local community. The objectives of the investment policy are firstly the security of funds (protecting the capital sum from loss) and then liquidity (keeping money readily available for expenditure when needed). Once approved levels of security and liquidity are met, the Council will seek to maximise yield from its investments, consistent with the applying of the agreed parameters. These principles are carried out by strict adherence to the risk management and control strategies set out in the TMP Schedules and the Treasury Management Strategy.

Responsibility for risk management and control lies within the Council and cannot be delegated to an outside organisation.

2 Creditworthiness policy

2.1 The Council's counterparty and credit risk management policies and its approved instruments for investments are set out in the TMP Schedules (TMP 1 Risk Management: Credit and counterparty risk management and TMP 4 Approved Instruments, Methods and Techniques). These, taken together, form the fundamental parameters of the Council's Investment Strategy

2.2 The Council defines high credit quality in terms of investment counterparties as those organisations that:

- Meet the requirements of the creditworthiness service provided by the Council's external treasury advisers (ie have a colour rating) and,
- Have sovereign ratings of AA or above, or are
- UK banking or other financial institutions or are
- UK national or local government bodies or are
- Triple A rated Money Market funds

3 Sovereign limits

3.1 Expectation of implicit sovereign support for banks and financial insitutions in extraordinary situations has lessened considerably in the last two to three years, and alongside that, national and international changes to banking regulations have focussed on improving the banking sectors internal resilience to financial and economic stress. The Council has therefore reviewed its existing policy of restricting overseas investments to counterparties in countries with a sovereign rating of AA+.

3.2 The Council has determined that for 2016-17 it will only use approved counterparties from countries with a sovereign credit rating from the three main ratings agencies of at least AA. However the limit for the amount that may be invested and the duration of the investment will be banded according to the sovereign rating. These limits are set out in the table at paragraph 7.4.

3.3 The list of countries on the Capita counterparty list that qualify using these credit criteria as at the date of this report are shown below. This list will be amended by officers should ratings change, in accordance with this policy.

AAA	**AA+**	**AA**
Australia	Finland	Abu Dhabi
Canada	Netherlands	France
Denmark	UK	Qatar
Germany	USA	
Singapore		
Sweden		
Switzerland		

4 Investment position and use of Council's resources

4.1 The application of resources, such as capital receipts, reserves etc., to either finance capital expenditure or for other budget decisions to support the revenue budget will have an ongoing impact on investments balances and returns unless resources are supplemented each year from new sources such as asset sales. Detailed below are estimates of the Council's year end balances available for investment

Year End Resources £m	**2015-16 Projected**	**2016-17 Estimate**	**2017-18 Estimate**	**2018-19 Estimate**	**2019-20 Estimate**	**2020-21 Estimate**
Core funds	90	90	90	90	90	90
Working capital surplus	10	10	10	10	10	10
Total funds	**100**	**100**	**100**	**100**	**100**	**100**
Less under/(over) borrowing	39	40	37	34	34	39
Expected	**61**	**60**	**63**	**66**	**66**	**61**

investments						

4.2 Investment decisions will be made with reference to the core balance and cash flow requirements and the outlook for interest rates.

5 Specified investments

5.1 Under the Local Government Act 2003 the Council is required to have regard to the CLG Guidance on Local Government Investments. This requires that investments are split into two categories:

(i) Specified investments – broadly, sterling investments, not exceeding 364 days and with a body or investment scheme of high credit quality.

(ii) Non-specified investments – do not satisfy the conditions for specified investments. This may include investment products that would normally be considered as specified investments, but are judged to have a higher level of risk than normal attached to them.

5.2 The detailed conditions attached to each of these categories are set out in the TMP Schedules (TMP4 Approved Instruments, Methods and Techniques).

5.3 The majority of the Council's investments in 2016-17 will fall into the category of specified investments.

6 Non-specified investments

6.1 Prior to the start of each financial year officers review which categories of non-specified investments they consider could be prudently used in the coming year.

6.2 The officer recommendation for 2016-17 is that the following non specified investments may be entered into:

6.2.1 Long-term investments (those for periods exceeding 364 days), which could prudently be used where interest rates are favourable and funds are not required for short-term cashflow management.

Amounts deposited for over 364 days will be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits.

Only counterparties in the Council's current approved counterparty list that have limits of over 364 days will be used for such investments.

Any overall stricter limits in force in the Council's investment counterparty policies at any time will take precedence.

The maximum amount that the Council will hold at any time during the year as long-term investments is £7m.

6.2.2 The following items, being non-specified only by virtue of unfamiliarity on the part of the Council's treasury management staff:

- UK Government Gilts
- Treasury Bills
- Bonds issued by a financial institution that is guaranteed by the UK Government and multi-lateral development banks as defined in Statutory Instrument 2004 No. 534
- Reverse Gilt Repos
- Commercial paper
- Gilt funds and other bond funds
- Enhanced money market funds
- Property funds

Before proceeding with any of the above treasury management staff will take advice from the Council's external treasury advisors as appropriate, ensure that they fully understand the product and its risks, and prepare a business plan to be signed off by the Chief Finance Officer.

The business plan will include:

- A clear justification for using the product
- Evaluation of counterparty and other risk
- Procedures and limits for controlling exposure

7 Counterparties

7.1 Over-arching policies for the management of counterparty and credit risk are set out in the TMP Schedules (TMP 1 Risk Management). The Council's approach to counterparties for 2016-17 is set out below:

7.2 The Chief Finance Officer (CFO) will use the recommendations of the creditworthiness service provided by the Council's external treasury advisers to determine suitable counterparties and the maximum period of investment, using the ratings assigned.

7.3 The CFO will determine, in the context of the above, and taking into account appropriate risk management factors:

- Any further criteria to be put in place to determine suitable counterparties
- The maximum investment amount to be held with each type of counterparty assigned a rating
- The maximum investment period with each type of counterparty assigned a rating

7.4 The following table sets out the Council's counterparty criteria for 2016-17.

Investments may be placed with counterparties recommended by the Council's external treasury advisors, and which meet the following criteria			
	Counterparty Type	**NBC Additional Limits – Value per individual counterparty or banking group**	**NBC Additional Limits - Duration**
(1a)	UK Government	£20m	3 years
(1b)	UK nationalised or part nationalised banking institutions	£20m	3 years
(1c)	Other UK counterparties	£15m	3 years
(1d)	Other Local Authorities	£10m	3 years
(2a)	Non UK counterparties having a sovereign rating of AAA	£15m	3 years
(2b)	Non UK counterparties having a sovereign rating of AA+	£10m	2 years
(2c)	Non UK counterparties having a sovereign rating of AA	£3m	1 year
(3)	Money Market Funds (CNAV) having a credit rating of AAA	£15m	N/A Liquid deposits

7.5 Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is added by the counterparty to the principal investment amount, for example in the case of some call and deposit accounts. In such instances the interest amounts will be withdrawn back to the Council's main bank account as soon as reasonably practicable.

7.6 The maximum percentage of the investment portfolio, excluding instant access accounts and Money Market Funds, that may be placed with overseas counterparties at any one time is 50%.

7.7 Any types of investments that fall within the category of specified investments as set out in the TMP Schedules (TMP 4 Approved instruments, methods and techniques), and any types of non-specified investments approved as part of this document may be made, within the bounds of the counterparty policies.

7.8 The total value of investments over 364 days at any one time is restricted by the treasury indicator for the upper limit on investments for periods longer than 364 days.

7.9 The Council may enter into forward agreements up to 3 months in advance of the investment commencing. If forward deposits are to be made, the forward period plus the deal period should not exceed the limits above.

7.10 The Chief Finance Officer has discretion during the financial year to lift or increase the restrictions on the counterparty list and/or to adjust the associated lending limits on values and periods should it become necessary to enable the effective management of risk in relation to investments. At all times the Council's minimum level of credit risk, as set out in the TMP Schedules (TMP 1 Risk Management), will be met.

8 Liquidity of Investments

8.1 Most short-term investments are held for cashflow management purposes and officers will ensure that sufficient levels of short-term investments and cash are available for the discharge of the Council's liabilities.

8.2 Investment periods range from overnight to 364 days as specified investments, or 3 years as non-specified investments. When deciding the length of each investment, regard is had to both cashflow needs and prevailing interest rates. As cash balances available for investment are forecast to be somewhat reduced compared to previous years, the preservation of liquidity will be a critical determinant for treasury officers when determining the value and duration of investments.

8.3 Amounts deposited for over 364 days will also be determined by liquidity considerations and by whether longer term interest rates are favourable, and all deposits will be in accordance with counterparty limits and the treasury indicator for investments over 364 days. Long term investments of over 2 years will only be made in exceptional circumstances.

8.4 For short term and overnight investment the Council makes full use of triple A rated Money Market Funds and appropriate bank call and deposit accounts offering competitive rates and, in most instances, instant access to funds.

8.5 The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position.

9 Investments defined as capital expenditure

9.1 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded from capital or revenue resources and will be classified as 'non-specified investments'.

9.2 Investments in "money market funds" which are collective investment schemes and bonds issued by "multilateral development banks" – both defined in SI 2004 No 534 – will not be treated as capital expenditure.

9.3 A loan or grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure.

10 Lending to third parties

10.1 Officers will ensure that any loans to or investments in third parties comply with legislative requirements. This would normally, but not necessarily, be under one of the following Acts of Parliament:

- The Localism Act 2011 gives local authorities a general power of competence to act in the same manner as any other legal person, except where those powers are specifically limited by statute.

- The Local Government Act 2000 contains wellbeing powers for local government that allow local authorities to do anything, including to give financial assistance to any person, which they believe is likely to promote or improve the economic, social or environmental well being of their area. Certain conditions, including consultation requirements, must be complied with in order to meet the requirements allowing the local authority to use the wellbeing powers.

10.2 Loans of this nature must be approved by Cabinet.

10.3 The primary aims of the Investment Strategy, in order of priority, are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan to a third party.

10.4 Recipients of this type of investment are unlikely to be a financial institution and therefore unlikely to be subject to a credit rating. In order to ensure security of the Authority's capital, extensive financial due diligence must be completed prior to any loan or investment being agreed. The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party. Where deemed necessary, additional guarantees will be sought. This will be via security against assets and/or through guarantees from a parent company.

11 Provisions for credit related losses

11.1 If any of the Council's investments appears at risk of loss due to default (i.e. this is a credit related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

12 Banking services

12.1 HSBC currently provide banking services for the Council under a contract that runs to 30 September 2016. To secure best value for the Council, a joint procurement exercise with Cambridge City Council and South Cambridgeshire District Council is currently under way for a new banking contract from 1 October 2016.

12.2 It is the Council's intention that should in the event of the credit rating of the provider of its banking services falling below the minimum investment criteria the bank will continue to be used for short term liquidity requirements.

13 End of year investment report

13.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Appendices
6

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Risk Review of 2016/17 Budget Report

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date:	18 January 2016
Policy Document:	No
Directorate:	Resources
Accountable Cabinet Member:	Mike Hallam

1. Purpose

1.1 To present the risk assessment of the budget proposals to Audit Committee for consideration.

2. Recommendations

2.1 That the Audit Committee considers issues in relation to risk within the budget proposals for 2016/17 and comments appropriately.

3. Issues and Choices

3.1 Report Background

3.1.1 The Chief Finance Officer is required to make a statement on the Robustness of Estimates when the proposed budget is brought to Council for approval.

3.1.2 In support of this statement the relevant Heads of Service have completed a risk assessment as part of the MTP Options budget proforma

3.2 Issues

3.2.1 Each Head of Service has carried out a risk assessment of their budget proposals as part of their MTP Option submissions

3.2.2 Management Board have also scrutinised the risk implications in detail to ensure that the options are deliverable

3.2.3 A list of General Fund revenue budget options is attached at Appendix 1 and 2 to this report. The General Fund capital programme and funding is attached at Appendix 3. The HRA revenue budget options are attached at Appendix 4 with the HRA capital programme following at Appendix 5 and the Northampton Partnership Homes Fee schedule attached at Appendix 6.

3.2.4 Outside this, other risk work has been and is being undertaken in relation to the budget proposals. For each proposal equalities have been considered and, where appropriate a Communities Impact Assessment has been carried out to identify risks and issues that need to be addressed and considered in relation to people with protected characteristics, in deciding whether or how to take a proposal forward.

3.2.5 As part of this process there is a full review being undertaken on the Council's reserves which will reflect the risks incorporated into the budget proposals being considered.

