NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Your attendance is requested at a meeting to be held at The Jeffrey Room, The Guildhall, St. Giles Square, Northampton, NN1 1DE on Monday, 28 January 2019 at 6:00 pm**.**

George Candler
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. RISK REVIEW OF THE 2019/20 BUDGET

7. STATEMENT OF ACCOUNTS 2016/2017

   (A) APPENDIX - EXTERNAL AUDIT REPORT

8. 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."

NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 26 November 2018

PRESENT: I Orrell (Chair); Councillor Oldham (Deputy Chair); Councillors M Markham, J Hill, Stone, T Eales and Smith

1. APOLOGIES

Apologies were received from Councillor Marriott who was substituted by Councillor Smith and Councillor Golby.

2. MINUTES

The Minutes of the meeting held on the 3rd September 2018 were confirmed and signed by the Chair as a true record.

3. DEPUTATIONS / PUBLIC ADDRESSES

There were none.

4. DECLARATIONS OF INTEREST

There were none.

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

There were none.

6. INTERNAL AUDIT PLAN PRESENTATION/PROGRESS UPDATE

The Audit and Risk Manager (LGSS) submitted a report and updated the members on the 2018/19 plan and explained that there had been a slight delay in starting planned work due to the resource issues and clarification around the scope of the Quarterly Balance Sheet Review. It was explained that one of the issues and risks evident had been that there were no procedures covering fixed assets administered by LGSS Finance on behalf of the Borough Council and there was no formal process in place to support the identification of both new assets and disposals (this is being addressed by LGSS). It was further explained that follow up work had been undertaken and that of the 18 recommendations only six of them had not been implemented.

The newly appointed Internal Auditors, BDO, submitted a report and explained the indicative Internal Audit Plan for 2018-19 and noted that to develop the plan, certain methodologies were used and included 7 different steps as set out in the report. He referred to the Internal Audit Plan priorities and noted that the terms of reference were to be issued, for the individual internal audits.

The Committee were also presented with the Internal Audit Charter by BDO for comment and agreement.

The chair commented that given the delay of the financial statements he would have expected some focus on financial management from the internal auditors. The Section 151 Officer explained to Committee Members that the role of the Internal Auditors was to inform the Corporate Management Board (CMB) of any concerns that they had and noted that they would also test that the Council were IR35 compliant if required. He stated that CMB would examine the draft budget and participate in budget monitoring and all Councillors would have the opportunities to review it and explained it would not be presented to the Audit Committee as it would be constantly reviewed by CMB.

RESOLVED:

2.1 That the contents of the Internal Audit Plan and Audit Charter be considered, noted and approved.

2.2 That it be noted that Internal Audits themselves are behind the initial NBC plan, due to the process in changing Internal Auditors.

7. UPDATE ON STATEMENT OF ACCOUNTS

The Chief Finance Officer submitted a report updating the Committee on the progress towards completing the delivery of the statement of accounts for the financial year 2016/17. The details of the causes of the delays were detailed within the appendix, provided by LGSS, of the report. It was noted that the external auditors (KPMG) had been provided with a draft statement of accounts and once the KPMG audit team were content with the statement and the changes, KMPG would then commence their checks, which due to the Borough Council being a high risk audit would take a minimum of 4 weeks.

The Chair explained that the timetable provided in the report offered a number of options for consideration including the proposal for the Committee to delegate the actual signing of the accounts to the S151 Officer and the Chair of Audit Committee on the proviso there were no significant changes required.

Members showed preference for the option that would see the Audit Committee meeting in January 2019 whereby the S151 and the Chair of the Audit Committee sign the accounts to facilitate the signing and issuing of the Audit Opinion by KPMG which will conclude the audit.

The External Auditor explained that he had produced the most positive report to date, and that the audit should be completed by the end of December 2018 and noted that he had now received all the relevant and necessary information.

In response to questions asked, the S151 Officer explained that there had been a number of issues relating to assets, which included capacity, and noted that the department had recently had a new Head of Service and that active changes were still being considered.

RESOLVED:

1. That the Audit Committee meet in mid-January 2019 to allow the S151 and the Chair of the Audit Committee to sign the accounts and to facilitate the signing and issuing of the Audit Opinion by KPMG which will conclude the audit.

2. That the issues that have given rise to the delay in the production of the Statement of Accounts for 2016-17 be noted.

3. That the progress made and the revised timetable for the production and signing off of the Statement of Accounts for 2016-17 and 2017-18 be noted.

8. EXTERNAL AUDIT UPDATE

The Chair welcomed the new External Auditors (Ernst & Young) to the meeting,

The External Auditor (KPMG) reported that since the last Audit Committee, they had continued to work in respect of the audit of the 2016/17 financial statements. He explained that there had been delays in receiving the information against previously agreed timelines and therefore they were not yet in a position to finalise their work and issue their audit opinion. It was confirmed that the cost of the Audit would be in the region of £300,000 to £400,000 but noted that the 2017/18 Statement of Accounts would be done relatively quickly. He further informed the Committee that they would report back on value for money as part of the ISA260 report. It was noted that they would examine the budget controls, resilience, budget monitoring and how the information is reported back to Members and the quality of decisions made.

The External Auditor (Ernst & Young) stated that they had met with the S151 officer and KPMG and explained that the process that they would adopt would be similar to that of KPMG.

RESOLVED:

That the Audit Committee noted the external audit plan for the audit of the 2017/18 accounts.

9. GOVERNANCE REPORT UPDATE

The Risk and Governance Manager submitted a report and elaborated thereon noting that previously a Governance Action Plan had been submitted which had, in the main been completed. It was explained that a number of areas were being focused on and referring to the corporate risks, it was noted that although one risk identified was potential 'impropriety or improper business activities leading to fraudulent activity or malpractice' it should not be considered that there was any evidence of this, but that it was identified as being a high risk area due to lack of controls in place.

The Senior Internal Controls Officer explained that with regards to the position statement on vacant posts and temporary workers, temporary workers included agency staff, temps and interims; a number of issues had been identified and work was being undertaken with the relevant managers.

The S151 officer explained that there was a need to look at resilience through partnership working and noted that the key was to ensure that the Borough Council were going through the correct process and not falling foul of IR35,

RESOLVED:

That the Governance report be presented quarterly with appendices (where relevant) be agreed.

10. TREASURY MANAGEMENT

The S151 Officer gave a verbal update to the Committee and explained that he had implemented the investment with CCLA as approved by Council, that this would contribute £300,000 to the budget for 2019-20.

RESOLVED:

That members noted the information provided.

11. ACCOUNTING POLICIES

The S151 Officer gave a verbal update to the Committee and explained that there were a number of pressures from the commissioners but noted that it was not felt necessary for there to be a change to the accounting policies for this year.

RESOLVED:

That the information be noted.

12. RISK REVIEW AND BUDGET OPTIONS

There were no items to be considered.

The meeting concluded at 7.47pm

Appendices
6

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	**Risk Review of 2019/20 Budget**

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date:	28 January 2019
Policy Document:	No
Directorate:	Resources
Accountable Cabinet Member:	Cllr Brandon Eldred

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 2019/20 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 This reassurance of financial stability and sustainability is particularly relevant against the background of the delayed finalisation of the Statement of Accounts for 2016-17 and 2017-18. The issues that have caused delays are of a technical accounting nature (valuation of assets and system coding) and not as the result of funding issues or financial control weaknesses.

3.2 Issues

3.2.1 The 2019/20 budgets have been developed in the context of the Medium Term Financial Strategy for General Fund and the 30-year HRA Business Plan forecasts. In order to ensure that the Council's financial position is sustainable, not just for the next year, but over the medium term, greater efficiencies have been made as well as making tough choices and putting forward proposals for savings and additional income generation.

3.2.2 The summary 2019/20 General Fund Budget and Medium Term Financial Plan (MTFP) is set out in Appendix 1. The MTFP provides a forecast of the Council's expenditure and income over the next four years. This is set in the context of the proposed local government reorganisation and creation of a new unitary authority. Whilst this means that NBC will cease to exist in its current form beyond 2019/20, the budget set for that year must be sustainable. Therefore, forecasts are prepared for three financial years beyond 2019/20 on a no-change basis.

3.2.3 The MTFP shows a forecast further savings requirement of £1.1m from 2020/21 onwards. The exact figure is subject to any changes to government funding and other forecast changes to budgets. These further savings can be achieved through the strands set out in the approved Medium Term Financial Strategy.

3.2.4 Proposals for General Fund savings, income generation and growth are set out in Appendix 2. These are currently out for public consultation prior to final decisions to be made in February.

3.2.5 Appendix 3 sets out the planned General Fund capital programme for 2019/20 to 2022/23.

3.2.6 Proposed budgets for HRA revenue and capital are shown in Appendices 4, 5 and 6. This shows a balanced position over the period from 2019/20 to 2022/23.

3.2.7 The table below identifies the strategic risks within the budgets and mitigation against these risks:

Risk	**Mitigation**
The Council's financial position over the medium term is not sustainable	NBC are in a good financial position as at January 2019 with a balanced budget and reasonable levels of reserves
Conflict between Corporate Plan priorities and Medium Term Financial Strategy (MTFS) savings targets	The workstreams of the Corporate Plan and MTFS are aligned. Cabinet approval of MTFS, regular meetings with Leader/Cabinet Member Finance
Non delivery of financial targets set out in the Budget and Medium Term Financial Plan (MTFP)	Appropriate governance arrangements are a key part of the MTFP, to monitor progress and take action if targets are not being delivered.
High level of capital investment required to deliver plan	Effective treasury management to minimise interest and MRP
High level of earmarked reserves required to deliver plan	Consolidation of reserves and controls over future allocations

3.2.8 As part of the budget process the Council determines a prudent minimum level of General Fund balances to hold against general risks. This is informed by a risk assessment, which has been refreshed in the development of the draft budget and currently suggests that £4.0m remains a prudent level of general reserves. This may change as the budget is finalised and any change in the Council's exposure to risk is identified.

3.3 Choices (Options)

3.3.1 The Audit Committee is asked to consider the risk issues in relation to the draft budget for 2019/20 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 the draft budget require comment and therefore make their comments to Cabinet for consideration when agreeing 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, both revenue and capital.

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 2019.

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 Budget Summary

Appendix 2 General Fund Savings and Growth List

Appendix 3 General Fund Capital Programme and Funding

Appendix 4 Housing Revenue Account Summary Budget

Appendix 5 Housing Revenue Account Capital Programme and Funding

Appendix 6 NPH Total Fee Schedule

Stuart McGregor, Chief Finance Officer (S151 Officer)

Appendix 1

General Fund Draft Budget Summary 2019 - 2023

Description	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2022/23
	£	£	£	£
Service Base Budget	**29,850,749**	**31,243,353**	**31,825,228**	**32,674,969**
Total Savings	(1,023,994)	(1,698,994)	(1,698,994)	(1,698,994)
Total Growth	1,020,408	1,020,408	1,020,408	1,020,408
Total MTP Options	**(3,586)**	**(678,586)**	**(678,586)**	**(678,586)**
Gross Revenue Budget	**29,847,163**	**30,564,767**	**31,146,642**	**31,996,383**
Corporate Budgets				
Debt Financing	2,122,295	2,351,210	2,686,838	2,706,898
Recharges from General Fund to HRA	(2,550,000)	(2,600,000)	(2,650,000)	(2,700,000)
Parish Grants	(18,630)	(18,634)	(18,634)	(18,634)
Parish Precepts	1,110,827	1,129,461	1,129,461	1,129,461
Other Corporate Budgets	(1,640,000)	(1,046,000)	(538,000)	(573,000)
Contribution to/(from) Earmarked Reserves	(119,418)	(614,408)	(682,408)	(663,000)
Total Corporate Budgets	**(1,094,926)**	**(798,371)**	**(72,743)**	**(118,275)**
Net Budget	**28,752,237**	**29,766,396**	**31,073,899**	**31,878,108**
Funding				
Revenue Support Grant	0	0	0	0
Business Rates Retention Scheme	(8,880,000)	(8,880,000)	(8,880,000)	(8,880,000)
New Homes Bonus	(2,800,000)	(2,500,000)	(2,200,000)	(1,800,000)
Total Government Funding	**(11,680,000)**	**(11,380,000)**	**(11,080,000)**	**(10,680,000)**
Council Tax				
Band D Council Tax	225.84	232.59	239.54	246.71
Tax Base	68,419	69,395	70,284	71,091
NBC Council Tax	(15,451,410)	(16,140,504)	(16,835,978)	(17,538,595)
Parish-related Council Tax	(1,110,827)	(1,129,461)	(1,129,461)	(1,129,461)
Total Council Tax	**(16,562,237)**	**(17,269,965)**	**(17,965,439)**	**(18,668,056)**
Surplus on Collection Fund	(510,000)	0	0	0
Total Funding	**(28,752,237)**	**(28,649,965)**	**(29,045,439)**	**(29,348,056)**
Budget Gap	**0**	**1,116,431**	**2,028,460**	**2,530,052**

Appendix 2

Draft General Fund Budget Savings and Growth Proposals

Savings Proposals	**2019/20 £**	**2020/21 £**	**2021/22 £**	**2022/23 £**
Business Incentive Scheme	-50,000	-50,000	-50,000	-50,000
Facilities Management Efficiencies	-68,994	-68,994	-68,994	-68,994
Car Parking Scheme Review	-625,000	-625,000	-625,000	-625,000
ICT Managed Budget Savings	-50,000	-50,000	-50,000	-50,000
Reduced Training Budget	-10,000	-10,000	-10,000	-10,000
1% Vacancy Factor	-135,000	-135,000	-135,000	-135,000
Corporate Services Saving	-10,000	-10,000	-10,000	-10,000
Environmental Services Contract Review	-75,000	-750,000	-750,000	-750,000
Total Savings	**-1,023,994**	**-1,698,994**	**-1,698,994**	**-1,698,994**

Growth Proposals	**2019/20 £**	**2020/21 £**	**2021/22 £**	**2022/23 £**
Continuation of Northampton's Nightshelter	135,000	135,000	135,000	135,000
Restructure of Housing Options & Advice Team	583,000	583,000	583,000	583,000
Restructure of Economic Growth Team	172,408	172,408	172,408	172,408
Digital Officer to support the move to paperless	30,000	30,000	30,000	30,000
Reduction in shop income	100,000	100,000	100,000	100,000
Total Growth	**1,020,408**	**1,020,408**	**1,020,408**	**1,020,408**

Appendix 3

Proposed General Fund Capital Programme 2019-20 to 2022-23

	Funding Source	2019-20 £	2020-21 £	2021-22 £	2022-23 £	Total £
Schemes in the current Capital Programme						
Capital Improvements - Regeneration Areas	C	50,000	50,000	50,000	50,000	200,000
Central Museum Development	C	2,215,065	152,701	-	-	2,367,766
Commercial Landlord Responsibilities	C	50,000	50,000	50,000	50,000	200,000
Disabled Facilities Grant	G	1,457,202	1,457,202	1,457,202	1,457,202	5,828,808
Environmental Services Vehicles	C		63,000	-	63,000	126,000
IT Infrastructure	S-F	150,000	150,000	150,000	150,000	600,000
Market Stall Covers	C	20,000	20,000	-	-	40,000
Operational Buildings - Enhancements	C	250,000	250,000	250,000	250,000	1,000,000
Parks/Allotments/Cemeteries Enhancements	C	250,000	250,000	250,000	250,000	1,000,000
Revenues and Benefits Capital Investments	C	152,135	14,925	14,925	14,925	196,910
		4,594,402	**2,457,828**	**2,222,127**	**2,285,127**	**11,559,484**
Scheme where approval has been given for development work only						
Vulcan Works	G, C, S-F	8,982,293	1,075,680	-	-	10,057,973
		8,982,293	**1,075,680**	**-**	**-**	**10,057,973**
Schemes in the current Development Pool awaiting formal approval						
Billing Brook Lakes	C	25,000	-	-	-	25,000
Car Parking Scheme	S-F	1,500,000	-	-	-	1,500,000
Fernie Fields Stadium Development	C	180,000	-	-	-	180,000
		1,705,000	**-**	**-**	**-**	**1,705,000**
New schemes						
78 Derngate	C	200,000	-	-	-	200,000
Abington Park Lake Footpath	C	250,000	-	-	-	250,000
Car Parking Machines	C	40,000	20,000	20,000	20,000	100,000
Drapery Improvements	S-F	150,000				
Economic Regeneration Property Schemes	S-F	10,000,000				10,000,000
Mayorhold Car Park	C	500,000	-	-	-	500,000
Modifications to Guildhall Road Property	C	1,000,000	-	-	-	1,000,000
North West Relief Road	G	4,200,000	-	-	-	4,200,000
Office Development Build	S-F	5,000,000	10,000,000	-	-	15,000,000
Rectory Farm	C	250,000	-	-	-	250,000
Street Lighting	C	750,000	100,000	100,000	100,000	1,050,000
Temporary Accommodation/Housing	C	3,000,000	3,000,000	-	-	6,000,000
Town Centre Regeneration	S-F	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
Unitary Transformation work	C	500,000	-	-	-	500,000
Upton Country Park	G	1,500,000	500,000			2,000,000
Vulcan Works	S-F	1,000,000	-	-	-	1,000,000
Vulcan Works Roof	C	500,000				
		29,840,000	**14,620,000**	**1,120,000**	**1,120,000**	**46,050,000**
						-
General Fund Capital Programme - Total 2		**45,121,695**	**18,153,508**	**3,342,127**	**3,405,127**	**70,022,457**

Key to Funding Sources

G - Grants & Contributions

R - Revenue and Reserves

EZ - Enterprise Zone Business Rates

SF - Self-funded Borrowing

C - Corporate Resources - Capital Receipts or Borrowing

Appendix 4

DRAFT Housing Revenue Account Budget Summary 2019-2023

Description	Note	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2022/23
INCOME		**£**	**£**	**£**	**£**
Rents - Dwellings Only	(1) (2)	(49,027,400)	(49,784,200)	(51,431,500)	(53,071,900)
Rents - Non Dwellings Only		(1,058,800)	(1,070,800)	(1,083,100)	(1,095,400)
Service Charges		(2,268,692)	(2,308,078)	(2,345,813)	(2,385,724)
Other Income		(4,000)	(4,000)	(4,000)	(4,000)
Total Income		**(52,358,892)**	**(53,167,078)**	**(54,864,413)**	**(56,557,024)**
EXPENDITURE					
Repairs and Maintenance	(3)	13,860,195	14,106,191	14,381,097	14,727,074
General Management	(3)	8,365,992	8,467,431	8,576,698	8,660,188
Special Services	(3)	4,655,762	4,673,504	4,735,351	4,798,898
Rents, Rates, Taxes & Other Charges		289,300	289,300	289,300	289,300
Increase in Bad Debt Provision		600,000	600,000	600,000	600,000
Total Expenditure		**27,771,249**	**28,136,426**	**28,582,446**	**29,075,461**
Continuation Budget		**(24,587,643)**	**(25,030,652)**	**(26,281,967)**	**(27,481,563)**
Medium Term Planning Pressures			**(845,277)**	**(1,579,757)**	**(2,204,878)**
Net Recharges from the General Fund		2,550,000	2,600,000	2,650,000	2,700,000
Interest & Financing Costs					
- Interest on balances		(46,532)	(34,117)	(34,085)	(34,086)
- Mortgage interest		(400)	(300)	(200)	(100)
- Internal Borrowing (Over funded CFR)		(2,380)	(1,587)	(793)	0
- Interest Fixed Rate		7,250,182	7,802,558	8,408,933	8,737,160
Revenue Contributions to Capital		9,936,698	5,474,039	6,644,676	7,790,595
Depreciation		9,642,224	10,035,335	10,193,193	10,492,872
Contribution to / (from) Reserves		(4,742,149)	0	0	0
Remaining Deficit / (Surplus)		**0**	**(0)**	**(0)**	**(0)**

Notes

(1) Rent decrease based on legislation 1% for 4 years from 16-17, then CPI (2%) plus 1% estimated increase from 2020/21

(2) Rental Income increases in 2019/20 for 53 week rent year

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

(4) Medium Term Planning Pressures could affect NPH Fee in future years

Description	£'000
Repairs and Maintenance	13,860
General Management	8,366
Special Services	4,656
Less NBC Retained Budgets	(641)
NPH Budget as per Appendix 4	**26,241**

Proposed Capital Programme 2019-20 to 2022-23 - HRA **Appendix 5**

	2019-20 £	2020-21 £	2021-22 £	2022-23 £	Total £
External Improvements	10,600,000	11,500,000	11,250,000	11,250,000	44,600,000
Internal Works	3,500,000	3,500,000	3,500,000	3,500,000	14,000,000
Environmental Improvements	3,000,000	3,000,000	3,000,000	3,000,000	12,000,000
Structural Works and Compliance	450,000	500,000	450,000	450,000	1,850,000
Disabled Adaptations	1,300,000	1,300,000	1,300,000	1,300,000	5,200,000
IT Development	400,000	0	0	0	400,000
New Build Programme/Major Projects	23,107,400	17,359,400	9,820,000	11,600,000	61,886,800
Buybacks and Spot Purchases	500,000	500,000	500,000	500,000	2,000,000
Total	**42,857,400**	**37,659,400**	**29,820,000**	**31,600,000**	**141,936,800**

SPLIT:					
Improvements to Homes	15,850,000	16,800,000	16,500,000	16,500,000	65,650,000
Improvements to Environment	3,000,000	3,000,000	3,000,000	3,000,000	12,000,000
IT Development	400,000	0	0	0	400,000
New Build Programme/Major Projects	23,107,400	17,359,400	9,820,000	11,600,000	61,886,800
Total NPH	**42,357,400**	**37,159,400**	**29,320,000**	**31,100,000**	**139,936,800**
NBC Retained - Buy Backs	500,000	500,000	500,000	500,000	2,000,000
Total Capital Programme	**42,857,400**	**37,659,400**	**29,820,000**	**31,600,000**	**141,936,800**

FINANCING:					
Major Repairs Reserve/Depreciation	9,642,224	10,035,335	10,193,193	10,492,872	40,363,624
Capital Receipts - RTB (excl 1-4-1)	3,133,700	3,219,300	3,297,700	3,378,100	13,028,800
Capital Receipts - RTB 1-4-1 Receipts	7,034,606	5,357,820	3,096,000	3,630,000	19,118,426
Revenue/Earmarked Reserve	9,936,698	5,474,039	6,644,676	7,790,595	29,846,008
Borrowing / CFR	13,110,172	13,572,581	6,588,255	6,308,434	39,579,442
Total Financing - HRA	**42,857,400**	**37,659,076**	**29,819,824**	**31,600,000**	**141,936,300**

DRAFT Schedule 5 - NPH Management Fee

		NPH				
Housing Management & Maintenance(HRA)		**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
		£	**£**	**£**	**£**	**£**
Total	**Repairs & Maintenance**	12,155,771	12,378,890	12,632,529	12,951,326	12,951,326
Total	**General Management**	6,836,510	6,929,602	7,032,389	7,113,905	7,113,905
Total	**Special Services**	4,021,839	4,039,806	4,098,100	4,158,701	4,158,701
Total	**Recharges**	3,226,928	3,257,928	3,289,228	3,321,328	3,321,328
TOTAL HRA		**26,241,049**	**26,606,226**	**27,052,246**	**27,545,261**	**27,545,261**
Housing General Fund						
Total	**Travellers Site**	182,004	182,603	183,214	183,837	183,837
Total	**Home Choice & Resettlement**	80,000	80,000	80,000	80,000	80,000
TOTAL GF HOUSING		**262,004**	**262,603**	**263,214**	**263,837**	**263,837**
TOTAL REVENUE		**26,503,053**	**26,868,828**	**27,315,460**	**27,809,098**	**27,809,098**
HRA Capital Programme		42,857,400	37,659,400	29,820,000	31,600,000	19,500,000
GRAND TOTAL		**69,360,453**	**64,528,228**	**57,135,460**	**59,409,098**	**47,309,098**

Analysed by Funding Pots

Management - HRA (including Special Services)	14,085,277	14,227,336	14,419,718	14,593,935	14,593,935
Management - GF Housing	262,004	262,603	263,214	263,837	263,837
Maintenance - Managed Budget Responsive	9,359,944	9,531,745	9,727,047	9,972,521	9,972,521
Maintenance - Managed Budget Cyclical	2,795,827	2,847,145	2,905,482	2,978,805	2,978,805
Capital - Managed Budget Improvement to Homes	39,457,400	34,659,400	26,820,000	28,600,000	16,500,000
Capital - Managed Budget Improvement to Environment	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Capital - Managed Budget ICT	400,000	0	0	0	0
Total	**69,360,453**	**64,528,228**	**57,135,460**	**59,409,098**	**47,309,098**

Notes:

Recharges comprise approximately £1.3m from LGSS and £2.3m from the General Fund

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 including inflation on supplies and services.

Capital programme based upon figures provided in support of the revised Asset Management Strategy which takes into account the removal of the HRA Debt Cap, adjusted in line with the Draft HRA Business Plan

Indicative year 5 included to comply with management agreement (based on 2022/23 figures)

Medium Term Planning Pressures could affect NPH Fee in future years

Appendices:

Appendix 1 Final NBC 2016-17 Statement of Accounts

Appendix 2 Table of Changes between the September 2017 draft accounts and the final audited accounts

NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	**Final 2016-17 Statement of Accounts**

AGENDA STATUS: PUBLIC

Audit Committee Meeting Date: 28 January 2019

Policy Document: Statement of Accounts

Directorate: Chief Finance Officer

Accountable Cabinet Member: Cllr Brandon Eldred

1. Purpose

1.1.1 This report presents to the Audit Committee the final 2016-17 Statement of Accounts for the Committee's review and approval.

1.1.2 The issues relating to the delayed sign off of the accounts have been reported to and discussed by the Audit Committee at previous meetings. Therefore this report is focussed on presenting the accounts for review and approval identifying the changes that have been made since the previous version of the accounts presented in September 2017.

2. Recommendations

2.1 That the Committee note the changes made to the Statement of Accounts for 2016-17 following the conclusion of the external audit by KPMG.

2.2 That the Committee approves the Statement of Accounts for 2016-17.

2.3 That the committee notes, that the delay in delivering these accounts relates to primarily to technical accounting, asset valuation and information presentation issues. It has not and does not impact on the funding and financial sustainability of the Council or its prime financial controls and governance.

3. Issues and Choices

3.1 Report Background

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

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

- **The Narrative Report** - providing a summary of the most significant matters reported within the accounts and of the Council's financial position, this section is intended to outline the overall context within which the Council operates and provide a commentary on the Council's performance in 2016-17.

- **Statement of Responsibilities** – provides details of the formal responsibilities assigned to the Council and the Chief Finance Officer in respect of the Statements and the financial management of the Council.

- The **Core Financial Statements** – providing a financial snapshot at 31 March 2017 of the Council's position and activity during the preceding year, comprising of the:

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

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

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

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

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

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

3.2 Statement of Accounts 2016-17

3.2.1 The final 2016-17 NBC accounts for approval are provided at Appendix 1.

3.2.2 At the Audit Committee on 27 September 2017 he Committee received a set of accounts which included changes from the draft accounts presented in June 2017. The report and accounts at the time presented to the Committee contained changes relating to the valuation of housing stock due to an incorrect discount factor initially being applied in the valuation, changes to some other land and building issues, amendments to the narrative statement and the inclusion of additional disclosure notes that were omitted from the June draft accounts.

The papers and reports from 27 September 2017 can be found at the following link:

27 September 2017 Audit Committee Agenda and Reports

3.2.3 As previously reported to the Committee back in September 2017 and in update reports since then, the vast majority of the changes required to the accounts are related to audit of the asset valuations, in particular relating to the Housing Stock and Investment Properties. Following the audit challenge in these areas, revised valuations were required to correct for items such as the discount factor applied by the valuers on the Housing Stock valuation and to remove purchase costs from the valuations of Investment Properties.

3.2.4 As a result of these changes and detailed audit work there have been movements in many areas of the accounts where the asset valuations and associated accounting entries have an impact. These include changes to the value of assets, gains and losses figures resulting from the revised valuations and the depreciation charges. Ultimately these changes have a ripple effect through the accounts which is why it is critical to ensure that they are correct. The areas of the accounts affected by the asset valuation issues can be summarised as follows:

- The core Statements including the Comprehensive Income and Expenditure Statement (CIES), the Balance Sheet, the Cash Flow Statement and the Expenditure and Funding Analysis;
- The subsequent notes relating to these core statements where numbers have changed, for example the Other Comprehensive Income

and Expenditure note, the Plant, Property and Equipment note, Financing and Investment Income and Expenditure note, the Adjustment between the Accounting Basis and Funding under Regulation note and other assets notes;

- Due to a large proportion of the changes being linked to the Housing Stock valuations changes to t he Housing Revenue Account were needed to reflect the revised position; and

- The Group Accounts which consolidates the NBC accounts with NPH due to the changes relating to the areas above.

3.2.5 Other changes and audit adjustments of a more minor nature were also identified and amended.

3.2.6 A detailed schedule of all changes between the version of accounts presented to the Committee on 27 September 2017 and the final audited Statement of Accounts is provided at Appendix 2.

3.3 Conclusions

3.3.1 As a high risk audit coupled with some key issues in asset valuations, this has been a particularly challenging set of accounts to conclude. Areas for improvement have been identified, which will be applied in the production of the 2017-18 and future year's accounts.

3.3.2 The Audit Committee are recommended to approve the 2016-17 Statement of Accounts.

4. Implications (including financial implications)

4.1 Policy

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

4.2 Resources and Risk

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

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

4.3 Legal

4.3.1 There are no specific legal implications from this report.

4.4 Equality

4.4.1 There are no specific equality implications from this report

4.5 Consultees (Internal and External)

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

4.6 Other Implications

4.6.1 None specifically

5. Background Papers

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

Stuart McGregor
Chief Finance Officer (Section 151 Officer)

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Introduction

This Statement of Accounts presents the statutory financial statements for Northampton Borough Council (the Council) for the period 1 April 2016 to 31 March 2017 and gives a comprehensive summary of the overall financial position of the Council, providing a true and fair view.

The Council has a statutory duty to approve and publish this complex document, which sets out to ensure that the accounts of all Government funded bodies provide comparable information through complying with International Financial reporting Standards. The accounts are presented in the format recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA), as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 (the Code). Our core financial statements use this format and meet the conditions of the Code.

The final Statement of Accounts will be approved by Audit Committee at its meeting on 28 January 2019.

The Statements

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

Core Financial Statements

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

Supplementary Financial Statements

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

Group Accounts

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

This narrative statement provides a summary of the most significant matters reported within the accounts and of the Council's financial position.

The Council's Strategic / Corporate Priorities

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

The Corporate Plan 2016-2020 is relevant to the period of these accounts and can be found on the Council's website using this link:

http://www.northampton.gov.uk/downloads/file/9285/corporate-plan-2016

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

- Northampton Alive – providing a vibrant successful town for now and the future;
- Safer Communities – making you feel safe and secure;
- Housing for Everyone – helping those that need it to have a safe and secure home;
- Protecting our Environment – a clean and attractive town for residents and visitors;
- Love Northampton – enhancing leisure activities for local people and encouraging participation;
- Working Hard and Spending Money Wisely – delivering quality modern services.

In addition, the Corporate Plan identifies three Business Development Priorities designed to support the delivery of corporate plan commitments and manage the Council's future financial challenge. These focus on:

- Empowering Communities
- Economic Growth
- Partnership Working

The Council's 2016-17 Performance

In order to provide an overview of the Council's performance during the 2016/17 financial year and the position as at 31 March 2017, significant matters and variances are summarised in this section and supported by the detail included in the statement of the accounts and core financial statements.

- **Financial Performance**

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

The Council set a balanced budget for 2016/17. The main sources for funding of the 2016/17 **General Fund budget** were as follows:

- Revenue Support Grant £3.3m
- Business Rates Retention Scheme £7.5m
- New Homes Bonus £4.9m
- Council Tax £13.4m

At the end of the 2016/17 year, the General Fund outturn for controllable service budgets shows an underspend of £1.4m as detailed below:

Table 1 - Controllable Budget Outturn	Revised Budget £000	Actual Outturn £000	(Under) / Over Spend £000
Director of Regeneration, Enterprise and Planning	2,620	2,668	48
Housing and Wellbeing	1,104	1,647	543
Borough Secretary	2,737	2,737	0
Director of Customers and Communities	11,503	10,175	(1,328)
Corporate and LGSS	11,404	11,214	(190)
Total Service Controllable Spending	**29,368**	**28,441**	**(927)**
Debt Financing	1,904	1,448	(456)
Total	**31,272**	**29,889**	**(1,383)**

The main variations were as follows:

- Regeneration, Enterprise and Planning - this overspend mainly relates to additional temporary staff covering vacant positions and professional services employed to carry out property valuations. This additional expenditure is offset by the overachievement of Non-Domestic Rates rebates and a higher than expected level of development control income.
- Housing and Wellbeing - this overspend is mainly due to additional costs associated with Homeless Prevention schemes, Refuge funding and Temporary Accommodation, together with a reduction in Licensing Income.
- Customers and Communities - this underspend arises largely from active management of the Environmental Services Contract and additional car parking income.
- Corporate and LGSS - this underspend is due to lower than expected pension severance costs and a higher pension deficit recharge to the HRA, both offset by additional costs for Temporary Accommodation.

In 2015/16, the Council impaired the outstanding loan provided to Northampton Town Football Club due to the clubs failure to make payments between May and September 2015. In line with Cabinet decisions, the Council has sought to recover the lost monies and incurred professional fees in relation to this matter.

The Council's final approved budget for General Fund capital expenditure in 2016/17 was £19.0m, a net increase of £5.8m from the original budget of £13.2m. The increases were due to carry forwards from 2015/16, increases in external financing and the increased costs for the restoration of Delapre Abbey.

Capital expenditure for 2016/17 totalled £12.4m against the final approved budget of £19.0m, a net underspend of £6.6m (35%). Of this, £6.1m relates to schemes that are currently underway or still planned to take place and these budgets will be carried forward into the next financial year. The majority of this carry forward is due to the timing of approvals, funding agreements and the letting of contracts.

The 2016/17 capital programme was funded as follows:

- Borrowing £4.7m
- Capital Receipts £0.8m
- Grants £2.5m
- Third Party Contributions £3.0m
- Revenue Contributions £1.4m

The **HRA budget** for 2016/17 was set at £52.7m. There are strict rules around the costs and income allowable against the HRA and this budget is funded through the rents collected on HRA properties.

At the end of the 2016/17 year, the HRA outturn position showed an underspend on controllable spending of £0.249m. After technical accounting adjustments this position moves to an underspend of £0.366, reducing the required contribution from reserves from the budgeted amount of £7.517m to £7,151m. The HRA working balance remains unchanged at £5m.

Further details of the budget that was set for 2016/17 can be found on the Council's website here:
http://www.northamptonboroughcouncil.com/councillors/ieListDocuments.aspx?CId=242&MId=7967

Further details of the Council's outturn position for 2016/17 can be found on the Council's website here (item 12 on the agenda):
http://www.northamptonboroughcouncil.com/councillors/ieListDocuments.aspx?CId=528&MId=8155

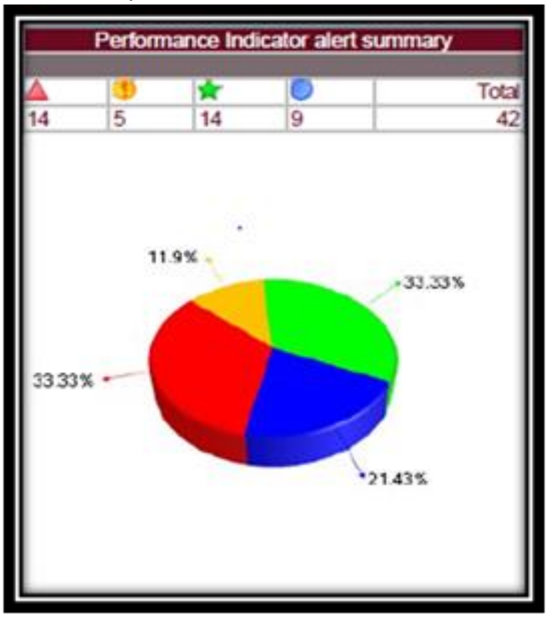
- **Non-Financial Performance**

The Council monitors' progress against a number of key performance indicators on a periodic basis and an annual outturn report is produced, summarising how well the Council performed against each of the targets set. An extract of the overall indicator performance against targets is included below, together with the equivalent performance from the previous year. Performance in 2016/17 is showing improvements in several areas.

The number of KPIs reported reduced in 2016/17, as some KPIs are no longer required or could not be reported accurately. The Assets KPIs are being revised to reflect the monitoring and reporting needs of the service.

16/17 Performance Data

15/16 Performance Data



Report Key

Exceptional or over performance

On or exceeding target

Within agreed tolerances

Outside agreed target tolerance

This extract highlights a number of areas for concern identified by a red indicator, including homelessness, serious acquisitive crime, and environmental services:

- Homelessness and crime have shown increases, which are in line with national trends.
- The environmental services contract was being let and new KPIs are required in order to measure performance under the new contract.

The Council will continue to work with any service areas returning red KPIs to better understand where limited resources need to be focussed and to ensure that reporting gives a true reflection of the issues being faced. The full annual outturn report was approved by cabinet on 19th July 2017 and has been uploaded to the NBC website for public scrutiny.

THE 2016-17 ACCOUNTS

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

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

- The headline figure for the CIES is an overall Surplus on the Cost of Services of £58m.
- The Other Comprehensive Income and Expenditure category includes technical items that are not reflected in the Surplus or Deficit on the Provision of Services. Major components are £34.9m income from Financing and Taxation, an increase due to revaluation gains of £44.8m both offset by an increase in pension liabilities of £25.3m.

- **Expenditure and Funding Analysis** – produced to provide further context to the CIES, this is a new disclosure in 2016/17 and shows the difference between the net expenditure chargeable to the Council's General Fund and earmarked reserves and the income and expenditure in the CIES. The analysis also demonstrates how the Council's resources are allocated between directorates.

  The net expenditure chargeable to the Council's General Fund is £4.6m. This differs from the income and expenditure shown in the CIES due to a number of technical accounting adjustments which the Council is required to make by the Code. These include capital charges such as depreciation, actuarial pension adjustments and adjustments to the Collection Fund.

Balance Sheet – setting out the assets and liabilities recognised by the Council at the balance sheet date, the bottom line is effectively the net worth of the organisation at that date. The net assets of the Council (the assets less the liabilities) are matched by the Reserves held by the Council – net assets increased over the year by £95.9m.

The key points to note from this statement are:

- The value of property, plant and equipment has increased by £120.7m, largely due to an increase in the adjustment factor for social housing, as directed within the 2016 DCLG guidance for valuers.
- Movements in the value of short-term investments and cash and cash equivalents reflect a greater proportion of the council's surplus cash balances being held in order to meet day-to-day operational demands.
- Long-term liabilities have increased by £21.96m, which predominantly results from the increase in the pension liability following the annual assessment of the fund by independent actuaries. There is a corresponding reduction in the value of unusable reserves.

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

The main message from this statement in 2016/17 is that the council's net worth increased by £95.9m. The main changes in this statement reflected during the year are the movement in the pension reserve of £25.3m arising from the latest actuary valuation, the increase of £44.8m arising from revaluation gains and £82m resulting from changes to the Capital Adjustment Account. All of these are unusable reserves as outlined in the Unusable Reserves note.

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

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

In addition, certain changes in **Accounting Policies** were required in 2016/17. These were approved by the Audit Committee at its meeting of 6th March 2017 and the details are as follows:

- IFRS 13 (Fair Value Measurement) was adopted in 2015-16, prescribing the valuation method for assets and liabilities. The surplus assets category was omitted from this change and has now been included in policy L.
- The review of policy L also highlighted the need to amend the stated valuation methodology for Vehicles and Assets under Construction. This has been amended from fair value to depreciated historic cost for vehicles and historic cost for assets under construction. These asset categories have always been held on the newly stated basis, however, and there is no financial impact arising from this amendment.
- The change in the format of CIES required by the Code is supported by a change in policy C, which requires that Overheads and Support Costs be allocated to service segments in accordance with the authority's arrangements for accountability and performance.

RISK MANAGEMENT

The Council takes a proactive approach to risk management and this has been significantly enhanced during 2016/17 following a number of internal and external audit reports. The management of risk and governance is undertaken at officer level through Directorate risk registers, which are subsequently reported to the Risk Management Board as a corporate risk register. The registers identify key risks together with any existing or planned measures to mitigate them. This analysis is then interpreted through an assessment based on a combination of impact and likelihood of occurrence. Member involvement is through Cabinet, Audit Committee and Council approval of policies and review of risk areas.

GOVERNANCE

A number of policies and procedures are in place to govern financial management and decision making, with the constitution being the principal one as it includes financial regulations and contract procedures. The Council has been reviewing many of its policies since January 2017 to ensure they are fit for purpose.

The draft Annual Governance Statement makes particular reference to the Governance Action Plan which was developed in the second quarter of 2016/17, with implementation commencing immediately. The focus of this action plan is to improve the governance of decision-making and project management and to ensure that organisational structures are robust.

THE 2017/18 BUDGET AND MEDIUM TERM OUTLOOK

Economic Context

The national and global economic outlook has shifted over the last 12 months, due to the outcome of the EU referendum on June 23rd 2017 and more recently the outcome of the presidential election in the United States. The impact on the Borough Council's budget and medium term financial plan are:

- Reductions in GDP growth forecasts;
- Demand for housing remaining strong;
- Inflation is expected to increase; and
- Interest rates are forecast to stay low over the medium term.

Sources of Funding – Medium Term Forecasts

The main sources of funding for the Council's net General Fund revenue budget are Council Tax, Business Rates, New Homes Bonus and Revenue Support Grant.

- Council Tax – In addition to the annual increase in Band D Council Tax of £5, the amount of Council Tax income also increases due to increases in the number of chargeable properties, which is forecast to grow by 1% per annum from 2018/19 onwards.
- Business Rates – following the introduction of the Business Rate Retention Scheme in April 2013, the Council now benefits from growth in the rateable value in the Borough. On the flipside, the Council also bears the risk of volatility, including successful appeals by business against their rateable value. The five-year forecasts reflect an average inflationary increase in business rates income of 1.2% per year.
- New Homes Bonus – this has been a significant source of funding in recent years. Although the revision of the scheme has led to a significant reduction in this source of income for the Council, this is mitigated by continued housing growth.

Medium Term Financial Plan

The Medium Term Financial Plan provides a forecast of the Council's expenditure and income over the next five years. The forecasts show the need to make substantial year-on-year savings, rising to £5.8m by 2020/21. The focus of activity is on the delivery of the Efficiency Plan in order to eliminate this medium term gap.

The Efficiency Plan is essential to the delivery of a balanced budget over the medium term. The scale of the savings that the Council needs to find require a fundamental review of the way in which services are provided, as well as the range and scope of those services. Work has begun and is progressing across the following themes, as detailed in the Efficiency Plan:

- Economic Growth – to prioritise new ways of delivering investment and sustaining revenue streams
- Partnership – to build on existing successful delivery partnerships such as LGSS, Northampton Partnership Homes and the Leisure Trust.
- Community Empowerment – to deliver a clearly defined community-led approach that enables the delivery of ongoing service improvements and financial savings.
- Exploiting Commercial Opportunities – The Council will use its substantial asset base to deliver commercial income, through a combination of redefining an asset's use in order to maximise income and the disposal of under-utilised assets. This work stream will also look at options to invest in new assets that generate a good rate of return. There may be a need for significant capital investment, which will need to be closely scrutinised to ensure that it is affordable, prudent and sustainable.
- Being more efficient - All services will continue to review their working practices to ensure that they deliver high quality services at the lowest possible net cost.

The 2017/18 Budget

The Council's 2017/18 budget was agreed on 27th February 2017 and included the following headlines:

- An annual Council Tax increase of £5 per band D property and an indicative increase at the same level for planning purposes in future years.
- A General Fund Budget of £29.06m, excluding parish precepts.

The agreed General Fund net budget for 2017/18 is summarised in the table below:

Description	**2017/18 £000s**
Service Base Budget	28,517
Savings	(45)
Growth	113
Corporate Budgets	(174)
Contribution to Reserves	649
Net Budget	**29,060**
Revenue Support Grant	(1,793)
Transition Grant	(24)
Business Rates	(7,595)
New Homes Bonus	(4,229)
Council Tax	(15,035)
Collection Fund Surplus	(384)
Total Funding	**(29,060)**
Savings to be identified	**0**

The value of the General Fund Capital Programme for 2017/18 is £20.679m, including £17.770m within the Development Pool, which consists of schemes for which either costs need to be firmed up and/or confirmation of funding sources is required. These schemes will be moved from the Development Pool into the approved programme during the year as and when these details are approved by the Capital Programme Board, in line with the enhanced governance processes

The table below summarises the General Fund Capital Programme and Funding for 2017/18:

Description	2017/18 £000s
Disabled Facilities Grants	1,475
IT Improvements	150
Town Centre Improvements	367
Block Programmes	800
Other (as detailed in Appendix 6)	117
Development Pool	17,770
Total GF Capital Programme	**20,679**
Funding Source:	
Borrowing (incl. self-funded)	4,395
Growing Places Fund/ Local Infrastructure Fund	1,000
Capital Receipts	6,679
Revenue and Reserves	487
Grants & Developer Contributions	8,118
Total Funding	**20,679**

The headlines for the 2017/18 Housing Revenue Account budget are as follows:

- Proposing rent decrease in line with legislation and national rent policy of 1%;
- A HRA budget for 2017/18 of £52.7m, including invest to save proposals put forward by NPH and reflected in the NPH Management Fee.
- A Total Fee for NPH for the delivery of services over the six fee elements including a Capital Sum.

The HRA Capital Programme has been developed within the context of the 30-year Business Plan and the latest stock condition-survey information. The Capital Programme has a direct impact on the revenue position of the HRA and is summarised below:

Description	2017/18 £000s
Capital Programme 2017-18	
External Improvements	7,470
Internal Works	4,300
Major Projects	8,092
Environmental Improvements	1,775
Structural Works and Compliance	550
Disabled Adaptations	1,300
IT Development	500
New Build / Buy Backs / RTB 141 receipts	11,027
Total HRA Capital Programme	**35,014**
Funding Source:	
Major Repairs Reserve/Depreciation	13,437
Capital Receipts - Right to Buy (excluding 1-4-1)	1,569
Capital Receipts - RTB 1-4-1 Receipts	3,107
Revenue/Earmarked Reserve	8,671
Section 106 - New Build	630
Additional Borrowing Cap re New Build	7,600
Total Funding	**35,014**

Full details of the Medium Term Financial Plan and the budgets that have been set for 2017/18 can be found on the Council's website here:
http://www.northamptonboroughcouncil.com/councillors/ieListDocuments.aspx?CId=242&MId=8162

VALUE FOR MONEY STATEMENT

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

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

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

- An Efficiency Plan and a specific officer board focussed on the delivery of the Efficiency Plan
- Performance Management reporting
- Procurement rules that ensure VfM is delivered through the Councils procurement of goods and services
- A Governance Action Plan to ensure that proper and effective governance happens in practice at all times.

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

FURTHER INFORMATION

For information please contact:

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

You have the right to inspect our accounts each year before the external audit is completed. We advertise the dates during which you can inspect the accounts in the local press. Our accounts are audited by KPMG LLP. They are the auditors appointed by the Audit Commission.

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

The Authority's Responsibilities

The Authority is required to:

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

The Chief Financial Officer

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

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

Certificate

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31st March 2017.

Stuart McGregor –Chief Finance Officer
Date:

Approval by Audit Committee

I confirm that these audited accounts were approved by the Audit Committee at the meeting held on 28th January 2019.

Ian Orrell CPFA – Independent Chair of Audit Committee
Date:

A. INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF NORTHAMPTON BOROUGH COUNCIL

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

D1 MOVEMENT IN RESERVES STATEMENT

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

The Statement is shown on the next page.

NORTHAMPTON BOROUGH COUNCIL

Movement in Reserves Statement	General Fund Balance £000s	Earmarked GF Reserves £000s	Housing Revenue Account £000s	Earmarked HRA Reserves £000s	Major Repairs Reserve £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Total Unusable Reserves £000s	Total Authority Reserves £000s
	Single Entity Accounts									
Balance at 31 March 2015 Brought forward	**-5,470**	**-27,127**	**-5,000**	**-19,830**	**-9,288**	**-11,972**	**-5,064**	**-83,751**	**-165,894**	**-249,646**
Movement in reserves during 2015/16										
Total Comprehensive Expenditure and Income	**10,350**	**0**	**-19,989**	**0**	**0**	**0**	**0**	**-9,637**	**-33,977**	**-43,614**
Adjustments between accounting basis and funding basis under regulations **(Note 2)**	-5,888	0	21,609	0	9,288	1,020	472	26,500	-26,500	0
Transfers (to)/from Earmarked Reserves **(Note 3)**	-4,464	4,464	-1,619	1,619	0	0	0	0	0	0
(Increase) / Decrease in Year	**-2**	**4,464**	**1**	**1,619**	**9,288**	**1,020**	**472**	16,862	**-60,477**	**-43,615**
Balance at 31 March 2016 Carried forward	**-5,472**	**-22,663**	**-4,999**	**-18,211**	**0**	**-10,952**	**-4,592**	**-66,888**	**-226,373**	**-293,261**
Movement in reserves during 2016/17										
(Surplus) or deficit on provision of services **(Note D5)**	5,044	0	-81,376	0	0	0	0	-76,332	0	-76,332
Other Comprehensive Expenditure and Income **(Note 1b)**	0	0	0	0	0	0	0	0	-19,572	-19,572
Total Comprehensive Expenditure and Income	**5,044**	**0**	**-81,376**	**0**	**0**	**0**	**0**	**-76,332**	**-19,572**	**-95,904**
Net (Increase)/Decrease before transfers	**5,044**	**0**	**-81,376**	**0**	**0**	**0**	**0**	**-76,332**	**-19,572**	**-95,904**
Adjustments between accounting basis and funding basis under regulations **(Note 2)**	-7,596	0	88,527	0	-12	-1,554	1,285	80,651	-80,651	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**-2,552**	**0**	**7,151**	**0**	**-12**	**-1,554**	**1,285**	**4,318**	**-100,223**	**-95,905**
Transfers (to)/from Earmarked Reserves **(Note 3)**	2,519	-2,519	-7,151	7,151	0	0	0	0	0	**0**
(Increase) / Decrease in Year	**-33**	**-2,519**	**0**	**7,151**	**-12**	**-1,554**	**1,285**	**4,319**	**-100,223**	**-95,904**
Balance at 31 March 2017 Carried forward	**-5,505**	**-25,182**	**-4,999**	**-11,060**	**-12**	**-12,506**	**-3,307**	**-62,567**	**-326,596**	**-389,165**

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D2 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. This statement does not show in detail the amount of funding from local taxes and general government grants. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Notes to the Core Financial Statements.

The statement is shown on the next page.

2015/16 Restated Gross Expenditure £000s	2015/16 Restated Gross Income £000s	2015/16 Restated Net Expenditure £000s	COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	2016/17 Gross Expenditure £000s	2016/17 Gross Income £000s	2016/17 Net Expenditure £000s
			INCOME AND EXPENDITURE ON SERVICES			
7,164	-3,666	3,498	Regeneration, Enterprise & Planning	9,386	-2,329	7,057
56,623	-83,386	-26,763	Housing	71,960	-162,202	-90,242
3,394	-891	2,503	Borough Secretary	3,377	-1,062	2,315
29,384	-15,651	13,733	Customers & Communities	33,123	-14,857	18,266
9,814	-2,139	7,675	Central Service Budgets	9,220	-1,815	7,405
84,523	-75,893	8,630	Corporate Budgets	68,726	-71,100	-2,374
190,902	**-181,626**	**9,276**	**COST OF SERVICES**	**195,792**	**-253,365**	**-57,573**
11,970	-8,394	3,576	Other Operating Expenditure **(Note 1c)**	4,246	-2,580	1,666
17,528	-7,097	10,431	Financing and Investment Income and Expenditure **(Note 1d)**	16,336	-1,854	14,482
33,024	-65,945	-32,921	Taxation and Non-Specific Grant Income **(Note 1e)**	0	-34,906	-34,906
		-9,638	**(Surplus) or Deficit on Provision of Services**			**-76,331**
		-8,735	Surplus or deficit on revaluation of Property, Plant and Equipment assets **(Note 1b)**			-44,872
		0	Impairment Losses on non-current assets charged to the revaluation reserve.			0
		0	Surplus or deficit on revaluation of available for sale financial assets - Generally movement in Available for Sale FI's			0
		-25,242	Actuarial gains / losses on pension assets/liabilities			25,299
		-33,977	**Other Comprehensive Income and Expenditure (Note 1b)**			**-19,573**
		-43,615	**TOTAL COMPREHENSIVE INCOME AND EXPENDITURE**			**-95,904**

The Taxation and Non-Specific Grant Income for 2016/17 figure of £34.9m reflects that NBC received £68.4m in NNDR (business rates), Council Tax and Non-Specific Grant Income of which £33.5m was re-paid to Central Government in the form of Tariff and Levy Payments. Note 1e provides a further breakdown of this amount. The presentation in the CIES for 2016/17 differs to the prior year as the business rates, tariff and levy payments are presented net at £34.9m as the tariff and levy payments are considered to be funding adjustments rather than pure expenditure. This differs to the presentation in the 2015/16 prior year where the tariff and levy amounts were presented as expenditure. For future years the funding will be shown net and will therefore be presented consistently between years in the CIES.

D3 BALANCE SHEET

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

31st March 2016 £000s	Balance Sheet	31st March 2017 £000s	Notes
548,865	Property, Plant & Equipment	669,579	4
32,364	Heritage Assets	35,893	5
6,752	Investment Property	12,150	6
721	Intangible Assets	291	16
0	Long Term Investments	0	7a
51,193	Long Term Debtors	50,360	9
639,895	**Long Term Assets**	**768,273**	
38,122	Short Term Investments	29,579	7g
19,626	Short Term Available for Sale Financial Instruments	9,037	7g
1,162	Assets Held for Sale	1,159	11
47	Inventories	39	
18,656	Short Term Debtors	20,478	9
7,603	Cash and Cash Equivalents	13,088	10
85,216	**Current Assets**	**73,380**	
-7,444	Short Term Borrowing	-3,113	7e
-31,698	Short Term Creditors	-33,745	12
-4,058	Provisions	-5,026	13
-43,201	**Current Liabilities**	**-41,884**	
-10,148	Long Term Creditors	-10,216	22
-53	Provisions	-30	13
-260,337	Long Term Borrowing	-257,558	7f
-118,111	Other Long Term Liabilities	-142,802	25b/28
-388,649	**Long Term Liabilities**	**-410,606**	
293,261	**Net Assets**	**389,163**	
66,888	Usable Reserves	62,567	MiRS
226,373	Unusable Reserves	326,596	15a
293,261	**Total Reserves**	**389,163**	

D4 CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2015/16 £000s	Cashflow Statement	2016/17 £000s
9,637	Net Surplus or (deficit) on the provision of services (Note D5a)	76,332
26,324	Adjustment to surplus or deficit on the provision of services for noncash movements (Note 34)	-45,175
-8,870	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Notes 34)	-4,868
27,091	**Net Cashflows from Operating Activities**	**26,289**
-86,476	Net Cashflows from Investing Activities (Note 36)	-13,554
47,662	Net Cashflows from Financing Activities (Note 37)	-7,250
-11,723	**Net increase or decrease in cash and cash equivalents**	**5,485**
19,326	Cash and Cash Equivalents at the Beginning of the Reporting Period (Note 10)	7,603
7,603	**Cash and Cash Equivalents at the End of the Reporting Period**	**13,088**

D5a. EXPENDITURE AND FUNDING ANALYSIS (EFA)

The Expenditure and Funding Analysis demonstrates how the funding available to the Council for the year 2016/17 (i.e. government grants, rents, Council Tax and Business Rates) has been used to provide services in comparison with those resources consumed or earned under generally accepted accounting practice (GAAP). The Expenditure and Funding analysis also shows how this expenditure is allocated for decision-making purposes between the Council's directorates. Income and expenditure accounted for under GAAP is presented more fully in the Comprehensive Income and Expenditure Statement.

Expenditure Chargeable to the General Fund and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000	EXPENDITURE AND FUNDING ANALYSIS	Expenditure Chargeable to the General Fund and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000
1,353	2,145	3,498	Regeneration, Enterprise & Planning	4,677	2,380	7,057
-26,873	110	-26,763	Housing	-14,286	-75,956	-90,242
2,369	133	2,502	Borough Secretary	2,030	284	2,314
10,326	3,407	13,733	Customers & Communities	9,257	9,010	18,267
7,587	88	7,675	Central Service Budgets	7,301	103	7,404
2,408	6,223	8,631	Corporate Budgets	-2,456	82	-2,374
-2,830	**12,106**	**9,277**	**Net Cost of Services**	**6,523**	**-64,097**	**-57,573**
8,914	-27,828	-18,914	Other Income and Expenditure	-1,923	-16,836	-18,759
6,084	**-15,722**	**-9,637**	**(Surplus)/Deficit on Provision of Services**	**4,600**	**-80,933**	**-76,332**
-57,427			Opening GF and HRA balances	-51,344		
6,083			Less Deficit/(Surplus) on General Fund and HRA balance in year	4,600		
-51,344			**Closing General Fund and HRA balances**	**-46,744**		

2015/16					2016/17			
PENSIONS	CAPITAL	OTHER	TOTAL	EFA Breakdown of Adjustments	PENSIONS	CAPITAL	OTHER	TOTAL
Retirement Benefits £'000	Total Capital Adjustments £'000	Financial Instruments & Collection Fund £'000	Total Adjustments in year £'000		Retirement Benefits £'000	Total Capital Adjustments £'000	Financial Instruments & Collection Fund £'000	Total Adjustments in year £'000
296	2,746	-896	2,146	Regeneration, Enterprise & Planning	397	1,984	0	2,380
123	-14	0	109	Housing	221	-76,177	0	-75,956
125	8	0	133	Borough Secretary	199	85	0	284
612	2,795	0	3,407	Customers & Communities	960	8,050	0	9,010
0	88	0	88	Central Service Budgets	0	103	0	103
-4,235	10,458	0	6,223	Corporate Budgets	0	82	0	82
3,560	-25,265	-6,122	-27,827	Other Income and Expenditure from the Funding Analysis	-2,303	-14,842	309	-16,836
481	-9,184	-7,018	-15,721	Total	-526	-80,715	309	-80,933

Notes to Expenditure and Funding Analysis

Adjustments for Capital purposes

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

- For *Other Operating expenditure* – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- For *Financing and investment income and expenditure* – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure, as these are not chargeable under generally accepted accounting practices.
- For *Taxation and non-specific grant income and expenditure* – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for Pensions Adjustments

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

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

Other Adjustments

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

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

Expenditure and Income Analysed by Nature

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

2015/16 £'000	Expenditure /Income	2016/17 £'000
	Expenditure	
12,666	Employee Benefits expenses	12,615
205,327	Other Services expenses	236,191
3,506	Support Services Recharges	3,919
21,464	Depreciation, Amortisation, Impairment	44,070
17,528	Interest Payments	16,336
1,001	Precepts and Levies	1,024
1,091	Payments to Housing Capital Receipts Pool	1,148
-9,209	(Gain)/Loss on disposal of assets	-98,929
253,374	**Total Expenditure**	**216,374**
	Income	
-223,000	Fees, Charges and other service income	-255,946
-7,090	Interest and investment income	-1,854
-20,753	Income from council tax and non-domestic rates	-22,705
-12,169	Government Grants and contributions	-12,201
-263,012	**Total Income**	**-292,706**
-9,638	**Surplus or deficit on the provision of services**	**-76,332**

1a. MATERIAL ITEMS OF INCOME AND EXPENSE

For the financial year 2016/17, NBC had three material items of income and expense.

1) The first item relates to a contract to carry out the councils Environmental Services (Waste Collection, Street Cleaning, Parks etc.) The contract cost in relation to this item in 2016/17 was £6.6m (2015/16 £6.6m).

2) The second item relates to the contract with LGSS to cover the majority of the councils back office functions (H.R., Finance, ICT and HR etc.) The contract cost in relation to this item in 2016/17 was £8.0m (2015/16 was £7.59m).

3) The following expenditure on Housing Benefits has also been made:

Rent Allowances of £38m (2015/16 £40.35m)

Rent Rebates of £30.4m (2015/16 £30.99m)

The grant income from DWP in respect of this expenditure is disclosed within Note 38.

1b. OTHER COMPREHENSIVE INCOME AND EXPENDITURE

2015/16 £000s	Other Comprehensive Income & Expenditure	2016/17 £000s
	Revaluation Reserve	
-6,507	General Fund Revaluation Gains	-8,025
763	General Fund Revaluation Losses	3,568
-3,052	HRA Revaluation Gains	-40,473
61	HRA Revaluation Losses	58
-8,735	**Total**	**-44,872**
-25,242	**Actuarial Gains & Losses to the Pensions Reserve**	**25,299**
-33,977	**Other Comprehensive Expenditure and Income**	**-19,573**

1c. OTHER OPERATING EXPENDITURE

2015/16 £000s	Other Operating Expenditure	2016/17 £000s
1,022	Parish council precepts	1,024
-21	Levies	0
1,091	Payments to the Government Housing Capital Receipts Pool	1,148
308	Trading	-794
1,176	Gains/Losses on the disposal of non-current assets	288
3,576	**Total**	**1,666**

1d. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2015/16 £000s	Financing And Investment Income And Expenditure	2016/17 £000s
7,385	Interest payable and similar charges	8,270
4,501	Pensions interest cost and expected return on pensions assets	4,041
-1,155	Interest receivable and similar charges	-1,885
-300	Income and expenditure in relation to investment properties and changes in their fair value	4,056
10,431	**Total**	**14,482**

1e TAXATION AND NON-SPECIFIC GRANT INCOME

2015/16 £000s	Taxation And Non Specific Grant Income	2016/17 £000s
-14,508	Council tax income	-14,770
-39,267	Retained Rates	-40,473
-1,674	Capital grants and contributions	-2,968
-4,944	Revenue Support Grant	-3,256
-4,023	Non-ring fenced government grants	-4,981
-1,528	Section 31 grants	-996
-1	Other NNDR related transactions	-982
32,727	Tariff Payment	33,000
297	Levy Payment	520
-32,921	**Total**	**-34,906**

2 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

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

2016/17	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non-current assets	-4,843	-25,248		-13,898			-43,989	43,989
Impairment - Long Term Debtor							0	0
Revaluation gains on PPE	1,593	104,424					106,017	-106,017
Revaluation losses on Property Plant and equipment	-6,799	-1,696					-8,495	8,495
Movements in the market value of Investment properties	1,259	67					1,326	-1,326
Amortisation of Intangible assets	-175	0					-175	175
Capital Grants & contributions applied (if any)	4,203	0					4,203	-4,203
Income in relation to donated assets if any	0	0					0	0
Revenue expenditure funded from capital under statute	-3,919	0					-3,919	3,919
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement	-634	-6,920					-7,554	7,554
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement								
Statutory provision for the financing of capital investment							0	0
Capital expenditure charged against the General Fund and HRA balances	1,299	0					1,299	-1,299
Balance of MRA	1,350	11,513					12,863	-12,863
Total Adjustments primarily involving the Capital Adjustment Account	**-6,666**	**82,141**	**0**	**-13,898**	**0**	**0**	**61,576**	**-61,576**

2016/17	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0					48	48	-48
Application of grants to capital financing transferred to the Capital Adjustment Account						1,237	1,237	-1,237
Total Adjustments primarily involving the Capital Grants Unapplied Account	**0**	**0**	**0**	**0**	**0**	**1,285**	**1,285**	**-1,285**
Adjustments primarily involving the Capital Receipts Reserve:								
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	7,429	0	0	-7,429	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	4,556	0	4,556	-4,556
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	-163	0	0	163	0	0	0
Contribution from the Capital Receipts Reserve to finance payments to Government Capital Receipts pool	-1,148	0	0	0	1,148	0	0	0
Transfer from Deferred Capital receipts Reserve upon receipt of cash	0	0	0	0	9	0	9	-9
Total Adjustments primarily involving the Capital Receipts Reserve	**-1,148**	**7,266**	**0**	**0**	**-1,553**	**0**	**4,565**	**-4,565**
Adjustment primarily involving the Major Repairs Reserve:								
Reversal of major Repairs Allowance credited to the HRA	0	-878	0	878	0	0	0	
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	13,008	0	0	13,008	-13,008
Total Adjustment primarily involving the Major Repairs Reserve	**0**	**-878**	**0**	**13,886**	**0**	**0**	**13,008**	**-13,008**

2016/17	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Financial Instruments Adjustment Account: Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	56	0	0	0	0	0	56	-56
Adjustments primarily involving the Pensions Reserve: Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	-5,820	-3	0	0	0	0	-5,823	5,823
Employer's pensions contributions and direct payments to pensioners payable in the year	6,347	2	0	0	0	0	6,349	-6,349
Total Adjustments primarily involving the Pensions Reserve	**527**	**-1**	**0**	**0**	**0**	**0**	**526**	**-526**
Adjustments primarily involving the Collection Fund Adjustment Account: Amount by which council tax income and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non-domestic rating income calculated for the year in accordance with statutory requirements	-365	0	0	0	0	0	-365	365
Adjustment primarily involving the Accumulated Absences Account: Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0
Total Adjustments	**-7,596**	**88,528**	**0**	**-12**	**-1,553**	**1,285**	**80,651**	**-80,651**

2015/16	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non-current assets	-2,565	0	0	-8,680	0	0	-11,245	11,245
Impairment of Long Term debtors	-10,219	0	0	0	0	0	-10,219	10,219
Revaluation gains on PPE	2,149	24,055	0	0	0	0	26,204	-26,204
Revaluation losses on PPE	-3,059	-13,806	0	0	0	0	-16,865	16,865
Movements in the market value of Investment properties	-134	5	0	0	0	0	-129	129
Amortisation of Intangible assets	-326	0	0	0	0	0	-326	326
Capital Grants & contributions applied (if any)	2,676	0	0	0	0	0	2,676	-2,676
Income in relation to donated assets if any	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	-3,502	0	0	0	0	0	-3,502	3,502
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement	-731	-6,917	0	0	0	0	-7,648	7,648
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement								
Statutory provision for the financing of capital investment	1,262	0	0	0	0	0	1,262	-1,262
Capital expenditure charged against the General Fund and HRA balances	1,830	9,424	0	0	0	0	11,255	-11,255
Balance of MRA							0	0
Total Adjustments primarily involving the Capital Adjustment Account	**-12,619**	**12,761**	**0**	**-8,680**	**0**	**0**	**-8,539**	**8,539**

2015/16	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-269	0	0	0	0	269	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	203	203	-203
Total Adjustments primarily involving the Capital Grants Unapplied Account	**-269**	**0**	**0**	**0**	**0**	**472**	**203**	**-203**
Adjustments primarily involving the Capital Receipts Reserve:								
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,609	4,994	0	0	-6,602	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	6,416	0	6,416	-6,416
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	-131	0	0	131	0	0	0
Contribution from the Capital Receipts Reserve tofinance payments to Government Capital Receipts pool	-1,091	0	0	0	1,091	0	0	0
Transfer from Deferred Capital receipts Reserve upon receipt of cash	0	0	0	0	-15	0	-15	15
Total Adjustments primarily involving the Capital Receipts Reserve	**517**	**4,863**	**0**	**0**	**1,021**	**0**	**6,401**	**-6,401**
Adjustment primarily involving the Major Repairs Reserve:								
Reversal of major Repairs Allowance credited to the HRA	0	3,930	0	-3,930	0	0	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	21,898	0	0	21,898	-21,898
Total Adjustment primarily involving the Major Repairs Reserve	**0**	**3,930**	**0**	**17,968**	**0**	**0**	**21,898**	**-21,898**

2015/16	General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Reserves £000s	Major Repairs Reserve £000s	Capital receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Movement in Unusable Reserves £000s
Adjustments primarily involving the Financial Instruments Adjustment Account: Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	925	0	0	0	0	0	925	-925
Adjustments primarily involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	-6,574	-7	0	0	0	0	-6,581	6,581
Employer's pensions contributions and direct payments to pensioners payable in the year	6,038	62	0	0	0	0	6,100	-6,100
Total Adjustments primarily involving the Pensions Reserve	**-536**	**55**	**0**	**0**	**0**	**0**	**-481**	**481**
Adjustments primarily involving the Collection Fund Adjustment Account: Amount by which council tax income and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non-domestic rating income calculated for the year in accordance with statutory requirements	6,093	0	0	0	0	0	6,093	-6,093
Adjustment primarily involving the Accumulated Absences Account: Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0
Total Adjustments	**-5,888**	**21,609**	**0**	**9,288**	**1,020**	**472**	**26,500**	**-26,500**

3. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2016/17.

Earmarked Reserve	Balance at 31 March 2015 £000s	Additions to Reserve 2015/16 £000s	Use Of Reserve 2015/16 £000s	Balance at 31 March 2016 £000s	Realignment of Reserves October 2016	Additions to Reserve 2016/17 £000s	Use Of Reserve 2016/17 £000s	Balance at 31 March 2017 £000s
General Fund								
General Revenue Grants (Ringfenced)	3,105	2	-538	2,570	-982	30	-368	1,250
S106 Contributions	2,479	53	-285	2,248	0	70	-134	2,184
Total Ringfenced Grants & Contributions	**5,583**	**55**	**-823**	**4,816**	**-982**	**100**	**-502**	**3,432**
Borough Secretary Reserves	237	0	-137	100	-100	0	0	0
Customers and Communities Reserves	2,353	-170	-130	2,053	-803	150	-370	1,030
Regeneration, Enterprise and Planning Res.	2,619	-1,075	-287	1,257	-168	400	-925	564
Housing Reserves	172	158	0	330	0	103	0	433
Total Service Related Reserves	**5,381**	**-1,087**	**-554**	**3,740**	**-1,071**	**653**	**-1,295**	**2,027**
MTFP Cashflow	2,961	1,785	-23	4,723	-1,713	4,172	-1,420	5,762
Delivering the Efficiency Plan	1,977	1,228	-1,273	1,932	4,515	854	-200	7,101
Strategic Investment Reserve	1,362	2,915	-559	3,718	-823	74	-118	2,851
Other Corporate Reserves	1,968	-359	-515	1,094	534	330	-1,182	776
Total Corporate Reserves	**8,268**	**5,569**	**-2,370**	**11,467**	**2,513**	**5,430**	**-2,920**	**16,490**
Insurance Reserve	1,763	0	-547	1,216	0	54	-243	1,027
Rates Retention Deficit Funding	4,850	882	-5,214	518	-1	1,963	-517	1,963
Other Technical Reserves	1,284	-230	-145	909	-459	0	-203	247
Total Technical Reserves	**7,897**	**652**	**-5,906**	**2,643**	**-460**	**2,017**	**-963**	**3,237**
Total General Fund	**27,129**	**5,189**	**-9,653**	**22,666**		**8,200**	**-5,680**	**25,186**
HRA								
HRA Reserves	**17,067**	0	-1,621	**15,446**	0	0	-7,151	**8,295**
HRA Supporting People Reserve	**558**	0	0	**558**	0	0	0	**558**
HRA Reform Reserve	**8**	0	0	**8**	0	0	0	**8**
HRA Leaseholder Reserve	**500**	0	0	**500**	0	0	0	**500**
HRA Service Improvement Reserve	**1,395**	0	0	**1,395**	0	0	0	**1,395**
HRA Insurance Reserve	**300**	0	0	**300**	0	0	0	**300**
Total HRA	**19,830**	**0**	**-1,621**	**18,209**		**0**	**-7,151**	**11,058**
Total Earmarked Reserves	**46,959**	**5,189**	**-11,274**	**40,875**		**8,200**	**-12,831**	**36,244**

General Revenue Grants (Ring-fenced)

The reserve contains grants which have been received but not spent but which are ring-fenced for a specific purpose in future years.

S106 Contributions

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

Service Related Reserves

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

Strategic Investment Reserve

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

Delivering the Efficiency Plan

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

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

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

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

HRA Earmarked Reserves

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

4. PROPERTY, PLANT AND EQUIPMENT

a) Movement

Movements in 2016/17	Council Dwellings £000s	Housing Land and Buildings £000s	Other Land and Buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infra-structure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construct -ion £000s	Total Property, Plant and Equipment £000s
Cost or Valuation									
At 1st April 2016.	**427,900**	**20,780**	**83,521**	**1,236**	**2,530**	**14,148**	**330**	**8,587**	**559,032**
Additions	28,470	0	3,332	816	0	279	70	766	**33,733**
Donations	0	0	0	0	0	0	0	0	**0**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	35,786	361	3,833	0	0	0	46	0	**40,026**
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	97,913	-60	-5,171	0	0	0	-66	0	**92,616**
Derecognition – disposals	-5,514	-93	-23	-2	0	0	0	0	**-5,632**
Derecognition – other	-1,529	0	-579	0	0	0	0	0	**-2,108**
Assets reclassified (to) / from investment	0	0	-4,015	0	0	0	0	0	**-4,015**
Other movements in cost or valuation	-791	-421	0	16	0	43	1,170	0	**17**
At 31 March 2017	**582,235**	**20,567**	**80,898**	**2,066**	**2,530**	**14,470**	**1,550**	**9,353**	**713,669**
Accumulated Depreciation and Impairment									
At 1 April 2016	**-6,053**	**-310**	**-2,682**	**-372**	**-493**	**-252**	**-5**	**0**	**-10,167**
Depreciation Charge	-13,472	-410	-1,539	-337	-74	-158	-16	0	**-16,006**
Depreciation written out to the revaluation reserve	4,038	199	607	0	0	0	0	0	**4,844**
Depreciation written out to the Surplus/Deficit on the Provision of Services	8,076	3	31	0	0	0	0	0	**8,110**
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	**0**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-28,451	0	-2,644	0	0	0	0	0	**-31,095**
Derecognition – Disposals	115	2	0	2	0	0	0	0	**119**
Derecognition – other	101	0	4	0	0	0	0	0	**105**
Other Movements	8	14	0	0	0	-2	-20	0	**0**
At 31 March 2017	**-35,638**	**-502**	**-6,223**	**-707**	**-567**	**-412**	**-41**	**0**	**-44,090**
Net Book Value									
At 31 March 2016	**421,847**	**20,470**	**80,839**	**864**	**2,037**	**13,896**	**325**	**8,587**	**548,865**
At 31 March 2017	**546,597**	**20,065**	**74,675**	**1,359**	**1,963**	**14,058**	**1,509**	**9,353**	**669,579**

Movements in 2015/16	Council Dwellings £000s	Housing Land and Buildings £000s	Other Land and Buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant and Equipment £000s
Cost or Valuation									
At 1st April 2015	**397,631**	**18,826**	**80,672**	**728**	**2,530**	**13,883**	**580**	**4,531**	**519,381**
Additions	33,521	120	1,401	359	0	266	66	4,056	**39,789**
Donations	0	0	0	0	0	0	0	0	**0**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	765	1,717	5,173	157	0	0	1	0	**7,813**
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	2,615	155	-3,315	0	0	0	-202	0	**-747**
Derecognition – disposals	-3,482	-38	-226	-8	0	0	0	0	**-3,754**
Derecognition – other	-3,150	0	0	0	0	0	0	0	**-3,150**
Assets reclassified (to) / from Held for sale	0	0	-184	0	0	-1	-115	0	**-300**
Other movements in cost or valuation	0	0	0	0	0	0	0	0	**0**
At 31 March 2016	**427,900**	**20,780**	**83,521**	**1,236**	**2,530**	**14,148**	**330**	**8,587**	**559,032**
Accumulated Depreciation and Impairment									
At 1 April 2015	**-5,053**	**-879**	**-3,577**	**-166**	**-419**	**-90**	**-9**	**0**	**-10,193**
Depreciation Charge	-8,307	-371	-1,800	-436	-74	-162	-2	0	**-11,152**
Depreciation written out to the revaluation reserve	0	0	0	0	0	0	0	0	**0**
Depreciation written out to the Surplus/Deficit on the Provision of Services	7,046	940	2,691	225	0	0	7	0	**10,909**
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	**0**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	**0**
Derecognition – Disposals	90	0	4	5	0	0	0	0	**99**
Derecognition – other	171	0	0	0	0	0	0	0	**171**
Other Movements	0	0	0	0	0	0	0	0	**0**
At 31 March 2016	**-6,053**	**-310**	**-2,682**	**-372**	**-493**	**-252**	**-4**	**0**	**-10,166**
Net Book Value									
At 31 March 2015	**392,578**	**17,947**	**77,095**	**562**	**2,111**	**13,793**	**571**	**4,531**	**509,188**
At 31 March 2016	**421,847**	**20,470**	**80,839**	**864**	**2,037**	**13,896**	**325**	**8,587**	**548,865**

b) Depreciation

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

c) Revaluations

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

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

The significant assumptions applied in estimating values are:

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

	Council Dwellings £000s	Housing Land & Build. £000s	Other Land & Build. £000s	Vehicles, Plant, Furniture & Equip. £000s	Surplus Assets £000s	Total £000s
Valued at fair value in:						
2016/17	569,544	3,973	63,141	21	1,270	**637,949**
2015/16	7,981	16,416	5,495	173	0	**30,065**
2014/15	245	59	7,627	1,834	216	**9,981**
2013/14	567	61	3,353	0	0	**3,981**
2012/13	3,897	57	1,279	38	33	**5,304**
Previous Years	0	0	0	0	31	**31**
Total	**582,234**	**20,566**	**80,895**	**2,066**	**1,550**	**687,311**

d) Information on Assets Held

31 March 2016 Number	Information on Assets Held	31 March 2017 Number
	Operational Assets	
11,786	**Council Dwellings**	11,584
	Housing Land and Building	
3,112	Council Garages	3,048
79	Shared Ownership Properties	77
66	Operational Shops	66
26	Council Houses not used as dwellings - Community Rooms	19
28	Commercial Property (Units)	28
	Other Land and Buildings	
25	Community Centres	25
21	Other Operational Properties	21
17	Surface Pay & Display Car Parks	17
5	Multi-Storey Pay & Display Car Parks	5
1	Bus Station	1
1	Depots	1
14	Sub-Depots	14
3	Central Administrative Offices	3
1	Local Area Offices	1
1	Open Markets	1
1	Museums	1
2	Theatres, Cinepod	3
1	Golf Course	1
7	Sports & Leisure Facilities	7
7	Pavilions	7
1	Travellers Site	1
8	Public Conveniences	8
94	Commercial Property (Units)	93
65.97ha	Agricultural Land	65.97ha
62.88ha	Allotments	62.88ha
83	**Infrastructure**	83
151	**Vehicles, Plant and Equipment**	150
	Community Assets	
8	Cemeteries	8
2	Monuments/Memorials/Exhibitions	2
1	Guildhall	1
1	Historical Buildings	1
0	Commercial Property (Units)	1
925.53ha	Parks and Open Spaces	925.53ha
	Heritage Assets	
164	Museum Exhibits	164
123	Guildhall Contents	123
38	Buildings & Statuary	38
15	Mayoral Regalia	15
	Investment Assets	
15	Land	16
16	Properties	17
42	Units	42
5	**Assets held for Sale**	5
	Surplus Assets	
3	Residential Land held for Development	94
12	Commercial Property (Units)	11
6	Other Surplus Assets	6
50	**Intangible Assets**	51

e) Donated Assets

No donated assets were received during 2016/17.

No donated assets were received during 2015/16.

f) Commitments under Capital Contracts

As at 31st March 2017, there are no material commitments under existing capital contracts.

5. HERITAGE ASSETS

Reconciliation of the heritage assets held by the Authority:

Movements in 2016/17	Historic Buildings& Statuary £000s	Museum Exhibits £000s	Mayoral Regalia £000s	Guildhall Artefacts £000s	Total Heritage Assets £000s
Cost or Valuation					
1 April 2016	**9,050**	**21,718**	**48**	**1,932**	**32,748**
Additions	3,620	0	0	0	**3,620**
31 March 2017	**12,670**	**21,718**	**48**	**1,932**	**36,368**
Accumulated Depreciation and Impairment					
1 April 2016	**-384**	**0**	**0**	**0**	**-384**
Depreciation Charge	-91	0	0	0	**-91**
31 March 2017	**-475**	**0**	**0**	**0**	**-475**
Net Book Value					
at 31 March 2016	**8,666**	**21,718**	**48**	**1,932**	**32,364**
at 31 March 2017	**12,195**	**21,718**	**48**	**1,932**	**35,893**

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

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

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

Guildhall Artefacts

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

Enhancements of Heritage Assets

Enhancements on Heritage Assets reflect improvement works undertaken at Delapre Abbey and restorations to various artworks.

6. INVESTMENT PROPERTIES

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

2015/16 £000s	Investment Properties	2016/17 £000s
473	Rental income from investment property	494
-44	Direct operating expenses arising from investment property	-51
429	**Net gain / (loss)**	**443**

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

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

2015/16 £000s	Investment Property Valuations	2016/17 £000s
7,295	**Balance at start of the year**	**6,752**
	Additions:	
1	Construction	
-415	Subsequent expenditure	60
-129	Net gains/losses from fair value adjustments	1,323
	Disposals	
	Transfers:	
0	to/from Property, Plant and Equipment	4,015
6,752	**Balance at end of year**	**12,150**

7. FINANCIAL INSTRUMENTS

a) Categories of Financial Instruments

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

Categories of Financial Instruments	Long-Term		Current	
	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s
Investments				
Loans and receivables	0	0	45,726	42,667
Available for sale financial assets	0	0	19,626	9,037
Debtors				
Loans and receivables	51,193	50,360	10,450	9,937
Borrowings				
Financial Liabilities at amortised cost	-260,337	-257,558	-7,444	-3,113
Other Long Term Liabilities				
PFI and finance leases	-192	-28	0	0
Creditors				
Financial Liabilities at amortised cost	-10,148	-10,215	-15,125	-16,223

b) Reclassifications

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

c) Income, Expense, Gains, and Losses

2015/16				Income, Expense, Gains and Losses	2016/17			
Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and Receivables £000s	Financial Assets: Available for Sale £000s	Total £000s		Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and Receivables £000s	Financial Assets: Available for Sale £000s	Total £000s
7,384	0	0	**7,384**	Interest expenditure	8,125	0	0	**8,125**
0	0	6	**6**	Losses on derecognition	0	0	15	**15**
0	1,479	0	**1,479**	Impairment losses	0	542	0	**542**
0	10,219	0	**10,219**	Impairment losses -NTFC	0	0	0	**0**
7,384	**11,698**	**6**	**19,088**	**Total Expense in Surplus or Deficit on the Provision of Services**	**8,125**	**542**	**15**	**8,682**
0	-1,156	0	**-1,156**	Interest income		-1,745		**-1,745**
0	0	-21	**-21**	Increases in fair value			-28	**-28**
0	**-1,156**	**-21**	**-1,177**	**Total Income in Surplus or Deficit on the Provision of Services**	**0**	**-1,745**	**-28**	**-1,773**
7,384	**10,542**	**-15**	**17,911**	**Net gain/(loss) for the year**	**8,125**	**-1,203**	**-13**	**6,909**

The Authority did not have any Assets and Liabilities at Fair Value through Profit and Loss for either 2015/16 or 2016/17.

d) Fair Values of Assets and Liabilities

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

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

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

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

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

Financial Assets measured at fair value				
Recurring fair value measurements	**Input level in fair value hierarchy**	**Input level in fair value hierarchy**	**2015/16 £000s**	**2016/17 £000s**
Available for sale - Certificate of deposits	Level 1	Unadjusted quoted prices in active market for identical shares	19,626	9,037
Total			**19,626**	**9,037**

The Council held £9.1m in Certificates of Deposit at 31 March 2017. The fair value has been calculated by using published price quotations. The fair value of the assets at 31 March 2017 is marginally higher than the carrying amount at the same date because the Authority's portfolio of investments includes a number of fixed rate investments where the interest receivable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2017) attributable to the commitment to receive interest above current market rates.
The Council holds no other available for sale investments.