3.3 Choices (Options)

3.3.1 The Audit Committee is asked to consider the risk issues in relation to some or all of the budget options for 2016/17 and make comments or recommendations to the Chief Finance Officer.

3.3.2 The Audit Committee may consider that the risk issues in relation to some or all of the budget options require comment and therefore make their comments to Cabinet for consideration alongside the final budget proposals

4. Implications (including financial implications)

4.1 Policy

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

4.2 Resources and Risk

4.2.1 This report outlines measures taken to identify and mitigate risks in relation to the General Fund and Housing Revenue Account budget proposals.

4.3 Legal

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

4.4 Equality

4.4.1 Equality and Diversity are being considered as a part of the budget build process, and an equalities assessment will be completed for the relevant budget proposals before they are brought to Council for final decision later in February 2016.

4.5 Consultees (Internal and External)

4.5.1 Internally Heads of Service and Management Board have been consulted, and involved in the budget risk assessment process.

4.5.2 Externally, the public are being consulted as part of the budget consultation exercise and specific consultation exercises, aimed at affected groups, will have been and will be undertaken in respect of specific budget proposals.

4.6 Other Implications

4.6.1 There are no other specific issues arising from this report.

5. Background Papers

5.1 Appendices

Appendix 1 –	General Fund Savings List
Appendix 2 –	General Fund Growth List
Appendix 3 –	General Fund Capital Programme
Appendix 4 -	Housing Revenue Account Medium Term Planning Options Savings and Growth List
Appendix 5 –	Housing Revenue Account Capital Programme List
Appendix 6	NPH Total Fee Schedule

Glenn Hammons Chief Finance Officer, Telephone 01604 366521

Appendix 1

General Fund MTP Savings Options

MTP Reference	MTP Option Description	2016/2017 £	2017/2018 £	2018/2019 £	2019/2020 £	2020/2021 £
Borough Secretary						
	Borough Secretary Review	(53,739)	(54,298)	(54,863)	(55,435)	(56,012)
	TOTAL Borough Secretary	**(53,739)**	**(54,298)**	**(54,863)**	**(55,435)**	**(56,012)**
Customers & Communities						
	Events Restructure	(75,000)	(75,000)	(75,000)	(75,000)	(75,000)
	Customers and Communities Directorate Review	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
	Review of lease/management agreement with Northampton Leisure Trust	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
	Increased marketing of the Guildhall to generate additional income	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
	Reduction in funding to the Royal and Derngate Theatre	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
	TOTAL Customers and Communities	**(325,000)**	**(325,000)**	**(325,000)**	**(325,000)**	**(325,000)**
Regeneration, Enterprise & Planning						
	Reduced Contribution to Joint Planning Unit	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)
	Regeneration Enterprise and Planning Directorate Review	(157,783)	(158,193)	(158,605)	(159,022)	(159,443)
	TOTAL Regeneration Enterprise and Planning	**(185,783)**	**(186,193)**	**(186,605)**	**(187,022)**	**(187,443)**
Housing and Well Being						
	Increased Houses in Multiple Occupation fee income	(70,000)	(70,000)	(70,000)	(70,000)	(70,000)
	New funding arrangements for homelessness prevention	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
	TOTAL Housing	**(100,000)**	**(100,000)**	**(100,000)**	**(100,000)**	**(100,000)**
	SAVINGS AND EFFICIENCIES TOTAL	**(664,522)**	**(665,491)**	**(666,468)**	**(667,457)**	**(668,455)**

NORTHAMPTON
BOROUGH COUNCIL

General Fund MTP Growth Options

MTP Reference	MTP Option Description	2016/2017 £	2017/2018 £	2018/2019 £	2019/2020 £	2020/2021 £
Borough Secretary						
	Individual Electoral Registration	80,000	80,000	80,000	80,000	80,000
	Annual Canvass	50,000	50,000	50,000	50,000	50,000
		130,000	**130,000**	**130,000**	**130,000**	**130,000**
Customers & Communities						
	Fireworks Display	35,000	35,000	35,000	35,000	35,000
	Christmas Market	40,000	40,000	40,000	40,000	40,000
	Cost of delivering Northampton in Bloom all year round	25,000	25,000	25,000	25,000	25,000
	Extend current opening hours of Abington Museum during the winter months	25,000	25,000	25,000	25,000	25,000
	Enhanced tree management programme	100,000	100,000	50,000	0	0
		225,000	**225,000**	**175,000**	**125,000**	**125,000**
Total Growth		**355,000**	**355,000**	**305,000**	**255,000**	**255,000**

Appendix 3

General Fund Capital Programme 2016-17 to 2020-21

Project Title	2015-16 Latest £	2016-17 £	2017-18 £	2018-19 £	2019-20 £	2020-21 £	Total £
Housing - General Fund							
Disabled Facilities Grant (updated profile)	1,500,000	1,875,000	1,475,000	1,475,000	1,475,000	1,475,000	9,275,000
Self-funded							
IT Infrastructure	300,734	215,000	150,000	150,000	150,000	150,000	1,115,734
New Scheme - Car Parking Enhancements - subject to business case		1,330,000					1,330,000
New Scheme - CCTV Technology Upgrade		200,000					200,000
Town Centre Improvements							
New Scheme - St Giles Street	727,992	2,200,000					2,927,992
Superfast Broadband	88,000	45,000	205,000	162,000			500,000
Heritage & Culture							
Vulcan Works	150,000	3,940,000	2,860,000				6,950,000
Delapre Abbey Restoration	4,764,821	595,031					5,359,852
Delapre Abbey Parklands Infrastructure	200,000	100,000					300,000
Central Museum Development	132,000	495,000	5,773,000	300,000			6,700,000
New Scheme - Abington Park Museum - Renewal of Displays		210,000					210,000
Block Programmes - specific schemes to be agreed							
Town Centre Realm improvements						370,000	370,000
Capital Improvements - Regeneration Areas	270,212	250,000	50,000	50,000	50,000	100,000	770,212
Parks/Allotments/Cemeteries Enhancements	202,499	250,000	250,000	250,000	250,000	250,000	1,452,499
New Scheme - Car Park Lifts		250,000	250,000	200,000			700,000
Operational Buildings - Enhancements	556,067	250,000	250,000	250,000	250,000	300,000	1,856,067

Commercial Landlord Responsibilities	335,895	120,000	50,000	50,000	50,000	50,000	655,895
<u>Enterprise Zone</u>							
New Scheme - St James Mill Link Road		1,000,000	1,000,000				2,000,000
<u>Other</u>							
St Crispins Community Centre	750,000	1,150,000					1,900,000
Planning IT Improvements	50,421	17,000	17,000				84,421
Duston Art Project	10,000	40,000					50,000
Loan to University of Northampton	46,000,000						46,000,000
<u>Schemes Due to Complete in 2015/16*</u>	10,511,192						10,511,192
Total General Fund Capital Programme	**66,549,833**	**14,532,031**	**12,330,000**	**2,887,000**	**2,225,000**	**2,695,000**	**101,218,864**

* as previously reported to Cabinet

Proposed General Fund Capital Funding	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
	£	£	£	£	£	£	£
Grants & Contributions:							
Disabled Facilities Grant - External Funding	593,905	594,000	594,000	594,000	594,000	594,000	3,563,905
Heritage Lottery Funding - Delapre Abbey	2,842,116	339,168					3,181,284
HPDG	50,421	17,000	17,000				84,421
CLG - St Peters Waterside	1,083,315						1,083,315
Local Growth Fund - Vulcan Works	150,000	3,290,000	2,860,000				6,300,000
Local Growth Fund - St James Mill Link Road		562,000					562,000
Section 106	1,369,011	1,260,000					2,629,011
Other Grants and Contributions	70,000	70,000					140,000
Sub-total Grants & Contributions	6,158,768	6,132,168	3,471,000	594,000	594,000	594,000	17,543,936
NBC Earmarked Reserves - Delapre Abbey	787,808						787,808
New Homes Bonus	1,315,090						1,315,090
Other Revenue/Reserves	1,277,260						1,277,260
Capital Receipts - Heritage	1,032,000	595,000	5,773,000	300,000			7,700,000
Capital Receipts - Other	6,339,372	1,655,413	305,000	162,000			8,461,785
Growing Places Fund and Local Infrastructure Fund (to be repaid from EZ business rate uplift)	208,333	438,000	1,000,000				1,646,333
Self-funded Borrowing (incl Loans)	46,703,969	1,745,000	150,000	150,000	150,000	150,000	49,048,969
Corporate Borrowing	2,727,233	3,966,450	1,631,000	1,681,000	1,481,000	1,951,000	13,437,683
Total Funding	**66,549,833**	**14,532,031**	**12,330,000**	**2,887,000**	**2,225,000**	**2,695,000**	**101,218,864**

Appendix 4

NORTHAMPTON BOROUGH COUNCIL

Housing Revenue Account Budget Summary 2016-2021

Description	Note	Budget 2016/17	Budget 2017/18	Budget 2018/19	Budget 2019/20	Budget 2020/21
INCOME		**£**	**£**	**£**	**£**	**£**
Rents - Dwellings Only	(1)	(50,494,000)	(49,601,500)	(48,721,700)	(48,845,100)	(48,413,200)
Rents - Non Dwellings Only	(1)	(1,108,800)	(1,102,200)	(1,095,700)	(1,089,200)	(1,082,800)
Service Charges		(2,076,586)	(2,095,842)	(2,110,499)	(2,120,300)	(2,139,480)
Other Income		(55,000)	(55,000)	(55,000)	(55,000)	(55,000)
Total Income		**(53,734,386)**	**(52,854,541)**	**(51,982,897)**	**(52,109,597)**	**(51,690,476)**
EXPENDITURE						
Repairs and Maintenance	(2)	16,624,687	15,711,823	14,769,272	13,438,965	13,738,965
General Management	(2)	6,505,776	6,066,243	5,602,246	4,839,881	5,089,881
Special Services	(2)	4,600,503	4,628,052	4,656,011	4,685,139	4,685,139
Rents, Rates, Taxes & Other Charges		278,675	278,675	278,675	278,675	278,675
Increase in Bad Debt Provision		550,000	600,000	650,000	650,000	650,000
Total Expenditure		**28,559,641**	**27,284,793**	**25,956,205**	**23,892,660**	**24,442,660**
Continuation Budget		**(25,174,745)**	**(25,569,748)**	**(26,026,692)**	**(28,216,937)**	**(27,247,816)**
Medium Term Planning Options		**0**	**0**	**0**	**0**	**0**
Net Recharges from the General Fund		2,944,907	2,944,907	2,944,907	2,944,907	2,944,907
Interest & Financing Costs						
- Interest on balances		(166,250)	(87,230)	(105,720)	(128,700)	(100,000)
- Mortgage interest		(600)	(600)	(600)	(600)	(600)
- Internal Borrowing (Over funded CFR)		(32,820)	(23,950)	(24,330)	(6,790)	10,900
- Interest Fixed Rate		6,470,000	6,671,000	6,997,000	7,110,000	7,210,000
RCCO		10,344,832	1,035,000	1,181,000	3,319,000	3,158,000
Depreciation/MRA		13,008,000	13,430,000	13,982,000	14,234,000	14,489,000
Contribution to / (from) Reserves		(7,393,324)	1,600,621	1,052,435	745,120	(464,391)
Remaining Deficit / (Surplus)		**0**	**0**	**0**	**0**	**0**

Notes

(1) Rent decrease based on Government policy -1% for 4 years, then 2% CPI estimated increase for 2020/21

(2) Expenditure budgets above are proposed to be split between NBC and NPH as per the table below.