Items Disclosed on the Balance Sheet at their Carrying Amount

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

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

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

Financial Instruments – Liabilities

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

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

Financial Instruments - Liabilities	31 March 2016		31 March 2017	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
Short Term				
Borrowing	-7,444	-7,522	-3,113	-3,229
Creditors & Receipts in Advance	-15,125	-15,125	-16,223	-16,223
Long Term				
Borrowing	-260,337	-285,950	-257,558	-311,010
Creditors & Receipts in Advance	-10,148	-10,148	-10,215	-10,215
Finance Leases	-192	-192	-28	-28
Financial Liabilities	**-293,246**	**-318,937**	**-287,138**	**-340,705**

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional loss (based on economic conditions at 31st March 2017) arising from a commitment to pay interest to lenders above current market rates.

PWLB loans included above have a carrying value of £249.5m and a fair value of £270.8m. This measures the economic effects of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, as the Debt Management Office provides a transparent approach allowing exit cost to be calculated without undertaking a repayment or transfer it is also appropriate to disclose this exit price.

The exit price reflects the fair value of PWLB loans calculated using early redemptions rates instead of new loan rates. If a value is calculated on this basis the carrying amount of £249.5m would be valued at £318.7m.

Financial Instruments – Assets

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

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

The fair values are as follows:

Financial Instruments - Assets	31 March 2016		31 March 2017	
	Carrying amount £000s	Fair value £000s	Carrying amount £000s	Fair value £000s
Loans & Receivables				
Short Term				
Fixed Term Investments	38,122	38,178	29,579	29,596
Cash and Cash Equivalents	7,603	7,612	13,088	13,093
Debtors	10,450	10,450	9,937	9,937
Long Term				
Long Term Debtors	51,093	51,093	50,250	50,250
Finance Leases	100	100	91	91
Loans & Receivables	107,368	107,433	102,944	102,966

The fair value of the assets at 31 March 2017 is marginally higher than the carrying amount at the same date because the Authority's portfolio of investments includes a number of fixed rate investments where the interest receivable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2017) attributable to the commitment to receive interest above current market rates.

e) Short Term Borrowing

31 March 2016 £000s	Short Term Borrowing	31 March 2017 £000s
120	Billing Parish Council 7 day notice account	130
125	Northampton Volunteer Bureau 7 day notice account	125
27	HCA principal due within 1 year	29
6,582	PWLB Loans principal due within 1 year	2,588
591	Growing Places Fund principle due within 1 year	241
7,445	**Total**	**3,113**

f) Long Term Borrowing

31 March 2016 £000s	Long Term Borrowing	31 March 2017 £000s
	Analysis of loans by type	
242,935	Public Works Loan Board	240,422
9,069	Money Market LOBOs	9,068
1,097	Homes & Communities Agency	1,068
6,163	Growing Places Fund	5,894
1,072	Local Infrastructure Fund	1,105
260,336	**Total**	**257,558**
	Analysis of loans by maturity	
2,863	Maturing in 1-2 years	10,379
50,137	Maturing in 2-5 years	43,673
56,705	Maturing in 5-10 years	30,825
150,631	Maturing in over 10 years	172,681
260,336	**Total**	**257,558**

g) Investments

31 March 2016 £000s	Investment Type	31 March 2017 £000s
	Included in Cash and Cash Equivalents	
5,250	Deposit and Call Accounts	250
3,145	Money Market Funds	13,700
8,395	**Total - Cash and Cash Equivalents**	**13,950**
	Investments:	
	Current Investments - Under 1 Year	
28,113	Fixed Term Investments	19,572
10,009	Notice Accounts	10,007
	Long Term Investments - Over 1 Year	
0	Fixed Term Investments	0
38,122	**Total - Investments**	**29,579**
	Available for Sale Financial Instruments:	
	Current Investments - Under 1 Year	
19,626	Fixed Term Investments	9,037
19,626	**Total - Available for Sale Financial Instruments**	**9,037**
66,143	**Total**	**52,566**

h) Soft Loans

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

The Council made loans to Northampton Town Football Club (NTFC) to redevelop the Sixfields Stadium at the same interest rate as that available to the Council from the Public Works Loans Board (PWLB). These were assessed as material soft loans. During 2015/16, NTFC became unable to continue the interest and principal repayments on the loans. The loan agreement was terminated and consequently the outstanding loan balance was impaired. See Narrative Report -Significant Events and note 42 – Impairments for details.

2015/16 £000s	Material Soft Loans	2016/17 £000s
14,153	**Balance at 1 April**	4,624
0	Nominal value of new loans granted in year	0
0	Fair value adjustment on initial recognition	0
925	Write down of fair value adjustments in year	29
-235	Loans repaid	-220
-10219	Impairment losses	0
4,624	**Balance at 31 March**	**4,433**

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

8. CONSTRUCTION CONTRACTS

In 2016/17, the Council did not have any external construction contracts in progress.

9. DEBTORS

Debtors	Long-term 31 March 2016 £000s	Long-term 31 March 2017 £000s	Short-term 31 March 2016 £000s	Short-term 31 March 2017 £000s
Central Government Bodies	0	0	8,203	8,016
Less Impairment Allowance	0	0	-3	0
Central Government Bodies	**0**	**0**	**8,200**	**8,016**
Other Local Authorities	0	0	3,508	3,789
Less Impairment Allowance	0	0	-57	-78
Other Local Authorities	**0**	**0**	**3,451**	**3,711**
NHS Bodies	0	0	-3	1
Less Impairment Allowance	0	0	0	0
NHS Bodies	**0**	**0**	**-3**	**1**
Other Entities & Individuals	51,193	50,360	16,863	10,210
Less Impairment Allowance	0	0	-9,856	-1,459
Other Entities & Individuals	**51,193**	**50,360**	**7,007**	**8,751**
TOTAL	**51,193**	**50,360**	**18,655**	**20,479**

The Council has made a number of loans to third parties to support local businesses and regeneration. Details are set out in the table below.

Counterparty	Purpose of loan	Start date	End Date	Initial Loan Value £000s	Amount Outstanding at 31 March 2017 £000s
Cosworth	To fund the acquisition of specialist machinery at their new factory in the Enterprise Zone	01-Jan-14	01-Jan-19	1,400	700
Saints Rugby Club (NTRFC)	To support stadium expansion and associated development	22-Jan-14	22-Jan-39	5,500	4,404
Unity Leisure	To facilitate the purchase a soft play facility in Northampton.	10-Jul-15	10-Jul-20	300	210
University of Northampton	To support the creation of a waterside campus in Northampton.	10-Mar-16	10-Mar-21	28,500	28,500
		10-Mar-16	10-Mar-56	17,500	17,265

NORTHAMPTON BOROUGH COUNCIL

10. CASH AND CASH EQUIVALENTS

31 March 2016 £000s	Cash and Cash Equivalents	31 March 2017 £000s
7	Cash held by the authority	11
7	**Total Cash & Giro Accounts**	**11**
-799	**Operating Account used as part of cash management/ overdraft**	**-873**
5,250	Deposit Account Facilities with banks	250
3,145	Deposits with money market funds	13,700
8,395	**Total Cash Equivalents**	**13,950**
7,603	**Total Cash and Cash Equivalents**	**13,088**

11. CURRENT ASSETS HELD FOR SALE

Current 2015/16 £000s	Assets Held for Sale	Current 2016/17 £000s
1,474	**Balance outstanding at start of year**	**1,162**
	Assets newly classified as held for sale:	
300	Property Plant and Equipment	
-611	Assets sold	0
-1	Other Movements	-3
1,162	**Balance outstanding at year end**	**1,159**

Note: All assets in Held for Sale in 2016/17 are classified as current assets where disposal is anticipated within 12 months.

12. CREDITORS

31 March 2016 £000s	Creditors	31 March 2017 £000s
-10,454	Central Government Bodies	-11,306
-10,359	Other Local Authorities	-10,998
0	Public Corporations and Trading Funds	0
-10,885	Other entities and Individuals	-11,441
-31,698	**Total**	**-33,745**

13. PROVISIONS

Long Term Provisions

Long Term Provisions	Insurance Provision £000s	Other Provisions £000s	Total £000s
Balance at 1 April 2016	**-48**	**-5**	**-53**
Additional Provisions Made	-15	0	-15
Amounts Used	17	0	17
Unused amounts reversed	21	0	21
Balance at 31 March 2017	**-25**	**-5**	**-30**

Short Term Provisions

Short Term Provisions	Insurance Provision £000s	Business Rates Appeals £000s	Accumulated Absences £000s	Total £000s
Balance at 1 April 2016	**-138**	**-3,861**	**-59**	**-4,057**
Additional provisions made	-175	-1,864	0	**-2,039**
Amounts used	75	978	0	**1,053**
Unused amounts reversed	18	0	0	**18**
Unwinding of discounts	0	0	0	**0**
Balance at 31 March 2017	**-220**	**-4,747**	**-59**	**-5,025**

a) Insurance Provision

The provision covers the following risks:

- Liability claims under the policy excess arising from 1992/93 onwards.
- Claims under the policy excess on the Council's own dwellings.

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

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

The estimated cost of outstanding claims is held in the Insurance provision as at 31st March 2017; an actuarial forecast of future valid claims made against 2016/17 and before, is held in the Insurance Reserve.

b) Business Rates Appeals Provision

Following the localisation of the Business Rates Retention Scheme, NBC is now liable for the impact of its share of the effects of any appeals against business rates ratings assessments decided by the Valuation Office Agency (VOA), including the effects of any backdating. The provision at 31st March 2017 is therefore based on the number of appeals that have been made to the VOA at the balance sheet date, spilt between long-term and short-term, depending on when the appeals are expected to be settled. Disclosure has been made in the Contingent Liabilities note (note 29) for other risks associated with appeals.

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

14. USABLE RESERVES

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

15. UNUSABLE RESERVES

a) Balances

31 March 2016 £000s	Unusable Reserves	31 March 2017 £000s
-58,760	Revaluation Reserve	-102,136
436	Financial Instruments Adjustment Account	408
-15	Available for Sale Financial Instruments Reserve	-12
-285,695	Capital Adjustment Account	-367,646
-123	Deferred Capital Receipts Reserve	-132
117,919	Pensions Reserve	142,692
-194	Collection Fund Adjustment Account	171
59	Short Term Compensated Absences Account	59
-226,374	**Total**	**-326,596**

b) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2015/16			Revaluation Reserve	2016/17		
General Fund £000s	Housing Revenue Account £000s	TOTAL £000s		General Fund £000s	Housing Revenue Account £000s	TOTAL £000s
-45,146	**-6,487**	**-51,633**	**Balance at 1 April**	**-50,021**	**-8,738**	**-58,759**
-6,507	-3,052	-9,559	Upward Revaluation of assets	-7,278	-40,473	-47,750
763	61	824	Downward Revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	2,824	58	2,882
-5,743	**-2,991**	**-8,734**	**Surplus or Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**	**-4,454**	**-40,415**	**-44,868**
743	196	939	Difference between fair value depreciation and historical cost depreciation	619	544	1,163
125	544	669	Accumulated gains on assets sold or scrapped	25	305	330
868	**740**	**1,608**	**Amounts written off to the Capital Adjustment Account**	**644**	**849**	**1,493**
-50,021	**-8,738**	**-58,759**	**Balance at 31 March**	**-53,831**	**-48,304**	**-102,135**

c) Financial Instruments Adjustment Account

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

2015/16 £000s	Financial Instruments Adjustments Account	2016/17 £000s
1,362	**Balance as at 1 April**	**436**
0	Transitional Arrangements - Unattached Premia	0
-925	Soft Loans - Statutory Fair Value Adjustments	-29
437	**Balance as at 31 March**	**407**

d) Available for Sale Financial Instruments Reserve

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

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

2015/16 £000s	Available for Sale Financial Instruments Reserve	2016/17 £000s
-6	Balance as at 1 April	-15
-15	Upward Revaluation of Investments	3
-21	**Surplus or Deficit on revaluation of Investments not posted to the Surplus or Deficit on the Provision of Services**	**-12**
6	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure as part of Other Investment Income	0
-15	**Balance as at 31 March**	**-12**

e) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction, or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction, and enhancement. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant, and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 2 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2015/16 General Fund £000s	2015/16 HRA £000s	2015/16 Total £000s	Capital Adjustment Account	2016/17 General Fund £000s	2016/17 HRA £000s	2016/17 Total £000s
-44,276	**-219,833**	**-264,109**	**Balance at 1 April**	**-36,773**	**-248,923**	**-285,695**
			Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
2,565	8,680	11,245	Charges for depreciation and impairment of non current assets	4,924	39,146	44,070
10,219	0	10,219	Impairment of Long Term Debtors			0
3,059	13,806	16,865	Revaluation losses on Property, Plant and Equipment	6,387	1,696	8,083
-2,149	-24,055	-26,204	Revaluation gains on Property, Plant and Equipment	-1,182	-104,424	-105,606
326	0	326	Amortisation of intangible assets	175	0	175
3,502	0	3,502	Revenue expenditure funded from capital under statute	3,919	0	3,919
731	6,917	7,648	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	599	6,920	7,518
18,252	**5,349**	**23,601**	**Total**	**14,822**	**-56,662**	**-41,840**
-868	-740	-1,608	Adjusting amounts written out of the Revaluation Reserve	-644	-849	-1,493
17,384	**4,609**	**21,993**	**Net written out amount of the cost of the Revaluation Reserve**	**14,178**	**-57,511**	**-43,333**
			Capital financing applied in the year:			
-4,045	-2,371	-6,416	Use of the Capital Receipts Reserve to Finance new capital expenditure	-137	-4,418	-4,556
0	-21,898	-21,898	Use of the Major Repairs Reserve to finance new capital expenditure	0	-13,008	-13,008
-2,676	0	-2,676	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital expenditure	-4,251	0	-4,251
-203	0	-203	- Application of grants to capital financing from the Capital Grants Unapplied Account	-1,237	0	-1,237
-1,262	0	-1,262	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	-1,299	0	-1,299
-1,830	-9,424	-11,254	Capital expenditure charged against the General Fund and HRA balances	-1,350	-11,513	-12,863
-10,016	**-33,693**	**-43,709**	**Total**	**-8,274**	**-28,940**	**-37,214**
134	-5	129	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-1,336	-67	-1,403
0	0	0	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0	0	0
-36,773	**-248,923**	**-285,695**	**Balance at 31 March**	**-32,204**	**-335,442**	**-367,646**

f) Deferred Capital Receipts Reserve

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

2015/16 £000s	Deferred Capital Receipts Reserve	2016/17 £000s
-146	**Balance as at 1 April**	**-123**
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0
23	Transfer to the Capital Receipts Reserve upon receipt of cash	-9
-123	**Balance as at 31 March**	**-132**

g) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require a benefit earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2015/16 £000s	Pensions Reserve	2016/17 £000s
142,680	**Balance as at 1 April**	**117,919**
-25,242	Actuarial gains or losses on pension assets and liabilities	25,299
6,581	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of services in the Comprehensive Income and Expenditure Statement	5,823
-6,096	Employer's pensions contributions and direct payments to pensioners payable in the year	-6,297
-4	Pension contribution adjustment	-52
117,919	**Balance as at 31 March**	**142,692**

h) Collection Fund Adjustment Account

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

2015/16 £000s	Collection Fund Adjustment Account	2016/17 £000s
5,899	**Balance as at 1 April**	**-194**
-466	Amounts by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	189
-5,627	Amounts by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	176
-194	**Balance as at 31 March**	**171**

i) Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until cash might be paid out to claimants. The information available at this time is that any further settlements of Unequal Pay Back Pay are unlikely to be made.

j) Short Term Compensated Absences Account

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

2015/16 £000s	Short Term Compensated Absences Account	2016/17 £000s
59	**Balance as at 1 April**	**59**
0	Movements in year	0
59	**Balance as at 31 March**	**59**

16. INTANGIBLE ASSETS

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

2015/16 Other Assets £000s	2015/16 Total £000s	Intangible Assets	2016/17 Other Assets £000s	2016/17 Total £000s
		Balance at start of year		
5,136	5,136	Gross carrying amounts	4,682	4,682
-4,101	-4,101	Accumulated amortisation	-3,961	-3,961
1,035	**1,035**	**Net carrying amount at start of year**	**721**	**721**
100	100	Purchases	9	9
-566	-566	Disposals - Gross Value	0	0
566	566	Disposals - Amortisation	0	0
95	95	Revaluation increases or decreases	0	0
-509	-509	Amortisation for the Period	-439	-439
721	**721**	**Net carrying amount at end of year**	**291**	**291**
		Comprising:		
4,753	4,753	Gross carrying amounts	4,679	4,679
721	**721**	**Net carrying amount at end of year**	**291**	**291**

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £439k charged to revenue in 2016/17 was charged to the appropriate cost centres and then absorbed as an overhead across all the service headings in the Net Expenditure of Services where the original service charged was an overhead. It is not, therefore, possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

17. TRADING ACCOUNTS

The note for this area has been removed in line with the report to Audit Committee 6 March 2017 as not a requirement under the accounting guidelines.

18. POOLED BUDGETS

The note for this area has been removed in line with the report to Audit Committee 6 March 2017 as the numbers are not material.

19. MEMBERS' ALLOWANCES

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

2015/16 £000s	Members' Allowances	2016/17 £000s
	Expenditure	
23	Mayor/Deputy Mayor Allowance	25
404	Members' Allowances	424
427	**Total**	**449**

20. OFFICERS' REMUNERATION

a) Senior Officers

Position	Position Group	Year	Note	Salary (inc Fees & Allowances) £000s	Compensation for loss of Office £000s	Total Remuneration excl Pension Contributions £000s	Pension Contributions £000s	Total Remuneration inc Pension Contributions £000s
Chief Executive	Head of Paid Service	**2016/17**		**140**	**0**	**140**	**19**	**159**
		2015/16		138	0	**138**	20	**158**
Borough Secretary	Monitoring Officer	**2016/17**		**83**	**0**	**83**	**11**	**94**
		2015/16		82	0	**82**	11	**93**
Director of Customers & Communities	Director	**2016/17**		**112**	**0**	**112**	**15**	**127**
		2015/16		111	0	**111**	15	**126**
Director of Regeneration, Enterprise & Planning	Director	**2016/17**	**1**	**4**	**0**	**4**	**1**	**5**
		2016/17	**1**	**55**	**0**	**55**	**7**	**62**
		2015/16		105	0	**105**	14	**119**
Head of Customer & Cultural Services	Head of Service	**2016/17**		**72**	**0**	**72**	**10**	**82**
		2015/16		71	0	**71**	9	**80**
Head of Housing & Wellbeing	Head of Service	**2016/17**		**71**	**0**	**71**	**9**	**80**
		2015/16		71	0	**71**	9	**80**
Head of Planning	Head of Service	**2016/17**		**59**	**0**	**59**	**8**	**67**
		2015/16		5	0	**5**	1	**6**
Head of Economic Development and Regeneration	Head of Service	**2016/17**	**2**	**63**	**0**	**63**	**0**	**63**
		2015/16		65	0	**65**	9	**74**
Head of Finance (Section 151 Officer)	Head of Service	**2016/17**	**3**	**62**	**0**	**62**	**0**	**62**
		2015/16		63	0	**63**	0	**63**
Totals for the year:		**2016/17**		**721**	**0**	**721**	**80**	**801**
		2015/16		**711**	**0**	**711**	**88**	**799**

Notes:

1 - Director of Regeneration, Enterprise and Planning left 31 Oct 2016 - Annualised Salary £124k. This post was covered by an Interim until permanent appointment from March 2017.
2 - Head of Economic Development and Regeneration post left 11 July 16 was covered by John Dale on an acting up basis. John was appointed to the Head of Service post from October 2016. The annualised salary is £79K
3 - Head of Finance is employed by NCC and contracted in as part of the wider LGSS contract. The post currently works 3 days per week for NBC

b) Officers paid over £50,000

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

Note: Senior Officers earning in excess of £50k have been excluded from this note as they are disclosed within Note 36a (Senior Officers).

2015/16 No. of Employees	Remuneration Band	2016/17 No. of Employees
3	£50,000 - £54,999	3
0	£55,000 - £59,999	0
0	£60,000 - £64,999	0

c) Exit Packages

Exit Package cost band (including special payments)	Number of compulsory redundancies		Number of other agreed departures		Total Number of exit packages by cost band		Total cost of exit packages in each band (£000s)	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
£0 - £20,000	9	**1**	10	**0**	19	**1**	**179**	**5**
£20,001 - £40,000	3	**0**	0	**0**	3	**0**	**75**	**0**
£40,001 - £60,000	0	**0**	0	**0**	0	**0**	**0**	**0**
Total	**12**	**1**	**10**	**0**	**22**	**1**	**254**	**5**

21. EXTERNAL AUDIT COSTS

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

2015/16 £000s	External Audit Costs	2016/17 £000s
4	Fees payable to our External Auditors with regard to their services carried out as appointed Auditor (Section 5 Audit Commission Act 1998)	4
0	Additional charges due to overruns *	149
11	Fees payable to the Auditor for the certification of Grant Claims & Returns (Section 28 Audit Commission Act 1998)	32
4	Fees payable in respect of other services provided by the appointed auditor.	4
17	Fees payable for dealing with Elector objection	0
36	**Total**	**189**

*The final 2016/17 external audit fee variations have yet to be agreed and approved.

22. GRANT INCOME

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

2015/16 £000s	Grant Income	2016/17 £000s
	Credited to Taxation and Non-Specific Grant Income	
-4,944	Revenue Support Grant	-3,256
-141	Council tax freeze grant	0
-3,836	New Homes Bonus	-4,910
-1,769	Delapre Abbey Restoration	-1,228
0	Local Growth Fund - Vulcan Works	-125
0	Princess Marina - Residential Standard Charge	-1,218
0	Land at Banbury Lane, Pineham - Standard Charge	-120
335	Princess Marina S106 - transfer to Receipts in Advance	0
-287	Other Grants Individually Less Than £100,000	-349
-10,642	**Total**	**-11,206**
	Credited to Services	
-183	Additional Housing Admin. Grant	-221
-1,277	Housing Benefit Admin. Grant	-1,135
-30,637	HRA Rent Rebates Grant	-28,693
-773	Non HRA Rent Rebates	-879
-39,814	Rent Allowance Grant	-37,526
0	EU Referendum Cost Reimbursement	-317
0	Police & Crime Commissioner Election	-287
-219	Property Searches New Burdens Payment	-61
-316	Discretionary Housing Payments	-398
-264	Section 106 Contributions	-148
-2,389	Northamptonshire County Council Recycling Credits	-2,531
-166	Northamptonshire County Council Contribution for Grounds Maintenance	-166
-98	Joint Planning Unit Contribution	-102
-93	Total of Other Grants not included in the above	-266
-76,229	**Total**	**-72,730**

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

Current Liabilities

2015/16 £000s	Grant Income Unapplied - Current Liabilities	2016/17 £000s
	Capital Grants Receipts in Advance	
10	Other Grants/Contributions Individually Less Than £100,000	10
10	**Total - Capital Receipts in Advance**	**10**
	Revenue Grants Receipts in Advance:	
1	Grants/Contributions Individually Less Than £100,000	1
11	**Total - all Receipts in Advance**	**11**

Long-Term Liabilities

2015/16 £000s	Grant Income Unapplied - Long-Term Liabilities	2016/17 £000s
	Capital Grants Receipts in Advance:	
873	S106 - SW Country Park - Swan Valley	873
442	S106 - Land at Upton SWD Ph1 re Country Park	367
125	S106 - Southern Development Link road	125
1,612	S106 - Princess Marina	384
346	S106 - Sainsbury's Sixfields	346
103	S106 - Newport Pagnell Rd Off-Site Open Space	54
850	S106 - Land at Booth Rise	850
70	S106 - Former Millway School Site	0
2,109	S106 - Banbury Lane	1,937
437	S106 - Wellingborough Rd	405
311	S106 - Goldings School	266
262	S106 - Former Abington Vale School Site	465
335	S106 - Old Towcester Road	354
0	S106 - Project Angel	130
1,021	West Northamptonshire Development Corporation	1,031
0	Local Growth Fund re Vulcan Works	1,258
150	Albion Place Public Realm Contribution	150
561	Other Grants/Contributions Individually Less Than £100,000	630
9,607	**Total - Capital Receipts in Advance**	**9,625**
	Revenue Grants Receipts in Advance:	
155	S106 - Pineham	155
154	Upton Site F&G - Disocounted Standard Charge	0
232	Other Grants/Contributions Individually Less Than £100,000	436
541	**Total - Revenue Receipts in Advance**	**591**
10,148	**Total - all Receipts in Advance**	**10,216**

23. RELATED PARTIES

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to access the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with Council.

Central Government

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Grants received from government departments are set in Note 31 Amounts Reported for Resource Allocation Decisions. Any amounts outstanding are reported in Note 38 Grant Income.

Northampton Partnership Homes

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

Members of the Council

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in Note 19.

During 2016/17 expenditure to the value of £1.7m (2015/16 £1.8m) was paid or granted to parties where members had an interest or where they serve as a nominated representative on the outside body. Income to the value of £0.2m (restated 2015/16 £0.4m) was receivable from these parties. Parties with transactions over £200k are shown below:

2015/16 £000s	Related Parties - Expenditure	2016/17 £000s
214	Northampton Leisure Trust	22
427	Northampton Theatres Trust	353
382	Brackmills Bid	325
253	Northampton Town Centre Bid	314
	Delapre Abbey Preservation Trust	
198	**Revenue**	237
0	**Capital**	202

At 31st March 2017, the outstanding balances with these parties were debtors of £53k (2015/16 £148k) and creditors of £36k (2015/16 £215k).

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

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

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

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

NBC is working in partnership with the Delapre Abbey Preservation Trust (DAPT) in regards to the Delapre Abbey Restoration Project, and has a member on the DAPT Board of Trustees. In 2016/17 NBC paid across to DAPT £138k (2015/16 £12k) as part of a £150k NBC start up grant, £100k grant payment to assist with delays and cash flow, and £202k in capital grants (2015/16 Nil) in relation to parts of the Abbey restoration project being delivered by DAPT. In 2015/16, NBC paid across to DAPT £198k (2016/17 Nil) in relation to forward funding of HLF grant monies for activity and other revenue project costs which will be funded from the HLF grant.

Senior Officers of the Council

During 2016/17, the only disclosures made by Senior Officers were in relation to roles at other Local Authority bodies, namely:

1) Northamptonshire County Council (see above within Members disclosures for reference of material transactions disclosed with NCC elsewhere in the accounts)

2) East Northamptonshire District Council (see 'Other Public Bodies' below)

Other Public Bodies

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

The Chief Financial Officer (Section 151 Officer) for NBC is also contracted from LGSS, who is shared on a part-time basis with East Northamptonshire District Council.

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

24. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

2015/16 £000s	Capital Expenditure and Financing	2016/17 £000s
251,229	**Opening Capital Financing Requirement**	**299,903**
	Capital Investment	
39,773	Property, Plant & Equipment	33,733
2,971	Heritage Assets	3,620
1	Investment Properties	60
100	Intangible Assets	9
3,502	Revenue Expenditure Funded from Capital under Statute	3,919
46,300	Loans to third parties	0
92,647	**Total**	**41,341**
	Sources of Finance	
-5,468	Capital Receipts	-5,256
-948	Sums set aside from Capital Receipts	0
-2,878	Government Grants and Other Contributions	-5,488
-1,262	Sums Set aside from Revenue	-1,299
-265	Write Down of Third Party Loans	-515
-33,152	Direct Revenue contributions	-25,871
-43,973	**Total**	**-38,429**
299,903	**Closing Capital Financing Requirement**	**302,815**

2015/16 £000s	Capital Financing Requirement	2016/17 £000s
251,229	**Opening Capital Financing Requirement**	**299,903**
48,674	Increase in underlying need to borrow (unsupported by government financial assistance)	2,912
0	Assets acquired under finance lease	0
48,674	**Increase/(decrease) in Capital Financing Requirement**	**2,912**
299,903	**Closing Capital Financing Requirement**	**302,815**

25. LEASES

Authority as Lessee

Finance Leases

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

31 March 2016 £000s	Local Authority as Lessee - Finance Leases	31 March 2017 £000s
157	Vehicles, Plant, Furniture and Equipment	100
191	Intangible Fixed Assets	121
348	**Total**	**221**

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

31 March 2016 £000s	Local Authority as Lessee - Finance Leases	31 March 2017 £000s
	Future minimum lease payments	
166	Vehicles, Plant, Furniture and Equipment	107
203	Intangible Fixed Assets	131
369	**Future minimum lease payments**	**238**
	Net present value of minimum lease payments	
156	Current	127
192	Non-current	100
348	**Present value of minimum lease payments**	**227**
21	**Finance costs payable in future years**	**11**

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

31-Mar-16		Local Authority as Lessee - Finance Leases	31-Mar-17	
Present Value of Leases £000s	Minimum Lease Payments £000s		Present Value of Leases £000s	Minimum Lease Payments £000s
156	170	Not later than one year	127	136
192	199	Later than one year and not later than five years	100	102
348	369	Total	227	238

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

Operating Leases

e) The Council leases IT equipment, gym equipment and vehicles financed under the terms of operating leases. The future minimum lease payments due under non-cancellable leases in future years are:

The authority sub-leases housing contract hire vehicles to the Northampton Partnership Homes (NPH) for the provision of housing services.

31 March 2016 £000s	Local Authority as Lessee - Operating Leases	31 March 2017 £000s
509	Not later than one year	500
218	Later than one year and not later than five years	180
0	Later than 5 years	0
727	**Minimum lease payments**	**680**
-632	Future minimum sub-lease payments receivable	-632

f) Charges to revenue

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

2015/16 £000s	Local Authority as Lessee - Operating Leases	2016/17 £000s
	Minimum lease payments	
510	Contract Hire	453
23	Other	23
-375	Sublease payments receivable	-429
158	Total	47

Authority as Lessor

Finance Leases

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

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

31 March 2016 £000s	Leases - Authority as Lessor - Finance Leases	31 March 2017 £000s
	Gross investment in leases	
158	Other Land and Buildings	141
	Net present value of minimum lease payments	
8	Current	9
100	Non-current	91
108	**Present value of minimum lease payments receivable**	**100**
50	**Unearned finance income**	**41**

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

31 March 2016		Leases - Authority as Lessor - Finance Leases	31 March 2017	
Gross investment in leases £000s	NPV of minimum Lease payments receivable £000s		Gross investment in leases £000s	NPV of minimum Lease payments receivable £000s
17	8	Not later than one year	17	9
69	41	Later than one year and not later than five years	69	44
72	59	Later than five years	55	46
158	**108**	**Minimum lease payments receivable**	**141**	**99**

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

Operating Leases

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

- The provision of other land and buildings including shops and industrial units to meet local demand for commercial premises.

- The provision of community assets to meet residents' community needs.
- To provide infrastructure enabling current and future construction to service local demand for housing and commercial property.

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

31 March 2016 £000s	Local Authority as Lessor - Operating Leases - Minimum Lease Payments	31 March 2017 £000s
2,353	Not later than one year	2,267
6,631	Later than one year and not later than five years	6,172
47,422	Later than 5 years	46,089
56,406	**Total**	**54,528**

The minimum lease payments receivable do not include rents that are contingent on future events, such as adjustments following rent reviews.
Note: Assets provided under operating leases, where the Council is lessor, have been included in the Council's disclosures on owned assets.

26. IMPAIRMENT LOSSES

No assets were impaired during 2016/17.

During 2015/16 assets impaired relates to a loan to Northampton Town Football Club (NTFC).

The outstanding value of the loan of £10.22m was impaired within the 2015/16 Statement of Accounts and is shown within Corporate and Democratic Core on the face of the CIES statement.

However, there is no impact on the General Fund balance as the original loan was capital in nature, and therefore has been reversed through the Movement in Reserves Statement to the Capital Adjustment Account. This has been done in line with proper accounting practices.

27. TERMINATION BENEFITS

There were no material or significant termination benefits paid in 2016/17 as set out in note 20c.

28. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes:

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

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

Transactions Relating to Post-employment Benefits:

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

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

Local Government Pension Scheme 2015/16 £000s	Comprehensive Income and Expenditure Statement	Local Government Pension Scheme 2016/17 £000s
	COST OF SERVICE:	
	Service cost comprising:	
2,069	Current service cost	1,778
10	Past service cost (including curtailments)	0
0	Gain from settlements	0
-4	Pension contribution adjustment	-52
	Financing and Investment Income and Expenditure	
4,502	Net interest expense	4,045
6,577	**Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**5,771**
	OTHER POST-EMPLOYMENT BENEFITS CHARGED TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT:	
	Remeasurement of the net defined benefit liability comprising:	
3,995	Return on plan assets (excluding the amount included in the net interest expense)	39,260
0	Actuarial gains and losses arising on changes in demographic assumptions	3,503
-23,514	Actuarial gains and losses arising on changes in financial assumptions	-50,852
-5,723	Other expenditure	-17,210
-18,665	**Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:**	**-19,528**
	MOVEMENT IN RESERVE STATEMENT:	
18,661	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	-31,122
	Actual amount charged against the General Fund Balance for pensions in the year:	
6,096	Employers’ contributions payable to scheme	6,297

Pension Assets and Liabilities Recognised in the Balance Sheet:

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements*		Total	
	2015/16 £000s	2016/17 £000s	2015/16 £000s	2016/17 £000s	2015/16 £000s	2016/17 £000s
Present value of the defined benefit obligation	267,684	**330,805**	13,465	**14,862**	281,149	**345,667**
Fair value of plan assets	-163,230	**-202,975**	0	**0**	-163,230	**-202,975**
Net liability arising from defined benefit obligation	**104,454**	**127,830**	**13,465**	**14,862**	**117,919**	**142,692**

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements*		Total	
	2015/16 £000s	2016/17 £000s	2015/16 £000s	2016/17 £000s	2015/16 £000s	2016/17 £000s
Opening fair value of scheme assets	167,340	**163,230**	0	**0**	167,340	**163,230**
Interest income	5,269	**5,620**	0	**0**	5,269	**5,620**
Remeasurement gain/(loss):						
The return on plan assets, excluding the amount included in the net interest expense	- 3,995	**39,260**	0	**0**	-3,995	**39,260**
Contributions from employer	5,223	**5,433**	877	**916**	6,100	**6,349**
Contribution from employees into the Scheme	478	**467**	0	**0**	478	**467**
Benefits Paid:	-11,085	**-11,035**	-877	**-916**	-11,962	**-11,951**
Assets Distributed in Settlements	0	**0**	0	**0**	0	**0**
Closing fair value of scheme assets	**163,230**	**202,975**	**0**	**0**	**163,230**	**202,975**

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements*		Total	
	2015/16 £000s	2016/17 £000s	2015/16 £000s	2016/17 £000s	2015/16 £000s	2016/17 £000s
Opening balance at 1 April	310,896	**282,065**	-876	**-916**	310,020	**281,149**
Current service cost	2,069	**1,778**	0	**0**	2,069	**1,778**
Interest cost	9,771	**9,665**	0	**0**	9,771	**9,665**
Contribution from scheme participants	478	**467**	0	**0**	478	**467**
Remeasurement gain/(loss):						
Actuarial gain/losses arising from changes in demographic assumptions	0	**-3,503**	0	**0**	0	**-3,503**
Actuarial gain/losses arising from changes in financial assumptions	-23,514	**50,852**	0	**0**	-23,514	**50,852**
Other expenditure	-5,723	**17,210**	0	**0**	-5,723	**17,210**
Past service cost	10	**0**	0	**0**	10	**0**
Losses/(gains) on curtailment:						
Benefits Paid	-11,085	**-11,035**	-877	**-916**	-11,962	**-11,951**
Liabilities extinguished on settlements	0	**0**	0	**0**	0	**0**
Closing present value of scheme liabilities	**282,902**	**347,499**	**-1,753**	**-1,832**	**281,149**	**345,667**

*Where provided by The Actuary, the split between LGPS and Discretionary Benefits Arrangements has been disclosed.

Local Government Pension Scheme assets comprised:

Fair value of scheme assets[1] 2015/16 £000	Assets comprised of:	Fair value of scheme assets[1] 2016/17 £000
3,062	Cash and cash equivalents	4,851
	Equity instruments:	
	By industry type[2]	
12,931	Consumer	14,820
0	Manufacturing	474
6,451	Energy and utilities	12,041
12,168	Financial institutions	14,870
7,480	Health and care	7,137
11,252	Information technology	13,838
9,794	Other	13,438
60,076	**Total Equity**	**76,617**
	Bonds:	
	By sector	
13,817	Government	18,260
13,817	**Total Bonds**	**18,260**
	Private Equity:	
97	Overseas	340
97	**Total Private Equity**	**340**
	Property:	
14,655	Retail	15,766
14,655	**Total Property**	**15,766**
	Investment Funds and Unit Trusts:	
55,818	Equities	70,997
15,705	Bonds	16,144
71,523	**Total Investment Funds and Unit Trusts**	**87,141**
163,230	**Total assets**	**202,975**

Notes

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

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

Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2013.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits Arrangements*	
	2015/16 £000s	2016/17 £000s	2015/16 £000s	2016/17 £000s
Mortality Assumptions				
Longevity at 65 for Current Pensioners:				
Men	22.3	22.1		
Women	24.3	24.2		
Longevity at 65 for Future Pensioners:				
Men	24	23.9	-	-
Women	26.6	26.1	-	-
Other:				
Rate of Increase in Pensions	2%	2%	-	-
Rate of Increase in Salaries **	4%	3%	-	-
Rate for Discounting Scheme Liabilities	4%	3%	-	-

*Where provided by The Actuary, the split between LGPS and Discretionary Benefits Arrangements has been disclosed.
** Salary Increases are assumed to be 1% p.a. until 31 March 2016 reverting to the long-term assumption shown.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Change in assumptions at 31 March 2017:	Approximate increase to Employer Liability %	Approximate Monetary Amount £000s
0.5% decrease in Real Discount Rate	8%	27,729
0.5% increase in the salary increase rate	1%	2,147
0.5% increase in the Pension Increase Rate	7%	25,314

Asset and Liability Matching (ALM) Strategy

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

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

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

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

29. CONTINGENT LIABILITIES

The Council is potentially liable for the following:

Northampton Partnership Homes

- As set out in the explanatory forward and Group Accounts, NBC set up an Arm's Length Management Organisation on 5th January 2015, Northampton Partnership Homes (NPH). NPH is a company limited by guarantee and NBC is liable for all losses experienced by NPH and is the guarantor for NPH's pension liabilities. See Group Accounts for disclosure of the financial performance of NPH in 2016/17.

Business Rates

- Following new Local Authority funding arrangements for Business Rates in April 2013, NBC now assumes a proportion of the liability for refunding businesses who appeal to the Valuation Office (VO) against the rateable value of their properties.

- The VO published a list of appeals outstanding up to 31st March 2017 in April 2017. Estimates for the appeals that had been lodged and where their success was judged probable under IAS 37 have been provided for - see note 13.

- The estimated value of appeals within NBC's billing authority borders that had been lodged but their success deemed only possible as per IAS 37 totalled £15m. These therefore constitute a contingent liability, with NBC's share (40%) of these appeals being £5.9m.

- Additionally, it is possible that other appeals will be lodged by businesses in the future against rateable values. As the value and timing of these appeals by their nature cannot be known, it is necessary to recognise this as a contingent liability.

- The VOA have advised that Virgin Media intend to withdraw their appeal relating to the proposal to merge the Virgin Media network, that appears in councils rating lists countrywide, into a single national assessment, appearing from 1 April 2010. However, this remains as a Contingent Liability until the VOA advises this has happened. The rateable value (RV) in relation to Virgin Media within NBC's billing authority boarders is £0.9m. If this proposal is approved, this could see the removal of the full £0.9m RV from NBC's rating list, which equates to approximately £0.4m in net rates per annum. If backdated, this would have a negative impact of £3.0m, with NBC's share (40%) of this being £1.2m.

Other – various

- A capital grant received from the East Midland Development Agency (EMDA) for site clearance of the Blueberry Diner. The grant was awarded on condition of scheme completion within a fixed period and, due to that period not having been complied with, up to the full amount of the grant of £0.2m may be clawed back by EMDA. However, although no formal agreement is currently in place, the Council has been in positive discussions with HCA over agreeing variations to the original terms and been agreeable to extension of time for development to be completed. HCA is making endeavours to secure a development partner for this site and is keeping EMDA fully updated of the progress. To date they have continued to be supportive. It is unlikely for this funding will need to be returned and is disclosed as a contingency only.

- The Council has received Deposits under Section 106 agreements, which may be repayable if the conditions for each agreement are not met. No provision has been made in the Accounts for any interest that may become repayable under the terms of the individual agreements. In the event that every one of these deposits becomes repayable with interest, the Council's maximum liability for interest payable as at 31st March 2017 is estimated to be £0.7m.

- Financial guarantee for Home Group - a Housing Association. Under the 1987 (Bond issue)
  "Under the 1987 [bond issue] Home Group raised finance to carry out development in a number of local authority areas. In so doing, they entered into arrangements with local authorities for the purchase of land in return for nomination rights over 50% of the properties constructed. In addition, the local authorities agreed to indemnify bondholders against a fixed percentage of indebtedness under the bonds incurred by Home Group. Home Group in turn gave a counter indemnity to the said local authorities in the same amount. Thus, for so long as Home Group remains solvent, there is no practical likelihood of a claim under the indemnity being made against a participant local authority.
  The NBC proportion is 1.35% of £82.5m representing a value of £1.1m

- A capital grant has been agreed by the Heritage Lottery Fund to part fund the Delapre Abbey, which is now substantially completed. Non -compliance with the grant funding conditions could trigger clawback of funds to the HLF. These grant conditions are monitored by Council Project Officers.

- A number of outstanding insurance claims with estimated value of £1.27m have been received. These have been assessed by the Council's insurance actuary and an estimated provision of £0.25m has been charged to the accounts. Consequently, the estimated value of the insurance claims outstanding is £1.03m.

- The council's environmental services contractor has a number of disputes with NBC that it has indicated it will pursue in court.
- There are a number of other contingent liabilities that are considered to be insignificant. Their total value is £0.358m and they relate to small claims, property search claims and employment tribunal claims that are considered insignificant.
- HR claims for NPH employees which if go to tribunal, could cost £158,000.

- Errors, anomalies and poor record keeping have been identified in the administration of the Council's Empty Homes Scheme (2012-14). The amount of money that the Council can expect to recover from the property owners will need to be recalculated. In many cases, this will result in the Owners financial obligation reducing.

30. CONTINGENT ASSETS

The Council is currently monitoring the following contingent assets:

- Northampton Waterside Enterprise Zone is funded from Business Rates uplift within its boundaries. Expenditure relating to administration and infrastructure loan costs has exceeded income receipts from business rates uplift, these sums will be reimbursed when the income from the projects exceeds expenditure. To date, the value to be reimbursed from Business rates uplift totals £2.049m.

- NBC have lodged a court claim for money lent to Northampton Town Football club, and is expected to issue further claims in the future.

- Historic costs associated with the redevelopment of Grosvenor/Greyfriars may be reimbursed by the developer depending on agreement of contract terms and the timing of that agreement. The expectation is in the region of £0. 1m.

- There is an obligation on the National Grid to pay to NBC part of monies advanced by WNDC for the remediation of land. Payment of an estimated £0.75m is due to NBC by 2019 or on sale of the land affected.

- Upon completion of works by NBC, there is an obligation on Reef Estates Limited to pay a "Highways Contribution" to NBC of approximately £0.1m.

31. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council's activities expose it to a variety of financial risks:

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

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

Credit Risk

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

The risk exposure from investment counterparties is minimised through policies and procedures set out in the Council's Treasury Management Practices and accompanying Schedules and its Annual Investment Strategy. These require that deposits are not made with financial institutions unless they meet identified minimum credit criteria that include, but is not entirely dependent on, external credit ratings, including sovereign ratings.
The Annual Investment Strategy also imposes value and investment period limits for each category of approved counterparty. The maximum limits for placements with individual or group counterparties in 2016/17 were £20m/3 years for the UK government and UK nationalised or part nationalised banking institutions, £15m/3 years for other UK counterparties and overseas counterparties with AAA sovereign ratings, £15m for AAA CNAV Money Market Funds and £10m/3 years for UK local authorities and overseas counterparties with AA+ sovereign rating. Within this ceiling, lower limits apply in many instances depending on credit ratings and other factors specific to each institution.

Due to the nature of its business, the Council does not assess operational customers for credit worthiness and does not set credit limits on customers. In relation to mortgages, the Authority holds an equity stake in each relevant property as collateral against the mortgage outstanding. There are also certain exceptional circumstances under which the Council has placed a charge on a property as collateral against a specific debt. Business customers are not given individual credit limits.

To support local economic regeneration the Council has made third party loans to local organisations. Assessment of the credit risk to the authority from the loans is undertaken as part of the due diligence work.

In 2015/16 the Council experienced default on a loan to a third party - see Narrative Report -Significant Events and note 42 – Impairments. Due to the individual circumstances of this default, this does not increase the likelihood of default on other third party loans.

The Council's maximum exposure to credit risk in relation to its investments totalling £52.6m in banks, building societies and other institutions cannot be assessed generally as the risk of any counterparty failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2017 that this was likely to crystallise.

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

Estimated Maximum Exposure to Default and Uncollect-ability at 31 March 2016 £000s	Credit Risk	Amount at 31 March 2017 £000s	Historical Experience of Default at 31 March 2017 %	Historical Experience Adjusted for Market Conditions at 31 March 2017 %	Estimated Maximum Exposure to Default and Uncollect-ability at 31 March 2017 £000s
0	Third Party Loans	50,235	0.00%	0.00	0
0	Mortgages	15	0.00%	0.00	0
0	Finance Leases	99	0.00%	0.00	0
54	Customers: Tenants	2,255	2.44%	2.44%	55
1,292	Customers: Sundry Debtors	6,736	23.06%	23.06%	1,553
0	Deposits with Banks and Financial Institutions	52,597	0.00%	0.00	0
1,346	**Total**	**111,938**			**1,608**

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. The Council held no investments in the form of bonds during 2016/17.

With the exception of third party loans and mortgagees, the Council does not generally allow credit for its customers.

As shown in Table 1, at 31st March there were outstanding loans to third parties of £50.2m. Such loans, by their nature, do carry a degree of risk. However, all are secured according to the terms of the individual loan agreement.

Of the £111.9m total exposure to credit risk £9.0m is past its due date for payment. The past due, but not impaired, amount can be analysed by age as follows:

Amount at 31 March 2016 £000s	Aged Debt Analysis	Amount at 31 March 2017 £000s
4,640	Less than three months	4,439
1,433	Three to six months	961
239	Six months to one year	140
838	More than one year	3,452
7,150	**Total**	**8,992**

Impairment on the debtor's financial asset has been identified, standing at a total of £8.42m at the end of 2016/17

Collateral

The authority holds collateral against a number of mortgages. The balance sheet value of the principal amount outstanding is currently £15k (£15k in 2015/16). The terms and conditions relating to the pledge are standard in all the mortgages held and set out the rights and responsibilities of the Council and the mortgage holder

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

Liquidity Risk

The Council has a comprehensive cash flow management system in place that seeks to ensure that cash is available as needed. In the event of unexpected movements to the downside, the Council has ready access to borrowings from the money markets and (for capital expenditure purposes) from the Public Works Loan Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to manage loans that are due to mature within any rolling three-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

31 March 2016 £000s	Maturity Profiles of Financial Liabilities	31 March 2017 £000s
-22,570	Less than one year	-19,336
-13,175	One to two years	-20,623
-50,166	Two to five years	-43,673
-207,336	More than five years	-203,506
-293,247	**Total**	**-287,138**

Amounts maturing within one year include short-term creditors, short-term grants and Section 106 funding commitments, short-term borrowing, principal due within 12 months on annuity and EIP (Equal Interest Instalment) loans, and long-term loans maturing within the next 12 months. PWLB loans totalling £5m are due for maturity during 2017-18. Repayment of these will be funded from internal borrowing, new loans, or a combination of both. Longer-term maturities consist of long-term debt (including finance leases), and long-term grants and Section 106 funding.

Market Risk

Interest Rate Risk

The authority is exposed to significant risk in respect of interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For example, a rise in interest rates would have the following effects:

- Borrowing at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- Borrowing at fixed rates – the fair value of the liabilities will fall;
- Investment at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise;
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not affect the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The authority has a number of strategies for managing interest rate risk. For example, during periods where interest rates are falling or where economic circumstances are favourable, fixed rate loans may be repaid early to minimise costs.

The Council has an active strategy for assessing interest rate exposure that is applied in setting the annual budget and is used to update the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

31 March 2016 £000s	Market Risk	31 March 2017 £000s
93	Increase in interest payable on variable rate borrowing	3
-242	Increase in interest receivable on variable rate investments	-317
-149	**Impact on Surplus or Deficit on the Provision of Services**	**-314**
31	Share of overall impact credited to the HRA	116
-118	**Impact remaining on General Fund**	**-198**
256	Increase in fair value of fixed rate investment assets	137
256	**Impact on Other Comprehensive Income and Expenditure**	**137**
156	**Decrease in fair value of fixed rate borrowings liabilities (no impact on the surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure**	**236**

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

Price Risk

The authority does not invest in equity shares and therefore has no exposure to loss arising from movements in share prices.

Foreign Exchange Risk

The authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

32. HERITAGE ASSETS – 5 YEAR SUMMARY OF TRANSACTIONS

Paragraph 4.10.4.5 of the Code of Practice on Local Authority Accounting requires the disclosure of Heritage Assets acquired through purchase and donation, and disposed of, over the last five years; it also allows this information to be withheld for any period prior to 1 April 2010 where it is no longer available. This is the case for Northampton Borough Council.

There was a large collecting programme of trainers to enhance the shoe collection between April 2009 and April 2012. This amounted to £75k for which the museum was given a purchase grant by the Heritage Lottery Fund. Since 1 April 2012 a number of shoes, social and military history artefacts, archaeology and art works have been donated to the museum the aggregate value of which is less than £3k. There were two significant donations of artworks in 2014. Local artist Peter Newcombe donated twelve framed and glazed pictures depicting John Clare 'Shepherd's Calendar' in medium of pen, wash and other media, with a valuation of £50k. The second major donation was of an oil painting 'And Then the Comet Came and Changed All Things' by Roberta Booth (1947-2014), with a valuation of £7k.

There have been two disposals from the collections which have realised a financial return. In March 2011, a collection of mounted natural history specimens sold at auction for £0.052m, which was taken to be its carrying value at the time. In July 2014, an Egyptian statue was sold at auction for £14m, with NBC receiving £8.239m from the sale.

33. HERITAGE ASSETS – COLLECTIONS AND POLICIES

Collections

1. Designated Shoe Collection

The collection of shoes and related objects from the industry is recognised by Arts Council England as a Designated Collection of national and international importance. The Shoe Collection is the largest collection of shoe heritage and related shoe industry objects in the world and began purely as a collection of footwear. Over the years, this has developed into a collection including over 12,000 shoes and covering the whole of the worldwide footwear industry. In total, the collection contains over 60,000 objects and can be analysed into the following subdivisions: Footwear, Machinery, Tools, Lasts, Patterns and Material associated with the selling of shoes, Polish, Shoe Trees and other items used in the care of shoes, including shoe repairing, Factory Furniture and Fittings, Overshoes, Spats, Gaiters, Ice Skates and other items worn with shoes (excluding hosiery), Objects shaped like shoes and depicting shoes, Archival material including catalogues, photographs and trade magazines and Prints and paintings of shoes and shoemakers.

2. Archaeology Collection

For over a century, Northampton Museums has collected archaeological material. The majority of archaeological material now coming to light in the county is the product of contract excavations in advance of development. Significant collections include Bronze Age pottery, Iron Age finds from Hunsbury, Roman finds from Duston and Irchester, pottery, weapons and jewellery from Anglo-Saxon cemeteries and many other objects were first collected in the 19th century. This set the scene for collecting and through excavations and fieldwork this has carried on ever since. There is a Numismatic Collection of about 12,000 items, principally locally found Roman, English Medieval and later coins and tokens. Particular strengths are the coins from Northampton Mint, and a large number of

Northamptonshire tokens and checks. There is also a collection of approximately 800 medals relating to local people, clubs or societies. There is a small Ancient Egyptian collection of approximately 250 items.

3. Art Collection

The greater part of the fine art collection consists of British easel paintings and works on paper, from the 19th and 20th centuries. The collection's greatest strength lies in landscapes and portraits, topographical works and graphic art from 1960-2000. The collection has strong representation from local, professional artists, some of whom have been recognised nationally and are often linked to the 100 year old Town & County Art Society The non-British pictures include an important group of 15th to 18th century Italian paintings - works of high quality by secondary masters, particularly from the Venetian School, most of which were consciously collected between 1967 and 1987 as a result of a former policy which sought to concentrate purchases in this one area of the collection. At present there are approximately 2,700 items in the Art Collection which fall into the following categories: Watercolours, Drawings, Prints (contemporary), Mixed Media (excluding drawings), and Sculpture.

4. Decorative Art

The current collection encompasses ceramics, glassware, and metal ware. The great areas of strength are the fine collections of British and Oriental ceramics given early in the 20th century by five private collectors. There are approximately 4,100 items in the decorative art collection (excluding furniture): Ceramics – British (and some Continental and North African), Glass – British (and some Irish), Metalwork, Enamels, and Oriental Collections (ceramics, bronzes and miscellaneous).

5. Ethnography

The ethnographic collection consists of about 300 historic (not contemporary) objects from India, China and Japan, Africa, North America and. Many objects were purchased in the early to mid-20th century to enhance the displays at Abington Museum or acquired as the result of local collecting as well as some casual donations.

6. Geology

A substantial number of Geological items were given to the Museum in the forty years following its founding in 1866, principally by the Third and Fourth Marquesses of Northampton and Beeby Thompson. The collection consists of about 40,000 items of which 75% are Northamptonshire Jurassic finds. The remaining 25% consists of fossils from outside the county, and a worldwide mineral collection.

7. Natural History

The small Natural History Collection consists of a few mounted specimens and small collections of birds' eggs.

8. Social History

In general, the Social History collection covers historical material post 1600 to the present that does not fall within another collection and includes fashion and costume. – The collection covers community life including civic affairs, working life, and the full range of personal and domestic life material.

9. Northamptonshire Regiment and Yeomanry

Northampton Borough Council is the sole trustee for the Northamptonshire Regimental Museum and Northamptonshire Yeomanry Regimental Museum Trust. The collecting for these collections will follow the inherent themes for regimental collections – reflecting both the military and civilian aspects of the Regiments impact.

Policies

The Council maintains a record of its heritage assets within its asset register supplemented by the detailed records held by the relevant departments.

Some museum heritage assets are on display at the Authority's two museums; while others are held at secure locations in storage e.g. while awaiting conservation work. Access to the civic regalia is limited to appropriate occasions, such as the use of the mace and mayor's chain at Council meetings. The statues, buildings, and similar heritage assets are largely accessible to the public to view in the parks and public places of Northampton.

34. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2015/16 £000s	Operating Activities	2016/17 £000s
11,245	Depreciation	16,071
-9,339	Impairment and downward valuations	-69,554
10,219	Impairment of long term debtors	0
326	Amortisation	563
-2,052	Increase/(decrease) in creditors	-989
5,567	Increase/(decrease) in debtors	2,153
25	Increase/(decrease) in inventories	8
481	Movement in pension liability	-526
7,648	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	7,518
0	Movement in provisions	945
2,204	Other non-cash items charged to the net surplus or deficit on the provision of services	-1,364
26,324	**Total**	**-45,175**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2015/16 £000s	Items removed from net cost of service that are investing/financing activities	2016/17 £000s
-6,463	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-9,119
-2,407	Any other items for which the cash effects are investing or financing cash flows	4,251
-8,870	**Total**	**-4,868**

35. CASH FLOW STATEMENT – OPERATING ACTIVITIES (INTEREST)

2015/16 £000s	Operating Activities (Interest)	2016/17 £000s
1,077	Interest Received	1,745
-7,201	Interest Paid	-8,125
-6,124	**Total**	**-6,380**

36. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2015/16 £000s	Cash Flows from Investing Activities	2016/17 £000s
-40,058	Purchase of Property, Plant and Equipment, investment property and intangible assets	-37,422
0	Purchase of Available for Sale Financial Instruments	-19,000
-57,500	Purchase of short and long term investments	-27,000
-46,300	Other payments for investing activities	0
6,486	Proceeds from the sale of property plant and equipment, investment property and intangible assets	9,119
45,500	Proceeds from short-term and long-term investments	35,500
0	Proceeds from Available for Sale Financial Instruments	29,500
0	Capital Grants Received	-4,251
5,396	Other Receipts from Investing Activities	0
-86,476	**Total Cash Flows from Investing Activities**	**-13,554**

37. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2015/16 £000s	Cash Flows from Financing Activities	2016/17 £000s
57,823	Cash receipts of short and long term borrowing	45
-3	Billing Authorities - Council Tax and NNDR adjustments	
-14,142	Repayment of Short-Term and Long-Term Borrowing	-7,175
-155	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	-120
4,139	Other items in relation to financing activities	0
47,662	**Total Cash Flows from Financing Activities**	**-7,250**

F1. HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance, and sale of Council houses and flats. The account has to be self-financing and there is a legal prohibition on cross subsidy to or from local taxpayers.

2015/16 £000s	Housing Revenue Account	2016/17 £000s	2016/17 £000s
	Income		
-51,414	Dwelling Rents	-50,455	
-1,165	Non Dwelling Rents	-1,094	
-2,143	Charges for services & facilities	-2,146	
-7	Contributions Towards Expenditure	-2	
-54,729	**Total Income**		**-53,697**
	Expenditure		
13,329	Repairs & Maintenance	14,853	
	Supervision & Management		
9,594	General Management	8,701	
4,080	Special Services	5,102	
271	Rent, Rates, Taxes & other charges	320	
-1,386	Depreciation, Impairment & Revaluation of Fixed Assets	-63,326	
46	Debt Management Costs	43	
204	Increased in provision for bad/doubtful debts	302	
26,138	**Total Expenditure**		**-34,005**
-28,590	**Net Cost of Services**		**-87,701**
520	HRA Services share of Corporate and Democratic Core		595
0	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services		0
-28,070			**-87,106**
2,054	Gain (-) or Loss on sale of HRA Fixed Assets		-347
	Interest Payable and other similar charges		
6,024	Interest and Investment Income		6,076
5	Pensions interest cost and expected return on pensions assets		2
0	Non Specific Grant Income		0
-2,991	Surplus or deficit on revaluation of non-current assets		-40,415
-22,978	**Surplus (-) or Deficit for the year on HRA services**		**-121,790**

F2. MOVEMENT IN HOUSING REVENUE ACCOUNT RESERVE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to account for the net costs of Council Housing in a different way.

This statement below and the detailed reconciling items on the following page summarise the differences between the outturn on the HRA Income and Expenditure Account and the Housing Revenue Account Balance.

2015/16 £000s	Statement of Movements on the Housing Revenue Account Balance	2016/17 £000s
-22,978	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Account	-121,791
22,978	Net additional amount required by statute to be debited or credited to the HRA Balance for the year	121,791
0	**Increase (-) / Decrease in the HRA Balance for the Year**	**-0**
-5,000	HRA Balance brought forward	-5,000
-5,000	**HRA Balance carried forward**	**-5,000**

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2015/16 £000s	Reconciling Items for the Statement of Movement on the Housing Revenue Account Balance	2016/17 £000s
	Amounts included in the HRA Income and Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the year	
9,424	Capital Expenditure	11,513
-13,806	Revaluation Losses	-26,945
24,060	Revaluation Gains	104,492
0	Amortisation of intangible non-current assets	0
-2,054	Gain or Loss on sale of HRA non-current assets	347
-7	HRA share of contributions to or from the pensions reserve	-3
0	Revenue Expenditure Funded from Capital Under Statute	0
0	Application of Capital Grants and Contributions to capital financing passing through CI&E	0
17,617	**Total**	89,404
	Amounts not included in the HRA Income and Expenditure Account but required by statute to be included when determining the Movement on the HRA Balance for the year	
3,930	**Transfer to / from (-) Major Repairs Reserve**	-878
0	Transfers to / from (-) Housing Repairs Account	0
2,991	Transfers to / from (-) Revaluation Reserve	40,415
62	Employer's contributions payable to the Northamptonshire County Council Pension Fund and retirement benefits payable direct to pensioners	2
0	Financial Instruments Adjustments	0
0	Amount by which officer remuneration charged to CI&E on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0
0	Capital expenditure charged in-year to the HRA Balance	0
-1,622	**Net transfers to / from (-) earmarked reserves**	-7,151
5,362	**Total**	32,387
22,978	**Net additional amount required to be credited or debited to the HRA balance for the year**	**121,791**

F3. NOTES TO THE HRA

1. PRIOR YEAR ADJUSTMENTS

There are no prior year adjustments in relation to the Housing Revenue Account in 2016/17.

2. HRA ASSETS AND CAPITAL TRANSACTIONS

a) At 31st March 2017 the Council was responsible for managing 11650 units of accommodation (excluding shared ownership properties):

Type of Property	Number of Bedrooms				Total
	One	Two	Three	Four+	
Flats-Low Rise	1,419	384	2	1	**1,806**
Flats-Medium Rise	1,661	822	116	4	**2,603**
Flats-High Rise	396	82	21	0	**499**
Houses & Bungalows	885	2,455	3,012	324	**6,676**
Total	**4,361**	**3,743**	**3,151**	**329**	**11,584**

b) The movement in housing stock can be summarised as follows:

Type of Property	Stock at 01 April 2016	Stock Movements			Stock at 31 March 2017
		Sold	Additions	Re-classified	
Flats	5,020	-32	11	-83	4,916
Houses & Bungalows	6,764	-93	5	-8	6,668
Dwellings (excl. Shared)	**11,784**	**-125**	**16**	**-91**	**11,584**
Shared Ownership	79	-2	0	0	77
Total	**11,863**	**-127**	**16**	**-91**	**11,661**

c) The gross balance sheet value of housing assets at 31st March was as follows:

Restated 31 March 2016 £000s	Net Balance Sheet Value	31 March 2017 £000s
	Operational Assets	
126,375	Land	168,494
295,470	Dwellings	378,100
20,758	Other Capital Assets	20,092
442,603	**Total Operational Assets**	**566,686**
355	Non Operational Assets	2,144
442,958	**Total**	**568,831**
1,069,605	**Vacant Possession Value as at 1st April**	**1,174,002**

d) Capital Receipts

2015/16 £000s	Housing Capital Receipts	2016/17 £000s
0	Land Sales	0
-5,009	Dwelling Sales	-7,411
-5,009	**Total**	**-7,411**
1,091	Payable to the Secretary of State	1,148
1,091	**Net cost of Payments to CLG**	**1,148**
-3,918	**Useable Capital Receipts**	**-6,263**

e) Capital Expenditure and Financing

2015/16 £000s	HRA Capital Expenditure and Financing	2016/17 £000s
	Expenditure	
0	Land Purchase	0
33,114	Dwellings	27,509
557	Re-Purchase of Former Council Housing	1,470
22	Other Property	11
0	Self-Financing	0
33,693	**Total Expenditure**	**28,990**
	Financing	
0	Borrowing	50
2,371	Useable Capital Receipts	4,418
9,424	Revenue Contributions	11,514
21,898	Major Repairs Reserve	13,008
0	Grants	0
0	Third Party Contributions	0
33,693	**Total Financing**	**28,990**
	Other Property	
0	Useable Capital Receipts	0
0	Major Repairs Reserve	0
0	**Total Other Property**	**0**
33,693	**Total Financing**	**28,990**

3 ARREARS

During 2016/17, arrears as a proportion of gross income was 3.7%. This represents an increase of 0.1% since 2015/16 when the proportion was 3.6%. The figures for rent arrears are detailed below

2015/16 £000s	Rent Arrears	2016/17 £000s
1,863	Gross Arrears at 31 March	1,882
-739	Prepayments	-1,057
1,124	**Net Arrears at 31 March**	**825**
813	Provision for bad debts at 31 March	798

4. VACANT POSSESSION VALUE

2015/16 £000s	HRA Vacant Possession Value	2016/17 £000s
1,069,605	Vacant Possession Value as at 31st March	1,174,002

2015/16 £000s	HRA Existing Use	2016/17 £000s
363,972	Existing Use Value as at 31st March	493,081

The vacant possession value of dwellings within the HRA as at 31st March 2017 was £1,174m (£1,069m in 2015/16). For the balance sheet, the figure has been reduced to 42% of this value. This reflects the economic cost of providing Council housing at less than open market rents.

5. DEPRECIATION, AMORTISATION, IMPAIRMENT, AND REVALUATION OF NON CURRENT ASSETS

a) Depreciation and Amortisation

2015/16 £000s	Depreciation and Amortisation	2016/17 £000s
	Operational Assets	
8,308	Dwellings	13,472
371	Other Property	425
1	Vehicles, Plant & Equipment	1
8,680	**Total Depreciation**	**13,898**
184	Intangible Assets -amortisation	260
184	**Total Amortisation**	**260**
8,864	**Total**	**14,158**

b) Revaluation Gains and Losses

2015/16 I&E £,000	RRA £,000		2016/17 I&E £,000	RRA £,000
13,536	20	Dwellings	26,884	58
271	41	Other Property	61	0
0	0	Vehicles, Plant & Equipment	0	0
13,807	**61**	**Revaluation Losses**	**26,945**	**58**
-23,830	-786	Dwellings	-104,424	-39,882
-225	-2,266	Other Property	-67	-591
0	0	Vehicles, Plant & Equipment	0	0
-24,055	**-3,052**	**Revaluation Gains**	**-104,491**	**-40,473**
-10,249	**-2,991**	**Total**	**-77,546**	**-40,415**

6. MAJOR REPAIRS RESERVE

Authorities are required to maintain a Major Repairs Reserve (MRR). The MRR has two functions; the first is to act as a credit entry for the cost of depreciation on Council dwellings. The second is to hold unused balances of the notional Major Repairs Allowance (MRA), which can be used in future years. The notional MRA is as used in the self-financing valuation and represents the estimated annual cost of maintaining an Authority's stock at its existing level.
Council dwellings depreciation is not the same as the MRA; therefore an adjustment is required to ensure there is no bottom line impact on the HRA. This is known as the Capital asset charges accounting adjustment. The transactions on the MRR are detailed below:

Major Repairs Reserve	£000s
Balance at 1 April 2016	**0**
Council Dwellings Depreciation	-13,898
Depreciation adjustment to agree to MRA	878
Total	**-13,020**
Amount used to finance Capital Expenditure	
Dwellings	13,008
Total	**13,008**
Balance at 31 March 2017	**-12**

G1. COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund is to isolate the income and expenditure relating to Council Tax and National Non-Domestic Business Rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses/deficits declared by the Billing Authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. For NBC, the Council Tax precepting bodies are Northamptonshire County Council and Northamptonshire Police and Crime Commissioner.

In 2013/14, the Local Government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the Borough. It does, however, also increase the financial risk to the authority due to non-collection and the volatility of the NNDR tax base.

The scheme allows the Council to retain a proportion of the total NNDR received. The initial Northampton Borough Council share is 40% with the remainder paid to precepting bodies. For NBC, the NNDR precepting bodies are Central Government (50% share) and Northamptonshire County Council (10% share). The NBC share is then subject to a tariff payment to Government, which was £33m in 2016/17 (£32.7m in 2015/16). The residual amount is then compared to the assessment in the Local Government Finance Settlement and any growth above the Settlement level is subject to a levy payment to Government.

NNDR surpluses/deficits declared by the Billing Authority in relation to the Collection Fund are apportioned to the relevant precepting bodies and Government in the subsequent financial in their respective proportions.

The Code of Practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure account is included in the Council's accounts. The Collection Fund balance sheet meanwhile is incorporated into the Council's consolidated balance sheet.

The statement on the next page shows the statutory transactions relating to this fund.

Collection Fund

2015/16 Council Tax £000s	2015/16 NNDR £000s	2015/16 Total £000s	Collection Fund	2016/17 Council Tax £000s	2016/17 NNDR £000s	2016/17 Total £000s	Note
			INCOME				
-96,787	0	**-96,787**	Council Tax (net of benefits, discounts & transitional relief)	-102,352	0	**-102,352**	
			Transfers from General Fund				
0	0	**0**	Council Tax benefits	0	0	**0**	
0	-102,497	**-102,497**	Income collectable from business ratepayers	0	-103,585	**-103,585**	
-96,787	**-102,497**	**-199,284**	**Total Income**	**-102,352**	**-103,585**	**-205,937**	
			EXPENDITURE				
			Precepts & demands:-				
66,201	0	**66,201**	Northamptonshire County Council	71,518	0	**71,518**	
12,445	0	**12,445**	Northamptonshire Police and Crime Commissioner	13,191	0	**13,191**	
13,897	0	**13,897**	Northampton Borough Council	14,425	0	**14,425**	
			National Non-Domestic Rates				CF1
0	49,084	**49,084**	Payments to Central Government	0	50,591	**50,591**	
0	9,817	**9,817**	Payments to Northamptonshire County Council	0	10,119	**10,119**	
0	39,267	**39,267**	Amount retained by Northampton Borough Council	0	40,473	**40,473**	
0	298	**298**	Cost of collection	0	296	**296**	
0	551	**551**	Other - Enterprise Zone	0	1,438	**1,438**	
0	149	**149**	Transitional Protection Payments	0	-471	**-471**	
			Bad & Doubtful Debts / Appeals				
440	5,503	**5,943**	Provisions	836	3,114	**3,950**	CF4
			Contributions				
653	-14,938	**-14,285**	Towards previous years' Collection Fund surplus/(deficit)	3,552	411	**3,963**	CF3
0	0	**0**	Prior Year Adjustments (deferrals)	0	0	**0**	
93,636	**89,731**	**183,367**	**Total Expenditure**	**103,522**	**105,970**	**209,492**	
-3,151	**-12,766**	**-15,917**	**Net (Surplus)/deficit for the year**	**1,171**	**2,385**	**3,555**	
			COLLECTION FUND BALANCE				
-1,524	14,486	**12,962**	Balance brought forward at 1st April	-4,675	1,720	**-2,955**	
-3,151	-12,766	**-15,917**	Net Deficit/(surplus) for the year (as above)	1,171	2,385	**3,555**	
-4,675	**1,720**	**-2,955**	**Balance carried forward at 31 March**	**-3,504**	**4,105**	**601**	
			Allocated to:-				
0	860	**860**	Central Government	0	2,052	**2,052**	
-3,351	172	**-3,179**	Northamptonshire County Council	-2,533	410	**-2,122**	
-627	0	**-627**	Northamptonshire Police and Crime Commissioner	-464	0	**-464**	
-697	688	**-9**	Northampton Borough Council	-508	1,642	**1,134**	
-4,675	**1,720**	**-2,955**	**Fund Balance c/fwd**	**-3,504**	**4,105**	**601**	

G2. NOTES TO THE COLLECTION FUND

1. NATIONAL NON DOMESTIC RATES (NNDR)

The total non-domestic rateable value as at 31 March 2017 was £241.2m and the equivalent figure for 2015/16 was £244.8m. The National Non-Domestic Rate multiplier for 2016/17 was 49.7.p and the equivalent figure for 2015/16 was 49.3p. The small business non-domestic rating multiplier for 2016/17 was 48.4p and the equivalent figure for 2015/16 was 48.0p.

2. COUNCIL TAX

The Council's tax base, i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings for 2012/13, was calculated as follows: -

2015/16 Band D Equivalents	Band	Estimated number of taxable properties 2016/17 after discounts	Ratio	2016/17 Band D Equivalents
19.84	A(-)	36.67	5/9	20.37
12,851.85	A	20,689.82	6/9	13,793.22
12,667.43	B	16,927.71	7/9	13,166.00
17,221.20	C	20,072.76	8/9	17,842.45
9,362.49	D	9,693.29	9/9	9,693.29
6,246.42	E	5,167.18	11/9	6,315.44
3,261.97	F	2,309.05	13/9	3,335.30
1,977.01	G	1,205.55	15/9	2,009.25
102.50	H	52.38	18/9	104.75
63,710.71	Gross Council Tax Base			66,280.06
1,783.90	Non-collection provision			1,922.10
61,927	**Council Tax Base Used for setting the Precept**			**64,358**

The provision for non-collection was set at 2.7% for 2016/17 (2.8% for 2015/16).

3. ANALYSIS OF IN-YEAR CONTRIBUTIONS TO FUND DEFICITS

2015/16 £000s	Allocation Of Collection Fund Surplus Council Tax	2016/17 £000s
466	Northamptonshire County Council	2,541
88	Northamptonshire Police & Crime Commissioner	478
100	Northampton Borough Council	533
653	**Total Surplus paid out**	**3,552**

2015/16 £000s	In Year Contribution to Deficit NNDR	2016/17 £000s
-7,469	Central Government	206
-1,494	Northamptonshire County Council	41
-5,975	Northampton Borough Council	165
-14,938	**Total Deficit Recovered**	**412**

4. PROVISION FOR BAD AND DOUBTFUL DEBTS

2015/16 £000s	Provision for Bad and Doubtful Debts Council Tax	2016/17 £000s
10,441	Bad Debt Provision B/fwd	9,987
-840	Write Offs	-775
-54	Council tax benefit transferred to reserve	-38
440	Provision Made in Year	836
9,987	**Bad Debt Provision c/fwd**	**10,010**

The Collection Fund now also provides for Bad debts on NNDR arrears:

2015/16 £000s	Bad and Doubtful Debts NNDR	2016/17 £000s
675	Bad Debt Provision B/fwd	579
-312	Write offs of uncollectible debt	-580
216	Allowance for non collection	620
579	**Bad Debt Provision c/fwd**	**620**
0	Amounts written off in year not charged to provision	0

The Collection Fund account also provides for provisions for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31st March 2017:

2015/16 £000s	Provision for Appeals	2016/17 £000s
4,053	Appeals Provision B/fwd	9,652
-1,723	Amounts used in year	-2,445
7,322	Additional provisions made	4,660
9,652	**Appeals Provision c/fwd**	**11,867**

GROUP ACCOUNTS

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and Northampton Partnership Homes have been consolidated. The Group Accounts are presented in addition to the Council's "single entity" financial statements, and comprise:

- Group Comprehensive Income and Expenditure Statement
- Group Balance Sheet
- Group Movement in Reserves Statement
- Group Cash Flow Statement

These statements are set out on the following pages, together with accompanying disclosure notes. Disclosure notes have only been restated in the group accounts section where they are materially different from those of the Council's single entity accounts.

Northampton Partnership Homes was incorporated on the 30th April 2014 and commenced trading on the 5th January 2015. Northampton Partnership Homes is an Arm's Length Management Organisation that is wholly owned by the Council, but which has its own board of Directors. It is a company Limited by Guarantee (CLG) and is a not for profit organisation.

Northampton Partnership Homes is a subsidiary of Northampton Borough Council for accounting purposes, and have been consolidated into the Council's group accounts.

H1. GROUP ACCOUNTS CORE STATEMENTS

Group Movement in Reserves Statement

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Group's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes.

The Statement is shown on the next page:

Group Movement in Reserves Statement	Single Entity Usable Reserves	Single Entity Unusable Reserves	Total Single Entity Reserves	Authority share of reserves of subsidiary	Total Group Reserves
	£000s	£000s	£000s	£000s	£000s
Balance at 31 March 2015 Brought forward	**-83,753**	**-165,894**	**-249,647**	**15,310**	**-234,336**
<u>Movement in reserves during 2015/16</u>					
Total Comprehensive Expenditure and Income	**-9,639**	**-33,977**	**-43,616**	**-3,091**	**-46,707**
Adjustments between accounting basis and funding basis under regulations	26,501	-26,501	0	0	0
Transfers to/from Earmarked Reserves	0	0	0	0	0
(Increase) / Decrease in Year	**16,862**	**-60,478**	**-43,616**	**-3,091**	**-46,707**
Balance at 31 March 2016 carried forward	**-66,891**	**-226,372**	**-293,262**	**12,219**	**-281,043**
<u>Movement in reserves during 2016/17</u>					
Total Comprehensive Expenditure and Income	**-76,332**	**-19,572**	**-95,904**	**1,902**	**-94,002**
Adjustments between accounting basis and funding basis under regulations	80,651	-80,651	0	0	0
Transfers to/from Earmarked Reserves	0	0	0	0	0
Increase / (Decrease) in Year	**4,319**	**-100,223**	**-95,904**	**1,902**	**-94,002**
Balance at 31 March 2017 carried forward	**-62,572**	**-326,595**	**-389,166**	**14,121**	**-375,045**

Group Comprehensive Income and Expenditure Account

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

2015/16			GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	2016/17		
Gross Expenditure £000s	Gross Income £000	Net Expenditure £000		Gross Expenditure £000s	Gross Income £000	Net Expenditure £000
			INCOME AND EXPENDITURE ON SERVICES			
7,164	-3,666	3,498	Regeneration, Enterprise & Planning	9,386	-2,329	7,057
49,244	-76,490	-27,246	Housing	66,090	-156,950	-90,860
3,394	-891	2,503	Borough Secretary	3,377	-1,062	2,315
29,384	-15,651	13,733	Customers & Communities	33,123	-14,857	18,266
9,814	-2,139	7,675	Central Service Budgets	9,220	-1,815	7,405
84,523	-75,893	8,630	Corporate Budgets	68,726	-71,100	-2,374
183,523	**-174,730**	**8,793**	**COST OF SERVICES**	**189,922**	**-248,113**	**-58,191**
11,970	-8,394	3,576	Other Operating Expenditure	4,246	-2,580	1,666
18,029	-7,109	10,920	Financing and Investment Income and Expenditure	16,768	-1,856	14,912
33,024	-65,945	-32,921	Taxation and Non-Specific Grant Income	5	-34,906	-34,901
		-9,632	**(Surplus) or Deficit on Provision of Services**			**-76,514**
		-8,735	Surplus or deficit on revaluation of Property, Plant and Equipment assets			-44,868
		-28,340	Actuarial gains / losses on pension assets/liabilities			27,384
		-37,075	**Other Comprehensive Income and Expenditure (Note 9)**			**-17,484**
		-46,707	**TOTAL COMPREHENSIVE INCOME AND EXPENDITURE**			**-93,998**

Group Balance Sheet

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

31st March 2016 £000s	Group Balance Sheet	31st March 2017 £000s
548,867	Property, Plant & Equipment	669,580
32,364	Heritage Assets	35,893
6,752	Investment Property	12,150
721	Intangible Assets	296
0	Long Term Investments	0
51,193	Long Term Debtors	50,360
639,897	**Long Term Assets**	**768,279**
38,122	Short Term Investments	29,579
19,626	Short Term Available for Sale Financial Instruments	9,037
1,162	Assets Held for Sale	1,159
131	Inventories	148
17,825	Short Term Debtors	19,421
8,683	Cash and Cash Equivalents	14,315
85,549	**Current Assets**	**73,659**
-7,444	Short Term Borrowing	-3,113
-31,931	Short Term Creditors	-33,947
-4,058	Provisions	-5,026
-43,433	**Current Liabilities**	**-42,086**
-10,148	Long Term Creditors	-11
-53	Provisions	-30
-260,337	Long Term Borrowing	-257,558
-130,432	Other Long Term Liabilities	-167,206
-400,970	**Long Term Liabilities**	**-424,805**
281,042	**Net Assets**	**375,046**
66,990	Usable Reserves	62,650
214,052	Unusable Reserves	312,396
281,042	**Total Reserves**	**375,046**

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way of taxation and grant income or from the recipients of services provided by the Group. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

2015/16 £000s	Group Cash Flow Statement	2016/17 £000s
9,632	Net Surplus or (deficit) on the provision of services	76,514
20,199	Adjustment to surplus or deficit on the provision of services for noncash movements	-45,211
-8,870	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	-4,868
20,961	**Net Cash flows from operating activities**	**26,435**
-86,478	Net Cash flows from Investing Activities	-13,554
47,662	Net Cash flows from Financing Activities	-7,250
-17,855	**Net increase or decrease in cash and cash equivalents**	**5,631**
26,539	Cash and cash equivalents at the beginning of the reporting period	8,683
8,684	**Cash and cash equivalents at the end of the reporting period**	**14,314**

H2. NOTES TO THE GROUP ACCOUNTS

1. Group Boundary

Northampton Partnership Homes was incorporated on the 30th April 2014 and commenced trading on the 5th January 2015. Northampton Partnership Homes is an Arm's Length Management Organisation that is wholly owned by the Council, but which has its own board of Directors. It is a company Limited by Guarantee (CLG) and is a not for profit organisation.

Northampton Partnership Homes is a subsidiary of Northampton Borough Council for accounting purposes, and have been consolidated into the Council's group accounts.

2. Intra Group Transactions

During 2016/17 the Council made payments of £53.483m to Northampton Partnership Homes (£57.601m in 2015/16). During 2016/17 the Council received payments of £5.055m from Northampton Partnership Homes (£6.472m in 2015/16). At 31st March 2017 there was a debtor balance of £2.939m (£3.220m in 2015/16), and a creditor balance of £5.757m (£7.011m in 2015/16) with Northampton Partnership Homes.

3. Basis of consolidation

The financial statements of Northampton Partnership Homes have been consolidated with those of the Council on a line by line basis; which has eliminated in full balances, transactions, income and expenses between the Council and Northampton Partnership Homes.

4. Business activities of Northampton Partnership Homes

Northampton Partnership Homes is responsible for the following services:

- Lettings
- Repairs and maintenance
- Housing management including dealing with anti-social behaviour
- Tenancy support
- Tenant involvement

5. Accounting Policies

In preparing the Group Accounts the Council has aligned the accounting policies of Northampton Partnership Homes with those of the Council.

6. Corporation Tax

Northampton Partnership Homes has received confirmation from HMRC that their commercial service provision activities with Northampton Borough Council are deemed to be non-trading in nature and hence do not attract Corporation Tax.

The tax currently payable is based on taxable profit for the year from activities with parties other than the Council and relate principally to the generation of interest income from balances.