Description	£'000
Repairs and Maintenance	16,625
General Management	6,506
Special services	4,601
Net Recharges from the General Fund	2,945
Less NBC Retained Budgets	(3,445)
NPH Budget as per Appendix 5	**27,231**

Proposed Capital Programme 2016-17 to 2020-21 - HRA

NORTHAMPTON BOROUGH COUNCIL

	2016-17 £	2017-18 £	2018-19 £	2019-20 £	2020-21 £	Total £
External Improvements	6,300,000	5,800,000	5,400,000	4,900,000	5,000,000	27,400,000
Internal Works	4,050,000	3,900,000	3,500,000	3,300,000	3,500,000	18,250,000
Energy Works	2,824,000	2,700,000	2,400,000	2,000,000	2,000,000	11,924,000
Major Projects	6,330,000	5,800,000	5,600,000	5,100,000	5,400,000	28,230,000
Environmental Improvements	4,801,400	4,454,300	3,974,000	3,740,400	3,840,400	20,810,500
Diabled Adaptations	1,132,000	1,132,000	1,132,000	1,132,000	1,132,000	5,660,000
New Build - Dallington	8,706,000					8,706,000
Use of 1-4-1 Receipts	1,138,000	1,179,000	1,200,000	1,200,000	1,200,000	5,917,000
Total	**35,281,400**	**24,965,300**	**23,206,000**	**21,372,400**	**22,072,400**	**126,897,500**

SPLIT:						
Improvements to Homes	20,636,000	19,332,000	18,032,000	16,432,000	17,032,000	91,464,000
Improvements to Environment	4,801,400	4,454,300	3,974,000	3,740,400	3,840,400	20,810,500
Total NPH	**25,437,400**	**23,786,300**	**22,006,000**	**20,172,400**	**20,872,400**	**112,274,500**
NBC Retained (New Build and 141 Receipts)	9,844,000	1,179,000	1,200,000	1,200,000	1,200,000	14,623,000
Total Capital Programme	**35,281,400**	**24,965,300**	**23,206,000**	**21,372,400**	**22,072,400**	**126,897,500**

FINANCING:						
Major Repairs Reserve/Depreciation	13,008,000	13,430,000	13,982,000	14,234,000	14,489,000	69,143,000
Capital Receipts - Right to Buy (excl 1-4-1)	1,221,000	1,245,000	1,270,000	1,295,000	1,290,000	6,321,000
Capital Receipts - RTB 1-4-1 Receipts	1,138,000	1,179,000	1,200,000	1,200,000	1,200,000	5,917,000
Revenue/Earmarked Reserve	10,344,832	1,035,000	1,181,000	3,319,000	3,158,000	19,037,832
Borrowing	863,568	8,076,300	5,573,000	1,324,400	1,935,400	17,772,668
Section 106 - New Build Dallington	706,000					706,000
Additional Borrowing Cap re New Build	8,000,000					8,000,000
Total Financing - HRA	**35,281,400**	**24,965,300**	**23,206,000**	**21,372,400**	**22,072,400**	**126,897,500**

NPH DRAFT BUDGET REVISED SCHEDULE 5 TOTAL FEE OVER FOR 2016/17 AND MEDIUM TERM

Appendix 6

		NPH				
		2016/17	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Housing Management & Maintenance (HRA)		£	£	£	£	£
Total	Repairs & Maintenance	14,276,800	13,388,483	12,471,045	11,168,268	11,468,268
Total	General Management	5,173,750	4,719,942	4,241,344	3,462,956	3,712,956
Total	Special Services	3,892,385	3,909,662	3,927,110	3,944,730	3,944,730
Total	Recharges	3,888,031	3,888,031	3,888,031	3,888,031	3,888,031
TOTAL HRA		**27,230,966**	**25,906,118**	**24,527,530**	**22,463,985**	**23,013,985**
Housing General Fund						
Total	Travellers Site	165,553	165,689	165,827	165,967	166,108
Total	Home Choice & Resettlement	80,000	80,784	81,579	82,381	83,192
TOTAL GF HOUSING		**245,553**	**246,473**	**247,406**	**248,349**	**249,300**
TOTAL REVENUE		**27,476,519**	**26,152,591**	**24,774,936**	**22,712,334**	**23,263,285**
HRA Capital Programme		25,437,400	23,786,300	22,006,000	20,172,400	20,872,400
GRAND TOTAL		**52,913,919**	**49,938,891**	**46,780,936**	**42,884,734**	**44,135,685**

Analysed by					
Management - HRA	10,606,279	10,194,295	9,758,258	9,025,020	9,275,020
Management - GF Housing	245,553	246,473	247,406	248,349	249,300
Maintenance - Managed Budget Responsive	12,801,009	12,098,104	11,372,340	10,348,003	10,579,003
Maintenance - Managed Budget Cyclical	3,823,678	3,613,719	3,396,933	3,090,962	3,159,962
Capital - Managed Budget Improvement to Homes	20,636,000	19,332,000	18,032,000	16,432,000	17,032,000
Capital - Managed Budget Improvement to Environment	4,801,400	4,454,300	3,974,000	3,740,400	3,840,400
ITC					
Total	**52,913,919**	**49,938,891**	**46,780,936**	**42,884,734**	**44,135,685**

Notes:

All figures are subject to the annual approval, by Council, of the HRA and General Fund budgets in accordance with clause 10

Estimated figures for future years are shown in real terms excluding inflation.

Capital programme based upon figures provided in support of the Asset Management Strategy, adjusted in line with the draft HRA Business Plan

All items of income associated with the service are assumed to be collected directly to the Council's account

The above figures do not include any proposed savings resulting from the review of the Housing General Fund services

DRAFT FIGURES AT 11 DECEMBER 2015 SUBJECT TO CHANGE

Appendices: 5

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	**Financial Monitoring Report**

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date:	18 January 2016
Policy Document:	No
Directorate:	Finance Directorate LGSS
Accountable Cabinet Member:	Cllr Mike Hallam

1. Purpose

1.1 To present Committee with the financial position to 30 September.

1.2 To update Committee on car parking income and usage to 30 November.

1.3 To update Committee on the position regarding the Council's outstanding debts as at 30 November.

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 30 November (Appendix 5A and 5B).

2.3 To note the latest position in relation to the Council's outstanding debts as at 30 November (Separate agenda item and report)

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).

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 30 September 2015 (Period 6) is set out in Appendices 1-4.

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

3.2.3 General Fund Revenue – (£336k) favourable

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

	£000
Controllable Budgets	903
Debt Financing & HRA Recharges	(439)
Contribution From Reserves	(800)
General Fund Revenue	**(336)**

The major variations are detailed below.

3.2.3.1 Controllable Budgets

Planning £722k adverse - The Council is currently subject to two planning appeals, one in Hardingstone, the other in Collingtree. At present, the final total costs associated with these appeals are uncertain. Current estimates place the value at £0.8m, with the Council actively working to limit the final total cost. Committee is asked to note this position to date, and to note that these appeals will be funded from in year underspends and reserves, once full costs have been substantiated.

Local Government Shared Services £116k adverse. Forecast overspend relates to the underachievement of budgeted savings for Revenues and Benefits offset by a saving due to the pension auto enrolment not starting in 2015/16.

3.2.3.2 Debt Financing & HRA Recharges

Debt Financing (£439k) favourable. Forecast saving reflecting lower interest on new borrowing and additional investment interest due to investment balances being higher than budgeted

3.2.4 HRA Revenue – (£521k) favourable

	£000
Controllable Budgets	(355)
Debt Financing & General Fund Recharges	(166)
General Fund Revenue	**(521)**

The major variations are detailed below.

3.2.4.1 Controllable Budgets

The forecast underspend relates mainly to continued good performance of arrears management resulting in lower arrears than anticipated leading to a reduction in the required contribution to the Bad Debt Provision.

3.2.4.2 Debt Financing & General Fund Recharges

The forecast underspend relates mainly to investment interest, arising from significantly higher levels of HRA cash balances compared to budget.

3.2.5 Capital Programme

3.2.5.1 General Fund Capital Programme

Cabinet in July approved carry forwards from 2014/15 of £7.23m. In line with approved processes, the Capital Programme Board has approved changes to the General Fund capital programme as set out in Appendix 3. These changes have been reported to Cabinet. These additions, totalling £1.9m, are funded from capital receipts, earmarked reserves and use of s106 monies. The General Fund Capital Programme now stands at £70.75m.

3.2.5.2 HRA Capital Programme

The HRA Capital programme is managed by Northampton Partnership Homes apart from the New Build and Repurchase of Former Council Houses. Cabinet in July approved carry forwards from the 2014/15 budget of £7.77m. The approved Capital Programme includes £9.3m to fund the construction of 100 new Council dwellings at Dallington. The phasing of the construction programme and the approved borrowing limits by Central government requires the budget to be re-phased with £0.6m in 2015/16 and £8.7m in 2016/17. Overall expenditure on the HRA Capital Programme is forecast to be below budget by around £3.1m as at the end of September. The main variances being forecast are around Major refurbishment projects and the PV Panels programmes. The HRA Capital Programme now stands at £36.1m.

3.2.6 Appendix 5 shows the monthly levels of car parking usage and income to 30 November.

3.2.7 The managed debt analysis and commentary (previously included as an appendix to this report) for this meeting is presented within a separate item and full report.

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 2015/16

September 2015

Key to BRAG where Forecast variance is:

- Greater than £(100k)
- Between £50k and £(100)k
- Between £51k and £100k
- Greater than £100k

Division	Ksa	Service Area	Revised Budget £000's	Forecast £000's	Forecast Variance £000's	RAG Status	Notes on Forecast Variances
	FA01	Asset Management	1,246	1,319	74	A	Due to late implementation of a restructure and interim cover of vacant posts.
	FA06	Other Buildings & Land	(1,496)	(1,552)	(56)	G	Forecast overachievement of rental income.
Asset Management			**(251)**	**(233)**	**17**	**G**	
	DR02	Director of Regeneration, Enterprise and Planning	221	245	24	G	
Director of Regeneration, Enterprise & Planning			**221**	**245**	**24**	**G**	
	RG01	Head of Economic Development and Regeneration	97	113	16	G	
	RG02	Programmes & Enterprise	1,312	1,325	13	G	
Economic Development and Regeneration			**1,410**	**1,438**	**29**	**G**	
	PE02	Building Control	(53)	(62)	(9)	G	
	PE03	Development Control	160	923	763	R	The Council is currently subject to two planning appeals, one in Hardingstone, the other in Collingtree. At present, the final total costs associated with these appeals is uncertain. Current estimates place the value at £0.8, with the Council actively working to limit the final total cost. These appeals will be funded (from in year underspends and reserves), once full costs have been substantiated.
	PE06	Head of Planning	110	140	30	G	
	PE15	Joint Planning Unit	132	132	0	G	
	PE17	Planning & Regn Project Support	47	51	5	G	
	PE18	Town Centre Team	0	0	0	G	
	RG04	Planning Policy & Heritage	629	562	(67)	G	Holding Senior Planning Officer Post vacant for the remainder of the year.
	RG09	Bus Service Contribution	0	0	0	G	
Head of Planning			**1,024**	**1,746**	**722**	**R**	
Director of Regeneration, Enterprise & Planning			**2,404**	**3,196**	**792**		
	DR05	Director of Housing	(36)	(36)	0	G	
Director of Housing			**(36)**	**(36)**	**0**	**G**	
	HS05	Housing Options & Advice	838	838	0	G	
	HS13	Head of Housing and Wellbeing	200	200	0	G	
	PE09	Travellers Sites	9	9	(0)	G	
	PE12	Private Sector Housing	137	137	0	G	
	RG03	Housing Strategy & Wellbeing	(12)	(12)	0	G	
Head of Housing and Wellbeing			**1,171**	**1,172**	**1**	**G**	

Appendix 1

Division	Ksa	Service Area	Revised Budget	Forecast	Forecast Variance	RAG Status	Notes on Forecast
Housing			**1,135**	**1,137**	**2**		
	GC08	Communications	249	271	23	G	
	GC15	Emergency Planning	52	52	0	G	
	PI20	Performance and change	97	110	13	G	
Business Change			**398**	**433**	**36**	**G**	
	CX01	Chief Executive	179	191	11	G	
	GC02	Civic and Mayoral Expenses	88	105	17	G	
	GC05	Overview & Scrutiny	43	47	4	G	
	GC06	Councillor & Managerial Support	530	522	(8)	G	
	LD02	Electoral Services	314	350	35	G	
	LD03	Land Charges	0	0	0	G	
	LD04	Legal	120	140	20	G	
	LD08	Democratic Services	277	241	(36)	G	
Borough Secretary			**1,552**	**1,596**	**44**	**G**	
Borough Secretary			**1,949**	**2,029**	80		
	DR01	Director of Customers & Communities	164	208	44	G	
Director of Customers & Communities			**164**	**208**	**44**	**G**	
	CE03	Events	221	306	85	A	£50k unachievable sponsorship income and additional events costs.
	CE06	Museums and Arts	656	690	34	G	
	CE23	Town Centre Management	33	63	30	G	
	CE24	Car Parking	(897)	(979)	(82)	G	Savings on NNDR (£47k), Utilities (£41k) and reduced rent costs on St Peters Way Car Park reflecting lower usage (£65k). £60k costs in relation to new cleaning contract, (£30k) additional income on contract parking and £36k on additional electricalworks and CCTV enhancements.
	CE26	Bus Station	103	124	21	G	
	CS02	Call Care	(71)	(51)	20	G	
	CS03	Head of Customer & Cultural Services	87	89	2	G	
	CS04	Customer Services	1,071	1,076	5	G	
	CS05	Print Unit	1	2	1	G	
	FA08	Facilities Management	1,299	1,270	(29)	G	Forecast savings on utility costs.
	FA09	Markets	(48)	(31)	17	G	
Head of Customer & Cultural Services			**2,455**	**2,559**	**104**	**R**	
	CE02	Community Safety	323	302	(21)	G	
	CE04	Leisure Contract	322	322	0	G	
	GC04	Policy	5	5	0	G	
	GC09	Community and Other Grants	1,068	1,128	60	A	Forecast shortfall on the MTP savings option (information and advice) There is a proposal to manage this balance within existing budgets which is being finalised.
	GC10	Community Developments	71	85	14	G	
	GC11	Community Centres	97	99	2	G	
	LD05	Licensing	(281)	(258)	24	G	