7. Group Cash Flow Statement – Operating Activities

2015/16 £000s		2016/17 £000s
11,245	Depreciation	16,071
-9,339	Impairment and downward valuations	-69,554
10,219	Impairment of long term debtors	0
326	Amortisation	563
-6,503	Increase/(decrease) in creditors	3,418
3,872	Increase/(decrease) in debtors	-2,058
20	Increase/(decrease) in inventories	-17
507	Movement in pension liability	-733
0	Contributions to/(from) provisions	945
7,648	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	7,518
2,204	Other non-cash items charged to the net surplus or deficit on the provision of services	-1,364
20,199		**-45,211**

2015/16 £000s		2016/17 £000s
-6,463	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-9,119
-2,407	Any other items for which the cash effects are investing or financing cash flows	4,251
-8,870		**-4,868**

8. Group Cash Flow Statement – Operating Activities (Interest)

2015/16 £000s		2016/17 £000s
1,077	Interest received	1,745
-7,201	Interest paid	-8,125
0	Dividends received	0
-6,124		**-6,380**

9. Group Cash Flow Statement – Investing Activities

2015/16 £000s		2016/17 £000s
-40,060	Purchase of property, plant and equipment, investment property and intangible assets	-37,422
0	Purchase of Available for Sale Financial Instruments	-19,000
-57,500	Purchase of short-term and long-term investments	-27,000
-46,300	Other payments for investing activities	0
6,486	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	9,119
45,500	Proceeds from short-term and long-term investments	35,500
0	Proceeds from Available for Sale Financial Instruments	29,500
0	Capital Grants Received	-4,251
5,396	Other receipts from investing activities	0
-86,478	**Net cash flows from investing activities**	**-13,554**

10. Group Cash Flow Statement – Financing Activities

2015/16 £000s		2016/17 £000s
57,823	Cash receipts of short- and long-term borrowing	45
-3	Billing Authorities - Council Tax and NNDR adjustments	0
-155	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts	-120
-14,142	Repayments of short- and long-term borrowing	-7,175
4,139	Other payments for financing activities	0
47,662	**Net cash flows from financing activities**	**-7,250**

11. Group Defined Benefit Pension Scheme

Northampton Partnership Homes is a fully owned subsidiary of Northampton Borough Council therefore details of the Northampton Partnership Homes pension scheme need to be combined with the Northampton Borough Pension scheme to give an understanding of the group pension scheme. Full details of the Northampton Borough Council pension scheme are in note 28 to the core financial statements.

Northampton Partnership Homes is a member of the Local Government Pension Scheme administered by Northamptonshire County Council. This is a funded defined benefit scheme which provides index linked retirement benefits to employees who choose to join.

The scheme was opened on 5th January 2015 when employees of Northampton Partnership Homes Ltd transferred from Northampton Borough Council under Transfer of Undertakings (Protection of Employment) (TUPE). At the time of admission the Company scheme was fully funded under the actuarial valuation assumptions made. However the figures presented in these financial statements are reported under the requirements of IAS19, which are prepared on a different basis to the actuarial valuation.

The following tables give details of the pension assets and liabilities for the Group, including Northampton Borough Council and Northampton Partnership Homes.

The following transactions have been made in the group comprehensive income and expenditure statement and the general fund balance via the group movement in reserves statement during the year:

Cost of Service	2015/16 £000s	2016/17 £000s
Current service cost	3,834	3,608
Past service cost (including curtailments)	10	0
Gain from settlements	0	0
Pension contribution adjustment	-4	-52
net interest expense	5,003	4,477
Total post-employment benefits charged to the surplus or deficit on the provision of services	**8,843**	**8,033**
Other post-employment benefits charged to the comprehensive income and expenditure statement		
Return on plan assets (excluding the amount included in the net interest expense)	4,218	36,568
Actuarial gains and losses arising on changes in demographic assumptions	0	3,241
Actuarial gains and losses arising on changes in financial assumptions	-26,834	-45,815
Other expenditure	-5,724	-17,208
Total post-employment benefits charged to the comprehensive income and expenditure statement	**-19,497**	**-15,181**
Movement in reserves statement		
Reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the code	18,661	-31,122
Employers contributions payable to the scheme	6,096	6,297

Reconciliation of the movements in fair value of scheme assets:

	2015/16 £000s	2016/17 £000s
Opening fair value of scheme assets	174,877	173,444
Interest income	5,560	6,036
Return on plan assets excluding the amount included in the net interest expense	-4,218	41,952
Contributions from employer	8,340	8,818
Contributions from employees into the scheme	847	934
Benefits paid	-11,962	-12,152
Assets distributed in settlements	0	0
Closing fair value of scheme assets	**173,444**	**219,032**

Reconciliation of the movements in the present value of the defined benefit obligation:

	2015/16 £000s	2016/17 £000s
Opening present value of scheme liabilities	332,950	303,683
Current service cost	3,834	3,608
Interest cost	10,563	10,513
Contribution from scheme participants	847	733
Actuarial gains/losses arising from changes in demographic assumptions	0	-3,503
Actuarial gains/losses arising from changes in financial assumptions	-26,835	55,629
Actuarial gains/losses arising from other experience	-5,723	17,210
Past service cost	10	0
Benefits paid	-11,962	-11,951
Liabilities extinguished on settlements	0	0
Closing present value of scheme liabilities	**303,684**	**375,922**

Fair value of plan assets:

	2015/16 £000s	2016/17 £000s
Equity securities		
Consumer	13,740	15,992
Manufacturing	0	511
Energy & utilities	6,856	12,994
Financial institutions	12,929	16,046
Health and care	7,948	7,702
Information technology	11,956	14,933
Other	10,406	14,501
Debt securities		
UK Government	14,682	19,704
Private equity		
All	103	367
Real Estate		
UK property	15,572	17,013
Investment funds and unit trusts		
Equities	59,310	76,613
Bonds	16,688	17,421
Cash and cash equivalents		
All	3,254	5,235
Total	**173,444**	**219,032**

12. Group External Audit Costs

Fees payable for external audit services across the Group are detailed below:

Group Auditor Fees	2015/16 £000s	2016/17 £000s
Northampton Borough Council Auditor Fees	167	104
Northampton Partnership Homes Auditor Fees	21	27
Total Group Auditor Fees	**188**	**131**

I. GLOSSARY OF TERMS

Accruals

The accruals concept requires that the cost or benefit of a transaction is shown in the period to which the goods or services are received or provided, rather than when the cash is paid or received.

Actuary

An independent and appropriately qualified adviser who carries out statutorily required pension fund valuations.

Actuarial Basis

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

Actuarial Valuation

An actuary undertakes valuations by checking what a pension scheme's assets are worth compared to its liabilities. The actuary then works out how much needs to be paid into the scheme by the employer and the members to make sure that there will be enough money to pay the pensions when they are due.

Admitted Bodies

Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

Amortisation

The process of reducing the value of an asset or liability over its useful life.

Capital Receipts

Proceeds from the sale of capital assets such as land or buildings. They are available to finance new capital outlay and to repay existing loan debt.

Community Assets

Assets which are held for the benefit of the community where there is no determinable useful life, such as works of art.

Council Tax

Council Tax is a local taxation that is levied on dwellings within the local Council area, and funds all Council services.

Creditor

Represents the amount that the Council owes other parties.

Debtor

Represents the amounts owed to the Council.

Deferred Grants

Amounts received or receivable that have been used to finance capital expenditure. Under the capital accounting arrangements these amounts will be released to offset depreciation in respect of the fixed assets to which they relate.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of a long-term asset.

Dividend

The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall.

Earmarked Reserves

Reserve balances which have been set aside for future spending in a specific area.

Fair Value

Usually the amount that would be paid for an asset in an active market, however where there is no market for a certain type of asset (such as schools) other methods to determine fair value are used.

General Fund (GF)

This is the main revenue account of the council. Day to day transactions are conducted through this account, with the exception of those relating to the Housing Revenue Account, Collection Fund or any other trust funds held by the Council.

Grants

Payment towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

Impairment

Impairment of an asset is caused either by a consumption of economic benefits, a deterioration in the service provided by an asset, or by a general fall in prices of that particular asset.

Infrastructure Assets

Expenditure on works of construction or improvement but which have no tangible value, such as construction of, or improvement to highways.

Intangible Assets

Non-monetary assets that cannot be seen, touched or physically measured, but can be identified as a separate asset.

International Financial Reporting Standards (IFRS)

Regulations outlining the method of accounting for activities, issued by the International Accounting Standards Board.

Inventory

Fair value of current assets purchased which have not yet been consumed.

LOBO

Lender Option Borrower Option (Loans at market rates).

Member

A Councillor, a member of the Council.

Minimum Revenue Provision (MRP)

This is the amount we have to set aside out of our revenue to repay loans.

Net Book Value (NBV)

The value of an asset after depreciation.

Non-Distributable Costs

Costs that cannot be specifically applied to a service and are held centrally.

Officer

Employee of the Council.

Payment in Advance

A charge taken into account when preparing the financial statements, which are for benefits to be received in a period after the accounting date.

PFI Credits

The financial support provided to Local Authorities to part fund PFI capital projects.

Precept

This is an amount we receive from district and borough Councils (for Council Tax collected on our behalf) so that we can cover our expenses less our income. We also pay precepts to authorities such as the Environment Agency.

Private Finance Initiative (PFI)

A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.

Provision

Potential costs that the Council may incur in the future because of something that happened in the past, which are likely or certain to be incurred and a reliable estimate can be made to the costs.

Provision for Bad and Doubtful Debts

A prudent reduction in the reported level of income owed to the Authority for non-payment of invoices and other debt.

Prudential Borrowing

Borrowing which is financed from the Council's own resources and conforms to the Prudential Code.

Public Works Loan Board (PWLB)

A government body set up specifically to lend money to local authorities.

PVEQ

Plant, Vehicles and Equipment.

Revaluation Gain

The increase to the fair value of an asset following a valuation.

Revenue Support Grant (RSG)

Government funding which provides general support for council services.

Straight Line Basis

The method of calculating depreciation via charging the same amount each year over the life of the asset.

Subsidiary

An organisation that is under the control of the Council aka the Council is the majority shareholder.

Surplus

The remainder after taking away all expenses from income.

Useful Life

The period with which an asset is expected to be useful to the Authority in its current state.

J1. ACCOUNTING POLICIES

Appendix 1 – Accounting Policies 2016/17

1.1 INTRODUCTION

The accounting policies for the Authority have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code for Local Authority Accounting. Where there is no specific guidance in the CIPFA Code, the Authority has developed its own accounting policy, which is aimed at creating information, which is:

- Relevant to the decision making needs of users; and
- Reliable, in that the financial statements:
  - Represent faithfully the financial position, financial performance and cash flows of the entity;
  - Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
  - Are neutral i.e. free from bias;
  - Are prudent; and
  - Are complete in all material respects.

This document outlines how Northampton Borough Council (the Council) will account for all income, expenditure, assets and liabilities held and incurred during the 2016/17 financial year.

The accounting policies of the Authority are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authorities accounts.

The accounting policies of the Authority as far as possible have been developed to ensure that the accounts of the Authority are understandable, relevant, reliable and comparable, and free from material error or misstatement.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and certain categories of financial instrument.

A **Glossary of Terms** can be found in section I.

1.2 ACCOUNTING PRINCIPLES

a Going Concern

The Authority prepares its accounts on the basis that the Authority is a going concern; that is that there is the assumption that the functions of the Authority will continue in operational existence. In the case of a pending local government reorganisation, where assets and liabilities are due to be redistributed, the Authority would still account on the basis of going concern as the provision of services would continue in another authority.

b Accruals Concept

The Authority accounts for income and expenditure in the period to which the service to which it relates has taken place, rather than when cash payments are received or made.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet respectively. Equally, where cash has been received or paid which is not yet recognised as income or expenditure, a creditor (income in advance) or debtor (payment in advance) is recorded in the Balance Sheet respectively and the Comprehensive Income and Expenditure Statement adjusted accordingly.

c Overheads and Support Costs

The costs of overheads and support services are charged to service segments in accordance with the authorities' arrangements for accountability and financial performance.

d Value Added Tax

Income and expenditure treated as either capital or revenue, excludes any amounts related to VAT. All VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it. Any amounts outstanding (payment or receipt) at the year-end date is held as a creditor or debtor after netting off the amounts due / owed.

e Changes in Accounting Policy

Where there is a known future change in accounting policy required by the CIPFA Code, the Authority will disclose in the notes to the accounts:

- The nature of the change in accounting policy;
- The reasons why applying the new accounting policy provides reliable and more relevant information;
- For both the current reporting period, and the previous year comparatives reported, the extent to which the change in accounting policy would have impacted on the financial statements if it had been adopted in that year;
- The amount of adjustment relating to years previous to those reported in the set of financial statements, had the proposed policy been adopted retrospectively;
- If retrospective application is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

The Authority will also disclose information relating to an accounting standard, which has been issued but not yet adopted.

f Previous Year Adjustments

Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

i) Was available when financial statements for those periods were authorised for issue; and

ii) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights, or misinterpretations of facts, and fraud.

Where those errors are thought to be material, an adjustment will be entered into the financial statements comparative year balances, and the columns headed restated. In addition full disclosure as to the nature, circumstance, and value of the adjustment will be disclosed in the notes to the accounts.

g Events after the Balance Sheet date

Where there is a material post balance sheet event, a disclosure in the notes to the accounts will be included. If this event provides additional evidence of conditions that existed at the Balance Sheet date, and materially affects the amounts to be included in the accounts; adjusting items will have been shown in the accounts.

h Exceptional and extraordinary items and prior period adjustments

Exceptional and extraordinary items will have been disclosed separately on the face of the Comprehensive Income and Expenditure Statement and details will be disclosed in the notes to the accounts.

i Contingent assets and liabilities

Where the Council has a contingent asset or liability this will be disclosed as a note to the accounts.

Capital Accounting

j Recognition of Capital Expenditure (de-minimis Policy)

In accordance with International Accounting Standard 16 (IAS 16), the Council recognises non-current assets when all four of the following tests are met:

- Assets held for use in the production or supply of goods or services, rental to others, or for administrative purposes.
- Assets expected to be used for more than one financial period.
- Assets where it is expected that future economic benefit will flow to the Authority.
- Assets where the cost can be measured reliably.

The capital cost of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner required by management.
- Initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the Authority incurred either when the asset was acquired or as a consequence of having used the asset during a particular period for purposes other than producing inventories during that period.
- Subsequent expenditure that will substantially increase the market value of the asset.
- Subsequent expenditure that will substantially increase the extent to which the Authority can use the asset for the purpose, or in conjunction with the functions of the Authority.

The Authority has a general de-minimis level of £6,000 for capital expenditure purposes. Where an asset has been acquired for less than £6,000 but has been funded by ring fenced capital funding, this will be treated as capital.

Capital Assets are held on the balance sheet as non-current assets, unless otherwise stated.

k Non-Current Asset Classification

The Authority manages its assets in the following categories:

- **Intangible Assets.**

  In line with International Accounting Standard 38 (IAS 38), the Authority recognises intangible assets as non-monetary assets without physical substance, where that asset meets the capital expenditure criteria set out in accounting policy j.

- **Property, Plant and Equipment Assets**

  Property Plant and Equipment Assets are subcategorised into Operational Land and Building, Community Assets, Vehicles Plant and Equipment, Infrastructure Assets, Assets Under Construction and Non-Operational Assets.

  - **Land and/or Buildings Assets**, in line with IAS 16, are recorded, valued and accounted for based on their significant components.

  - **Community Assets** are assets that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect for sale or change of use.

    If the asset is used for a specific operational purpose, it does not qualify as a community asset and should be valued accordingly.

    Test for Community Assets:

    - Is the intent to hold the asset forever?
    - Does the asset have an indeterminable useful life?
    - Are there restrictions on disposal?

    The answers for the first two questions have to be yes, while an affirmative answer to the third question is not obligatory but may help determine the correct classification.

  - **Infrastructure Assets**, include all tangible (physical) assets required within the authorities land drainage system, and cemetery roadways. There is no prospect for sale of infrastructure assets; expenditure is only recoverable through continued use of the asset.

  - **Vehicles, Plant and Equipment Assets and Assets under Construction** are also classified as Property Plant and Equipment where they do not meet the criteria for Investment Property Assets or Assets Held for Sale.

  - **Surplus Assets** are assets, which the Authority no longer operates from, however do not meet the definition of held for sale. All surplus assets are treated in the same way as operational assets of the same type (valuation, depreciation, recognition etc.).

  - **Heritage Assets** are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that make it important to ensure that they are preserved for future generations. They may be any kind of asset including buildings, works of art, furniture, exhibits, artefacts, etc. or intangible assets such as recordings of significant historical events.

    As such, assets in this category are held principally for their contribution to knowledge and/or culture.

  - **Investment Property Assets** are items of land and / or buildings held by the Authority solely for the purpose of rental income generation or capital appreciation or both.

    Therefore, where there is a service of the Authority being delivered from the property, this is not classified as Investment Property Assets. This includes where the intention of the asset is to generate economic growth to an area such as below market value rental.

Some 'Assets Under Construction' will also be classified as 'Investment Property Assets' where the intended eventual use is rental income generation or capital appreciation.

- **Assets Held for Sale**

  The Authority will classify assets as held for sale where:

  - The asset is in the condition required for sale and is vacant.
  - The assets sale is highly probable.
  - The asset has been advertised for sale and a buyer sought.
  - The completion of the sale is expected within 12 months.

  Assets which become non-operational / surplus which do not meet all of the requirements set out as assets held for sale continue to be classified and accounted for as their previous category. In addition, if the asset later no longer meets the criteria, it is restored to its previous classification and all transactions, which would have occurred, shall be retrospectively applied as though the asset had never been held for sale. Investment properties, which become available for sale, remain as Investment Properties.

  Assets meeting the criteria as held for sale are held as current assets on the balance sheet as income is expected within 12 months.

  It is possible that assets meet the criteria to be held for sale; however a change in circumstance beyond the control of the Authority means that the sale is delayed beyond 12 months. In these instances the Authority follows the policies outlined for assets held for sale; however disclosure of the value for these assets is within non-current assets.

l Non-Current Asset Valuation Methodology

The various classifications of assets as outlined in accounting policy k are valued on differing basis. Where not explicitly stated otherwise, property revaluations are completed by an RICS qualified valuer, on a 5 year rolling programme i.e. 20% of the Council's assets are revalued each year. Valuations are carried out in accordance with IFRS Fair Value Measurement.

Where there is an upward revaluation, the carrying value is increased and the associated credit charged directly to the revaluation reserve. This is then reflected in the MIRS as a revaluation gain. Where there is a revaluation, which results in a lower than carrying amount valuation, this is treated in line with accounting policy m impairment of assets. Exceptionally, gains might be credited to the Surplus/Deficit on Provision of Services where they arise from the reversal of a loss previously charged to a service.

Valuations are completed as follows:

- **Intangible Assets -** the Authority recognises Intangible Assets at cost. The Authority will revalue intangible assets annually where there is determinable market value for the asset.
- **Property Plant and Equipment -** Property Assets are held at fair value, which is the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of exiting use value (EUV) in accordance with IFRS 13. As a matter of last resort, where no other valuation method can be used, depreciated replacement cost is used.

  The existing 2016/17 valuation of Delapre Golf Course was completed using the investment method of valuation. The rental income was considered and the passing rent was capitalised at a yield that was felt to be sufficient to reflect the risk profile of the property as an investment, taking into account the covenant strength of the tenant, the likely sustainability of the rent and the length of the lease.

However, Royal Institution of Chartered Surveyors (RICS) guidance suggests that as Golf Course valuation is a specialised sector of the market and comparable evidence is scarce, the accurate valuation of golf courses will depend on many issues, some of which are not found when valuing other property types, including:

- An understanding of golf, its development and operation;
- An appreciation of the physical features of the property in question and other factors influencing value;
- A thorough understanding of the trading accounts of the business;
- An ability to prepare accurate forecasts for the fair maintainable trade; and
- A detailed knowledge of the market.

For 2016/17, the Council did not have all of the required information to fully undertake a valuation of the Course based on RICS Guidance. The impact of substituting the investment method of valuation is currently unknown and therefore does present an element of uncertainty on the valuation figure which it has not been possible to quantify.

For 2017/18, the valuation of Delapre Golf Course will be completed by a specialist valuer, using a methodology based on the RICS guidance and the latest trading accounts provided by the tenant.

  - **Council Dwellings –** Land and building structure are valued at EUV for Social Housing, being an appropriate percentage of market value. Individual components are valued at Depreciated Historic Cost.
  - **Plant Vehicles and Equipment -** are held at depreciated historic cost.
  - **Assets Under Construction –** are held at historic cost**.**
  - **Community Assets -** the Authority recognises Community Assets at depreciated historic cost.
  - **Surplus Assets –** are held at fair value.
  - **Infrastructure Assets -** the Authority recognises Infrastructure Assets at depreciated historic cost (not revalued).

- **Investment Property Assets -** Investment Properties are annually revalued at fair value, which is to be interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value. This includes investment property under construction. The fair value of investment property held under a lease is the lease interest.
- **Assets Held for Sale -** Assets held for sale are held at fair value.
- **Heritage Assets –** Heritage Assets are held at valuation where practicable (and at depreciated historic cost where it is not practicable to obtain a valuation).

m Impairment of Non-Current Assets

The accounting policy has been created in accordance with IAS 36.

Impairment is the amount to which the carrying amount of an asset exceeds the recoverable amount.

At the end of each reporting period the Authority assesses whether there is any indication that an asset may be impaired

The Authority recognises impairment as:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an assets market value during the period;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Authority to undertake a significant reorganisation; and
- A significant adverse change in the statutory or other regulatory environment in which the Authority operates.

Where there has been a previous revaluation taken to the revaluation reserve, an impairment up to that value would reverse the previous revaluation. Any further impairment or if there has been no previous revaluation, the impairment is charged to revenue. This is then reversed through the movement in reserves statement and charged to the capital adjustment account.

n Disposal of Non-Current Assets

Where an asset is identified as surplus to requirements, and meets the definition of an asset held for sale (see note k) it will be accounted for in accordance with note k, where an asset does not meet the classification of available for sale it will be tested for impairment, prior to being made available for disposal. There will be no impairments at the point of disposal. When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Sale proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts are credited to the Useable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Reserve from the movement in reserves statement. The value of the asset is transferred to the capital adjustment account via the movement in reserves statement.

Sale proceeds below £10k are below de-minimis and are credited straight to the Comprehensive Income and Expenditure Statement.

o Depreciation / Amortisation Methodology

Depreciation is provided for on all completed assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. Depreciation is calculated using the Straight-Line method over the determined life of the asset. The Council depreciates assets in the year of acquisition and disposal. This is in accordance with regulations. Where an asset has major components with different estimated useful lives, these are depreciated separately.

Residual values

Asset Type	Assumed Residual Value
Property Assets	Land Value only
Vehicles, Plant and Equipment	Nil
Intangible Assets	Nil

Useful Economic Lives of assets are:

Asset Group	Useful economic Lives (UELs)
Council Dwellings	50 years
Housing Buildings	10-70 years*
Other Buildings	4-69 years*
Land	Not depreciated
Community Assets	15-50 years*
Heritage Assets	Not depreciated*
Infrastructure Assets	25 years
Intangible Assets	3-10 years*
Vehicles, Plant and Equipment	3-25 years*
Investment Properties	Not depreciated
Assets Held for Sale	Not depreciated
Surplus Assets	5-60 years*

* Depending on the nature of the specific asset

In the Year of acquisition and disposal, the Authority charges a quarter of the annual depreciation where the asset is owned on the first day of each financial quarter.

Individual components within Council Dwellings are depreciated separately from the building structure, using the following lives:

Asset Group	Useful Economic Lives (UELs)
Kitchens	20 years
Bathrooms	30 years
Windows and Doors	30 years
Heating Systems	20 years
Lights and Electric	25 years

p Component Accounting

For **Council Dwellings** the following components are valued, enhanced and depreciated separately – Kitchen, Bathroom, Windows and Doors, Heating Systems and Lights and Electrics. No other components are material and are therefore treated as part of the building structure. The separately identified components will be depreciated over their useful lives. They will be derecognised when replaced by new components.

For **all other assets**, components will only be shown separately in the asset register if they are significant i.e. if they cost more than £250,000 and their cost amounts to more than 25% of the total cost of the asset. Where the value of an asset is not known, Gross Book Value will be used as a proxy for the determination of significant components.

Land and buildings will be separately valued. The building component will be fully depreciated over its useful life, the residual value of the whole asset being the land component.

The nature of property assets is such that any revaluation relates mainly to the land and structure so will not be passed down to any individual components that have been identified.

Non-dwelling assets will be considered for componentisation if they are material, i.e. have a total building valuation in excess of £1m. Components will only be separately valued if they are significant, i.e. above the de-minimis level of 25% detailed above.

Components will only be separately valued if they are significant, i.e. above the de-minimis level detailed above.

Components will be derecognised if their replacement is deemed to be significant under this policy, i.e. if the cost of it is more than £250,000 and amounts to more than 25% of the total cost of the asset.

Where significant components, as defined above, have been separately recorded on the Asset Register they will be depreciated over their useful lives.

q Leases

In line with the interpretation IFRIC 4, the Authority recognises a lease to be any agreement, which transfers the right to use an asset for an agreed period in exchange for payment, or a series of payments.

This includes; leases, hire purchase, rental, contracts of service, service level agreements and any other arrangement where the ability to use an asset is conveyed.

r Defining a Finance Lease

A finance lease is where substantially all of the risks and rewards incidental to ownership transfer to the lessee.

Tests to give an indication of the transfer of risk and reward are:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. hire purchase).
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised.
- If the lease term is for the major part of the economic life of the asset even if title is not transferred.
  - The economic life of the asset is deemed to be that which is consistent with the class of asset in the depreciation policy.
  - The Authority recognises major part to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
  - The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease.
  - If this rate cannot be determined the incremental borrowing rate applicable for that year is used.

- The Authority recognises “substantially all” to mean 90% of the value of the asset. In some circumstances, a level of 75% can be used if the Council believes that using this level will give a result that better reflects the underlying transaction.

- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- If the lessee cancels the lease, the losses of the lessor, associated with the cancellation are borne by the lessee.
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

A suitably experienced accountant, with assistance from qualified valuers, will make a judgement based on the level of risk and reward held by the Authority as to whether an asset is operating or finance.

s Defining an Operating Lease

Any lease which is not a finance lease is recognised by the Authority to be an operating lease.

t Lessee Accounting for a Finance Lease

Where the Authority is tenant in a property, or is, by definition of IFRIC 4, leasing an asset which is deemed under IAS 17 to be a finance lease the Authority will recognise that asset within the asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the asset, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease payments are made. Lease payments made to the lessor, are split between the repayment of borrowings, and interest, which is charged to the Income and Expenditure account.

u Lessor Accounting for a Finance Lease

Where the Authority is the lessor for a finance lease, the asset is not recognised in the asset register; however a long-term debtor at the present value of minimum lease payments is recognised. Income received is split between capital - credited against the debtor, and finance income credited to the Comprehensive Income and Expenditure Statement as interest receivable.

v Lessor Accounting for an Operating Lease

Where the Authority is the lessor for an operating lease, normally the asset is classified as an investment property. Any rental income is credited to the relevant service income.

w Lessee Accounting for an Operating Lease

Costs associated with operating leased assets where the Authority is the lessor are charged immediately to the relevant revenue service expenditure within the net cost of services on an accruals basis.

x Service Concession Agreements (PFI and other similar contracts)

PFI and similar arrangements are usually agreements with the private sector for the construction or enhancement of fixed assets needed to provide services to a public sector body. PFI and similar contracts are assessed against criteria within IFRIC 12 (Service Concession Arrangements) to determine whether the risks and rewards incidental to ownership lie with the Authority or the contractor.

Where these lie with the contractor, all payments made during the life of the contract are chargeable to revenue as incurred.

Where these lie with the Authority, the Authority shall assess them against two tests:

a) The local authority controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and where

b) The local authority controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

Where test a) is met but not test b) the arrangement is reviewed to see if it contains an embedded lease, in which case this will be accounted for in accordance with the Authority's leasing policies.

Where test b) is met but not test a) the Authority will recognise the difference between the expected value of the fixed assets at the end of the arrangement and the amount (if any) it will have to pay the contractor then.

Where both tests are met the Authority will recognise a Property, Plant or Equipment asset in the Balance Sheet for value of the construction costs. Once recognised this asset is treated in line with the Authority's other PPE assets. A corresponding long-term liability of equal value is also recognised.

Payments made during the life of the contract are split into finance costs, capital costs and service costs. The split of payments is calculated at the inception of the contract and is based on the inherent interest rate within the original agreement. Finance costs are chargeable to the Comprehensive Income and Expenditure Statement as Interest payable. Capital Costs reduce the level of liability in the Balance Sheet. Service costs are chargeable to the relevant revenue service expenditure. Pre-payments or Dowry payments reduce the level of liability at the start of the contract.

PFI Credits are treated as general revenue government grants.

y Capital Grants and Contributions

The Authority recognises capital grants and contributions as being related to capital assets and uses them to fund capital expenditure on those assets. Grants, contributions, and donations are recognised as income at the date that the Authority has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received.

Any grant received before these recognition criteria were satisfied would be held as a capital grant received in advance. Any grant, which had met the recognition criteria but had not been received, would be shown in the Comprehensive Income and Expenditure Account with a corresponding debtor. This is in line with the accruals concept policy.

Once the recognition criteria above have been satisfied, capital grants are recognised as income in the relevant service revenue account within the net cost of services.

In order to not impact on the level of Council Tax, the Authority removes the credit from the General Reserves through the Movement in Reserves Statement, and crediting to the Capital Grants Unapplied Reserve.

Once expenditure has been incurred on the related asset, the credit is removed from the Capital Grants Unapplied Reserve and credited to the Capital Adjustment Account.

Relevant Government Grants are treated in accordance with this policy.

z Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions or that is capital in nature but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

aa Minimum Revenue Provision (MRP)

The Council has implemented the 2012 CLG Minimum Revenue Provision (MRP) guidance, and assessed their MRP in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Where a historical debt liability was created prior to 1st April 2008, MRP will be charged at the rate of 4% on the reducing balance, in accordance with Option 1 of the guidance, the “regulatory method”.

The debt liability relating to capital expenditure incurred from 2008-09 onwards is subject to MRP under option 3, the “asset life method”, and is charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, is related to the estimated life of that building.

Estimated life periods are determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council generally adopts these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

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

The Council seeks to spread MRP charges prudently in relation to asset lives, and with regard to the revenue impact of MRP charges. Where prudent to do so, capital receipts are used to repay borrowing previously taken out in relation to assets with a short life. MRP on residual debt is based on the lives of the remaining asset for which borrowing was undertaken.

MRP is charged from the financial year after the asset comes into use. In cases where the Council has approved the use of capital receipts to fund the asset, this funding is assumed when the receipt is contractually certain, even if not actually received. In such cases no MRP charge is made.

Where finance leases are held on the balance sheet, the MRP is set at a charge equivalent to the element of the annual lease charge that goes to write down the balance sheet liability, thereby applying Option 3 in a modified form.

The Council has taken advantage of any transitional arrangements introduced to minimise or negate the impact of retrospective accounting adjustments as a result of the transfer to the balance sheet of finance leases previously treated as operating leases under the introduction of IFRS.

ab Capital Reserves

The Authority holds capital reserves for the purpose of financing capital expenditure. Reserves will be disclosed as either usable (available to fund capital expenditure) or unusable (reserves held as a result of timing differences associated with recognition of capital expenditure and related financing).

Movements in capital reserves are accounted for through the Movement in Reserves Statement.

Revenue Accounting

ac Recognition of Revenue Expenditure.

The Authority recognises revenue expenditure as expenditure, which is not capital.

ad Employee Costs

In accordance with IAS 19, the Authority accounts for the total benefit earned by employees during the financial year.

Employee Costs are split into 3 categories; short term benefits, termination benefits and pensions costs.

Short-term employee benefits:

- **Salaries and Wages -** The total salary and wages earned by employees within the financial year have been charged to the revenue expenditure account. Where the amount accrued exceeds the amount paid at the 31st March, a creditor will be reflected in the accounts.
- **Leave Owed -** The Authority allows employees to earn time off in one period and carry forward amounts of accrued leave into the following period, such as annual leave, flexi-time and time off in lieu. The cost associated with this leave is attributable to the period in which it is earned, rather than when it is exercised. As such a charge has been made to the service revenue account and a creditor accrual has been reflected in the Balance Sheet.
- **Maternity/Paternity Leave -** The obligation upon the Authority to allow maternity leave and pay maternity pay occurs in mid stages of pregnancy. The cost associated with this leave is attributable to the period in which the obligation is created, rather than when it is exercised. As such a charge has been made to the service revenue account and a creditor accrual has been reflected in the Balance Sheet for time off owed at the 31st March.

Termination Benefits

- **Redundancy Costs -** The obligation to pay redundancy costs occurs when there is a formal plan to create redundancies, which has been approved. The plan would include the location, function and approximate number of employees affected; the termination benefits offered; and the time of implementation. When these recognition criteria have been met the Authority recognises the costs associated with this in the service revenue expenditure and create a creditor in the Balance Sheet.

  In the case of an offer to encourage voluntary redundancy, the Authority has recognised the estimated cost based on the expected number of employees taking the offer.

- **Pensions Costs**

  Employees of the Council are members of the Local Government Pension Scheme administered by Northamptonshire County Council. The Scheme provides benefits to members (retirement lump sums and pensions) earned as employees of the Council.

The Local Government Pension Scheme is a defined benefit scheme. The liabilities of the scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of earnings for current employees.

Pension liabilities are measured using the projected unit method and discounted at the balance sheet date rate of return on high quality corporate bonds of equivalent term to the liabilities. The discount rate is the weighted average of spot yields on AA rated corporate bonds.

The change in the net pension liability is analysed into seven components:

- Current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.
- Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.
- Gains/losses on settlements and curtailments the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Comprehensive Income and expenditure.
- Contributions paid to the Northamptonshire County Council Pension Fund – cash paid as employers contributions to the Pension Fund.

  In relation to retirement benefits, statutory provisions require the General Reserves to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Adjustments are therefore made in the Movement in Reserves Statement.

- **Early Retirement, Discretionary Payments -** the Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ae Revenue Grants and Contributions

Grants, contributions, and donations are recognised as income at the date that the Authority has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received. Any grant received before these recognition criteria were satisfied would be held as a creditor (receipts in advance). Any grant, which had met the recognition criteria but had not been received, would be shown as a debtor. This is in line with the accruals concept policy.

Revenue grants will either be received to be used only for a specific purpose, or can be used for general purpose. Those for a specific purpose are recognised as income in the relevant service revenue account (wherever the related expenditure is incurred) within the net cost of services. Those, which are for general purpose, are shown in the foot of the Comprehensive Expenditure and Income Statement, before the net surplus or deficit.

af Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Authority recognises an obligation, based on the best estimate of the likely settlement. When payments are eventually made, it is charged to the provision.

Estimated settlements are reviewed at the end of each financial year and adjustments with the service revenue account are made as required.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

ag Revenue Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax in that year for the expenditure.

The Council maintains earmarked reserves for a number of reasons including: -

- Setting aside money for future policy initiatives;
- To finance expenditure on future projects;
- To mitigate the impact between financial years of expenditure and income on general working balances;
- To mitigate the effect of specifically identified significant risks; and
- To protect the Authority against unexpected events and change in legislation.

The Council's risk-based assessment of the required level of General Fund working balance is shown within the Movement in Reserves Statement. The level of general working balance is considered reasonable due to the mitigation of some risks through the holding of earmarked reserves.

Certain reserves are kept to manage the accounting processes for tangible fixed assets, retirement benefits, and financial instruments and these reserves do not represent usable resources for the Council. The usable Earmarked Reserves are set out in the notes to the Statement of Accounts.

ah Council Tax Recognition

Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The Authority's share of the accrued Council Tax income is obtained from the information that is required by billing authorities in the production of the Collection Fund Statements.

If the net cash paid to the Authority in the year is more than its proportionate share of net cash collected from Council Tax debtors in the year the Authority will recognise a credit adjustment for the same amount in creditors after adjusting for the previous year brought forward and vice versa if net cash paid is less than the proportionate share.

The Cash Flow Statement includes within operating activities the net Council Tax cash received from the Collection Fund in the year (i.e. the precept for the year plus its share of Collection Fund surplus for the previous year, or less the amount paid to the Collection Fund in respect of its share of the previous year's Collection Fund deficit). The difference between the net cash received from the Collection Fund and the Authority's share of cash collected from Council Tax debtors by the billing authority in the year is included within financing activities in the Cash Flow Statement.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

ai Inventories and long-term contracts

Inventories include goods held for future use. Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Inventories are recorded in terms of average cost. Work in progress on long term contracts is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works. The Council currently does not have any contracts that fulfil this criterion.

aj Provisions for bad and doubtful debts

In order to suitably reflect the varied nature of debtors within the Council, the basis for providing for bad debts is specific to the circumstances in each individual department. The general policy followed is:

- No public sector debt is provided for (other Local Authorities, NHS, or Central Government).
- Aged debt is reviewed and a reasonable percentage provided for.

Significant individual invoices are reviewed and wholly provided for where it is thought to be necessary.

<u>Treasury Management</u>

ak Definition of Treasury Management Activities

The Authority has adopted the following definition of Treasury Management activities:

The management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Authority regards the successful identification, monitoring, and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.

The Authority acknowledges that effective treasury management will provide support towards the achievement of its service objectives. It is therefore committed to the principals of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

al Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus any interest accrued to 31st March and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Reserves to be spread over future years.

The Authority has a policy of spreading the gain/loss over the term of the replacement loan subject to a minimum period of 10 years with the case of discounts. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

am Financial Assets

Financial assets are classified into two types:

- **Loans and receivables -** assets that have fixed or determinable payments but are not quoted in an active market.

  Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any interest accrued to 31st March and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, the Council could make loans to organisations or individuals at less than market rates (soft loans).

  When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Reserves is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

- **Available-for-sale assets -** assets that have a quoted market price and/or do not have fixed or determinable payments.

  Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

  Values are based on the following principles:

  - Instruments with quoted market prices the market price.
  - Other instruments with fixed and determinable payments discounted cash flow analysis.

  Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Movement in Reserves Statement. The exception is where impairment losses have been incurred these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

- **Financial assets at fair value through income and expenditure** – The council does not generally deal in derivatives but may take out forward loans from time to time as part of its overall Treasury Management Strategy.

an Interests in Companies and Other Entities

The Council owns one subsidiary, Northampton Partnership Homes, and has prepared Group Accounts, see policy ar. The Council has one Joint Arrangements that is Not an Entity (JANEs), the Joint Planning Unit (JPU): this is not material to the accounts.

ao Business Improvement Districts

The Council collects Business Rates in respect of two Business Improvement Districts (BIDs), the first based on the Brackmills Industrial Estate geographic area, and the second based on the Town Centre geographic area. For both of these BIDs, the Council collects the business rates and pays the amount collected over to the BID on a monthly basis. The money collected is treated as a creditor in the Council's accounts to reflect the fact that the cash received will be paid to the BID and any balances are only there because of a timing issue.

ap Cash and Cash Equivalents

Cash is represented by notes and coins held by the Authority and deposits available on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts only arise as part of the Council's cash management and are therefore netted off against Cash and Cash Equivalents.

Bank overdrafts will only be shown separately as liabilities in the Balance Sheet where they are not an integral part of the Council's cash management; no such instances currently exist that would require separate disclosure from cash and cash equivalents.

aq General Government Grants

General government grants and contributions in the form of Revenue Support Grant, Retained Business Rates, New Homes Bonus, etc. are disclosed on the face of the Comprehensive Income and Expenditure Statement in the line Taxation and Non-Specific Grant Income.

ar Group Accounts

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Council has involvement with a company, and has concluded that the requirement to produce Group Accounts applies in relation to its interest in Northampton Partnership Homes. In the Council's single-entity accounts, the interest in the company is recorded as financial assets at cost less any provisions for losses.

as Non Domestic Rates

The Local Government Finance Act 2012 amended the 1988 Local Government Finance Act to give local authorities the power to retain a proportion of funds obtained from business rates in their area.
The changes under the 'Localisation of Business Rates' means that from April 2013, local authorities retain a share of the income they collect from business rates as funding to meet the cost of service provision. Prior to this date, all business rates in England were paid to Central Government from the billing authorities, and a proportion was then paid back to each authority as Formula Grant.
The Department for Communities and Local Government guidance indicates that each billing authority should formally set a Business Rate Baseline each year. This baseline will be the authority's estimate of the business rates it forecasts to collect in the following financial year, net of any reductions such as reliefs and estimated cost of appeals.
As such, the business rates the Council collected and retained are adjusted for the anticipated outcome of the on-going national backlog of Business Rate appeals cases, which are still currently being assessed by the Valuation Office.

J2. GENERAL INFORMATION

1. PRIOR YEAR ADJUSTMENTS

There have been no material prior periods adjustments identified that require disclosure within Note 1 of the accounts for 2015/16.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT BEEN ADOPTED

The Code of practice on Local Authority Accounting in the United Kingdom (The Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

IAS 1 Presentation of Financial Statements; this standard provides guidance on the form of the financial statements. The "Telling the Story" review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves will change and introduce a new Expenditure and Funding Analysis.

Other minor changes due to Annual Improvement to IFRS cycles, IFRS11 Joint arrangements, IAS 16 Property Plant and Equipment, IAS 38 Intangible Assets and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council's Statement of Accounts.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies laid out in Appendix J1, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events. In the accounts these are as follows:
There is a high degree of uncertainty regarding future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. However the Council takes the view that this uncertainty is not yet sufficient indication that the value of the Council's assets might need to be impaired due to reduced levels of service provision or the need to close facilities.

Valuations of Council Dwellings have been based on the latest Government guidance.
Useful economic lives are based on estimates either from professional (RICS qualified) valuers in the case of property, and service experts in relation to other assets. Infrastructure has a useful economic life of 25 years in line with CIPFA guidance.
Estimates and judgements are evaluated based on historical experience and other factors including horizon scanning for future events that are believed to be reasonable under the circumstances. Actual events may differ from these expectations.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends, and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Authority's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment (excluding land) - Depreciation & Useful Lives	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be carried out in relation to individual assets. The current economic climate makes it uncertain how much the authority will be able to spend on repairs and maintenance on these assets, so there is uncertainty in the useful economic lives allocated to each asset.	If useful economic lives are reduced there would be an increase in depreciation and a reduction in the carrying value of the assets. It is estimated that the annual depreciation charge for buildings would increase by approximately £0.356m for every year that useful lives had to be reduced.
Property, Plant and Equipment (excluding land) - Valuations	Assets are valued each year by professional valuers using appropriate valuation methods, judgements, and assumptions. Council dwellings are valued as at 1 April annually, non-investment properties with a closing value of over £300k the previous year are revalued mid-year, and other non-investment property is valued on a 5-year rolling programme part way through the year. The assumptions used and timings of these valuations introduce a degree of estimation risk if property values differ from the valuations used.	The net book value of an asset at 31 March is the value of that asset as it appears on the Balance sheet. - A 1% variation in value on Dwellings is equivalent to £5.53m - A 1% variation in value on other operational property is equivalent to £1.351m
Property, Plant and Equipment - Council Dwellings use of Beacon Properties	Council dwellings are valued by reference to representative properties across the housing estate known as 'beacons'. 20% of these beacons are subject to a full valuation each year on a rolling basis in line with the relevant accounting code and valuation guidance for resource accounting. The beacons valued each year are assessed for their appropriateness, and if the professional valuers deem it necessary are substituted for more appropriate beacons.	This estimation process which is in line with relevant codes and guidance does introduce some uncertainty as only 20% of the representative beacons are valued each year. The selection of alternative beacons in the 20% used for the 2016/17 valuation is estimated to have reduced the total value as at 1st April 2016 of the estate linked to these beacons by 2.2% or £1.98m and this effect has been reflected in the values as at 31 March 2017 included in the balance sheet. However if this trend continued across the remaining 80% of beacons then the impact could be a reduction of £9.3m on the total estimated value of council dwellings.
Benefit Overpayments Provision	The Authority has made a provision of £5.506m in respect of Overpayments to Benefit Claimants. This provision is based upon an analysis of outstanding debt as at year end and is considered prudent in light of the highly uncertain nature of future recovery levels.	As the provision for Benefit Overpayments is currently set at 88.23% of the overall debt, any movement in the level of overpaymen+C4ts will have a corresponding, equivalent impact on the level of provision required.

Insurance Provision and Reserve	The Council has made a provision of £0.245m for actual insurance claims outstanding and a reserve of £1.026m is set aside for unknown future claims. The amount in the reserve is based upon an actuarial report from our independent advisors, who have specialist experience in forecasting.	If the insurance provision proves to be insufficient then funds can be transferred from the insurance reserve. If the level of insurance reserve were to prove incorrect, then the effect would be equivalent to the amount of the additional claims.
Pensions Liability	The Council has a liability for retirement benefits promised under the terms of the pension scheme of £142.692m. Liabilities are measured on an actuarial basis, estimating future cash flows discounted to present values. This estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	If the principal assumptions used to measure the liability were to differ, then the increase in liability would be: - 0.5% decrease in discount rate = £27.729m - 0.5% salary increase = £2.147m - 0.5% increase in Pensions rate = £25.314m
Arrears	The General Fund has provided for a bad debt provision of £1.521m. This is based on modelled assumptions of the amount of debt cleared at various time points. The model is based on past recovery rates but any changes in the economic climate could impact on the recovery of outstanding debts.	The amount of debt having a provision against it equates to £4.212m. Therefore any changes in the recovery of our debts will have a maximum impact of £1.472m.
Business Rates Appeals	The council has made a provision for the effects of business rates appeals (including backdated appeals) of which the NBC element is £4.747.m. This is based on appeals that had been lodged and were outstanding at 31 March 2017. Contingent liabilities have been disclosed in relation to the risk of new appeals that may come forward in the future and other appeals/risks that have been currently assessed as not meeting the IAS 37 criteria for requiring a provision as at 31st March 2017.	If appeals on the list are rejected or settled at a lower value from the amount taken into account in the appeal provision, the provision for the excess would be released. If appeals on the list are settled at a higher value than the appeal provision or appeals are settled that are not included on the list at 31 March, there would be an impact on the business rates income to the authority under the Rates Retention Scheme.
Minimum lease payments on operating leases (authority as lessor)	Future estimates of minimum lease payments contain a number of assumptions about lease rental income and lease periods; for example that leases will not be renewed at the end of their term, and that vacant properties will not be leased at a future date.	If leases are extended beyond their original term or renewed on expiry, and vacant properties are leased out, then future rental income will exceed the minimum lease payments calculated. Conversely if lessees default on their leases or payments then future rental income may be reduced.

This list does not include assets/liabilities that are carried at fair value based on recently observed market prices. For items relating to the Housing Revenue Account, please see section G of the Accounts.

5. EVENTS AFTER THE BALANCE SHEET DATE

The Grenfell Tower fire of 14 June 2017 has highlighted some serious concerns about the fire safety of the country's hundreds of high rise blocks of flats. Although it is not yet known what changes the Government will make to the regulatory framework in relation to fire safety, it is anticipated that additional responsibilities will be placed on social landlords and these will need to be considered as part of the Council's 30 year HRA Business Plan. In the meantime, Northampton Partnership Homes (ALMO) has been working closely with the Council and the Northamptonshire Fire & Rescue Service to review the fire risk assessments for the 11 multi-storey blocks of flats (5 storeys and above) that the Council owns. This review has highlighted no concerns at this stage.

The Council's Chief Executive resigned with effect from end of November 2017, following discussions between NBC and Mr Kennedy it was mutually agreed to make a payment in lieu of notice, and he ceased employment with the authority with effect from end July 2017. Subsequently the Council have appointed on an interim basis to the Chief Executive position an experienced deputy chief executive on secondment from a neighbouring authority with effect from 6 September 2017. Subsequently following a rigorous recruitment process George Candler was appointed as the new permanent Chief Executive and started the role at the end of April 2018.

In March 2018 the Secretary of State for Housing, Communities and Local Government invited all eight principal councils in Northamptonshire to "develop and submit locally led proposals for establishing new unitary authorities across the county which will be right for the communities and people they serve". The Secretary of State's invitation stemmed primarily from the well-documented severe financial and operational plight that Northamptonshire County Council (NCC) faced, continues to face and is expected to otherwise face in future.

A proposal to create two new Unitary Councils for West and North Northamptonshire from April 2020 was submitted to the Secretary of State at the end of August 2018. If this is approved then Northampton Borough would form part of the West Northamptonshire authority along with the current Daventry and South Northamptonshire Council and the current county council services in these areas.

During 2018 the role of Chief Finance Officer (section 151) was brought back under the direct control of the Council. This was following the departure of the previous Chief Finance Officer who was employed by Northamptonshire County Council and contracted to provide the necessary services to the Council. Stuart McGregor was appointed to the role following him covering the role on a temporary basis.

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
			The main changes to the accounts since the Draft accounts relates to Asset Valuations. A corrected discount factor was applied to the Housing Stock valuations and a re-run of all related accounting entries was carried out. Investment property valuations were revised for purchase costs deductions following review by KPMG.	Any changes that relate to these transactions are marked with 'Asset Valuation changes'.
1	Movement In Reserves Statement	19	Total Comprehensive Expenditure & Income changed from (97,447k) to (95,904k). The changes affected both the General Fund, and Housing Revenue Account, Surplus / Deficit on the provision of services and the Usable and Unusable Reserves figures.	Adjustment of 1,543k mainly due to Asset valuation changes.
2	Comprehensive Income and Expenditure Statement	21	Regeneration, Enterprise and Planning was previously 7,306k a change of (249k) a change to 7,057k.	All changes to the Comprehensive Income and Expenditure Statement were caused by the Asset valuation changes and associated costs (Depreciation etc.)
2	Comprehensive Income and Expenditure Statement	21	Housing was previously (83,278k) a change of (6,964k) to (90,242k).	
2	Comprehensive Income and Expenditure Statement	21	Customers & Communities was previously 14,600k a change of 3,667k to 18,267k.	
2	Comprehensive Income and Expenditure Statement	21	The Cost of Services total was previously (54,027k) a change of (3,546k) to (57,573k)	
2	Comprehensive Income and Expenditure Statement	21	Finance and Investment income and expenditure is now 14,482k. This was previously 8,796k, a change of 5,686k due to Investment property valuations and classification	
2	Comprehensive Income and Expenditure Statement	21	Revaluation adjustments effect on the revaluation reserve caused by the Asset adjustments has increased the value by (622k).	

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
2	Comprehensive Income and Expenditure Statement	21	Total Comprehensive Income and Expenditure is now (95,904k) was previously (97,445k) a change of 1,541k	
3	Balance Sheet	22	Property Plant & Equipment was 675,244k and is now 669,579k a change of (5,665k)	Caused by the Asset valuation changes
3	Balance Sheet	22	Investment Property was 7,993k and is now 12,150k a change of 4,157k	Caused by the Asset valuation changes
3	Balance Sheet	22	Short-Term Creditors was (33,490k) a change of (255k)	Minor adjustments to the creditor balances.
3	Balance Sheet	22	Long Term Creditors was (10,225k) and is now (10,216k) - a change of 9k	Minor adjustments to the log term creditor balances.
3	Balance Sheet	22	Other Long-Term Liabilities were (142,976k) and are now (142,802k) a change of 174k	Minor adjustments to the other long term liabilities balances.
4	Cashflow Statement	23	The Net surplus on the Provision of Services was previously 78,498k and is now 76,332k - a change of (2,166k).	Caused by the Asset valuation changes offset by the change in non-cash movements.
4	Cashflow Statement	23	Non Cash movements was previously (47,370k) and is now (45,175) a change of 2,195k.	Caused by the Asset valuation changes offset by Net Surplus change.
5	Expenditure and Funding Analysis	24	Regeneration, Enterprise & Planning was previously 7,305k and is now 7,057k an adjustment of (248k)	Caused by the Asset valuation changes – these changes mirror the movements that have occurred in the CIES.
5	Expenditure and Funding Analysis	24	Housing was previously (83,278k) and is now (90,242k) - an adjustment of (6,964k)	
5	Expenditure and Funding Analysis	24	Customers & Communities was previously 14,600k and is now 18,267k - an adjustment of 3,667k	
5	Expenditure and Funding Analysis	24	Net Cost Of Services was previously (54,027k) and is now (57,573) - a change of (3,546k).	
5	Expenditure and Funding Analysis	24	Other Income & Expenditure was (24,472k) and is now (18,758k) - a change of 5,714k	
5	Expenditure and Funding Analysis	24	Deficit/(Surplus) on General Fund and HRA balance in year was (2,575k) and is now 4,600k - a change of 7,175k	

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
6	Expenditure and Income Analysed by Nature	27	Other Service Expenditure in this note was previously 234,052k and is now 236,191k a change of 2,139k.	Caused by the Asset valuation changes
6	Expenditure and Income Analysed by Nature	27	The Depreciation, Amortisation and Impairment line in this note was previously (26,149k) and is now 44,070k - a change of 70,219k.	Due to asset changes and offset mainly by a change in disposal gain/losses. The main change was due to a £51m Impairment charge to the HRA.
6	Expenditure and Income Analysed by Nature	27	Interest payments was previously 17,866k and is now 16,336k - a change of (1,530k).	Due to investment property changes
6	Expenditure and Income Analysed by Nature	27	Disposal gains have increased from (33,213k) to (98,929k) - an increase of (65,716k).	Due to Asset valuation changes.
6	Expenditure and Income Analysed by Nature	27	Total Expenditure has increased by 5,112k	Due to the Asset valuation changes.
6	Expenditure and Income Analysed by Nature	27	Fees and charges was (245,723k) and is now (255,946k) increase of (10,223k)	Due to Asset valuation changes. Partly offset by Investment changes.
6	Expenditure and Income Analysed by Nature	27	Interest and Investment income reduced by 7,277k from (9,131k) to (1,854k)	Due to the Asset valuation changes.
7	Other Comprehensive Income & Expenditure	28	2015/16 figures were updated to reflect the restatement of the Comprehensive Income and Expenditure Statement	The Comprehensive Income and Expenditure Statement was restated due to a change in format of the note.
7	Other Comprehensive Income & Expenditure	28	Revaluation Gains were previously (6,095k) and are now (8,025k) - a change of (1,930k).	
7	Other Comprehensive Income & Expenditure	28	Revaluation Losses were previously 1,665k and are now 3,568k - a change of 1,903k.	
7	Other Comprehensive Income & Expenditure	28	HRA Revaluation Gains were previously (39,824k) and are now (40,473)k - a change of 649k.	Due to the Asset valuation changes.
7	Other Comprehensive Income & Expenditure	28	HRA Revaluation Losses were previously 7k and are now £58k – an increase of 51k.	
7	Other Comprehensive Income & Expenditure	28	The 'Total' Revaluation Reserve has increased by (625k) which summarises the changes listed above.	
8	Other Operating Expenditure	28	Trading has changed by (502k) due to changes to the Depreciation charges.	Due to the Asset valuation changes.

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
8	Other Operating Expenditure	28	Gains/ Losses on the disposal of non-current assets has increased by 2,031k	
9	Financing and Investment Income and Expenditure	29	2015/16 figures were updated to reflect the restatement of the Comprehensive Income and Expenditure Statement	The Comprehensive Income and Expenditure Statement was restated due to a change in format of the note.
9	Financing and Investment Income and Expenditure	29	Interest Payable decreased by (154k)	Due to the correct breakout of Interest Costs
9	Financing and Investment Income and Expenditure	29	Pension interest increased by 4k	Due to the correct breakout of Interest Income
9	Financing and Investment Income and Expenditure	29	Interest Receivable reduced by 159k	Due to the correct breakout of Interest Income
9	Financing and Investment Income and Expenditure	29	Investment Property costs reduced by 5,685k	Due to the Asset valuation changes.
	Financing and Investment Income and Expenditure	29	Total costs increased by 5,686k	Due to asset adjustments on investment properties
10	Adjustments between Accounting Basis and Funding Basis under regulation	30	Depreciation & Impairment was previously 23,393k and is now 43,989k - a change of 20,596k	Due to the Asset valuation changes.
10	Adjustments between Accounting Basis and Funding Basis under regulation	30	Revaluation gains were previously (104,157k) and is now (106,017k) a change of (1,860k)	
10	Adjustments between Accounting Basis and Funding Basis under regulation	30	Revaluation Losses were 25,416k and are now 8,495k - a change of (16,921k)	
10	Adjustments between Accounting Basis and Funding Basis under regulation	30	Investment Property was (1,087k) and are now (1,326k) - a change of (239k)	

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
10	Adjustments between Accounting Basis and Funding Basis under regulation	30	Gains/Losses on disposals was previously 5,523k and is now 7,554k - a change of 2,031k	
10	Adjustments between Accounting Basis and Funding Basis under regulation	30	Total Capital Adjustment Account was previously (65,273k) and is now (61,576k) - a change of 3,697k	
11	Property Plant and Equipment	38	Revaluation increases/decreases recognised in the Revaluation Reserve was previously 138,836k and is now 40,026k a change of (98,810k)	Mainly due to Council Dwellings updates following the Asset valuation changes
11	Property Plant and Equipment	38	Revaluation increases/decreases recognised in the surplus/Deficit on the Provision of Services was previously (36,305k) and is now 92,616k - a change of 128,921k	Mainly due to Council Dwellings updates following the Asset valuation changes
11	Property Plant and Equipment	38	Derecoginition - Disposals was previously (6,096k) and is now (5,632k) - a change of 464k	Due to the Asset valuation changes.
11	Property Plant and Equipment	38	Derecogniton - Other was previously (1,061k) and is now (2,108k) - a change of (1,047k)	Due to the Asset valuation changes.
11	Property Plant and Equipment	38	Assets reclassified (to) / from investment was previously zero and is now (4,015k)	This is due to the reclassification of the Park Inn and Greyfriars from Other Land & Buildings to Investment Property.
11	Property Plant and Equipment	38	Depreciation was (12,794k) and is now (16,005k) - a change of (3,211k)	
11	Property Plant and Equipment	38	Revaluation Reserve Depreciation was 7,829k and is now 4,844k - a change of (2,985k)	
11	Property Plant and Equipment	38	Depreciation to services was 12,624k and is now 8,111k - a change of (4,513k).	Due to the Asset valuation changes.
11	Property Plant and Equipment	38	Derecognition - Disposals was 107k an increase of 12k.	
11	Property Plant and Equipment	38	Derecognition - Other was 29k an increase of 76k.	

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
12	Property Plant and Equipment Note C Revaluations	40	16/17 revaluations increased by 21,742k. 15/16 figures moved by (566k) offset by the opposite change in the 16/17 figure.	Due to the Asset valuation changes.
13	Property Plant and Equipment Note D Information on Assets Held	41	Dwellings was previously 11,650 and is now 11,584 a reduction of (66) – notes these are asset numbers and not values.	Due to the Asset valuation changes and changes in classifications.
13	Property Plant and Equipment Note D Information on Assets Held	41	Housing Land & Building - Commercial Property was previously all shown under non-operational and is now split showing an increase of 28 units.	
13	Property Plant and Equipment Note D Information on Assets Held	41	Housing Land & Building - Museums was previously zero an increase of 1 unit.	Due to the Asset valuation changes and changes in classifications.
13	Property Plant and Equipment Note D Information on Assets Held	41	Housing Land & Building - Theatres/Cinepod and golf Course was previously shown as Non-Operational assets an increase to 3 units.	
13	Property Plant and Equipment Note D Information on Assets Held	41	Housing Land & Building - Public conveniences has reduced by 1 unit.	
13	Property Plant and Equipment Note D Information on Assets Held	41	Housing Land & Building - Commercial Property was previously all shown under non-operational now split a reduction of 28 units.	
13	Property Plant and Equipment Note D Information on Assets Held	41	Housing Land & Building - Agricultural land was previously shown in surplus assets, an increase of 65.97ha.	

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
13	Property Plant and Equipment Note D Information on Assets Held	41	Community Assets - Commercial Property was previously all shown under non-operational now split an increase of 1 unit.	
13	Property Plant and Equipment Note D Information on Assets Held	41	Investment Assets - Investment, Held for sale and Surplus assets are all new classifications.	
14	Heritage Assets	42	Table updated to show the 16/17 figures. Previously was only showing the prior year figures.	Table update.
15	Investment Property Valuations	43	Net Gains/losses from Fair value adjustments increased by 142k.	Due to Asset valuation changes
15	Investment Property Valuations	43	Transfers to/from Property, plant and Equipment increased to 4,015k.	The change is due to the reclassification of the Park Inn and Greyfriars from Other Land & Buildings to Investment Property.
16	Items available for sale or Fair Value through the Profit and loss	45	Incorrect table showing in the draft accounts. Correct table showing in the Final statements.	Due to incorrect linking of the table in the original file.
17	Financial Assets measured at fair value	45	Incorrect table showing at the top of the page in the draft.	Position of table corrected for the final statements.
18	Investment Type	49	Current Investments Under 1 Year decreased by (31k).	Due to an update of the original working paper values.
19	Creditors	53	Other Entities and Individuals increased by (266k).	Due to an update of the original working paper values.
20	Unusable Reserves	54	Revaluation Reserve increased by (81k) and the Capital Adjustment Account decreased by (3,123k).	Due to Asset valuation changes.
21	Revaluation Reserve	55	Surplus or Deficit on revaluation of non-current assets not posted to the Provision of Services increased by (621k). Depreciation value increased by 294k and accumulated gains on assets sold or scrapped increased by 248k. The overall change was 80k.	Due to Asset valuation changes.

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
22	Available for Sale Financial Instruments Reserve	56	Upward revaluation of investments increased by 15k and Accumulated Gains on assets decreased by (15k).	Due to correcting the classification of the transactions.
23	Capital Adjustment Account	57	Charges for depreciation and impairment of non-current assets has increased by 20,596k to 44,070k.	Due to Asset valuation changes.
23	Capital Adjustment Account	57	Revaluation Losses and Revaluation gains on Property, Plant and Equipment changed by 15,881k in total.	
23	Capital Adjustment Account	57	Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive income and Expenditure Statement increased by 1,995kto 7,518k.	
23	Capital Adjustment Account	57	Adjusting amounts written out of the Revaluation Reserve increased by (542k) to (1,493k).	
23	Capital Adjustment Account	57	Movements in the market value of property increased by (141k).	Due to Asset valuation changes.
24	Intangible Assets	60	The whole table was replaced as it was not correct in the draft.	Updated to show correct data.
25	Officers paid over £50,000	62	Number of employees earning over £50k was changed from 4 to 3. This was due to one officer leaving during the year and their salary was below £50k at the point of departure.	Updated following identification of audit adjustment required.
26	External Audit Costs	63	Table updated to take account of the most up to date information on the Audit Fees available.	Updated the audit fee amounts for the additional work undertaken.
27	Cash flow statement – Operating Activities	89	The overall change to the note was a decrease of 2,195k with most of the detail lines in the note affected.	The majority of the changes were due to the Asset valuation changes
28	Cash flow statement – Financing activities	91	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts increased by (28k).	This was due to the 'Creditor Leases Under 1 Year' transactions originally being omitted from the calculation.
28	Housing Revenue Account Income and Expenditure	92	Depreciation, impairment and Revaluation of Fixed Assets increased by (1,809k).	Due to Asset valuation changes.

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
28	Housing Revenue Account Income and Expenditure	92	(Gain)/Loss on sale on HRA fixed Assets decreased by 1,419k.	
29	Housing Revenue Account Income and Expenditure	92	Surplus or deficit on Revaluation of non-current assets increased by (598k)	
30	Movement in Housing revenue account reserve	93	Both the HRA Income and Expenditure Account and the Net Additional amount required by statute to be moved from the HRA balance for the year moved by +/-984k.	Changes made following asset valuation update which offset each other.
31	Reconciling items for the statement of movement on the Housing Revenue Account Balance	94	Total change to the note is 984k. The changes affected the Revaluation, Gain or Loss on sale, Major Repairs Reserve and Revaluation Reserve lines.	Due to Asset valuation changes.
32	HRA Assets and Capital Transactions	95	Medium Rise flats reduced by (66) units. Summarised by Flats decreasing by (84) units and Houses increasing by 22 units.	Due to Asset classification update.
33	Net Balance Sheet Value	96	Land increased by 8,340k, Dwellings decreased by (7,739k), Other Capital Assets decreased by (17,693k), Non-operational Assets reduced by (10,955k) and Vacant Possession value reduced by (277,734k).	Due to Asset valuation changes.
34	Vacant Possession Value	98	HRA Vacant possession Value decreased by (277,734k) and HRA Existing use decreased by (931k).	Due to Asset valuation changes.
35	Depreciation and Amortisation	98	Dwellings increased by 3,199k, Other Property decreased by (1,522k) and Vehicles, Plant and Equipment reduced by (355k).	Mainly due to Asset valuation changes.
36	Revaluation Gains and Losses	99	Dwellings revaluation losses I&E increased by 6,878k, Dwelling revaluation gains I&E increased by (1,452k), Other property RRA increased by (591k).	Due to Asset valuation changes.

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

Item	Section of the Accounts	Page No	Description of Change	Reason for Change
37	Major Repairs Reserve	99	Council Dwellings Depreciation increased by (3,210k) and the Depreciation adjustments to agree to the MRA increased by 3,210.	Due to Asset valuation changes.
38	Group Movement in Reserves	106	Total reserves decreased by 1,543k.	Due to Asset valuation changes.
39	Group Comprehensive Income and Expenditure Statement	107	Housing increased by (7,964k), Customers and Communities increased by 3,666k, Financing and Investment Income and Expenditure increased by 5,646 and Surplus or Deficit on the revaluation of Property, Plant and Equipment assets increased by (622k).	Due to Asset valuation changes.
40	Group Balance Sheet	109	Long Term Assets reduced by (1,468k) and Net Assets increased by 1,539k.	Due to Asset valuation changes.
41	Group Cash Flow Statement	110	Net Surplus on the provision of Services reduced by (2,166k) and Adjustments to the Surplus on the provision of Services for non-cash Movements reduced by 2,194k.	Due to Asset valuation changes.
42	Group Cash Flow Statement - Operating Activities	112	Depreciation increased by 3,186k, Impairment increased by (1,323k), Creditors increased by 292k, Pension Liability increased by (192k), Carrying amount of Non-Current assets increased by 497k and Non-Cash Items increased by (194k).	Due to Asset valuation changes and the updated actuarial report for the council pension scheme.
43	Group Cash Flow Statement - Financing Activities	113	Cash payments for the reduction of outstanding liabilities relating to finance leases increased by (28k).	Due to updated lease information.
44	Events after the Balance Sheet Date	143	Text note changed to include appointment of the new Chief Executive, a section regarding the Unitary Authority plans and the changes affecting the Chief Finance Officer (section 151) role.	Note updated to show the current position due to the time lapse since it was originally produced.

Appendix 2 – Table of Changes between the September 2017 draft accounts and the final audited accounts

KPMG

External audit report 2016/17

Northampton Borough Council

September 2017
(updated January 2019)

Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016/17 external audit at Northampton Borough Council ('the Authority'). We previously reported on our interim work in our *External Audit Interim Report 2016/17* in July 2017.

We issued our draft ISA260 report in September 2017, our progress report in June 2018, and a further update in November 2018. This updated ISA260 is the final document reporting on our 2016/17 audit.

This report focusses on our initial on-site work which was completed in July 2017 on the Authority's significant risk areas, and our subsequent focus since then on resolving key issues which arose regarding valuations of Property, Plant and Equipment, and Council Dwellings. Our findings are summarised on pages 4 –16.

Following our initial work, we identified an additional significant risk area in the course of our fieldwork. This is the valuation of *'other land and buildings'* and investment properties.

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

We have now completed all of our audit work in relation to the Authority's financial statements following significant delays relating to fixed assets arising from initial delays to the valuation process and issues found in relation to the valuation exercise. Further detail can be found on pages 6 – 12. Subject to completion of our finalisation procedures, we anticipate issuing an unqualified audit opinion on the Authority's financial statements.

Based on our work, we have raised eleven recommendations, see Appendix one. This is in addition to the one recommendation raised in our interim report. Details on our recommendations can be found in Appendix one.

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

Use of resources

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

We are therefore issuing an adverse value for money opinion.

See further details on page 30.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continued hard work and co-operation throughout the audit process.

We ask the Audit Committee to note this report.

The key contacts in relation to our audit are:

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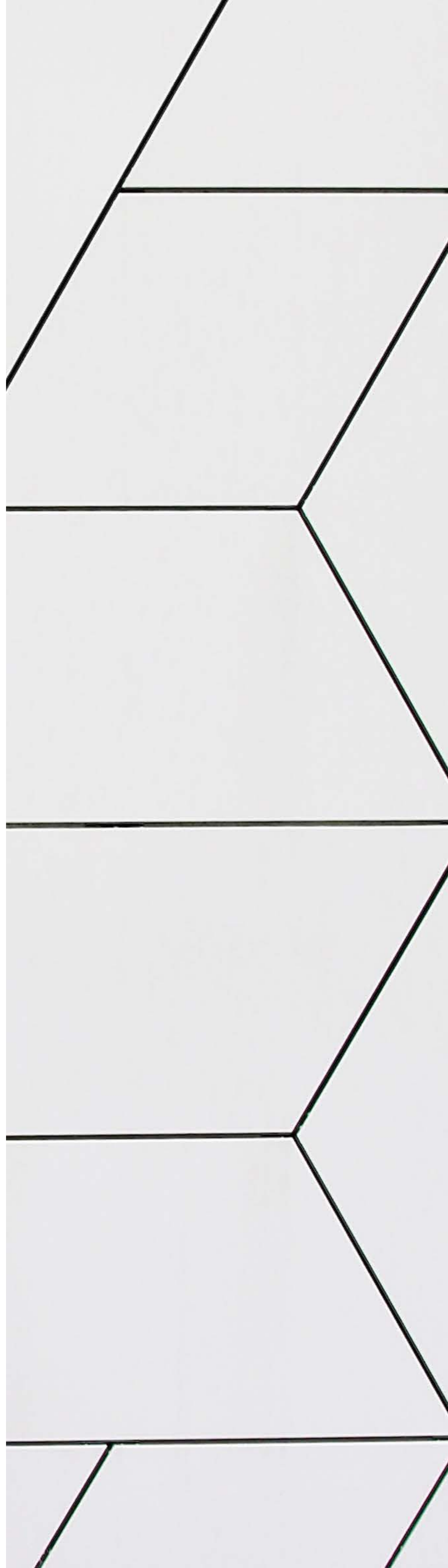
Contents

Section one

Financial Statements

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

For the year ending 31 March 2017, the Authority has reported under the provision of services total income of £290 million against expenditure of £216 million. This has resulted in a net surplus on the provision of services of £77 million. The impact has been an increase in the General Fund.



Significant audit risks

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

Significant audit risks	Work performed
1. Valuation of Council Dwellings	**Why is this a risk?** Due to the identified risk in relation to the valuation of Council Dwellings, we engaged with the Authority earlier to ensure that appropriate arrangements had been considered and put in place to deliver the required valuations. In 2016/17, the Authority has engaged an external valuer to undertake a comprehensive review of beacon assets used within the valuation of the Authority's housing stock. This was in response to a higher-than-expected increase in the opening value of Council Dwellings during the course of the Authority's annual valuation exercise undertaken for the valuation as at 1 April 2016. For the year ended 31 March 2016, the Authority's housing stock was worth approximately £422 million, thus any change in the valuation is potentially a material change. There is also a risk that the beacon assets may not be representative of the Authority's housing stock, thus over or under-valuing the value of Council Dwellings on the balance sheet. The revision of beacon assets is a change in the Authority's estimate of the value of Council Dwellings. **Our work to address this risk** The Authority is required to value Council Dwellings in line with Code requirements and guidance published by the Department for Communities and Local Government (DCLG) within the *Stock Valuation for Resource Accounting* ("the SVRA"). We engaged our own internal KPMG valuation specialists to assist us with the assessment of the work performed by the Authority's external valuers. *Timeline of work* There were in total three teams of valuers involved with the valuation of the Authority's Council Dwellings in 2016/17. This was due to a lack of capacity within the Authority's Estates team. Appendix 4 summarise key events during the course of the financial year in relation to the valuation of Council Dwellings, other land and buildings and investment properties. As previously reported in our *External Audit 2016/17 Interim Report (April 2017)*, we had initially scheduled the KPMG specialist review of the valuation report to coincide with our interim work in March 2017 to assist the Authority with early closedown. This was ultimately not feasible due to capacity constraints within the Estates team and other valuation issues. In March 2017, we reviewed a version of the valuation exercise undertaken by Underwoods in February 2017. We queried the results of this as: — we were not able to review instructions provided to the valuer nor assess if the review was carried out in line with the instructions provided; — the valuation output did not set out the assumptions used by the valuer in forming its opinion;

Significant audit risks	Work performed

1. Valuation of Council Dwellings *(continued)*

— there was no confirmation from the valuer that the Beacon review had been carried out in line applicable guidance specific to Council Dwellings, such as the SVRA.

No report was provided per Code requirements. The requirement for a valuation report was specifically highlighted in our *ISA 260* recommendation in the previous year.

Instructions sent to the valuer

The Authority subsequently engaged Bruton Knowles in April 2017 to further review the work on the valuation of Council Dwellings. The valuer was instructed to:

— perform a valuation of the beacons *previously valued at 1 April 2016* by Underwoods; and

— utilise alternative beacons "where necessary" in order to produce a final report using a method of the valuers' choice, in compliance with the current RICS Valuation Standards and the SVRA.

The list of assets "*previously valued at 1 April 2016*" was initially sent to Underwoods for the initial work in February 2017. We reviewed this list to ensure that Bruton Knowles had carried out a review of the beacons as required by the Authority. Bruton Knowles confirmed that it had selected alternative beacons as part of its valuation process.

We understand that verbal instructions were provided to the valuer to undertake a desktop valuation of the beacons. This is not in compliance with Code requirements and is a departure from the Authority's accounting policies and previous years' practice. The Authority then instructed Bruton Knowles to carry out a full valuation exercise on the 20% of Council Dwellings on 16 September 2017.

Application of the social housing discount factor

The Authority's housing stock is valued using Existing Use Value – Social Housing, or EUV–SH. This involves applying a social housing discount factor to the valuation of the properties, as defined within Appendix 4 of the SVRA. The SVRA was updated in November 2016, which introduced a new social housing discount factor.

For the East Midlands, the relevant social housing discount factor is 42% (this was 34% in the previous version of the SVRA). This is summarised below:.

	Version published Jan 2011	Version published Nov 2016
East Midlands	34%	42%
South East	32%	33%
Used by the Authority	**34%**	**33%**

The Authority's valuer had applied a social housing discount factor of 33% instead, which is the discount factor applicable to the South East. Valuers are not obliged to use the adjustment factors, however the guidance requires that where discount factor varies by +/-5%, an auditable methodology should be established to provide assurance over this alternative adjustment factor. The SVRA further states that "*the reasons for departing from the factor provided…must be clearly stated by the valuer together with the methodology and sources of evidence adopted for preparing the alternative*". The Authority's valuer was unable to provide this.

Significant audit risks	Work performed
1. Valuation of Council Dwellings *(continued)*	Other local authorities with housing stock within Northamptonshire have used a social housing discount factor of 42%, which is consistent with the SVRA. Northampton Borough Council is thus an outlier.

Local authorities within Northamptonshire	With housing stock?	Social housing discount factor	Auditor
East Northants District Council	No	–	KPMG
South Northants District Council	No	–	E&Y
Corby Borough Council	Yes	42%	KPMG
Kettering Borough Council	Yes	42%	KPMG
Daventry District Council	No	–	KPMG
Borough Council of Wellingborough	No	–	KPMG
Northampton Borough Council	**Yes**	**33%**	**KPMG**

Given the above, the Authority agreed to amend the social housing discount factor in line with the DCLG guidance. This resulted in an adjustment of £86.7m to the net book value of Council Dwellings. See appendix 3 for details.

Full valuation intervals

The Code requires the Council Dwellings to be revalued at intervals no more than five years. The Authority's approach is to carry out a full valuation of approximately 20% of beacon assets every year, thus ensuring coverage and compliance with the Code.

For 2016/17, there is a departure from the approach in previous years, as only a desktop valuation had been carried out. This change in methodology has not been disclosed within the Authority's financial statements. The new approach this year is not in compliance with Code requirements, as for the 20% of beacons required to be valued, there has been a period of more than five years since the last full valuation.

The use of a desktop valuation has been necessitated by time pressures; we understand that Bruton Knowles was engaged on 20 April 2017 with the view to produce a valuation report by the end of May 2017.

However, on 16 September 2017 Bruton Knowles carried out a full valuation exercise on the same 20% of beacons upon request by the Council. This was in response to our initial feedback on the Authority's compliance with Code requirements.

Assessment of valuation methodology

Our valuation specialist has reviewed the valuation report and liaised with Bruton Knowles to understand and review the valuation basis, methodology, and assumptions used in the valuation exercise. Our specialist challenged the year-end uplift of 10%, due to reliance on one source of information.

Bruton Knowles subsequently agreed to amend the report to take into account the issues raised by KPMG. A revised report was issued in September 2017. We noted valuation methodology pages missing from the draft report and requested a final version. We did not receive the final report until July 2018 as internal inconsistencies resulted in an updated version being requested. See appendix 4 for timeline review.

Significant audit risks	Work performed

1. Valuation of Council Dwellings *(continued)*

Substantive testing of valuation figures

Due to the expectation that the Bruton Knowles valuation exercise will change the Authority's beacon values, we requested in December 2017 that the Authority provide a reconciliation between the draft version of the valuer's September 2017 report and the fixed asset register. The reconciliation process is important as it provides assurance both to the Authority and auditors that:

— all assets that should be valued have been valued;

— the correct information (asset name, type, value, etc) have been provided to the valuer; and

— the valuer's valuation has been correctly transacted by the Authority and correctly reflected within the fixed asset register.

As with the first report (May 2017), no reconciliation had been provided to us (despite multiple requests dating back to December 2017). We reiterated on 1 February 2018 that this is crucial to progressing the audit. A working paper was subsequently provided on 12 April 2018. We reviewed this working paper and found differences between the previous year's closing figures and the figures used by Bruton Knowles.

Application of uplift based on original valuation

Having received our queries on the reconciling figures (see previous page), the Authority informed us that this was due to the uplift of 4.08% which had been calculated and applied by the internal valuers on 1 Apirl 2016 - was the original valuation which has since been superseded by both the Underwoods and Bruton Knowles valuations.

It was unclear why this original uplift had been transacted given:

— Underwoods had found issues with the original beacons (although Underwoods' report has been challenged by us); and

— Bruton Knowles subsequently found issues with the valuation and the results materially differ from the internal valuer's original valuation.

This would typically not be an issue given the valuation should always reflect the balance sheet date. However, this 4.08% was applied to the 80% of beacons not valued by Bruton Knowles. This transaction has the effect of reflecting the internal valuer's assumptions and methodology—which have been challenged and superseded by Bruton Knowles. The calculation of the 4.08% uplift is based on the average valuation movement on the original sample of beacons revalued by the Authority's internal valuers.

We were also not made aware that the internal valuation had been transacted.

The Authority has informed us that the Bruton Knowles valuation as of 1 April 2016 was effectively ignored due to the overall impact being "relatively small". To illustrate, the Table below summarises the values from the May 2017 Bruton Knowles report and the internal valuer's report. Both retain the incorrect social housing adjustment factor to aid comparison.

Table 3: Comparison of valuation results, 1 April 2016

£'000	Internal valuers	Bruton Knowles	Difference
Valuation (social housing)	89,845	83,652	6,193

A difference of £6.2 million is material for the purposes of the Authority's accounts.

Significant audit risks	Work performed
1. Valuation of Council Dwellings *(continued)*	*Further use of the incorrect social housing adjustment factor* We were not initially provided with a copy of the internal valuer's report due to this valuation exercise being undertaken by the Authority's external valuers; we requested this on 20 April 2018. Upon receipt of the report on 30 April 2018, we reviewed and noted—again—that an incorrect social housing adjustment factor of 34% had been used. This was the social housing adjustment factor in the previous version of the guidance. The new guidance was released in November 2016 and applicable to valuations from 1 April 2016 onwards The use of 34% instead of 42% by the internal valuers resulted in a material audit difference which is detailed in Appendix 3. The reliance of the internal valuation is also an issue due to the same uplift calculated from the internal valuer's valuation, which as previously discussed, had been superseded by the Bruton Knowles valuation. Our line of inquiry has also uncovered that whilst Bruton Knowles had adjusted for the correct social housing adjustment factor for its valuation as at 31 March 2017, this was not adjusted for its 1 April 2016 valuation. This is crucial as the valuation at the year end is a simple uplift of 7% on the 1 April 2016 figures, thus carrying forward the initial error. *Resolution* The Authority commissioned Bruton Knowles again to carry out a further valuation exercise for the valuation figures on the 20% they valued as at 1 April 2016 (due to the derivative nature of the year-end valuation). We have subsequently undertaken the following additional work in July 2018: — We have reviewed the valuation instructions provided to Bruton Knowles, for the valuation as at 1 April 2016; — We have reviewed the valuation report resulting from these updated instructions; and — We have reviewed an updated reconciliation between the final valuation report and the fixed asset register. We also needed to reperform work previously undertaken due to the updated report, including but not limited to: — We reviewed the list of assets to be valued (the input) against the Authority's records. This is to ensure compliance with the Code's requirement that assets should be valued at intervals of not more than five years and against the Authority's own policy of a rolling valuation basis; — We rechecked that the assets' characteristics (value, type, etc) have been accurately provided to the valuer; — We reviewed the completeness of the valuer's output; where there have been asset disposals, these were agreed to the work previously undertaken; — We reviewed the reconciliation to be provided by the Authority; and — We reviewed the mathematical accuracy of the report.

Significant audit risks	Work performed
1. Valuation of Council Dwellings *(continued)*	*Correction of audit misstatements* As reported above, the Authority has now undertaken the appropriate actions to correct the valuation of council dwellings due to the errors, including use of an incorrect methodology which had resulted in materially incorrect valuations. Following finalisation of the valuations, the Authority then needed to correct these in their RAM (Real Asset Management) System, which would then produce the reports/figures to be updated in the financial statements. The relevant adjustments to the accounts are detailed in Appendix 3. Due to the nature of the system, we were informed that significant work was required by a technical specialist to put these changes through the system as the version of RAM that the Authority was using was considerably out of date. This work was commissioned on 2 August 2018 with the expectation it would take a few weeks to complete. The work took longer than expected and was only completed during September 2018. This had a knock-on effect on our ability to close off this area from an audit perspective, but is now complete. We have raised a recommendation in Appendix 1 to update the RAM system in future years. As a result of the updates to the system, we have had to undertake further testing on RAM in order to provide assurance over the reports it generates which are used for the production of the financial statements. This work was performed by KPMG IT specialists. We have now received the final information and answers to our queries and this work is complete. We are satisfied that all material misstatements have now been corrected in the financial statements. See Appendix 3 for details of audit misstatements raised.

Significant audit risks	Work performed
1. Valuation of Council Dwellings *(continued)*	*Componentisation of Council Dwellings*

In second half of 2015/16, the Authority changed the way it accounted for components of Council Dwellings (for example, bathrooms, kitchens, etc.). This change involved grouping individual components by type into one "global" component type. As a result, additions or disposal of individual components cannot be directly identified on the fixed asset register. The Authority has determined that where a component is replaced, a percentage is disposed (or, "derecognised") according to a ratio determined by historic data for each type of component.

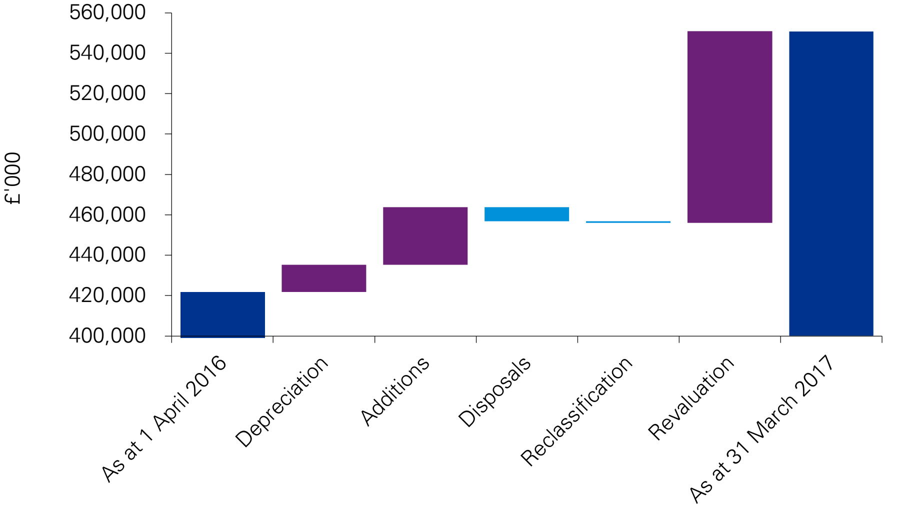
The change in accounting for components introduced an element of estimate and judgement. This is a move away from the purpose of componentisation, which was first introduced in IAS 16 (and adopted by the Code) in 2010/11 in order to refine asset values. Various elements of an asset do not have identical useful lives due to different depreciation rates. The use of componentisation allows the Authority to allocate values to individual components with greater accuracy. The move to group component types removes this refinement and introduces significant estimates.