Division	Ksa	Service Area	Revised Budget	Forecast	Forecast Variance	RAG Status	Notes on Forecast
	PE07	Pest Control	7	7	0	G	
	PE10	Commercial Services	208	225	17	G	
	PE11	Environmental Protection	1,076	1,056	(20)	G	
	PE16	Head of Public Protection	(20)	1	21	G	
	SS09	Environmental Services Contract	6,882	6,717	(165)	B	Due to deductions made to the monthly core contract payment.
	SS20	Environmental Services	59	(37)	(95)	G	Additional income forecast as a result of initial results of grounds maintenance review. Additional charges to HRA proposed.
Head of Communities and Environment			**9,816**	**9,653**	**(164)**	**B**	
Director of Customers & Communities			**12,435**	**12,419**	**(16)**		
	FA03	Audit	160	160	0	G	
	FA04	Non Distributed Costs	5,142	5,072	(70)	G	Underspend on Carbon Tax budget as NBC no longer falls within the scope of the scheme. Budget to be adjusted for 2016/17.
	FA19	Exchequer Services	0	0	0	G	
	FA20	Corporate Finance	115	115	(0)	G	
	HS01	Benefits	(1,609)	(1,609)	0	G	
	HS03	Revenues	(731)	(731)	0	G	
Corporate			**3,078**	**3,008**	**(70)**	**G**	
	LGSS	Local Government Shared Service	9,412	9,528	116	R	Underachievement of budgeted savings for Revenues and Benefits £231k offset by (£115k) pension auto enrolment not starting in 2015/16.
LGSSX			**9,412**	**9,528**	**116**	**R**	
Total Service Budgets			**30,414**	**31,317**	**903**		
Item 01		Debt Financing	1,780	1,341	(439)	B	Mainly due to: Interest on borrowing (£242k) - New (and replacement) borrowing of £5m from 1 Jan 16 now assumed rather than the £7.5m budgeted from 1 April 15. Saving offset in part by £32k interest on LIF funding not budgeted. Investment interest (net of HRA recharge) (£173k) - Investment balances higher than budgeted. MRP (£26k) - Lower level of funding by borrowing in 2014-15 due to carry forwards in the capital programme, partially offset by budget adjustments relating to self-funded borrowing.
Total Corporate Budgets			**1,780**	**1,341**	(439)		
Total General Fund			**32,194**	**32,658**	**464**		

NB Capital Monitoring

Capital GF Budget Forecasts 2015/16

September 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	Foecast Under/Overspend £000's	Summarised Transaction Description
	BA217	Northampton Leisure Trust Loan	300	0	300	0	0	300	0	0	
Francis Fernandes (FF1)			**300**	**0**	**300**	**0**	**0**	**300**	**0**	**0**	
	BA660	Northampton Town Fc Loan	1,500	1,750	3,250	0	0	0	0	(3,250)	No further loans to be made
	BA662	University of Northampton Loan	46,000	0	46,000	0	0	46,000	0	0	
Glen Hammons (GH11)			**47,500**	**1,750**	**49,250**	**0**	**0**	**46,000**	**0**	**(3,250)**	
	BA186	Improvement to Parks Infrastructure	0	60	60	45	0	60	0	(0)	
	BA220	St Crispins Community Centre	0	750	750	0	106	750	0	0	
	BA221	Vulcan Works	650	210	860	76	5	860	0	0	
	BA673	Parks / Allotments / Cemeteries Enhancements	201	(100)	101	0	0	101	0	(0)	Fully committed
Julie Seddon (JS14)			**851**	**920**	**1,772**	**121**	**111**	**1,771**	**0**	**(1)**	
	BA145	Cliftonville Move; New ways of working	0	0	0	(10)	0	0	0	0	
	BA165	Corporate EDRMS	0	57	57	0	0	57	0	0	
	BA207	ICT Improvement / Refresh	150	86	236	16	0	236	0	0	
	BA212	A Knights Trail (Public Art)	0	0	0	0	0	0	0	0	
	BA216	Central Museum Development	0	132	132	0	0	132	0	0	
	BA225	Car Park Pay Machines	200	100	300	90	119	300	0	0	All machines to be done this year
	BA659	Call Care Project (part of prevention programme)	0	9	9	0	0	9	0	0	
	BA697	Northampton Town Centre Free Public Wifi	0	0	0	(0)	0	0	0	0	
	BA893	Microsoft Office 2010 Upgrade	0	70	70	62	0	70	0	0	
Marion Goodman (MG3)			**350**	**454**	**804**	**158**	**119**	**804**	**0**	**0**	
	BK015	DFG's Owner Occupiers	1,875	250	2,125	682	339	2,125	0	0	
Phil Harris (PH8)			**1,875**	**250**	**2,125**	**682**	**339**	**2,125**	**0**	**0**	
	BA180	Strategic Property Investment	0	2,675	2,675	515	0	2,675	0	0	
	BA188	Royal and Derngate Roof Replacement Works	0	0	0	8	0	0	0	0	
	BA197	Delapre Abbey Restoration Minor Projects	0	0	0	(12)	0	0	0	0	
	BA211	Extension of Duston Cemetery	0	41	41	36	0	39	0	(2)	
	BA214	St Johns MSCP Storage Facilities Upgrade & Construction	100	30	130	110	9	130	0	0	
	BA215	Moulton Athletic Track	900	556	1,456	341	563	1,456	0	(0)	
	BA218	Milverton Crescent Common Pathway	0	64	64	61	0	61	0	(3)	
	BA219	Standens Barn Community Centre Security Improvements	0	10	10	0	0	10	0	0	
	BA222	Octagon Centre Kings Park Enhanced Conference Facilities	0	70	70	0	70	70	0	0	As per budget
	BA223	Eastfield Park Additional Play Equipment	0	47	47	0	0	47	0	0	Expected Costs
	BA226	Purchase of National Grid Land	0	1,500	1,500	0	0	1,500	0	0	
	BA227	Duston Arts Project	0	10	10	0	0	10	0	0	
	BA368	Upton Park Pedestrian & Cycle Bridge	0	0	0	(3)	0	0	0	0	
	BA645	S106 Contributions to Other Local Authorities	0	66	66	0	65	66	0	0	Increase re Duston LC Access
	BA649	Skate Park Toilet & Kiosk	55	48	103	95	1	96	0	(7)	Costs for CDM
	BA652	Visitor Signage in Town Centre	0	74	74	4	0	74	0	0	
	BA653	Delapre Abbey Restoration	3,877	802	4,680	834	68	4,680	0	0	
	BA656	Victoria Street Bus Shelters	0	0	0	9	0	0	0	0	
	BA663	Duston Wetlands Development & Implementation	0	217	217	14	0	17	200	0	
	BA666	Greyfriars Bus Station Demolition	1,050	399	1,449	1,120	11	1,449	0	(0)	
	BA668	Abington Street - Opening Up to Traffic	0	4	4	0	1	4	0	0	
	BA669	Town Centre Realm Improvements	750	(26)	724	(14)	31	724	0	0	Budget reduced as £70,000 to be spent in 2016/17
	BA670	Waterside Improvements (Southbridge)	0	40	40	0	0	40	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	Foecast Under/Overspend	Summarised Transaction
	BA671	Heritage Gateway	250	70	320	57	0	320	0	0	
	BA672	Capital Improvements - Regeneration Areas	250	20	270	17	0	270	0	0	
	BA674	Operational Buildings - Enhancements	400	79	479	164	121	479	0	0	
	BA675	Commercial Landlord Responsibilities	270	136	406	10	0	406	0	0	
	BA681	Site 11 Construction	0	0	0	2	0	0	0	0	
	BA682	St Peters Way Improvements	1,400	(1,400)	0	0	0	0	0	0	
	BA683	St James Mill Way - Electricity Substation Upgrade	0	208	208	208	0	208	0	0	
	BA684	Superfast Broadband	250	(162)	88	0	0	88	0	0	
	BA685	Northampton Bike Hire Scheme	0	55	55	0	45	55	0	0	
	BA687	St Peters Waterside	1,000	83	1,083	63	0	1,083	0	0	
	BA695	East Hunsbury and Wootton Greenspace Capital Works	34	(23)	11	11	0	11	0	0	
	BA696	Pig & Whistle Refurbishment Works	0	0	0	(5)	0	(0)	0	(0)	
	BA698	Delapre Abbey Restoration	150	(76)	74	29	39	74	0	0	
	BA883	Planning IT Improvements (HPDG)	25	26	50	8	11	50	0	0	
	BA889	Mayorhold Car Park - Drainage Works	0	77	77	0	0	77	0	0	
	BA891	Bus Interchange	0	22	22	7	0	22	0	0	
	BA892	Urgent Lift Renewals	0	0	0	(3)	0	0	0	0	
Richard Lawrence (RL3)			**10,760**	**5,742**	**16,503**	**3,686**	**1,034**	**16,291**	**200**	**(11)**	
Total Scheme Budgets			**61,637**	**9,116**	**70,753**	**4,647**	**1,603**	**67,291**	**200**	**(3,262)**	

Housing Revenue Account
Revenue Budget Forecasts 2015/16
September 2015

Key to BRAG where Forecast variance is:

Greater than £(100k)
Between £50k and £(100)k
Between £51k and £100k
Greater than £100k