In the prior year, we agreed with the Authority that this change should be quantified to allow us to come to an informed view of this change in accounting methodology. Due to the departure of a key member of the Closedown team, this was not provided to the audit team.

In the prior year, the amount calculated from this new methodology was not material; however in 2016/17 this balance is much larger, at £1.0 million. We had significant difficulty in assessing this balance. Our review of componentisation and the disposals of resulted in an audit adjustment of c£0.5 million. See Appendix 3 for audit adjustments.

We have again recommended that the Authority review the methodology for componentisation.

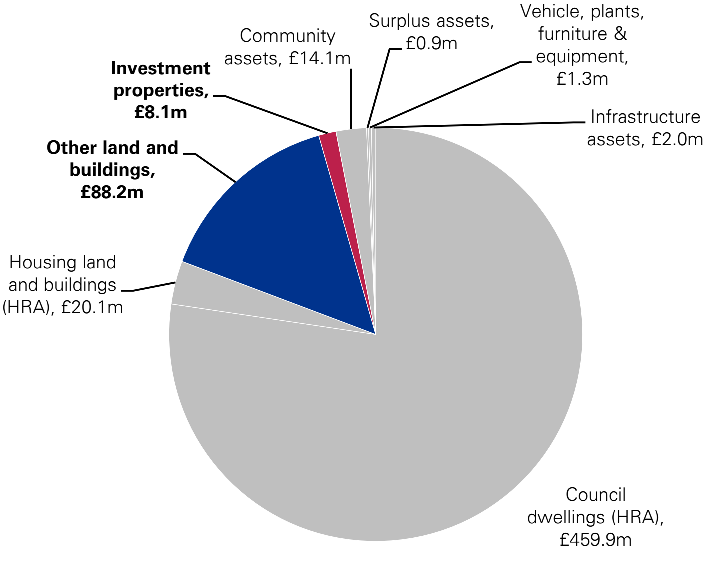
Chart 1: Summary of movements in Council Dwellings (net book value)



Document Classification: KPMG Confidential

Significant audit risks	Work performed
2. Valuation of *'other land and buildings'* and investment properties	**Why is this a risk?** During the course of the audit, we have identified that the valuation of *'other land and buildings'* and investment properties is a significant audit risk. The Authority had engaged the following valuers to carry out work on both *'other land and buildings'*, and investment properties: — internal valuers on 26 September 2016; and — subsequently Underwoods. We were informed that Underwoods was engaged on 6 October 2016, but there are no formal records from the Authority to confirm this. The engagement of Underwoods was the result of capacity constraints due to internal valuers leaving the Authority. As of September 2017, there are no valuation specialists remaining with the Authority which creates a gap in both capacity and capability. This has been further exacerbated by the departure of a key member of the Closedown Team which gave us concerns over continuity and on the oversight of the valuation process. There are competing pressures within the Authority, and there is a risk that valuations may not be appropriately undertaken. **Our work to address this risk** *'Other land and buildings'* consists of non-housing property, with a net book value of £88.2 million and is valued on an Existing Use Value (EUV) basis. Investment property are assets used solely to earn rentals and/or for capital appreciation.

Chart 2: Net book values of PPE and investment properties



Note: Although 'Community assets', 'surplus assets', 'Vehicle, plants, furniture & equipment', and 'Infrastructure assets' are included within PPE, these classes of PPE are not revalued, per the Authority's accounting policy.

Significant audit risks	Work performed
2. Valuation of 'other land and buildings' and investment properties *(continued)*	*Instructions sent to the valuer* No written records of instructions were sent to Underwoods. We were not able to confirm that Underwoods had complied with the valuation request; we had to undertake additional work to reconcile the list of assets reviewed against the valuer's output. We are also not able to confirm that the Authority has instructed its external valuer in line with the requirements of the Code and other applicable valuation and accounting standards. We engaged our KPMG specialist to perform additional substantive work to provide assurance that the valuations were in line with applicable standards. *Assessment of valuation methodology* We received the valuation report on 4 August 2017, which was later than we anticipated as the original audit plan included a review of the report prior to us commencing the final audit in July 2017. Our KPMG valuation specialists engaged with the Authority's valuers in September 2017 to assess the work performed by the Authority's valuers. Our KPMG valuation specialist had raised a number of queries in relation to the assumptions used by Underwoods due to the absence of documented information within the reports. Further work was undertaken to clarify and agree specifics of the sampled assets, such as deeds and titles. One adjustment that resulted from our valuer's review relates to purchaser's costs, which have not been consistently deducted from the OLB or Investment Property assets reviewed in our sample. This adjustment has reduced the value of the Authority's assets by approximately £1.5 million, which is above our reporting threshold. See Appendix 3 for details. The work had also resulted in various other adjustments, including reclassification of assets from other land and buildings to investment properties. *Internal valuers* The Authority's internal valuers had valued a selection of the Authority's other land and buildings which were subject to valuation during the year, but there was no documented methodology by which those assets were selected for valuation. Our valuation specialist was unable to gain sufficient comfort over the assumptions and other inputs used due to the absence of documentation. This is also exacerbated by the departure of the Authority's internal valuers, who were interim staff. The Authority subsequently commissioned GVA to undertake a review of the assets previously valued by the Authority's internal valuers. *External valuers* We received GVA's reports in December 2017, and our valuation specialist completed the initial review in January 2018. Further work was undertaken to fully-reconcile the list of properties to ensure that all assets that were due for valuation have been revalued. *Correction of audit misstatements* We have now received the final information and answers to our queries and this work is complete. We are satisfied that all material misstatements have now been corrected in the financial statements.

Significant audit risks	Work performed
2. Valuation of 'other land and buildings' and investment properties *(continued)*	Two adjustments remain in the final accounts that are uncorrected but these are not deemed to be above our materiality threshold. Additional work included agreement of leases and review of classification of assets. Additional assets were revalued by GVA as a result of the review by the KPMG specialist. Total adjustments to OLB were £9.5 million, which included the reclassification of a number of assets such as Park Inn and Sixfields, which totalled c£4 million. Adjustments to investment properties were £3.5 million, which included the removal of purchase costs of c£1.5 million, which had been incorrectly treated as a disposal by the Authority. These needed to be reversed and put through Reserves. See appendix 3 for details.

Significant audit risks	Work performed

3. Significant changes in the pension liability due to the LGPS Triennial Valuation

Why is this a risk?

During the year, the Northamptonshire County Council Pension Fund (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority’s share of pension assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Northamptonshire County Council, who administer the Pension Fund.

Our work to address this risk

Controls

As part of the additional work on pensions due to the triennial valuation, we have reviewed the process used to submit payroll data to the Pension Fund, including year-end controls. As part of the submission process, we expect Management to formally assess and confirm that the actuarial assumptions used by the actuary are appropriate for the organisation and in line with expectations.

We have found that there is no formal review process, nor is Management able to evidence that it has considered the actuarial assumptions used. Management has subsequently confirmed to us that it considers the assumptions used by the actuary to be suitable for the Authority and are in line with the other members of the Northamptonshire Pension Fund. We also subsequently received emails from the Authority which demonstrated review of these actuarial assumptions. We have raised a recommendation that actuarial assumptions should be formally reviewed as part of the yearly closedown process to ensure that they are appropriate for the Authority, see recommendation 9 in Appendix 1.

Testing carried out at the Pension Fund

We liaised with your Pension Fund Audit team to gain assurance over:

- The operation of the Fund’s controls, including the controls over the transfer of data to the Actuary;
- The figures submitted from the Fund to the Actuary, including the completeness and accuracy of the data;
- Investment balances;
- Monitoring arrangements; and
- Controls in relation to the calculation and authorisation of benefit payments.

The Pension Fund Audit team reported that there is no authorisation or segregation of duty in relation to the posting of journals for the Pension Fund. This has been reported with the Fund’s ISA 260 (Communication to Those Charged with Governance). With the exception of journals, no further issues with the Fund were noted.

Significant audit risks	Work performed
3. Significant changes in the pension liability due to the LGPS Triennial Valuation *(continued)*	*Year end testing* We substantively agreed the total figures submitted to the Fund to the Authority's ledger. We also tested the IAS 19 reports produced by the Fund's Actuary to figures disclosed within the Authority's financial statements. No discrepancies were noted. *Review of actuarial assumptions* We used KPMG's actuary to review the assumptions used by the Fund's Actuary for the triennial valuation. Assumptions used are in line with the other members of the Northamptonshire Pension Fund and within our expectations.
4. Management override of controls	**Why is this a risk?** Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although our audit methodology includes the risk of management override as a default significant risk, we have identified that the events surrounding the loss of £10.22 million in relation to the NTFC loan and the on-going police investigation are contributory factors in the increased risk, and specifically warrants management override of control as a significant risk to the financial statements. **Our work to address this risk** We have decreased materiality over the financial statements which resulted in additional testing over the Authority's financial statements. We enhanced our use of data analytics techniques over the Authority's transactional data (for example, journals, payroll, and non-pay expenditure) to allow us to gain additional assurance over the balances. We carried out additional work on the Authority's related party transactions to ensure disclosures and declarations are robust and complete. We applied professional judgement throughout our audit of your financial statements and performed robust procedures, including: — Examining journal entries and other adjustments; — Reviewing accounting estimates; — Evaluating the business purpose for significant unusual transactions; and — Other procedures as necessary. There were no significant issues or matters arising from our work in this area that we need to bring to Members' attention.

Considerations required by professional standards

Fraud risk of revenue recognition

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

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

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

Other areas of audit focus

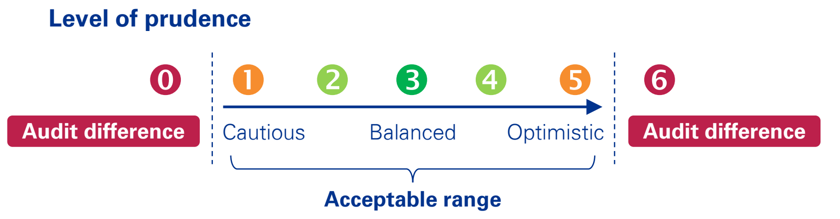
We identified two areas of audit focus. These are not considered as significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how the Councils are funded and how they use the funding to serve the local population. Outcome of this project resulted in two main changes in respect of the 2016/17 Local Government Accounting Code (Code) as follows: — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. As a result of these changes, retrospective restatement of CIES (cost of services), EFA and MiRS is required from 1 April 2016 in the Statement of Accounts. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding. **What we have done** This additional work is driven by Code changes. The Authority has been sighted on this change in advance of the year end and had proactively liaised with KPMG to review the restated 2015/16 CIES during the interim audit in March 2017 however, during the interim audit, this work was not available for review and was performed as part of the year end work. For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We reviewed the Authority's methodology for compiling the restated CIES and the new EFA. We agreed the Authority's disclosure and compliance with the Code requirements. The Authority has chosen not to apportion recharges of Investment Properties and Trading Accounts. This is in line with its own internal reporting methodology. This has resulted in the net expenditure in 2015/16 Cost of Services decreasing under the new model by £50,000. The 2015/16 Surplus on Provision of Services remains unchanged. The Authority has applied the internal reporting structure to the new CIES as allowed by the Code. The EFA is also in line with new Code requirements.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS *(continued)*	For the 2016/17 the Authority was consistent in the approach set out above. Initially the Authority did not provide us with the note to accompany the EFA however, this was subsequently provided. No issues were identified. In conjunction with the new CIES, the Code requires that the analysis of expenditure include depreciation, amortisation, and employee benefit expense. The Code guidance further provides an example disclosure. We note that this was missing from the Authority's initial draft accounts. This was subsequently provided to us during our audit visit. We did not find issues in relation to this. We have also agreed the 2016/17 figures disclosed in the notes to the Authority's general ledger and found no issues.
2. Change in the Non Domestic Rates (NDR) system	**Background** In April 2016, the Authority returned the business operation of the NDR system to Northampton Borough Council from the previous consortium arrangement with the Borough Council of Wellingborough. This involved the migration of the NDR database to the Authority and included the re-design of system processes and protocols to ensure that the controls within the system are fit for purpose. **What we have done** Our IT Specialists have liaised with the Authority and completed testing as necessary to obtain assurance that the NNDR data has been transferred completely and accurately, and to ensure that the new system operates effective and appropriate controls and processes to reduce any material risks. We have gained an understanding of the new system and controls in place at the Authority. The Authority originally transferred from the ICL system (in-house) to Academy (at the Borough Council of Wellingborough, operated by Capita) in 2003/04. The data conversion and cleansing process resulted in a difference of 13 pence between the starting and the finishing balance. This was due to rounding differences. Because this difference was minimal and involved a large quantity of historic data, this was previously agreed by the Authority as being acceptable. However, whilst the transactions balanced and were correct, this had the impact of causing Capita's integrity-checking process to fail. The amounts have been reported as part of the NNDR3 process, thus did not adversely impact on the Authority's reconciliation or funding arrangements. We understand from the Authority's documentation that a significant number of integrity checks have not been done. During our work in April 2017, there were 998 such cases totalling £5.1 million. The Authority has stated that work is ongoing in relation to this.

Judgements

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



Subjective areas	2016/17	2015/16	Commentary
Provisions (excluding NDR)	3	3	We tested the Authority's provision against IAS 37 with no issues to note. We consider the provision disclosures to be proportionate.
NDR provisions	3	5	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has previously provided for a fixed percentage of outstanding appeals in accounting for the potential liability. We challenged this in the prior year and recommended that the Authority should review its Non Domestic Rates (NDR) provisions in line with applicable accounting guidance. The Authority has since reviewed its NDR provisions and incorporated detailed variables to fairly reflect local information. This has resulted in an increase of £800,000.
PPE: components	N/A	N/A	The Authority has changed the way it accounts for components of Council Dwellings. This new methodology is an estimate; this estimate has not been disclosed within the Authority's financial statements. Whilst the Authority was unable to provide further detail regarding the calculation of this estimate, we were nevertheless able to carry out additional work (such as reviewing management assumptions and judgements behind the estimate) to gain sufficient comfort. However, further work by the Authority is being undertaken in future years to gain additional assurance over this estimate to generate a more accurate and reliable estimate. We have raised a high-priority recommendation, see recommendation 5 in Appendix 1.
Pension liability	3	3	During the year, the Northamptonshire Pension Fund had undergone a triennial valuation, which resulted in an increase in pensions liability of £23.3 million. The actuarial assumptions used drive the actuarial gains or losses as well as pensions liabilities. Management has confirmed that the assumptions used by the actuary are appropriate for the Authority. We have performed work on the assumptions used and have deemed the assumptions to be reasonable and within our expectations. Assumptions used are also in line with other local authorities within the Northamptonshire Pension Fund. We have requested specific representations in relation to this and have raised a low-priority recommendation, see recommendation 9 in Appendix 1.

Proposed opinion and audit differences

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

Audit differences

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

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £1.5 million. Audit differences below £75,000 are not considered significant.

A number of audit differences were identified as a result of our audit. The largest adjustment was in relation to the incorrect use of the social housing discount factir which increased Council Dwellings by £88.7m. There were also c£0.5 million of unadjusted audit differences. See Appendix 3 for details.

In addition, during the course of the audit we have identified a large number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). The Authority has now addressed these, where significant, in the final draft of the 2016/17 financial statements.

Annual Governance Statement

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

— It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;

and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative Report

We have reviewed the Authority's 2016/17 Narrative Report and have made comments in relation to compliance with Code requirements.

Following our feedback during the audit process, further work was undertaken to improve the Authority's Narrative Report. We have reviewed each iteration of the report and are content that the final version is complaint with Code requirements.

Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for the year 2017/18 onwards. It also shortens the time available for the audit.

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

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

Introduction of KPMG Central

We introduced KPMG Central this year, which is a cloud-based document storage system to facilitate the secure transfer of large amounts of data between the Authority and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authority's Closedown team to efficiently share requested information. Feedback from the Closedown team has been positive and allows us to keep track of uploaded documents.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown of its accounts will bring. We have engaged with the Authority in order to proactively address issues as they emerge.

However, when we began our on-site audit, in July 2017 we encountered significant delays with regard to the provision of working papers and valuation reports, which meant that the Authority was unable to meet the earlier agreed deadlines. The earlier deadlines for 2016/17 were suggested by the audit team as a trial run in anticipation of the earlier deadlines in 2017/18. As a result, this raises significant concerns over the Authority's ability to meet the early statutory deadlines going forward.

The Authority will need to strengthen its financial reporting by finalising the accounts in a shorter timescale. It should also consider a fundamental review of its approach to the closedown process, including the implementation of monthly or quarterly closedowns and early engagement with its external valuers. Going forward this will put the Authority in a better position to meet the 2018/19 deadline.

Officers took a proposal to Audit Committee on 6 March 2017 to make minor amendments to the Authority's accounting policies. We consider the accounting policies to be appropriate. However, we noted that the Council has not disclosed a change in the way it has accounted for components of Council Dwellings, which involves significant estimates. This change affects the full financial year for the first time in 2016/17. This new methodology is discussed further in the following sections.

Completeness of draft accounts

We received a set of draft accounts on 30 June 2017, which is the statutory deadline. However we noted the following:

— The cash flow statement was incorrect as the figures did not agree to the accounts. According to Officers, the provision of an incorrect cash flow was due to pressures faced by the Closedown team during the closedown process. A revised cash flow statement was subsequently provided three weeks after the audit began.

— For 2016/17, the Code introduced the requirement to analyse expenditure by nature. This analysis was missing from the initial draft accounts. Numerous versions of the draft accounts were subsequently provided to the audit team during the following months.

Supporting working papers

Quality and timeliness of working papers

Prior to issuing our *Accounts Audit Protocol 2016/17* ("Prepared by Client", or PBC request) we ran workshops in October 2016 to assist the Authority in understanding our PBC requirements. Our PBC document outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

A draft PBC was issued in December 2016 and post-discussion with Officers, was finalised the following month. We followed this up with a meeting with the Closedown team to discuss specific requirements of the document request list in March 2017. We have also offered further support and opportunities to discuss specific requirements of audit requests.

The quality of audit evidence initially provided did not fully-align to our expectations which were set out in our *Accounts Audit Protocol 2016/17*. For example:

— We were not provided with a full fixed assets register or a breakdown of fixed assets additions. More significantly, we were not provided with the valuation reports prior to the start of the final audit, as previously agreed with the Authority;

— The breakdowns for both debtors and creditors were incorrect and did not tie back to the accounts; and

— Working papers for payroll did not have robust audit trails, which made it difficult to understand what had been provided.

The quality issues above meant that we undertook additional work to understand the initial working papers. The audit team had to wait for the provision of revised working papers to address the issues we found. The delays meant that we spent additional time over and above what was originally planned including significant work undertaken after the agreed on-site visit, for example, over additions and disposals of fixed assets. These delays have had an impact on the final audit fee.

We note that due to the departure of a key member of the Closedown team, a number of previously-agreed approaches to audit evidence have changed, in particular the evidence requested for the componentisation of Council Dwellings. This has caused delays to the work on the derecognition of components.

Since our initial report in September 2017 in relation to the issues faced in respect of fixed asset valuations, we have faced further significant delays in closing these off and finalising our audit work in these areas.

We formally wrote to the Chief Finance Officer on 29 September 2017 stating that we had identified a number of issues relating to the Authority's fixed assets, including but not limited to the valuation of social housing, other land and buildings, and investment properties, as well as the methodology adopted towards componentisation.

Since then, in attempting to resolve these issues we have been provided with numerous updated working papers as time has progressed. Unfortunately, in many circumstances during the last 15 months, these updated working papers have been found to be of poor quality, have not been checked prior to submission to us for audit evidence, and rather than resolve issues, have created further work and queries. In some cases we have had multiple versions of working papers, all incorrect.

At each stage of the audit, the Authority has provided us with timelines for the provision of information, whether that be for example updated valuation reports, trial balance reconciliations, or a bridge document detailing adjustments from the initial draft set of financial statements. Unfortunately, in the majority of these cases, deadlines were not met and staff which we had booked in order to review the updated evidence provided and undertake the additional work required, could not be fully utilised.

As a result of all of this, there is clearly scope for significant improvement through further development of working papers to enhance understanding, clarity, and the audit trail. We have raised a recommendation in respect of this, see recommendation 3 in Appendix 1.

Update on the audit fees

We stated during the Audit Committee on 27 September 2017 that the additional cost in relation to the additional work and ongoing delays to the audit was likely to be £71,250. This was discussed with the former Chief Finance Officer (S151 Officer) and was subject to PSAA approval.

We stated during the Audit Committee on 26 November 2018 that this had now risen, at that date, to approximately £300,000 in total (i.e. including original scale fee).

Further time has passed since those initial updates / estimate. Due to the planned nature of our approach to scheduled audits, the additional responsive work which we had to undertake was predominantly fulfilled by senior staff. We also had to engage additional services from our KPMG valuation specialist due to the issues found and the lack of readily-available evidence to support the valuations.

This highlights the importance of robust management review and the provision of clear audit working papers within the agreed timeframes.

We will be discussing our final proposed fee with the Authority's Chief Finance Officer and PSAA which will reflect the additional amount of work needed to gain assurance over your financial statements.

Trial balance reconciliation

We requested a trial balance reconciliation as part of our initial audit documentation request. This has historically not been provided to the audit team. A workaround is typically used, where the trial balance is reconciled piecemeal per section, as each working paper typically contains an extract of the trial balance.

However, in January 2018, there were concerns expressed by Officers that the trial balance may not have been appropriately mapped due to recharges.

We formally re-requested a reconciliation between the trial balance and the Authority's draft financial statements on 23 February 2018. We received a working paper on 26 April 2018; however, we had a number of queries in relation to this. Issues arose due to the initial working paper only being understood by one member of the Closedown team who had produced it, and this individual subsequently going on maternity leave. This shows the importance of a robust Closedown team and quality review, ensuring that key working papers and methodologies for producing financial statements are understood by all key members of the team, and clearly documented for audit purposes.

Throughout the summer of 2018, the Authority worked on this, and following meeting with the Authority's officers on 12 July 2018, it was agreed that a revised version of the 2016/17 trial balance mapping document would be produced for audit purposes. This was finally provided to us in late October 2018.

Data analytics

In response to the increased risk profile this year, we agreed with Management that we would enhance our testing of the Authority's payroll by utilising Data and Analytics (D&A) techniques. The use of D&A techniques allows us to undertake testing of 100% of the population, thus offering greater assurance to the Authority. Our D&A requirements were also communicated to the Authority within our PBC request.

Our D&A testing during the interim audit in March 2017 found exceptions and we conveyed the results to the Authority for follow-up. The Authority subsequently found that the exceptions were due to incomplete data provided to the audit team. We repeated the work with a second set of data, which resulted in fewer exceptions produced.

We undertook the year-end D&A testing on payroll in July 2017, and found further exceptions. These were also the result of incomplete data provided to the audit team. Again, this required us to repeat the work with a second set of data.

The duplication of testing meant that we incurred additional time and cost. This also impacts our ability to follow-up genuine exceptions whilst on site, and significant work on payroll had to be undertaken after the conclusion of our agreed on-site visit.

Response to audit queries

During our initial on-site visit in July 2017 and our subsequent audit visits and requests for information, on average, Officers dealt with our audit queries within four working days of inquiry.

However, evidence relating to some areas of sample testing took upwards of three weeks to be provided, such as additions and breakdowns of fixed assets. This caused significant delays to the audit process. Issues in relation to additions and disposals stem from the way in which the Authority accounts for the components of Council Dwellings.

As reported above, following our initial reporting in September 2017 regarding the issues relating to fixed assets, significant work has been undertaken to resolve this area, as well as others such as the trial balance reconciliation.

Unfortunately further delays have arisen due to the nature of these issues, and this has been exacerbated by changes in the Closedown team, as well as staff absences and key staff members leaving too.

There was also a limited handover from the previous S151 Officer to the current interim Chief Finance Officer who has had to pick up responsibility for closing down the audit and producing an updated set of financial statements.

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by Grant Thornton on the financial statements of Northamptonshire Partnership Homes.

There are no specific matters to report pertaining to the group audit.

Additional findings in relation to the Authority's control environment for key financial systems

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

In our *External Audit 2016/17 Interim Report* tabled in July 2017, we reported that there were a number of year end controls that we would be testing during our year end audit.

We have highlighted exceptions in relation to controls in Table 1 below.

Further detail and associated recommendations can be found in Appendix 1.

Table 1: Summary of control deficiencies

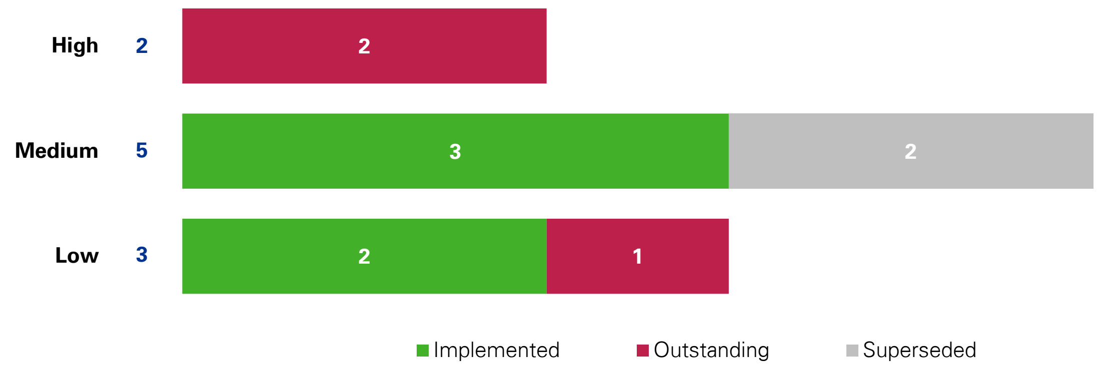
Control	Deficiency	Impact on audit	IA rating	Ref
Bank reconciliations	— There were unreconciled balances that the Authority has been unable to address. — A number of these balances relate to direct debit payments set up by third parties using the Authority's bank details. — A number of unreconciled items were incorrectly dated due to a system issue.	We could not place reliance on the Authority's bank reconciliations, particularly as the system does not correctly date the reconciling items. We performed substantive testing over the Authority's bank balance at the year end.	LGSS: Substantial PwC: N/A	*See rec. 1*
PPE instructions	— Formal instructions were not provided to the Authority's external valuers, Underwoods and Bruton Knowles. We understand instructions were provided verbally, and the overall points were followed-up by email.	We performed significantly more work to confirm that the valuation exercises were in line with Code requirements. We found that instructions were not properly-defined, which has led to numerous issues as discussed in the previous sections.	N/A	*See rec. 2*
General IT controls	— The Authority does not enforce its own password policy.	The Authority is not in compliance with its own IT policy; we have raised a recommendation in relation to this.	LGSS: Not reviewed PwC: Not reviewed	*See rec. 6*
Non-domestic rates (NDR) reconciliation	— We identified differences between cash and the expected payments as recorded by the Authority's NDR system (Academy). Some of these differences date from June 2016 which we would have expected to have cleared by year-end.	We performed additional work to understand the impact our findings have on the NDR balance.	LGSS: Substantial PwC: N/A	*See rec. 7*
Payroll reconciliation	— There is no evidence of review of the Authority's payroll reconciliation.	There is a risk that errors and fraud will not be detected. We have re-performed the control to obtain assurance over the reconciliation between the payroll system and the general ledger.	LGSS: Payroll not reviewed in 2016/17 PwC: Control not tested within the 2016/17 Payroll review	*See rec. 8*
Review of actuarial assumptions	— We were not originally provided with evidence to support the Authority's review of actuarial assumptions. Email evidence has subsequently been provided.	We were not able to conclude on this matter earlier, and additional work had to be undertaken to obtain assurance that actuarial assumptions have been reviewed by the Authority.	N/A	*See rec. 9*

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

Whilst the Authority has not fully implemented all or recommendations raised in our *ISA 260 Report 2015/16*, including the two high priority recommendations, we were satisfied the this has not impacted on our financial statements audit. See Appendix 2 for further details.

Chart 3: Summary of 2015/16 recommendations



Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter. Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Northampton Borough Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Northampton Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity. We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

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

Other matters

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

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

Below we have set out matters of governance interest that have arisen during the audit or are matters which have been brought to our attention during the course of the audit. We will provide an update to the Audit Committee upon the presentation of this report, and will report in our Annual Audit Letter if there are further matters which we wish to draw to your attention in addition to those highlighted in this report.

Council Tax

During the course of the audit we have received, and accepted an objection from a local elector. The objection relates to the process the Authority has followed in setting Council Tax for 2017/18 and subsequent years, including the use of special expenses. Following completion of our work which included obtaining legal advice, we provided our findings to the individual in question, as well as the Authority. There were no issues to report.

Capital Projects: Procurement and Governance

During the course of the audit we also received an objection relating to the governance of a major capital works project. We were unable to accept this correspondence as an objection to the financial statements as it does not support there being sufficient evidence that the expenditure has been unlawful to date, which is one of the key requirements to accept an objection to the accounts.

Due to the nature of the matters bought to our attention during the course of the audit we have taken this into consideration as part of our overall value for money risk assessment in relation to the 2017/18 financial year, alongside wider matters of overall governance, procurement and contract management at the Authority. We are liaising with the Authority to obtain all necessary evidence and information to support this work and once completed will report back to the Audit Committee the findings of our work, included recommendations arising from any weaknesses we identify in the design or operation of the appropriate governance and financial control frameworks.

Completion

The departure of the Chief Executive

The Authority's previous Chief Executive departed the organisation in July 2017. The Chief Executive also acts in a statutory role as the Head of Paid Service. There is a risk that the terms and conditions of the departure, including any exit package, did not provide value for money to the Authority. We have reviewed the circumstances surrounding the departure of the Chief Executive in July 2017.

The Chief Executive resigned on 18 July 2017, and his last working day was effectively 31 July 2017 due to the Authority agreeing payment in lieu of notice. He also received outstanding holiday entitlement but no other payments were made at the time. As this was a resignation, no exit package was required nor agreed.

We have reviewed these payments and associated documentation and are content that the Authority followed appropriate processes.

However, we do note that Section 4 of the Local Government & Housing Act 1989 provides that it is the duty of every Local Authority to designate one of their officers as its Head of Paid Service.

During the period between 1 August 2017 and 6 September 2017 the Authority was in breach of legislation and did not have a Head of Paid Service in place as no interim measures had been prepared to deal with the departure of the previous Chief Executive in advance of his final leaving date.

The Authority stated that there were no other internal officers that could be appointed to the Head of Paid Service position given their experience and current workloads, and other statutory officers such as the Monitoring Officer could not act in dual statutory roles.

The Authority also stated that no significant staffing changes were being made that would engage the Head of Paid Service's statutory duties. The Chief Executive's powers, other than the Head of Paid Service's powers, were delegated to the Monitoring Officer who was supported by the Directors and the Section 151 Officer.

Full Council agreed on 17 August 2017 to approve the appointment of Simon Bovey as the Council's Head of Paid Service from 6 September 2017 until 5 March 2018. With George Candler now in post having been appointed the Authority's Chief Executive following Simon's departure.

Section three

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

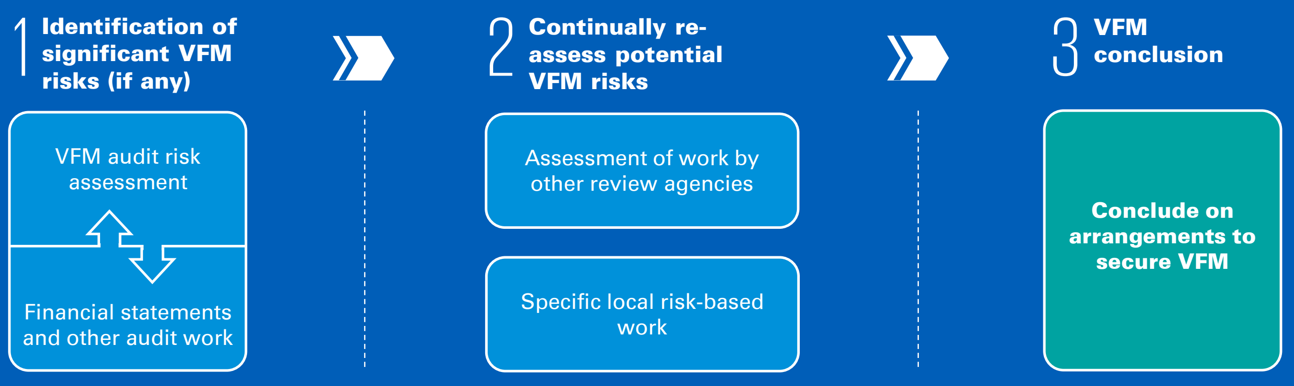
VFM conclusion

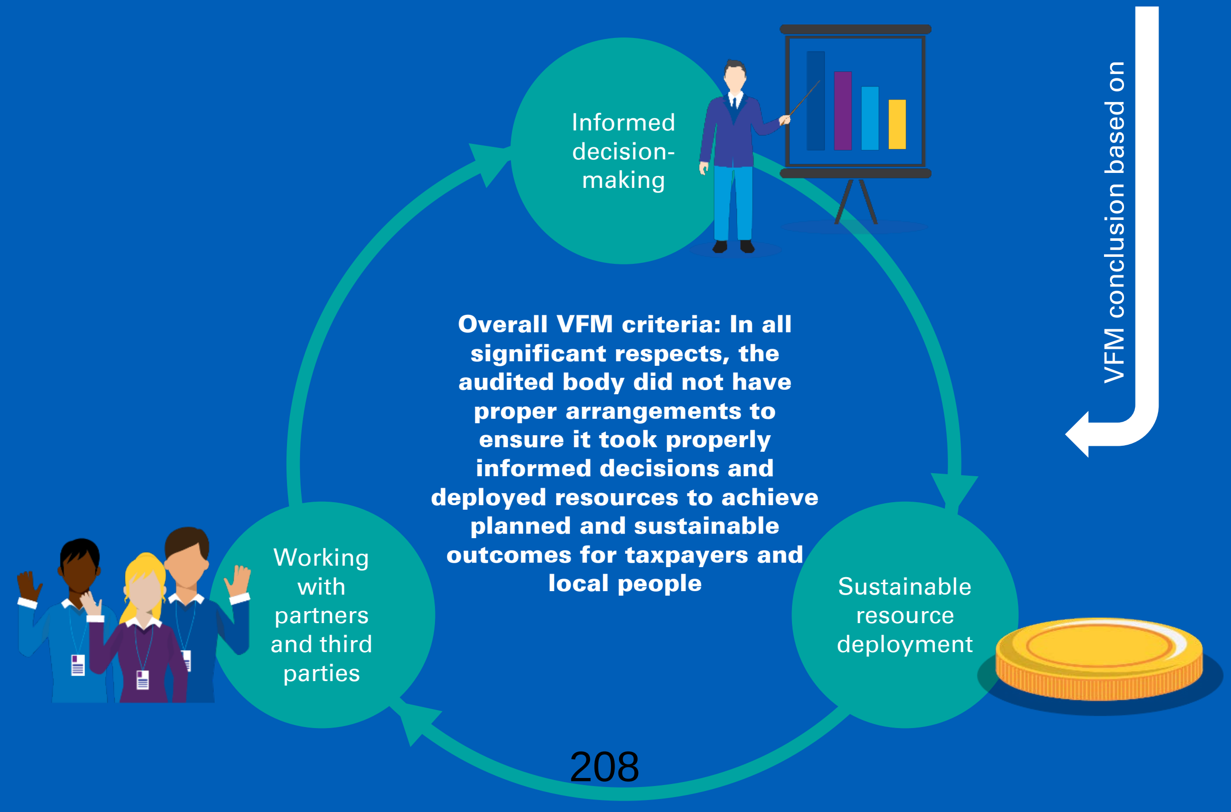
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

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

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

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





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

Table 2: VFM assessment summary

VFM risk (2016/17)	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Governance action plan	✗	✗	✗
2. NTFC loan and the wider loans system	✗	✗	✗
3. Procurement	✓	✓	✓
4. Financial resilience in the local and national economy	✓	✓	✓
Overall summary	✗	✗	✗

In consideration of the above, we have concluded that in 2016/17, the Authority has not made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

In arriving at this conclusion, we have reviewed the Authority's arrangements relating to a number of risks as documented in the table above.

Whilst we are satisfied that the Authority currently has appropriate arrangements in place to manage and deliver financial savings under increasingly difficult circumstances, as well as manage risks relating to the procurement of contracts during the year, our findings as a result of the NTFC loan and resulting internal audit report, as well as governance action plan, means we are unable to state that Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Our findings indicate that there is an insufficiently systematic, robust, and objective due diligence process, and framework within which decisions can be made or documented.

Whilst we recognise that the Authority now has an action plan in place, as this was not produced until December 2016, it is clear that during this period there was an insufficiently systematic, robust, and objective governance process, and framework in place

We are therefore unable to state that Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result we anticipate issuing an adverse value for money opinion.

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

Significant VFM risks

We have identified five significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. In some cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
1. Governance Action Plan	**Why is this a risk?** In December 2016, the Authority's internal auditors, PwC, issued a report on the Authority's Risk Management Policy and framework and to advise the Council on best practice. This was in response to the loss of £10.22 million in relation to the loan to Northampton Town Football Club (NTFC). In response to the PwC report, the Authority developed a Governance Action Plan in December 2016. This plan is a fundamental document for the Authority which contains all 11 recommendations made within PwC's report. There is a risk that issues and recommendations raised within the report are not addressed by the Authority. **Summary of our work** We obtained the Authority's Governance Action Plan and reviewed reported progress against this Plan. We have documented how the Authority measures and evaluates performance against each action, and assess this against supporting documentation. The action plan is taken to each Audit Committee to update progress in implementation. As of 31 August 2017, the Authority recorded that 22 actions had been implemented (46%), whilst 21 had been partially implemented (44%) and a further 4 (8%) not implemented, and 1 (2%) to be confirmed. Of those that are partially implemented, the Authority assigns a % complete status, which ranges from 15% to 90%, as well as a RAG on-track status. An example of measures included within the action plan but not yet fully implemented include: — Monitoring of Cabinet decisions, implementation and compliance, including delegated decisions. To include regular reporting to the leader and audit committee; — Post-implementation review of the operation and effectiveness of the Executive Programme Board since its establishment in late 2016; — Identify and log all projects currently live and in the pipeline. Perform reviews of each project for feasibility and governance assurance; — Risk reporting to be reviewed ensuring that there is an effective cascade and tracking of risk through governance arrangements; — Develop and Implement enhanced Corporate project and Programme Management Framework and arrangements; and — Establish a due diligence and compliance manual.