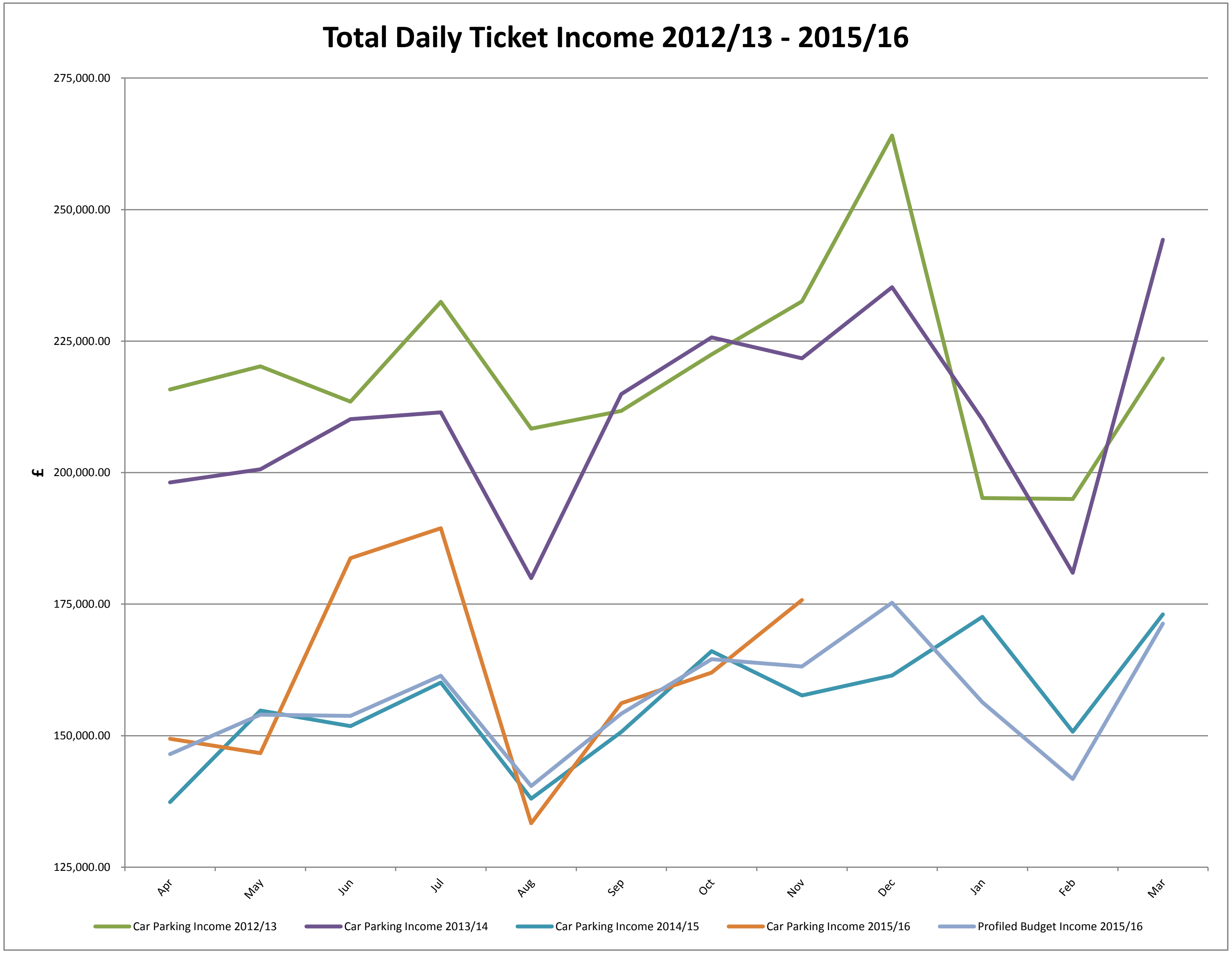
Type	SEADIV	Service Area	TOTAL Current Budget £000's	NPH Managed Budget £000's	Actuals £000's	Forecast Outturn £000's	Forecast Variance £000's	BRAG Status	Notes on Forecast Variances
INCOME									
	H1	Dwelling Rents	(51,371)	0	(24,658)	(51,331)	40	G	
	H2	Non-Dwelling Rents	(1,100)	0	(570)	(1,103)	(3)	G	
	H3	Other Charges for Services	(2,064)	0	(1,006)	(2,035)	29	G	
	H4	Contibution To Expenditure	(85)	0	(7)	(55)	30	G	
Total Income			**(54,620)**	**0**	**(26,240)**	**(54,525)**	**95**	**A**	
EXPENDITURE									
	H10	Repairs & Maintenance	14,765	14,453	5,339	14,765	0	G	
	H8	General Management	6,994	6,586	4,073	6,994	0	G	
	H9	Special Services	3,949	3,849	1,168	3,949	0	G	
	H7	Rents, Rates, Taxes	279	0	59	279	0	G	
	H13	Provision for Bad Debts	750	0	0	300	(450)	B	Lower arrears than anticipated resulting in a reduction in the required contribution to the Bad Debt Provision.
Total Expenditure			**26,737**	**24,888**	**10,639**	**26,287**	**(450)**	**B**	
Net Cost of Services			**(27,883)**	**24,888**	**(15,601)**	**(28,238)**	**(355)**	**B**	
		Net Recharges from the General Fund	6,583		3,342	6,683	100	R	Anticipated higher Grounds Maintenance costs
		Interest & Financing Costs	6,250		2,992	5,984	(266)	B	The variance relates to investment interest, arising from significantly higher levels of HRA cash balances compared to budget.
		Depreciation/MRA	12,610		6,305	12,610	0	G	
		Revenue Contributions to Capital	12,540		6,270	12,540	0	G	
		Net Contribution (from) / to Earmarked Reserves	(10,100)		(4,790)	(9,579)	521	R	Lower contribution required from Reserves
Net Transfer From / (To) Working Balance			**0**		**(1,482)**	**0**	**0**	**G**	
		Working Balance b/f	(5,000)		(5,000)	(5,000)	0		
Working Balance Outturn			**(5,000)**		**(6,482)**	**(5,000)**	**0**	**G**	

NB Capital Monitoring

Capital HRA Budget Forecasts 2015/16

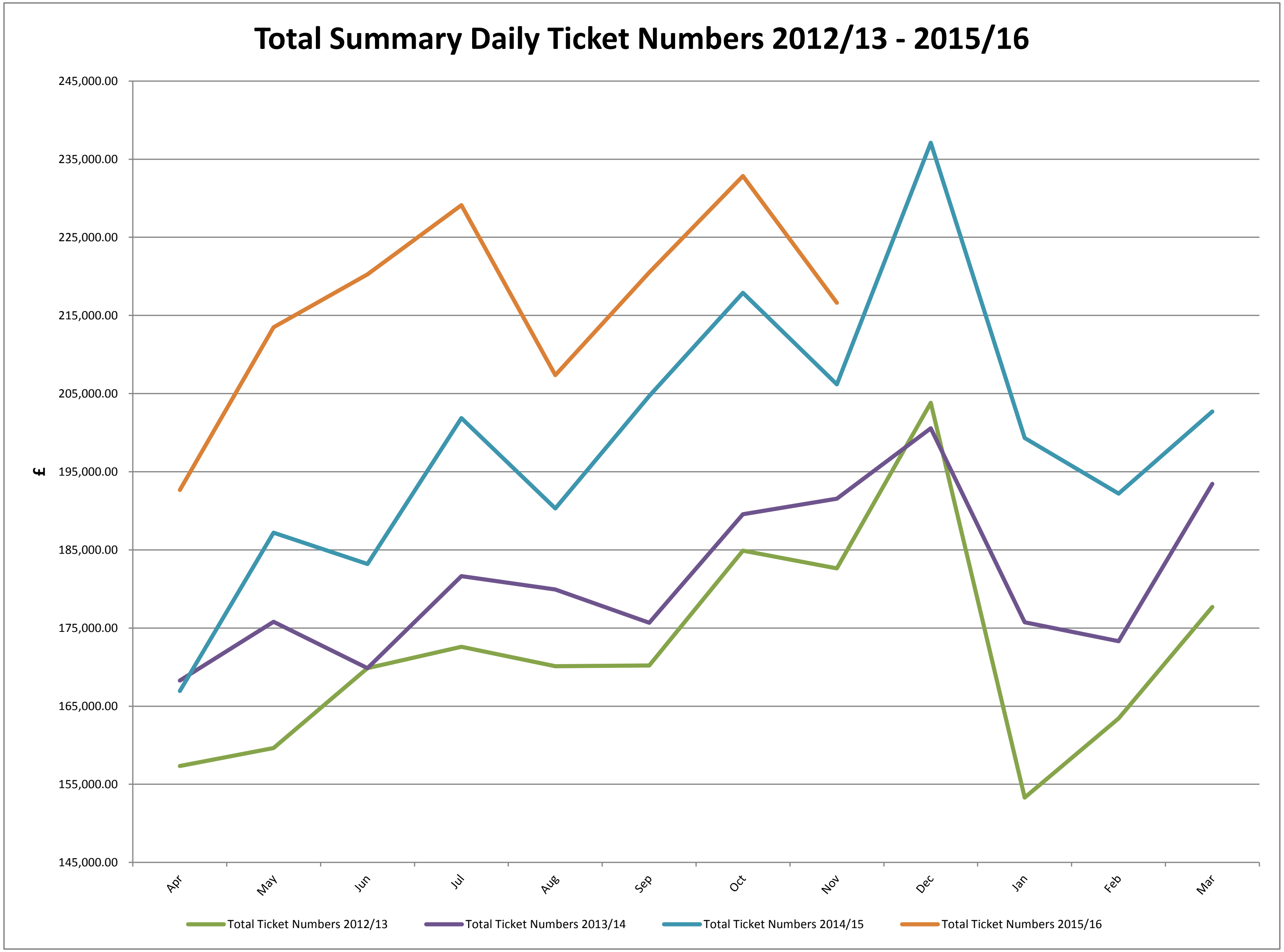
September 2015

Head of Service	Scheme Code (NBC)	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
P Harris	BH003	Garages Roofs & Doors Replacement	0	0	0	12	0	0	0	0	
P Harris	BH302	Minor Adaptations for People with Disabilities	0	0	0	4	0	0	0	0	
P Harris	BH317	Decent Homes	0	0	0	(5)	0	0	0	0	
P Harris	BH325	Gas Appliance Replacement - Responsive	0	0	0	12	0	0	0	0	
P Harris	BH351	Door Entry Updates	0	0	0	5	0	0	0	0	
S Boyes	BH370	Repurchase of Former Council Houses	414	730	1,144	266	0	1,144	0	0	
P Harris	BH373	Change of Use	0	769	769	19	0	769	0	0	Purchase of Lakeview House incl SDLT
P Harris	BH384	New Build - Dallington	9,306	(8,706)	600	0	0	600	0	0	Variation approved by September Cabinet
NBC Retained Capital Schemes			**9,720**	**(7,208)**	**2,513**	**313**	**0**	**2,513**	**0**	**0**	
NPH	BH383	Sotheby Rise and Dallington Haven Car Park Improvements	0	62	62	22	0	62	0	0	Final retention payments and final construction costs, works not as extensive as expected
NPH	BH801	NPH Capital - Managed Budget Improvement to Homes	23,778	6,200	29,978	9,888	3,963	27,645	0	(2,333)	Various, including forecast underspends on Major Projects (£1.6m) and PV Panels (£1.4m)
NPH	BH802	NPH Capital - Managed Budget Improvement to Environment	2,214	335	2,549	959	241	2,240	0	(309)	Primarily relates to the SCATE Project
NPH	BH803	NPH Capital - ITC	600	446	1,046	497	100	600	0	(446)	
NPH Managed Capital Schemes			**26,593**	**7,043**	**33,635**	**11,365**	**4,304**	**30,547**	**0**	**(3,089)**	
Total Scheme Budgets			**36,313**	**(165)**	**36,148**	**11,678**	**4,304**	**33,059**	**0**	**(3,089)**	



Income to the end of November was £58k greater than budgeted for the first 8 months of 2015/16

Appendix 5B



The volume of tickets issued up to and including the end of period 8 was 175k higher than for the same period in 2014/15.

cutting through complexity

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Annual Report on grants and returns work 2014/15

Agenda Item 12

Northampton Borough Council

January 2016

Contents

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Headlines

Introduction and background	**This report summarises the results of work we have carried out on the Council's 2014/15 grant claims and returns.** **This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2014/15 is:** ■ Under the Public Sector Audit Appointment arrangements we certified one claim – the Council's 2014/15 Housing Benefit Subsidy claim. This had a value of £74 Million. ■ Under separate assurance engagements we certified one return as listed below. – Pooling of Capital Receipts Return. This had a value of £4,382,759.	
Certification results	**Our work on the Council's Housing Benefit Subsidy claim was subject to a qualification letter.** ■ The main issues identified from our testing relate to incorrect assessment of start and end dates for payments received by claimants from the Department of Work and Pensions (DWP), miscalculation of claimants earned income and incorrect assessment of the impact of dependants and non dependants on claimants housing benefits due. Similar issues were identified and reported in a qualification letter in previous years. ■ In 2014/15, additional testing was also undertaken on the miscalculation of child care costs and the incorrect end dates for payments received by claimants from the DWP in relation to tenants on non housing revenue account properties. ■ The cumulative financial impact of the issues reported in our qualification letter amount to £30,181.	**Pages 3 – 4**
Audit adjustments	**One adjustment was necessary to Pooling of Housing Capital Receipts return as a result of our certification work this year.** ■ The amendment made related to the misclassification of expenditure on social housing in 2014/15. This amendment had no financial impact upon the grant return. ■ No similar issues were identified in the previous year.	**Pages 3 – 4**
Fees	**The indicative fee for our work on the Council's 2014/15 Housing Benefit Subsidy was set by Public Sector Audit Appointments at £14,650. The actual fee for this work will be higher than the indicative fee set due to additional work and training being undertaken by the audit team due to an unexpected and long term sickness absence of the key member of staff responsible for assisting with this work. Plus additional testing was required in 2014/15 in respect of the assessment of job seeker allowance (JSA) end dates for non housing revenue claimants and the calculation of child care costs for private tenant claimants. We are currently discussing the additional fee with the S151 Officer and when agreed the final fee will be subject to approval by the PSAA.** **Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were £3,000.**	**Page 5**

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Summary of reporting outcomes

Overall, we carried out work on two grants and returns:

- **One was unqualified but required an amendment to the final figures; and**
- **One required a qualification to our audit certificate.**

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council's 2014/15 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments arrangements					
Housing Benefit Subsidy	1	●			
Other assurance engagements					
Pooling of Housing Capital Receipts	2			●	●
		1	0	1	1

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Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment

1	**Housing Benefit Subsidy**
	■ A qualification letter was issued in respect of this claim as our testing identified a number of issues, as summarised below:
	    ■ Incorrect start and end dates for payments received by claimants from the DWP;
	    ■ Miscalculation of claimants earned income;
	    ■ Incorrect assessment of the impact of dependants and non dependants on claimants housing benefits due; and
	    ■ Miscalculation of claimants child care costs.
	■ Failure of the Council to address each of these issues in the future will result in future reclaim of grant income.
	■ The qualification of this grant claim is a repeat issue from the previous year.
		N/A

2	**Pooling of Housing Capital Receipts Return** ■ One amendment was made to this claim in relation to the misclassification of expenditure on social housing in 2014/15 on the grant return. The amendment made had no financial impact upon the grant return. ■ The amendment made to the claim was not an issue identified in the prior year.	**£0 net impact**

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Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

We are currently discussing the overall fees to be charged for carrying out all our work on grants/returns in 2014/15 with the S151 Officer and the PSAA.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2014/15 (£)	2013/14 (£)
Housing Benefit Subsidy claim	**TBC**	£14,105
Pooling of Housing Capital Receipts	**£3,000**	£298
Total fee	**TBC**	£14,403

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2014/15 of £14,650. Our actual fee is still to be confirmed but will be higher than than the indicative fee, and compares to the 2013/14 fee for this claim of £14,105. The fee will increase due to additional work and training being undertaken by the audit team due to an unexpected and long term sickness absence of the key member of staff responsible for assisting with this work. Plus additional testing was required in 2014/15 in respect of the assessment of job seeker allowance (JSA) end dates for non housing revenue account claimants and the calculation of child care costs for private tenant claimants.

We are currently discussing the additional fee with the S151 Officer and when agreed the final fee will be subject to approval by PSAA.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fees for 2014/15 were more than those in 2013/14. The reason for the increase was that an extended testing programme was introduced in 2014/15 as a result of this assurance work being undertaken as part of a separate audit engagement. Prior to 2014/15 this work programme had been undertaken as part of the Audit Commission contract.

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Recommendations

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

Priority rating for recommendations		
❶ Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.	❷ Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Issue	Implication	Recommendation		Priority	Comment	Responsible officer and target date
Theme heading						
Housing Benefit Subsidy – Quality and Assurance	The Council have introduced appropriate quality and assurance checks on the risk areas identified in the previous year and the recommendation raised as a result (see P8 – prior year recommendations), however, a number of the issues identified in the previous year continue to be present in the 2014/15 testing, such as the incorrect start and end dates for payments received by claimants from the DWP, the miscalculation of claimants earned income and the incorrect assessment of the impact of dependants and non dependants on claimants housing benefits due.	**1**	Continue to refine and promote training, learning and development programmes to increase/refresh knowledge on all risk areas identified. Continue with the rigorous quality checking process with increased focus on the checking of these specific risk areas and ensure that this maintains a high profile within the Department. Progress on the implementation of the proposed actions should be reported to Audit Committee throughout the year.	❷	The Authority will be looking to target specific areas, based on risk and outcomes for the service and our customers. We are currently in the process of recruiting a new benefits training officer, who once in place will address the training needs as identified in the audit itself and the quality assurance process. This plan will also include reminder workshops and mentoring as required.	Marc Brown (Subsidy Officer) Ongoing - update on progress to be provided to Audit Committee after 1st April 2016

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Recommendations

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

Priority rating for recommendations		
1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.	2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Issue	Implication	Recommendation		Priority	Comment	Responsible officer and target date
Housing Benefit Subsidy – Knowledge sharing and contingency plans 142	A high level of knowledge and understanding of the housing benefit subsidy claim is retained by only one member of staff (Subsidy Officer). Due to an unexpected, long term sickness absence of this individual in 2014/15 additional audit time was spent on the housing benefit subsidy testing. This included training of other members of the revenues team and time spent dealing with queries.	**2**	Ensure that sufficient knowledge of the housing benefit subsidy claim is shared across other key members of the revenues team. Put in place a training programme which builds upon the knowledge shared as part of the 2014/15 audit process and ensure that sufficient support is given to the Subsidy Officer to complete this requirements of this audit testing going forward.	2	The Authority has already identified a suitable officer to support subsidy in the future, who will be given subsidy training throughout the year including the audit process. We will also be expanding the knowledge and experience of one of the current subsidy officers to be able to complete an audit, which will involve more hands-on practical training and mentoring. Both officers are due to attend a subsidy workshop at the end of January to increase their knowledge.	Marc Brown (Subsidy Officer) Ongoing – training and mentoring to be provided on an on-going basis, but main training to be completed by October 2016 before the 16/17 grant audit.

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Prior year recommendations

We made one recommendation in our 2013/14 Certification of Grants and Returns Annual Report. Where recommendations have not yet been implemented fully we have detailed their current status below.

Prior year recommendation		Priority	Status as at January 16	Management comments
Housing Benefit Subsidy – Quality and Assurance				
1	In order to address the increased level of error found during the certification of the benefits claim, the Quality and Assurance team intends to implement training, learning and development programmes to increase/refresh knowledge on these areas and to introduce a more rigorous quality checking process with increased focus on the checking of these specific risk areas. This is in addition to a review of processes and on-line guidance and procedures to ensure that they are accurate and up to date, to give assessment officers the maximum support in assessing claims correctly and ensuring that errors are not repeated. Progress on the implementation of the proposed actions should be reported to Audit Committee throughout the year.	2	**Completed**	Following on from the 2013/14 report, we have put in motion a number of things to address the issues and recommendations raised and ensure they don't happen again. Earned income and start dates were two of the main error issues identified previously. In March 2015 we carried out quality checks on over 80 earned income claims. We also carried out a similar quality check on start dates. This allowed us to pick up on potential assessment issues which we were able to address with individuals and identify training needs prior to 2014/15. Throughout the year we have maintained and updated on-line procedures and guidance based on the latest DWP circulars, legislation and regulations. The quality team and team leaders provide a constant support to assessment officers and are on hand to answer any queries at all times. We carry out rigorous monthly quality assurance checks on all assessment officers. Reports are sent out to individuals with details of all errors which the individuals can then work on improving. The reports also highlight potential training needs which are also addressed by the training officer. All quality assurance data is recorded on a matrix and we hold a monthly performance meeting to discuss any issues. Where people are under-performing we have installed a Performance Support framework (PSF) and Personal Improvement Plan (PIP) which individuals are taken through with the support of mentors to improve performance and address performance issues. Training is provided throughout the year to new starters and to existing staff who have areas of weakness. The training officer also provides summaries of the DWP circulars so staff are kept fully up to date with the latest procedures/guidance. We have introduced a section in the newsletter/blog which the Quality team use to highlight the latest error trends We hold monthly section brief's where the quality team highlight any areas of concern and provide guidance/reminders on any current areas of weakness.

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cutting through complexity

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Room B120D
Warbreck House
Blackpool
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Our ref KPMG/NBC/BEN01/DH
/LB

3 December 2015

Dear Sir / Madam

Northampton Borough Council (the Authority)
Housing benefit subsidy claim for the year ended 31 March 2015 (Form MPF720A)
Qualification Letter referred to in the Auditor's Certificate dated 3 December 2015

Details of the matters giving rise to my qualification of the above claim are set out in the Appendix to this letter.

My qualification refers you to the Authority's letter sent to you dated 3 December 2015 attached.

The factual content of my qualification has been agreed with officers of the Authority.

No amendments have been made to the claim for the issues raised in this qualification letter.

Yours faithfully

KPMG LLP

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Cross cutting qualification issues

In year reconciliation cells

Cells 037, 077 and 130 should agree to the entries in cells 011, 055 and 094 respectively. The following differences are noted:

Claim cell:	£ amount:	Claim – reconciliation cell:	£ amount:	Difference:
094 – Rent Allowance	£42,573,365	130	£42,573,364	£1

Cell 094: Rent Allowance – Total expenditure (Benefit Granted)
Cell Total £42,573,365
Cell Population 11,038
Headline Cell £42,573,365

Testing of the initial sample identified:

- 1 case where the Authority had overpaid benefit as a result of miscalculating the claimant's weekly income.
- 1 case where the Authority had overpaid benefit as a result of incorrectly assessing claimant income which resulted in childcare costs not being calculated correctly.

Each of these error types is dealt with separately below.

Overpaid benefit
Sub-population total £14,461,528
Sub-population 4,928

Testing of the initial sample identified:

- 1 case (total value £674) where the Authority had overpaid benefit as a result of incorrectly assessing the claimants income. The effect of the error is to overstate cell 103 with a corresponding understatement of cell 113; there is no impact upon cell 094.

Testing of an additional random sample of 40 taken from a listing containing only claimants in receipt of earned income identified another 5 cases (total value £15,365) where income had been incorrectly assessed. In 3 cases benefit has been underpaid as a result and in 2 cases benefit has been overpaid as a result. Should the DWP (the Department) decide that the failure means that subsidy has been overpaid, the effect of these errors is to overstate cells 103 with a corresponding understatement in cell 113; there is no effect on cell 094.

The result of my testing is set out in the table below:

Sample:	Movement / brief note of error:	Original cell total:	Sample error:	Sample value:	Percentage error rate: (to four decimal places %)	Cell adjustment:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample - 11 cases	Miscalculation of claimant income	£14,461,528	£58	£39,811		
Additional sample - 40 cases	Miscalculation of claimant income	£14,461,528	£75	£109,625		
Combined Sample – 60 cases	Miscalculation of claimant income	**£14,461,528**	**£133**	**£149,436**	**0.0890**	**£12,871**
Adjustment	Combined sample. Cell 103 is overstated.	£14,461,528	£133	£149,436	0.0890	£12,871
Total Corresponding adjustment	**Total understatement of cell 113.**					**(£12,871)**

The percentage error rate in my sample reflects the individual cases selected. The value of the errors found range from £8 to £67 and the benefit periods range from 1 week to 52 weeks. Similar findings have been included in my qualification letters for the last two years.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Should the Department decide that amendments should be made to the above cells there will be corresponding amendments to the Local Authority Error and Administrative Delay Subsidy cells 201 to 211.

Overpaid benefit
Sub population total £1,427,542
Sub population 509

Testing of the initial sample identified:

- 1 cases (total value £2,551) where the Authority had overpaid benefit as a result of incorrectly assessing claimant income resulting in child care costs being incorrectly calculated. The error is to overstate cell 102 with a corresponding understatement of cell 113; there is no effect on cell 094.

Testing of an additional random sample of 40 taken from a listing of all claimants with child care costs identified another 4 errors (total value £20,127) where child care costs had been incorrectly assessed. In 3 cases benefit had been overpaid as a result and in 1 case benefit had been underpaid as a result. Should the Department decide that the failure means that subsidy has been overpaid, the effect of these errors is to overstate cells 102 and 103 with a corresponding understatement of cell 113; there is no effect on cell 094.

The result of my testing is set out in the table below:

Sample:	**Movement / brief note of error:**	**Original cell total:**	**Sample error:**	**Sample value:**	**Percentage error rate to four decimal places**	**Cell adjustment:**
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample - 1 case	Child care costs incorrectly calculated	£1,427,542	£207	£2,551		
Additional sample - 40 cases	Child care costs incorrectly calculated	£1,427,542	£360	£172,902		
Combined Sample – 60 cases	**Child care costs incorrectly calculated**	**£1,427,542**	**£567**	**£175,453**	**0.3232**	**£4,613**
Adjustment	Combined sample. Cell 102 is overstated.	£1,427,542	£227	£175,453	0.1294	£1,847
Adjustment	Combined sample. Cell 103 is overstated.	£1,427,542	£340	£175,453	0.1938	£2,766

Sample:	Movement / brief note of error:	Original cell total:	Sample error:	Sample value:	Percentage error rate to four decimal places	Cell adjustment:
Total Corresponding adjustment	**Total understatement of cell 113.**		**£567**			**(£4,613)**

The percentage error rate in my sample reflects the individual cases selected. The value of the errors found range from £20 to £265 and the benefit periods range from 4 weeks to 52 weeks. No similar findings have been included in my qualification letters in previous years.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Should the Department decide that amendments should be made to the above cells there will be corresponding amendments to the Local Authority Error and Administrative Delay Subsidy cells 201 to 211.

Cumulative knowledge of errors testing

As a result of our cumulative knowledge of errors identified last year, we carried our 40+ testing on the assessment of start dates for job seekers allowance (JSA) passported claims and the assessment of end dates for claimants in receipt of JSA/IB. The results are presented separately below:

In-correct assessment of benefit start date
Sub population total £1,575,863
Sub population 624

Testing of an additional random sample of 40 cases selected from a listing including all JSA passported new claims identified:

- 2 cases (total value £8,126) where the Authority had overpaid benefit as a result of incorrectly assessing the start date of benefit payment.
- 2 cases (total value £5,263) where the Authority had underpaid benefit as a result of incorrectly assessing the start date of benefit payment.

As there is no eligibility to subsidy for benefit which has not been paid, the 2 underpayments identified do not affect subsidy and have not, therefore been classified as errors for subsidy purposes.

Should the Department decide that the failure means that subsidy has been overpaid, the effect of these errors is to overstate cells 102 and 103 with a corresponding understatement in cell 113; there is not effect on cell 094.

The results of my testing are set out in the table below:

Sample:	**Movement / brief note of error:**	**Original cell total:**	**Sample error:**	**Sample value:**	**Percentage error rate to four decimal places**	**Cell adjustment:**
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample - 3 cases	Incorrect assessment of JSA start date	£1,575,863	£0	£4,647		
Additional sample - 40 cases	Incorrect assessment of JSA start date	£1,575,863	£265	£126,529		
Combined Sample – 60 cases	Incorrect assessment of JSA start date	**£1,575,863**	£265	**£131,176**	**0.2020**	**£3,183**
Adjustment	Combined sample. Cell 102 is overstated.	£1,575,863	£67	£131,176	0.0511	£805
Adjustment	Combined sample. Cell 103 is overstated.	£1,575,863	£198	£131,176	0.1509	£2,378
Total Corresponding adjustment	**Combined sample. Cell 113 is understated.**	**£1,575,863**	**£265**			**(£3,183)**

The percentage error rate in my sample reflects the individual cases selected. The value of the errors found range from £67 to £198 and the benefit periods from 1 weeks to 2 weeks. Similar findings were included in my qualification letter in the previous year.

Given the nature of the population and the variation of errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Should the Department decide that amendments should be made to the above cells there will be corresponding amendments to the Local Authority Error and Administrative Delay Subsidy cells 201 to 211.

In-correct assessment of benefit end date
Sub population total £7,549,834
Sub population 2,453

Testing of an additional random sample of 40 cases selected from a listing including all claimants in receipt of JSA/IB did not identify any errors in the assessment of benefit end dates.

Cell 055: Rent Rebates (Tenants of HRA Properties) – Total expenditure (Benefit Granted)
Cell Total £31,975,459
Cell Population 9,269
Headline Cell £31,975,459

Testing of the initial sample identified:

- 2 cases where the Authority miscalculated earned income (total value £9,162). In 1 case (total value £4,121) this created an underpayment in benefit. In 1 case (total value £5,041) the error identified had no impact upon subsidy paid.

Underpaid benefit

As there is no eligibility to subsidy for benefit which has not been paid, the 2 cases identified above do not affect subsidy and have not, therefore been classified as an error for subsidy purposes.

However, because errors incorrectly assessing claimant earned income could result in overpayments an additional random sample of 40 cases taken from listing containing only claimants in receipt of earned income was tested. Testing identified a further 6 cases (total value £18,523) where earned income had been incorrectly calculated. In 5 cases benefit had been overpaid as a result and in 1 cases benefit had been underpaid as a result.

Should the Department decide that the failure means that subsidy has been overpaid, the effect of these errors is to overstate cell 061 with a corresponding understatement of cell 065; there is no effect on cell 055.

The results of my testing are set out on the table below:

Sample:	**Movement / brief note of error:**	**Original cell total:**	**Sample error:**	**Sample value:**	**Percentage error rate to four decimal places**	**Cell adjustment:**
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample - 2 cases	Incorrect assessment of income	£5,947,296	£0	£7,561		
Additional sample - 40 cases	Incorrect assessment of income	£5,947,296	£188	£116,170		
Combined Sample – 60 cases	Incorrect assessment of income	**£5,947,296**	£188	**£123,731**	**0.1519**	**£9,034**
Adjustment	Combined sample. Cell 061 overstated.	£5,947,296	£188	£123,731	0.1519	£9,034
Total Corresponding adjustment	**Total understatement cell 065.**	£5,947,296	**£188**			**(£9,034)**

The percentage error rate in my sample reflects the individual cases selected. The value of the errors found range from 2p to £105 and the benefit periods from 1 weeks to 4 weeks. Similar findings were included in my qualification letter in the previous year.

Given the nature of the population and the variation of errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Should the Department decide that amendments should be made to the above cells there will be corresponding amendments to the Local Authority Error and Administrative Delay Subsidy cells 201 to 211.

Cumulative knowledge of errors testing

As a result of our cumulative knowledge of errors identified last year we carried our 40+ testing on the assessment of non dependant deductions. The results are presented separately below:

Underpaid benefit
Sub population total £657,846
Sub population 185

Testing of a random sample of 40 cases selected from a listing including all claims including a non dependant deduction identified no errors. No underpayments or overpayments had been made.

Similar findings were included in my qualification letter in the previous year.

Cell 011: Rent Rebates (Tenants of Non HRA Properties) – Total expenditure (Benefit Granted)
Cell Total £767,190
Cell Population 453
Headline Cell £767,190

Testing of the initial sample identified:

- 2 cases (total value £6,143) where benefit had miscalculated the claimant's weekly earned income. In one case (total value £1,281) this resulted in an overpayment of benefit, and in one case (total value £4,862) this resulted in an underpayment of benefit.
- 1 case (total value £244) where benefit has been overpaid as a result of the Authority incorrectly assessing the claimant JSA end date.

Each of these error types is dealt with separately below:

Underpaid benefit
Sub population total £166,777
Sub population 105

As there is no eligibility to subsidy for benefit which has not been paid, the 1 underpayment identified do not affect subsidy this has not, therefore been classified as an error for subsidy purposes.

However, because errors miscalculating the claimant's weekly earned income could result in overpayments an additional random sample of 40 cases selected from a listing containing only claimants in receipt of earned income was tested. Additional testing identified a further 4 cases (total value £6,755) where the Authority had underpaid benefit as a result of miscalculating the claimant's weekly income. As the 4 underpayments identified do not affect subsidy this has not, therefore been classified as an error for subsidy purposes.

Overpaid benefit
Sub population total £166,777
Sub population 105

Testing of the initial sample identified one case (total case value £1,281) where the Authority had overpaid benefit as a result of incorrectly assessing claimant income. The error is to overstate cell 014, with a corresponding understatement of cell 026; there is no effect on cell 011.

An additional random sample of 40 cases selected from a listing containing only claimants in receipt of earned income was tested. Additional testing identified a further 4 cases (total value £6,755) where the Authority had underpaid benefit as a result of miscalculating the claimant's weekly income. As the 4 underpayments identified do not affect subsidy this has not, therefore been classified as an error for subsidy purposes.

The results of my testing is set out in the table below:

Sample:	**Movement / brief note of error:**	**Original cell total:**	**Sample error:**	**Sample value:**	**Percentage error rate to four decimal places**	**Cell adjustment:**
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample - 5 cases	Miscalculation of claimant earned income	£166,777	£140	£12,444		
Additional sample - 40 cases	Miscalculation of claimant earned income	£166,777	£0	£68,981		
Combined Sample – 60 cases	Miscalculation of claimant earned income	**£166,777**	£140	**£81,425**	**0.1719**	**£287**
Adjustment	Combined sample. Cell 014 overstated.	£166,777	£140	£81,425	0.1719	**£287**
Total Corresponding adjustment	**Total understatement cell 026.**					(£287)

The percentage error rate in my sample reflects the individual cases selected. The value of the errors found range from £0 to £140 and the benefit periods from 0 weeks to 2 weeks. Similar findings were included in my qualification letter in the previous two years.

Given the nature of the population and the variation of errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Should the Department decide that amendments should be made to the above cells there will be corresponding amendments to the Local Authority Error and Administrative Delay Subsidy cells 201 to 211.

Overpaid benefit
Sub population total £275,823
Sub population 173

Testing of the initial sample identified 1 case (total value £244) where the Authority had incorrectly assessed the claimant JSA end date. Should the Department decide that the failure means that subsidy has been overpaid, the effect of these errors is to overstate cell 014 with a corresponding understatement of cell 026; there is no impact on cell 011.

Testing of an additional random sample of 40 cases taken from a listing containing only claimants in receipt of JSA, identified no further cases where JSA end date had been incorrectly assessed.

Should the Department decide that the failure means that subsidy has been overpaid, the effect of these errors is to overstate cell 014 with a corresponding understatement of cell 026; there is no impact upon cell 011.

The results of my testing are set out in the table below:

Sample:	**Movement / brief note of error:**	**Original cell total:**	**Sample error:**	**Sample value:**	**Percentage error rate to four decimal places**	**Cell adjustment:**
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]
Initial sample - 7 cases	Incorrect assessment of JSA end date	£275,823	£54	£14,487		
Additional sample - 40 cases	Incorrect assessment of JSA end date	£275,823	£0	£62,552		
Combined Sample – 60 cases	Incorrect assessment of JSA end date	**£275,823**	£54	**£77,039**	**0.0701**	**£193**
Adjustment	Combined sample. Cell 014 overstated.	£275,823	£54	£77,039	0.0701	£193

Sample:	Movement / brief note of error:	Original cell total:	Sample error:	Sample value:	Percentage error rate to four decimal places	Cell adjustment:
Total Corresponding adjustment	Total understatement cell 026.					(£193)

The percentage error rate in my sample reflects the individual cases selected. The value of the errors found range from £0 to £54 and the benefit periods from 0 weeks to 1 week. No similar findings were included in my qualification letter in the previous year.

Given the nature of the population and the variation of errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Should the Department decide that amendments should be made to the above cells there will be corresponding amendments to the Local Authority Error and Administrative Delay Subsidy cells 201 to 211.

Cumulative knowledge of errors testing

As a result of our cumulative knowledge of errors identified last year we carried out 40+ testing on the calculation of the Authority's assessment of dependant applicable amounts and disregards.

Incorrect assessment of dependant applicable amounts and disregards
Sub population total £535,584
Sub population 272

Testing of an additional random sample of 40 cases selected from a listing including all claims with dependants at the property did not identify any cases where the calculation of dependant applicable amounts and disregards had been made incorrectly. No underpayments or overpayments of benefit payments were identified.

Internal Audit Progress Report

January 2016

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Agenda Item 13

Northampton Borough Council

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Distribution list	Audit Committee
Background and scope	The purpose of this report is to provide a progress update on the agreed 2015/16 internal audit plan.

Plan outturn

2015/16 Audit Plan

The 2015/16 internal audit plan was approved by the Audit Committee on 7 September 2015 and since then we have undertaken work in accordance with the plan.

A statement tracking assignments undertaken and planned activity is shown in Appendix One. At the time of writing this report we have completed 50 days (25%) of the planned audit days. Work will increase in the next few months and we will continue to keep members informed of progress.

Activity and Progress

Reports

This section will provide a summary of all final reports issued since the previous Committee meeting. To date, no final reports have been issued for the 2015/16 internal audit plan.

Ref	***Name of audit***	***Conclusion***	***Date final report issued***	***No of recommendations made***			
				Critical	**High**	**Medium**	**Low**

Fieldwork

Work is progressing in the following areas:

LGSS Contract

The attached paper provides an update on progress to date on the internal audit review of the delivery of the LGSS contract.

Governance and risk

This is a non-assurance review to support the Council in re-designing risk management arrangements, ensuring these are fit for purpose, fully integrated into Council business activities and that consideration of risk is integral to decision making going forward.

A workshop is planned for January 2016 with the Senior Management Team to identify risks and existing sources of assurance and/or gaps and determine the appetite to risk, in order to ensure that the Council can deliver its services in a cost effective and efficient manner. This will inform an updated strategic risk register, aligned to the Council's strategic vision and objectives, and support the development of a revised risk management approach going forward. Further areas for internal audit review may be identified as a result of this exercise, and the Audit Committee will be informed accordingly.

Review of Section 151 Officer role

A draft report has been shared with management and will be reported at the next meeting of the Audit Committee.

Other activity

We provided an Audit Committee training session for new members in June 2015.

Appendix 1 - Internal audit detailed progress tracker

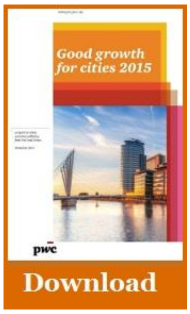
Ref	*Auditable unit*	*Indicative number of days**	*Actual audit days to date*	*Scoping meeting date*	*Proposed fieldwork dates*	*Proposed final report date*	*Audit Committee reporting date*
A1	Governance and risk	75	4	June 2015	Q4	March 2016	March 2016
A2	LGSS contract	75	20	September 2016	Q2 – Q4	February 2016	March 2016
A3	Directorate governance: Borough Secretary	10	0	January 2016	15 /02/16	March 2016	March 2016
A4	Review of Section 151 Officer role	10	10	During 2014/15	Q1 & Q2	January 2016	March 2016
M1	Audit Management	30	16	n/a	n/a	n/a	n/a
	Total days	**200**	**50**				

* *Where appropriate and in agreement with client management, we are able to flex our audit service to include more senior or specialist staff to respond to the risks generated by audit reviews. Where we do this we effectively agree a fixed fee for the audit work which is derived from the combined fees of the planned audit days allocated to this audit review during the annual planning process.*

Appendix 2 – Thought leadership publications

As part of the regular reporting to you we plan to keep you up to date with emerging thought leadership published by PwC. 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/*** . You can also read our blogs on Public Sector Matters Globally ***http://pwc.blogs.com/psm_globally/***.

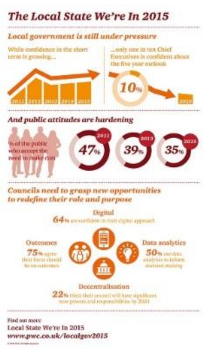


Good growth for cities 2015: Our report on economic wellbeing in UK urban areas – Nov 2015

The economic outlook in 2015 has improved, with rising employment and a welcome return to growth of real earnings, which means that the public is finally starting to feel the benefits of recovery.

This is our 4th Good Growth for Cities report where we measure the performance of the UK's largest cities against a basket of ten categories defined by the public, and business, as key to economic success and wellbeing.

To deliver on the potential of decentralisation however, local institutions need to have the local leadership, capacity and capability as well as the accountability arrangements in place to support their case to government for further powers - and ensure good growth outcomes are achieved



Local State We're In 2015 - Our annual temperature check of local government

Local authorities are facing challenges on all fronts: financial pressures continue while demand and public expectations grow, alongside concerns about councils having the capacity and capability to respond.

Five years on from our original Local State We're In survey, Chief Executives and Leaders have recognised the need to do things differently, looking beyond their organisational boundaries and taking a place-based, whole systems approach.

Picking up a theme from last year's survey, three quarters of local authorities now agree that their focus should be on outcomes, rather than service delivery. However, only a third of Chief Executives are confident they have a good understanding of the cost of securing outcomes across their area, and fewer are confident they understand how to measure outcomes and their impact.

New ways of working bring new risks and require new skills and collaborative relationships. As we look to 2015 and beyond, the challenge is to turn new strategies into new ways of working for staff, the public and partners that make a real impact on outcomes.

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Northampton Borough Council

Progress update report – LGSS contract review

To: Francis Fernandes, Borough Secretary and Monitoring Officer (Audit Sponsor)

From: Kate Mulhearn, Internal audit senior manager

This paper has been prepared to provide an update on progress to date on the internal audit review of the delivery of the LGSS contract.

Background and scope of work

In June 2013, the Council outsourced its back office function under a cost sharing agreement to the Local Government Shared Service (LGSS) for an initial period of five years. LGSS has been delivering a range of services for the Council including HR, organisational and workforce development, ICT, finance related services including treasury management, financial advice and a Section 151 Officer, legal services, revenues and benefits, procurement; and insurance.

One of the primary reasons for outsourcing back office functions to LGSS was to deliver increased value for money for the Council through the delivery of cost savings while ensuring that service levels were maintained. Given the contract is now halfway through its initial five year term, the Council wants to get clarity over the services that are being provided, to consider whether it is receiving the expected services and benefits from this arrangement, to confirm that processes are in place to monitor and validate contract performance and that the services received represent value for money for the Council.

The objectives included in the review are as follows:

- Assess the current contract financial position, in particular whether there is regular financial reporting by LGSS on the costs which have been incurred and the savings realised, whether sufficient, appropriate information is provided to support the costs charged and savings realised and whether payments are being made in line with the contract requirements and for the services being received

- Assess how the LGSS is delivering value for money to the Council, in particular understanding how services are being delivered, how service delivery and requirements have changed since the start of the contract, whether the savings generated are in line with initial Council expectations and whether costs and savings are appropriately monitored and reported

Areas of focus

We have agreed, as part of our approved terms of reference, to assess of how the LGSS is delivering value for money by focusing on the Human Resources and Legal Services (the "Agreed Services") provided under the contract.

Our work does not consider whether the range of services being provided is appropriate to the needs of the Council, neither will we be undertaking any benchmarking of the cost of the services being delivered against that which could be obtained elsewhere.

Actions to date

To date we have completed the following activities:

Activities completed to date	Outcome/purpose
Obtained and reviewed the contract and contract performance and financial related documentation and	We have obtained an understanding of the underlying contract, services, current contract performance from a service delivery and financial perspective. This has

Activities completed to date	Outcome/purpose
information.	supported and informed subsequent discussions with LGSS.
Met with key individuals within the Council – specifically, Francis Fernandes (Borough Secretary and Monitoring Officer), Julie Seddon (Director of Customers and Communities) and Marion Goodman (Head of Customer and Cultural Services).	Discussions with relevant individuals have provided background to the contract and associated concerns in respect of the services being delivered.
Met with key individuals within LGSS – specifically Matt Bowmer (Director of Finance and Section 151 Officer) Claire Townrow (Head of Service Assurance, Customers and Strategy), Quentin Baker (Director of Law, Procurement and Governance), Christine Reed (Director of People, Transformation and Transactions), Sarah Burr (Customer Contracts Manager) and Dawn Leader (Group Accountant).	We have obtained an understanding of the nature of the Agreed Services being delivered by LGSS for the Council and how those services are being delivered, including the procedures, systems and documentation in place.
Activities scheduled for early January 2016	**Outcome/purpose**
Meetings with Dawn Leader and Sarah Burr to discuss and validate the annual contract financial outturn and associated cost savings.	We will build an understanding of how contract costs and associated savings are determined based on actual costs incurred by LGSS for the services being delivered.
Meeting with Christine Reed and Neil Goryn (Accountant) to discuss and validate contract costs for the Agreed Services.	We will understand and validate the costs incurred in both HR and Legal Services, including both employee and indirect costs allocated to the delivery of the Council's services, and assumptions which support their calculation.

The above activities have been supported by regular update meetings with Julie Seddon and Marion Goodman to provide an update on progress to date, initial observations from the activities undertaken and to discuss and agree next steps and areas of focus going forward.

Next steps

As part of the meetings to be held in early January as outlined above, we will test the completeness and accuracy of the cost data which is reported to the Council, including obtaining evidence to support the costs recorded and reported and reviewing the true up process for payroll costs incurred.

Closing meetings are to be held with Julie Seddon (Director of Customers and Communities) and Marion Goodman (Head of Customer and Cultural Services at the Council) and Matt Bowmer (Director of Finance and Section 151 Officer) and Claire Townrow (Head of Service Assurance, Customers and Strategy) in January and February respectively to discuss the findings of our review, including any gaps and weaknesses identified in the existing processes. As part of these meetings we will agree actions for improvement and report back to the March Audit Committee the results of our work.

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Appendices

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Risk Based Verification (RBV) Policy.

AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	11TH January 2016
Policy Document:	Yes
Directorate:	Resources
Accountable Cabinet Member:	Cllr Mike Hallam

1. Purpose

1.1 To advise the audit committee of the new approach to verifying claims for Housing Benefit and Council Tax Reduction and to seek approval of the Risk Based Verification (RBV) Policy.

2. Recommendations

2.1 It is recommended that the audit committee be requested to approve the Risk Based Verification Policy (Appendix A).

3. Issues and Choices

3.1 Report Background

3.1.1 Risk Based Verification (RBV) is a method of applying different levels of verification checks to benefit claims according to the predicted risk associated with those claims. The main benefits associated with the RBV approach are twofold:

- In low risk cases we are able to 'fast track' HB/CTR applications which deliver significant customer service improvements and service efficiencies

- In high risk cases we are able to ‘more accurately’ detect fraud and error at the point of data entry

3.1.2 The DWP have developed and approved a Risk Based Verification policy which sets out the information and evidence required before assessing claims for Housing Benefit and Council Tax Reduction (Appendix B). DWP funding has also made available to local authorities through the Fraud and Error Reduction Incentive Scheme (FERIS), in order to significantly reduce Fraud and Error (F&E) in the HB caseload during 2015/16 and beyond.

3.1.3 In order to implement this approach the council is required to create its own RBV policy.

3.1.4 DWP consider it to be good practice for the RBV policy to be examined by the Local Authority Audit and Risk Committee. The policy must be submitted for Member’s approval and sign off, along with a covering report confirming the Section 151 Officer’s agreement/recommendation. The information held in the RBV policy should not be made public due to the sensitivity of its contents.

3.1.5 The Risk Based Verification policy defines the risk categories and the checks required for each category. This information is system based so that claims are automatically allocated a risk category prior to payment. Claims are put into 1 of 3 risk categories – Low, Medium or High.

4. Implications (including financial implications)

4.1 Policy

4.1.1 Northampton Borough Council is committed to the prevention, deterrence, detection and investigation of all forms of fraud and corruption. This policy links with Whistleblowing and the Anti-Fraud and Corruption Policy & Strategy.

4.2 Resources and Risk

4.2.1 There are no direct financial implications to adopting this policy. However, the experience of other Local Authorities who have adopted Risk based Verification is that more Fraud and Error has been identified at the Benefits Gateway representing a saving to the public purse. RBV may therefore have a positive impact on the amount of quarterly incentive payments made by the DWP, which are based upon the level of fraud and error recorded.

4.2.2 The adoption of a RBV policy also means being able to focus resources appropriately on those claims that pose the greatest risk of fraud and simplifying the administrative process for those that pose the least risk.

4.3 Legal

4.3.1 DWP HB/CTB circular S11/2011 states that all LAs opting to apply RBV will be required to have in place a RBV Policy detailing the risk profiles, verification standards which will apply and the minimum number of claims to be checked. The relevant extract of the circular is held at appendix B

4.3.2 The councils legal obligation to verify information for Housing Benefit claims is defined in Housing Benefit Regulation 86 which states;

“a person who makes a claim, or a person to whom housing benefit has been awarded, shall furnish such certificates, documents, information and evidence in connection with the claim or award, or any question arising out of the claim or the award, as may reasonably be required by the relevant authority in order to determine that person`s entitlement to, or continuing entitlement to housing benefit”

4.4 Equality and Health

4.4.1 There should not be any equalities and/or Health impacts arising from the RBV policy. However, as this is a new approach to verifying benefit claims, there is no baseline data available for comparative purposes. Monitoring of the risk group profiles will therefore be undertaken to determine whether people with certain protected characteristics are over represented or under-represented in any of the risk groups. Following the accumulation of sufficient data an Equalities Impact Assessment will be undertaken in respect of this policy.

4.5 Consultees (Internal and External)

4.5.1 None

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The RBV policy supports the council’s priority of making every £ go further by protecting the public purse and thereby ensuring that public money is used to maximum benefit.

4.7 Other Implications

4.7.1 None

5. Background Papers

5.1 Appendix A – RBV Policy
Appendix B – Extract DWP Circular S11/2011

Matthew Steele, Benefit & Fraud Manager, 7317

Agenda Item

Document is Restricted