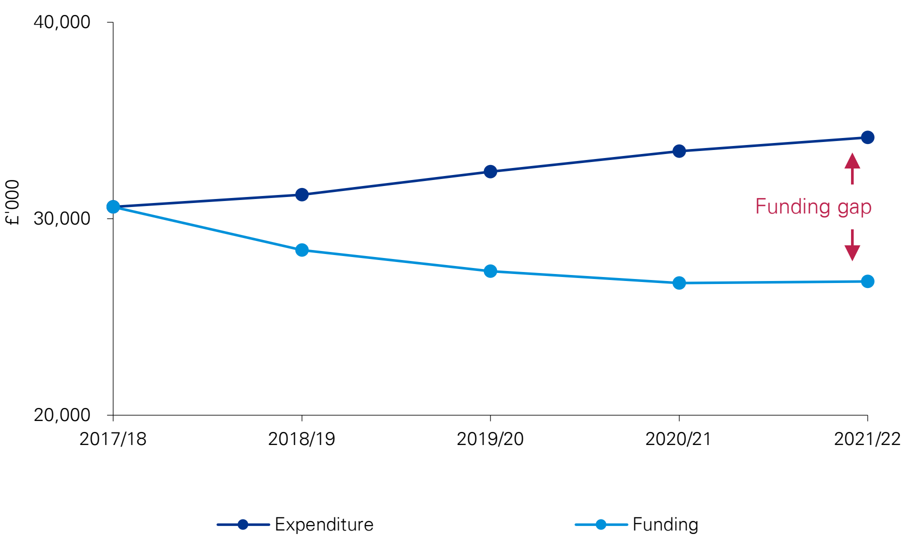
Significant VFM risks	Work performed
1. Governance Action Plan *(continued)*	Whilst we recognise that many of these actions have not yet passed their due date, in reviewing the arrangements in place during the 2016/17 financial year, it is clear that during this period there was an insufficiently systematic, robust, and objective governance process, and framework in place at the Authority. As the governance plan was only established in December 2016, it is clear that the actions can not have been suitably embedded during the 2016/17 financial year, and we are therefore unable to state that Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
2. NTFC loan and the wider loans system	**Why is this a risk?** In 2015/16, we issued an adverse conclusion on the Authority's arrangements to secure value for money. We were not satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to loans is adequate. Subsequent to the loss of £10.22 million, the Authority has approved up to £950,000 to be spent on recovering the lost monies. **Summary of our work** The Authority advanced a loan of £10.25 million to Northampton Town Football Club (NTFC) to carry out works to improve stadium facilities and develop a hotel. The loans were due to be repaid through the provision of a first return to the Authority on the development of land adjacent to the stadium combined with some land previously leased to NTFC, and then through enhanced revenue streams available to NTFC through the hotel and stadium development. The loan made to NTFC and the financial management concerns around it have been widely publicised. Whilst our review into the circumstances surrounding the loan as well as subsequent actions undertaken is not yet complete, we have considered the information and findings so far as part of our VFM conclusion. We are unable to comment further on the findings of this specific review until complete. During the year, PwC issued their internal audit report into the loan in December 2016. A number of issues were raised and recommendations produced as a result. Internal Audit stated: *Cabinet approved a loan of up to £12 million, but this decision was based on limited information as a business case was not made available. A number of conditions were made by Cabinet and we have been unable to confirm that these were complied with fully, addressing all concerns. For these reasons, we have been unable to confirm that decisions taken were in line with the delegated authority…the information reviewed demonstrates that there was a lack of formal processes implemented and adhered to regarding risk management, project management, management information and performance management.* *We attempted to reconstruct the thought process for the decision made and for subsequent monitoring. Our view is that the Council failed to demonstrate this in its data room. This was made extremely difficult because of a lack of an approved business case, appropriate independent advice and documented risk management and governance processes.* *It is apparent that the overriding focus on the Sixfields redevelopment was on the operational aspects and subsequent governance arrangements failed to identify and address adequately the loan agreement.*

Significant VFM risks	Work performed
2. NTFC loan and the wider loans system *(continued)*	We have taken into account our findings from the 2015/16 and 2016/17 audits, our on-going investigation into the circumstances surrounding the loan agreement, and the internal audit report referenced above. Our findings indicate that there is an insufficiently systematic, robust, and objective due diligence process, and framework within which decisions can be made or documented. We are therefore unable to state that Northampton Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. As a result we anticipate issuing an adverse value for money opinion.
3. Procurement	**Why is this a risk?** We identified management override of controls as a significant audit risk. Linked to this risk is the resulting impact on the Authority's procurement process. Non-pay expenditure was approximately £11.5 million (37% of total cost of services expenditure) in 2015/16. Discussions with NBC's internal auditors (PwC and LGSS Internal Audit) have highlighted that this is an area which has not been assessed in the last few years, which gives rise to a significant VFM risk. This is also linked to our prior year recommendations (see our ISA 260 reports in 2014/15 and 2015/16) where we recommended that the internal audit of key operational areas should be better co-ordinated between NBC's two internal audit providers. **Summary of our work** As part of our work we gained an understanding of controls over procurement and looked at how contracts are monitored throughout the year. During the year a new version of contract procedure rules were drafted but at the time of our review this was still awaiting authorisation from the Borough secretary prior to full Council approval. The Authority awarded four new contracts during the 2016/17 financial year and we reviewed how these had been procured and been awarded against the procurement policy and best practice guide. We found no issues to report back. As noted elsewhere in this report, during the course of the audit we received information relating to the governance of a major capital works project. We are currently conducting a separate review into this issue, as well as wider matters of overall governance, procurement and contract management at the Authority. We are liaising with the Authority to obtain all necessary evidence and information to support this work and once completed will report back to the Audit Committee the findings of our work, including recommendations arising from any weaknesses we identify in the design or operation of the appropriate governance and financial control frameworks.

Significant VFM risks	Work performed
4. Financial resilience in the local and national economy	**Why is this a risk?** There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances. In December 2016, the Authority published a draft Medium Term Financial Plan 2017/18 – 2021/22 (which incorporates its Efficiency Plan published on September 2016) that sets out a balanced budget for 2017/18. From 2018/19, the Authority has identified funding gaps; however it is confident that the targets in the Efficiency Plan are sufficient to bridge the forecast gap in the MTFP and are monitored by the management board. The Authority's proposed new governance arrangements include a specific officer board focussed on the delivery of the Efficiency Plan and associated improvement projects. **Summary of our work** Like most of local government, Northampton Borough Council faces a challenging future driven by funding reductions and an increase in demand for services. At a local level, this is compounded by the County Council's financial difficulties. During 2016/17, the Authority set a General Fund Budget for controllable service budgets of £31.3 million. This consisted of a mixture of income generation and efficiency savings. The actual outturn reported was £29.9 million, a £1.4 million variance, mainly attributable to underspends relating to the Director of Customers and Communities (£1.3 million) and debt financing savings of £456k, which mitigated overspends in other areas such a £543k adverse variance to plan in Housing and Wellbeing relating to additional costs of Homeless Prevention schemes, Refuge funding, higher Temporary Accommodation costs and a reduction in Licensing Income. The Authority decided to use the underspend to mitigate risk and invest in future service improvements, with £1.048 million being used as contribution to the MTFP cash flow reserve, £181k towards the project budget carry forwards, and £124k for improved governance and the Greyfriars Redevelopment. As a result there was a £30k contribution to the General Fund. Furthermore, the Housing Revenue Account had a budget of £7.5 million during the year, but reported an underspend of £366k due to a mixture of factors including lower interest and financing costs and bad debt provision not being required. The Authority's capital budget for 2016/17 was £19 million, an increase of £5.8 million from the original budget of £13.2 million. Of this, capital outturn reported spend of £12.4 million, an underspend of £6.6 million, mainly relating to the timing of the commencement of various schemes which will continue into 2017/18, and fall within the Regeneration, Enterprise and Planning. Of the total spend, the Authority used borrowing of £4.7 million to fund capital works, with the rest being met by capital receipts, grants, and third party and revenue contributions. The use of borrowing in year helped mitigate the non-realisation of £5 million of budgeted capital receipts. These are now expected in 2017/18.

Significant VFM risks	Work performed
4. Financial resilience in the local and national economy *(continued)*	During the financial year the Authority has also utilised a total of £12.8 million in reserves. Of this £5.7 million was utilised from the General Fund, although £8.2 million of new reserves resulted in a net increase of £2.5 million. Of this, £1.2 million related to increases in the Future Pressures Reserve and £2 million relating to Rates Retention Deficit Funding. The Authority utilised £7.1 million from the HRA Reserve, resulting in an overall HRA reserves decrease from £18.2 million to £11.1 million. For 2017/18, the Authority set a net budget of £29.1 million, which includes the requirement to achieve £2.8 million of savings during the financial year, being a mixture of additional income generation (£683k) and reduced expenditure from general efficiencies (£1.6 million), economic growth (£172k) and other technical savings including debt financing (£282k). Over the subsequent years, the Authority has set an overall net budget requirement which increases from £29.1 million in 2017/18 to £32.5 million in 2021/22. Within this the service base budget increases negligibly from £28.52 million in 2017/18 to £28.55 million in 2021/22 (0.1%), with the majority of the increase stemming from budgeted contributions to reserves moving from £649k to £3.4 million in the same period. The result of the budgeted contribution to reserves is a perceived funding gap commencing in 2018/19 of £3.9 million, arising to £5.4 million in 2021/22, a total of £16.1 million during the period. Taking into account the £13.4 million allocated to building up reserves in the same period, the net funding gap would otherwise be £2.7 million. Feeding into the budget, the Authority has assumed a decrease in Revenue Support Grant from Central Government from £1.8 million next financial year to zero funding from 2019/20 onwards. Additionally funding from the New Homes Bonus reduces from £4.2 million in 2017/18 to £2.1 million by 2021/22.

Chart 4: The Authority's MTFP



Significant VFM risks	Work performed
4. Financial resilience in the local and national economy *(continued)*	However, it is worth noting that the Authority has budgeted based on the assumption that funding from the Business Rates Retention Scheme will continue to increase during the period, from £7.6 million to £8.1 million by the end of the Medium Term Financial Plan. There is a risk attached to this due to the uncertainty provided by Central Government as to how this scheme will operate going forward and the Authority needs to ensure that budgeted assumptions are based on the latest information available to them and updated accordingly as the future of the Scheme is debated. The financial pressure on the Authority is therefore likely to increase over the coming years and it is imperative that work continues to identify savings well in advance of the most difficult periods within the Medium Term Financial Plan, most especially savings which may require initial investment and a longer lead time to realise their benefits. The Authority has a positive track record of delivering savings, but this will only get more difficult. The Medium Term Financial Plan only detailed savings predicted up until 2020/21, and over this period a total of £7.5 million have been included in the budgets, although the Authority has set far higher targets of £21.9 million. This leaves unidentified savings of £14.4 million from 2018/19 onwards. Furthermore, difficult decisions will need to be made in respect of other sources of funding such as Council Tax, as more Authorities begin to increase this in order to mitigate the financial pressures felt elsewhere and maintain the desired level of services to the public. Careful financial planning is required, and the Authority should also ensure that the assumptions it feeds into its Medium Term Financial Strategy (such as demographics, service demand etc.) are regularly refreshed to provide an up-to-date and reliable indicator of future pressure points. We have reviewed the arrangements the Authority has in place to manage and deliver financial resilience during the 2016/17 financial year. Our work has included a critical assessment of the Authority's Medium Term Financial Plan and a review to ensure that budgeting is sufficiently robust to ensure the Authority can continue to provide services effectively. We continued to meet regularly with the S151 Officer to and key staff to understand the Authority’s financial position and assessed the adequacy of its arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have shared with Management. Responses from Management are included after each recommendation.

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

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

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

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

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

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

2016/17 recommendations summary

Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	1	5	**6**
Medium	–	4	**3**
Low	–	2	**1**
Total	**1**	**11**	**12**

High priority

1. Review of bank reconciliations

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

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

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

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

Recommendation

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

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

Management response

Accepted.

The authority have contacted their banker who has advised they are unable to stop Direct Debits being set up on the account, however when a fraudulent DD is reported they refund the amount and put a block on that Direct debit being taken again. Internally there are two reconciliations undertaken which ensure that fraudulent direct debits are identified.

LGSS finance operations as the authority's provider of banking reconciliations have redesigned their bank reconciliation working paper and is applying this across all clients which resolves the date issue. Also the authority are focusing on resolving unreconciled items in a more timely manner and writing off any minor items where appropriate.

Owner

LGSS Business Systems Improvement Manager.

Deadline

Already actioned and ongoing.

High priority

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

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

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

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

Formal instructions to external valuers

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

Summary of external valuation

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

Valuation reports

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

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

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

Valuation review and challenge

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

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

— the Authority was not aware that the valuer had used the social housing discount factor (EUV-SH) for the South East instead of East Midlands. This is evident during our initial discussions with the Authority.

— the Authority was also not aware that the social housing discount factor had changed. This is evidenced by the initial draft of the accounts, where the old EUV-SH of 34% was stated;

— the Authority had not considered the impact of instructing the valuer to use "alternative beacons where necessary"; and

— the valuation was performed on a desktop basis. We understand that this was requested verbally by the Authority, and this methodology was chosen due to time pressure. This methodology is a departure from Code requirements and the Authority's accounting policies. This departure was not disclosed within the Authority's accounts, nor assessed for compliance with Code requirements. Upon our initial feedback to the Authority on this matter, Officers made the decision to ask for a full valuation exercise. This was carried out on 16 September 2017 on the same 20% of beacons. We are still evaluating the results of this new exercise.

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

Overall assessment

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

— the requirement for a valuer's report;

— the formalisation of valuer's instructions, including a list of assets to be valued;

— consideration of an audit trail in relation to assets to be valued;

— an assessment of the impact of 'alternative' beacons, where identified;

— the requirement for a full valuation instead of a desktop valuation for assets valued within the 5-year cycle;

— an assessment of the valuer's assumptions, in particular the justification for a social housing discount factor outside of the DCLG's guidance; and

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

— the timeframe and output to allow early review and assessment in light of the early closedown period in 2017/18.

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

Recommendation

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

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

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

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

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

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

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

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

Management response

Accepted.

A working group led by senior officers from Finance and Property, is considering all aspects of the valuation of PPE. The objective of the group is to provide accurate, evidenced valuations of the Authority's PPE. Where appropriate, external resource is being procured in order to provide both a new baseline for the valuations and a robust process that can be followed into the future. The various regulatory requirements, detailed in the SVRA and elsewhere, are being applied to direct this work. The focus will be on ensuring valuation reports include appropriate supporting evidence including comparables, etc, and this is contained within instructions to external valuers

Owner

Corporate Assets Team.

Deadline

The instructions to external valuers by end of January 2018 and review of received reports by end February 2018.

High priority

3. Preparation and review of audit working papers

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

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

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

— Many working papers were not checked against the requirements listed in the *Accounts Audit Protocol*. Despite being signed off, we found gaps in the provision of information; and

— Breakdowns provided within working papers did not tie to the draft accounts. This demonstrates a lack of audit trail, which adds to the difficulty in understanding the Authority's working papers.

Key audit areas of concern are:

— Fixed assets: The Authority had not provided key outputs from valuers ahead of the audit as previously agreed. We did not receive any working papers on valuation which led to difficulty in agreeing valuers' reports to the accounts. In addition, Authority had significant difficulty and delayed providing us with a breakdown of additions and disposals of Council Dwelling components. We also had difficulty in understanding the Authority's workings in relation to componentisation;

— Payroll: There was no audit trail and we had to spend a significant amount of time with Officers to understand the working papers; and

— Debtors and creditors: Not all breakdowns were provided; this did not meet our PBC requirements which had been agreed with Officers. In addition, where breakdowns were provided, these did not always agree to the accounts or to the Authority's general ledger.

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

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

Recommendation

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

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

3. Preparation and review of audit working papers *(continued)*

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

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

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

— be clear, with explanations if needed. The working papers need to be written from the view point of someone external to the organisation;

— be supported by strong evidence, for example, third party documentation; and

— agree to the financial statements provided for audit.

Management response

Accepted.

The audit working papers provided have not been of a consistently acceptable standard in certain areas and new requirements will be documented and communicated before the next closedown. This will be supported by training and coaching, followed by a final QA before papers are released to the audit team. The key objectives are to provide a standard template, which includes date and source, together with estimations that have been applied. The format and content is to be of sufficient clarity that a third party can understand the details without further reference to the author.

Improvements implemented for 2017/18 closedown.

Owner

LGSS Integrated Finance Group Accountant.

Deadline

March 2018 (missed – delivered January 2019).

High priority

4. Fundamental review of financial reporting and accounts production process

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

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

— fixed assets valuation reports; and

— the restated CIES and EFA.

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

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

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

— the note to the EFA was missing; and

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

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

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

Recommendation

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

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

KPMG

4. Fundamental review of financial reporting and accounts production process *(continued)*

effectively being asked to compress a year's worth of financial transactions and analysis into a relatively short period of time.

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

Management response

Accepted.

The approach to financial reporting and accounts production process is being reviewed in order to ensure that outputs are complete, accurate and code compliant. This will be underpinned by a more robust approach to ledger maintenance and periodic reporting, by issuing procedure guides to relevant colleagues from other functions and external agencies and through delivering training and guidance within the finance team.

Owner

LGSS Integrated Finance Group Accountant.

Deadline

For Accounts production by 31st May 2018 (missed – now to demonstrate for SoA 2017/18).

High priority

5. Componentisation of Council Dwellings

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

Calculation of the estimate

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

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

Rationale for change

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

Estimates, uncertainty, and complexity

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

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

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

Audit impact

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

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

5. Componentisation of Council Dwellings *(continued)*

Overall assessment

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

Recommendation

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

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

Management response

Accepted.

The Authority acknowledges that the approach previously taken to the componentisation of Council Dwellings was complex. A new process, focusing on the requirements of IAS16 and the Code, is being implemented and is supported by the wholesale review and revaluation of the housing stock. The Authority has also considered examples of best practice approaches applied in other authorities when confirming the changes required. Accounting policies will be amended as necessary in support of this change and disclosures on the nature, approach and extent of estimation will be clearly disclosed within the Statement of Accounts. The changes being applied will lead to more accurate, evidenced records and special emphasis will be placed on the need to provide details of the extent, value and implications of any changes to the housing stock during the year.

Owner

LGSS Integrated Finance Group Accountant.

Deadline

April 2018 (implementing for 2017/18).

Medium priority

6. General IT controls – Passwords

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

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

— Use passwords with a minimum length of 8 characters.

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

— Last 20 passwords remembered

— Complexity should be enabled

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

Recommendation

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

Management response

Accepted.

The Authority accept the finding and are instructing the system owners to implement password controls as per the current policy.

Owner

Head of Customer and Cultural Services.

Deadline

March 2018.

Medium priority

7. NDR reconciliations

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

Recommendation

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

Management response

Accepted.

It is agreed that there were unreconciled items at the end of March 2017. The Authority considers these amounts as highly trivial as the total represents 0.007% of the total cash received for business rates, and therefore not efficient to continue to investigate further. However, the Authority accepts that the cash should reconcile and since April 2017 the staff within LGSS Revenues and Benefits have ensured that items are reconciled within the following month so that any issues can be identified and system corrections made promptly.

Owner

LGSS Revenues and Benefits Systems Team Leader.

Deadline

N/A

Medium priority

8. Payroll Reconciliations

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

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

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

Recommendation

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

Management response

Accepted.

The LGSS Finance Business Partner Team have been working with NBC Payroll to review and refine the monthly payroll reconciliations. This was finalised at the end of December for the cumulative reconciliation for the 9 months in 2017/18 to that point. Going forwards the counter sign-off from HR management and then LGSS Business Partner Finance will be done monthly.

Owner

LGSS Senior Finance Business Partner supporting Borough Secretary.

Deadline

December 2017 and ongoing monthly.

Low priority

9. Review of actuarial assumptions

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

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

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

Assumptions used will impact the balance sheet and the following year's CIES.

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

Recommendation

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

Management response

Accepted.

The Authority will look to ensure that the actuarial assumptions are formally reviewed and challenged where appropriate.

Owner

LGSS Strategic Finance Business Partner.

Deadline

March 2018.

Low priority

10. ITGC – RAM Leavers

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

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

Recommendation

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

Management response

Accepted.

This will be addressed urgently by LGSS Finance and ICT Services.

Owner

NBC Chief Finance Officer.

Deadline

February 2019.

Medium priority

11. ITGC – RAM Update

Key financial systems should be kept updated. One of the issues that caused delays to the audit was a result of an outdated version of the Real Asset Management (RAM) system which holds fixed asset information. The outdated version resulted in a lack of support from third parties. A RAM consultant was required to come in and remove data from RAM to update it to the correct balances. This was a large piece of work and owuld not have been required if RAM was on a more recent version. We suggest that the RAM system is looked into for the 17/18 accounts preparation onwards and the system updated.

Recommendation

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

Management response

Accepted.

NBC Chief Finance Officer will seek regular, quarterly, assurance from LGSS as part of the contract monitoring / performance reviews, the status of all LGSS supported ICT systems and their currency/updates.

Owner

LGSS ICT and Finance.

Deadline

Ongoing – commencing February 2019.

The following is a recommendation which we have raised in our *External Audit 2016/17 Interim Report*. We have included this here for completeness.

High priority

10. Team resilience and use of interim staff

The Authority has a number of interim staff in key positions within its Estates and Integrated Closedown teams. The departure of the Interim Asset manager and a number of interim valuers has resulted in delays to the valuation process for Council dwellings. There are now no qualified valuers remaining in the Estates team. The knock-on effect has caused us to modify our audit approach to accommodate the Authority's new schedule.

A member of the Integrated Closedown team has also departed in year however the Authority has since recruited an interim replacement for the member of the Integrated Closedown team. Nonetheless, this is a real risk that corporate knowledge is lost upon the departure of interim staff and these potentially impact the valuation and accounts production process.

The use of interim staff has been a focus of the Audit Committee.

Update

We acknowledge that the Authority has been providing regular updates to the Audit Committee and plans are in place to address the use of interim staff. We also recognise that these are long-term plans but the use of interim staff has impacted the audit process for the year 2016/17.

Due to the departure of valuers within the Estates team, the Authority has had to engage two external valuers to carry out valuations on the Authority's property portfolio, and we noted that there had been no strategic oversight over this process. We also note that previously-agreed approaches to fixed assets had not been carried forward into this year's audit due to the departure of a key member of staff. Working papers provided for fixed assets were rolled-forward from the prior year, which we previously reported were inadequate and lacked audit trails. We have reported issues in relation to this, see recommendations 2, 3 and 5. These issues have caused significant delays to the audit process.

As such, our recommendation from the interim report remains open.

Recommendation

The Authority should appoint permanent members of staff as a matter of urgency.

Management's updated response – January 2019

Accepted.

The LGSS Integrated Finance Group Accountant role has been recruited to permanently and the individual took up the post before Christmas. The LGSS Finance Group has also been reorganised so as to provide more directed and consistent support to this area.

The NBC CFO role has moved from LGSS to NBC proper. The HoS for Economy, Assets and Culture has been appointed on a Fixed Term basis until April 2020 to gain consistency. Suitable senior staff in that group have also been appointed.

Owner

Chief Executive

Deadline

Ongoing

Follow-up of prior year recommendations

In the previous year, we raised ten recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has not implemented all of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

One recommendation was first raised in 2014/15.

Two recommendations were deemed to have been implemented in our *External Audit 2016/17 Interim Report*, dated April 2017. This appendix summarises outstanding recommendations in that report.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations (all recommendations raised in 2015/16).

2015/16 recommendations status summary

Priority	Number raised	Number implemented	Number outstanding/ superseded
High	2	-	**2**
Medium	5	3	**2**
Low	3	2	**1**
Total	**10**	**5**	**5**

High priority

1. Controls and processes for issuing loans

There is no systematic formalised system of recording or documenting the due diligence process or results arising from the loan approval process. This includes the assessment of business cases, evidence to support key decisions made, any challenge put forward by the Authority to the loan applicant, and the Authority's internal review and approval process. The Authority had significant difficulty in obtaining the evidence required to substantiate this decision-making process. Our assessment of two loans is still ongoing due to the delayed provision of key documentation first requested in February 2016.

There is evidence that the due diligence process is not sufficiently formal nor are there a consistent set of requirements. This includes the lack of assessments regarding historic trading performance, cash flow, working capital requirements, sensitivity analysis etc. The Authority's Treasury Management Strategy, states that *"The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party."* We note that the use of specialist advisors by the Authority varies across loans in relation to the scope and detail of work requested and undertaken.

The accountability and decision-making process is not sufficiently robust. We note that whilst Cabinet delegates authority to the Chief Executive or other appropriate officers, this has been done prior to finalising the due diligence process.

1. Controls and processes for issuing loans *(continued)*

Update

The Authority has developed a loans checklist to address our recommendation that there should be a systematic, robust, and objective process of assessing and documenting the due diligence procedures with regards to loans. This checklist has been shared with KPMG.

However, given the fact that due the Authority has taken a decision not to issue any loans this year or for the foreseeable future, the checklist has not been used in practice. Therefore we have not been able to critically assess the effectiveness of this new loans checklist. As such, we have also not been able to assess whether this checklist addresses and mitigates the previously-identified risks when used in a real-world situation. For the same reason were also not able to assess whether appropriate decision-making and approvals took place in line with the recommendation raised.

As a result, we deem this recommendation to be partially implemented until we can confirm effectiveness of this new process in practice.

Partially implemented

Recommendation

The Authority should put in place a systematic, robust, and objective process of assessing and documenting the due diligence procedures carried out on loan applicants. This process should be transparent and the due diligence process undertaken by qualified individuals. Any decision will need to be fully documented, including the reasoning and consideration of risks. The process should include a review by a senior officer and this should be evidenced.

Decision papers to Cabinet need to be robust and objective in order to allow informed and balanced decision-making. Decisions need to be made by Cabinet upon completion of required due diligence process. Officers will need to seek subsequent approval if terms of the loan are substantially revised.

Management's Original Response

Management accept that improvements should be made to the process for approving loans.

It should be noted that NBC have implemented a number of improvements in more recent loans issued, in particular the £46 million loan to the University of Northampton which was subject to an intense and closely scrutinised process by the Council and external bodies, including HM Treasury.

NBC will conduct a thorough governance review, in relation to project governance, risk management and due diligence. This review will consider Cabinet decision-making and clearance processes.

The review will draw on external and internal experts and will work closely with KPMG and PWC as appropriate, and the output from the review will include documented and robust processes and checklists for the approval of loans and decision-making processes. NBC using advice from KPMG have already introduced a summary checklist to ensure that all aspects of third party loans are appropriately considered and recorded prior to approval

Completion target dates: 31 March 2017

Responsible officer: Chief Finance Officer, and Monitoring Officer

Management's updated response – January 2019
The Governance review has been undertaken, new processes and due diligence processes exist.

High priority

2. Retrospective raising of Purchase Orders

Testing identified that purchase orders (POs) need to be raised prior to the Authority committing itself to purchasing goods/services. All purchases need to be authorised, and this authorisation is only carried out at purchasing order stage for those items that require a purchase order.

We noted that £7.7 million worth of expenditure in year was not appropriately authorised prior to placing an order with a supplier. In these cases purchase orders were raised retrospectively which potentially opens the Authority to potential fraud or impropriety and is contrary to the Authority's policy.

Update

This was initially raised as part of the 2014/15 audit.

From our testing in 2016/17, there was a total of 2,419 POs raised after the invoice which had a net total of £15.6 million. Communication from LGSS suggests that some of these were duplicates within the same PO and some related to homelessness whereby no PO is raised in such emergency circumstances. The Authority has stated that retrospective purchase orders were have decreased (by number) from 20% in 2015/16 to 18% in 2016/17. We are still waiting for supporting evidence to evidence the Authority’s calculations and the monetary value of this 18%.

Nonetheless, the use of retrospective orders is not in line with the Authority’s policies. There is a risk that these 18% were not initially authorised, and the Authority made a financial commitment without undergoing the required approval process.

Partially implemented

Recommendation

The Authority should ensure that purchase orders should be raised for the purchasing of goods and services through the purchase order process (where appropriate), prior to the Authority committing itself to the purchase.

Reports should be run on a regular basis to identify all non compliance and take appropriate follow up action.

Management’s updated response – January 2019
This has continued to be an issue, in some instances it is the nature of the task, e.g. temporary accommodation, the policies and process continues to be reviewed, along with whether Purchase Orders (and the associated process) is the correct way to access certain services, as opposed to a framework and procurement card approach.

Medium priority

3. Revaluation of Council Dwellings

The Authority revalues approximately 20% of its council dwellings annually, using the beacon methodology. This is where similar council dwellings are grouped with one dwelling chosen to represent each group (the 'beacon'). The remaining 80% of beacons are uplifted using the average movement of the 20%. The *Stock Valuation for Resource Accounting* guidance suggests that where a rolling valuation is performed, the Authority should undertake a desk top review of the remainder, informed by the results of the revaluation, market research and comparing prices of similar transactions in year.

The Authority was unable to provide evidence of the year-end valuation methodology until after our on-site visit had been completed (22 days working days after request), causing significant delays to the completion of our work.

Handwritten notes were then provided to us, but these did not provide a clear and concise audit trail detailing the methodology used, the assumptions made, nor how calculations had been applied. There was no evidence this working paper had been reviewed. Furthermore, whilst the Authority did take into account similar transactions in the year, it did not challenge the methodology used nor undertake any additional review such as looking at wider trends, indices and other information to inform the year end movement. The Authority did not perform its own assessment of the final valuation including challenge and confirmation of this in order to understand key movements for properties.

For both the initial and year end valuations, the valuer did not provide all the documents required by Code guidance including a separate overarching valuation report covering matters such as the process used to arrive at the estimate of the remaining useful life of individual properties, the valuer's proposed strategy,, arrangements for implementing the rolling programme; and proposals for carrying out additional and ad hoc valuations.

Update

This recommendation will be closed off and we have raised one new recommendation in 2016/17 to allow the Authority to respond to both Council Dwellings and PPE.

In April 2017, we were assured that there was a full documented audit trail. However when the work was reviewed, this was difficult to evidence and caused delays to the audit.

See recommendation 2 in Appendix 1.

Recommendation superseded

Recommendation

The information requested, and provided by the valuer, should meet all the criteria within the Code and provide a clear and concise audit trail relating to the methodology and assumptions used in the valuation process. All evidence should be maintained and made available prior to the start of the audit.

The Authority should ensure that it fully fulfils its responsibility to review, challenge and understand the information provided by the valuers as required by guidance.

Management's Original Response

Accepted. There was a change in key staff within the Asset Management team prior to the start of the audit. This combined with changes to finance staff meant that the process was not as smooth as in previous years.

3. Revaluation of Council Dwellings *(continued)*

Management recognise there is a need for a better documented internal review process within Asset Management, and between Asset Management and Finance. Officers will be working jointly to thoroughly document processes for future years.

Completion target dates: 31 December 2016

Responsible officer: Head of Asset Management, and Strategic Finance Manager

Medium priority

4. Reconciliations

During the course of our audit we reviewed a number of reconciliations performed by the Authority between key systems. These are important controls which provide assurance that due process is being followed and that values reflected in the financial statements are calculated on an appropriate basis. We noted a number of issues including:

- Our testing of the March 2016 payroll reconciliation showed a total of 99 unreconciled items with a net value of £46,000 (gross £95,000). We also noted historical brought-forward balances which have yet to be identified by payroll.
- The Authority reconciles weekly Valuation Office (VO) reports to Academy Capita. The Authority does not reconcile the number of hereditaments (properties which are subject to business rates) to the NNDR system. There remains a small unreconciled difference in property numbers each week.
- The Authority reconciles the annual housing benefits expenditure to Agresso at the end of the year. We identified that the Authority had used the 2014/15 figure instead of 2015/16 figure for the reconciliation, resulting in an unreconciled difference of £15,300, instead of the original £997. This was not identified despite having been reviewed and signed off as "quality assured" by Officers.

Update

- Payroll reconciliations: As part of our interim audit we tested the December 2016 payroll reconciliation. 27 reconciling items were present on the December 2016 reconciliation that were present on the July 2016 reconciliation. We recommend these are cleared as quickly as possible.
- NDR reconciliations: A reconciling item has been identified since June 2016, which has not been resolved at year end. Therefore all of the monthly reconciliations show a reconciling item, so they do not reconcile. Although the reconciling item is in the process of being investigated, it has not been cleared by year end.
- Housing benefits reconciliation: This reconciliation was tested as part of the year end audit. No issues were noted with the housing benefits reconciliation.

Two new recommendations have been raised in 2016/17 to separately identify issues with the payroll and NDR reconciliations.

See recommendations 7 (NDR reconciliations) and 8 (payroll reconciliations) in Appendix 1.

Recommendation superseded

Recommendation

The Authority needs to ensure that quality checks are undertaken on all key controls. This should be embedded within the reconciliation process. The Authority should ensure all the issues above are dealt with and that full reconciliations are carried out across all appropriate systems and balances. All unreconciled balances should be identified and cleared, or written-off in a timely manner

Management's Original Response

Accepted. Payroll reconciliation – Management accept there is a need to strengthen the reconciliation process. Reconciliation items must be identified and cleared within a timely period.

NDR property reconciliations - The Authority does reconcile the properties between the NDR and VO reports, and there are currently two cases where properties don't reconcile but officers are aware of the reasons why the systems don't reconcile and will be correcting them. The reconciliation amendment will not impact on the customers' liability or debit raised.

4. Reconciliations *(continued)*

Housing Benefit Agresso reconciliation - Management recognise that the reconciliation process needs to be improved, and officers will be revising the process to exclude prior balances from the reconciliation data to ensure it is not included in error.

Completion target dates:

Payroll: 31 October 2016

NDR: 31 October 2016

Housing Benefit: 31 December 2016

Responsible officer: Payroll Manager

Revenues Manager

Strategic Finance Manager

Medium priority

5. Cut-off and accruals accounting

We performed cut-off procedures over the Authority's non-pay expenditure controls. The Authority needs to recognise expenditure incurred within the correct financial year. Our cut-off procedures are designed to test the effectiveness of the Authority's process for identifying and allocating expenditure to the correct financial year.

We tested 10 transactions around the year-end closedown date and identified that one invoice which should have been accrued had not been. The value of this invoice was for £2,240, which is above the Authority's *de minimis* threshold and therefore should have been accounted for within 2015/16.

Whilst further investigation deemed the issue to be immaterial to the audit, and therefore no adjustments are proposed, this is a key control operated by the Authority and should be operated consistently during the year.

Update

No issues were found with our cut-off and accruals testing in the 2016/17 financial statements audit.

Fully implemented

Recommendation

The Authority should ensure it strengthens its year end cut-off procedures and that controls are sufficiently-robust to ensure correct procedure is followed. The Authority may wish to consider the impact on raising its de minimis level to reduce the manual input required in this process. A review of cut-off is particularly important given the move to a shorter timetable for the accounts process from 2017/18, and the reduced time to produce the financial statements.

Management's Original Response

Accepted. Management accept this advice and they intend to review the de minimis level for accruals from £1,000 to £5,000 in order to make the process more efficient in the future to enable the reduced statutory deadline for the closure of accounts to be achieved. This will allow more time for increased controls over the manual accruals process which arguably present a greater risk.

Completion target dates:

31 December 2016

Responsible officer: Head of Asset Management, and Strategic Finance Manager

Medium priority

6. General IT controls – leavers

We tested the Authority's general IT control environment this year. We carried out specific testing of key applications which are relied upon by the audit, including Agresso. For two applications, we found that staff who have left the organisation are still active on these applications:

- IBS Housing: 14 former staff had active accounts; and
- ICON: 12 former staff were on user list, of which five were disabled and seven still active users.

Update

No issues were found in our leavers testing as part of the 2016/17 audit.

Fully implemented

Recommendation

Timely leaver forms need to be completed and cascaded to the relevant departments, including to IT.

User access to applications needs to be reviewed on a periodic basis. In addition, the departing employee's access rights should be revoked as part of the standard leaving procedures. This process should be co-ordinated between HR and IT.

Management's Original Response

Accepted.

Management notes this recommendation and has taken the following action:

IBS Housing System. The recommendation for timely leaver forms needing to be completed and cascaded to the relevant departments has now been implemented.

ICON System. The staff responsible for maintaining user access to the ICON system have incorporated a review and disablement of users who have left into their routine monthly processes linking with the HR and Payroll teams.

Completion target dates:

Immediate

Responsible officer:

IBS Housing System: LGSS Business Systems Manager

ICON System: LGSS Exchequer team leader

Low priority

7. Payroll data quality

As part of our audit approach, we undertook data analytics over the Authority's payroll transactions for the year. We did not find any material issues; nonetheless, we noted some minor data quality issues, such as incorrect addresses and duplicate National Insurance numbers. We have provided the full results to the Authority separate from this report.

We noted salary payments made to employees after their effective end date. All of these have been investigated by the Authority and confirmed as appropriate.

Update

During interim, the original results of our work over payroll data and analytics highlighted a number of data quality issues. When communicated with the Integrated Closedown team, it highlighted that the data originally used was incorrect. A new data set has been provided and our Data & Analytics routines were re-performed. This has resulted in a delay to the work produced.

This occurred again as part of the final visit where incorrect data was provided requiring our Data & Analytics routines to be re-performed.

Findings from our Data & Analytics routines indicated that there are still a number of data issues such as incorrect addresses, duplicate NI numbers and employees with in correct bank details. Nonetheless, our Data & Analytics routines have not identified financial impacts on the Authority's financial statements.

Partially implemented

Recommendation

The Authority should investigate instances of data quality issues. In addition, the Authority should investigate all incidences of salary payments to staff after the end dates.

Management's Original Response

Management have reviewed the findings and whilst there are no significant issues, processes have already been updated during 2015/16 to address issues around national insurance numbers. A further review of data held around historic / incomplete postcodes will be undertaken

Completion target dates: 31 December 2016

Responsible officer: Payroll Manager

Due to the data requirements changing for this year's audit with the request for a single data report in this area, the Systems team had to pull together the data from different sources and undertake lookup processes between the different sources. There was an issue with this lookup with new cost centres not being picked up which led to the exceptions highlighted by KPMG. This has been corrected in a revised set of data and reports, which is expected to remove the vast majority of the exceptions initially identified. We await the outcome of the revised analysis.

Management's updated response – January 2019
None provided.

Low priority

8. NDR provision review

The Authority collects Non-Domestic Rates (NDR) from businesses in the Borough. NDR owed to the Authority is based on rateable values, as set by the Valuation Office Agency (VOA). Ratepayers are able to appeal these values if they do not agree with the valuation. If successful, the Authority is liable to repay its share of the difference.

This was first introduced in 2013-14 due to a move to localise business rates. The Authority has set an NDR provision level of 5% based on an estimate of successful appeals. This estimate is based on information from the VOA (across a range of percentages) and the DCLG's guidance on the national average success rate.

During the course of the audit we asked the Authority to provide evidence regarding its review and analysis of local historical data collected since April 2013 in order to inform its view of the appropriateness of its provision in this area, however none was provided at that time. In raising this issue with Management, we have now been provided with information pertaining to the Authority's approach. The Authority having analysed the local data has deemed that the current approach is prudent and therefore has not adopted the calculated figures. This has not resulted in a material impact on the financial statements.

Update

The Authority has worked hard to review the calculation of the appeals provision. There has been a change in how the provision is calculated, which is now based on more granular data. This change in methodology has resulted in an NDR provision increase of £800,000.

Fully implemented

Recommendation

The Authority should continue to use its own historical data to inform and refine its estimate of its share of liability arising from successful appeals. Notwithstanding whether the Authority decides it should change its provision based on this information, sufficient and appropriate audit evidence should be maintained and provided to evidence the decision process undertaken, as well as management review and sign-off of the final position. The Authority should provide appropriate and sufficient narrative explanations with regards to why the Authority believes that the approach taken is the most appropriate or prudent, especially when there are valuation differences between methodologies.

Management's Original Response

Accepted. The Council recognises the complexity of the business rates retention system and the importance of understanding its appeals position. The Council will continue to review the impact of successful appeals on a monthly basis to assess its impact on the financial position. The outcome of this analysis, along with other sources of intelligence, will inform the level of appeals provision for 2016/17.

Completion target dates: 31 March 2017

Responsible officer: Chief Finance Officer

Management's Update April 2017

Noted.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

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

Adjusted audit differences

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Expenses 514	Dr Capital Adjustment account 514 Cr General Fund 514	Cr Council Dwellings 514		Dr Capital Adjustment account 514 Cr General Fund 514	Q4 disposals not included in July 17 draft accounts
2	Cr Expenses 725	Dr Capital Adjustment Account 725 Cr General Fund 725	Dr Assets Under Construction 5,312 Dr Housing L&B 701 Cr Council Dwellings 701 Cr OLB 9,327 Dr Investment Properties 4,741		Dr Capital Adjustment Account 725 Cr General Fund 725	Reclassification of assets within Property, Plant and Equipment
3	Cr Expenses 73,438	Cr Revaluation reserve 15,249	Dr Council Dwellings 88,687		Cr Revaluation reserve 15,249	Incorrect EUV-SH used for Council Dwellings

Appendix 3

Audit differences

Adjusted audit differences (cntd.)

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
4	Dr Expenses 974	Dr Capital Adjustment account 974 Cr General Fund 974	Cr Housing L&B 172 Cr Council Dwellings 803		Dr Capital Adjustment account 974 Cr General Fund 974	Adjustment to Right to Buy disposals as a result of valuation changes
5	Dr Expenses 4,197	Cr Revaluation Reserve 735 Cr General Fund 2,042 Dr Capital Adjustment Account 2,006	Cr OLB 3,426		Cr Revaluation Reserve 735 Cr General Fund 2,042 Dr Capital Adjustment Account 2,006	Additional valuations and recognition of buildings as a result of KPMG valuer review
6	Dr Expenses 1,812	Cr General Fund 1,812 Dr Capital Adjustment Account 1,812	Cr Investment properties 310 Cr OLB 1,502		Cr General Fund 1,812 Dr Capital Adjustment account 1,812	Purchase costs on Other Land and Buildings and Investment Properties
7	Cr Expenses 1,502	Cr Capital Adjustment Account 1,502 Dr General Fund 1,502	Dr OLB 1,502		Cr Capital Adjustment Account 1,502 Dr General Fund 1,502	Incorrect treatment of purchase costs

Audit differences

Adjusted audit differences (cntd.)

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
8	Dr Expenses 273	Dr Revaluation Reserve 747 Cr General Fund 273 Dr Capital Adjustment Account 273	Cr OLB 747 Cr Investment Properties 273		Dr Revaluation Reserve 747 Cr General Fund 273 Dr Capital Adjustment Account 273	Duplication of revaluations in RAM
	Cr 67,064	**Cr 15,273**	**Dr 83,168**	**–**	**–**	**Total impact of adjustments**

Audit differences

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of Northampton Borough Council's financial statements for the year ended 31 March 2017. These differences are individually below our materiality level of £1.5 million. Cumulatively, the impact of these uncorrected audit differences is not material. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1		Revaluation reserve Cr 543k	Council Dwellings Dr 578k Other Land and Buildings Dr 35		Revaluation reserve Cr 543k	Guildhall Road and the Ecton Lane Travellers Site were revalued in 2016/17 however the revaluations have not been transacted into the accounts and are therefore understated in the 16/17 financial statements. In addition, the Travellors site should also be included in Council Dwellings and not OLB as travellers sites are registtered for council tax. This adjustment is a presentational error between Council Dwellings and OLB.
		Cr 543	**Dr 543**		**Cr 543**	**Total impact of uncorrected audit differences**

Timeline of key events for PPE & investment properties

		INVESTMENT PROPERTIES	COUNCIL DWELLINGS	OTHER LAND & BUILDINGS
2016 Sept	**26 September 2016** Formal instructions were sent to the Authority's internal valuers. The instructions originally encompassed PPE (including Council Dwellings) and investment properties.			
Oct			**3 October 2016** Finance challenged the valuation of Council Dwellings by its internal valuers due to large variations from the March 2016 valuations. Movement was rechecked but confirmed as appropriate by the internal valuers.	**6 October 2016** Underwoods instructed via email to review part of the Authority's portfolio of other land and buildings. No formal written instructions were provided by the Authority. The Authority's internal valuers had no capacity to fully complete the valuation of land and buildings.
2017 Jan		**30 January 2017** Underwoods instructed via email to review investment properties. No formal written instructions were provided by the Authority.	**16 January 2017** Authority's interim valuers agreed with LGSS Finance that valuation work for Council Dwellings should be outsourced to Underwoods due to capacity issues within the Estates team.	**31 January 2017** Internal valuers' report issued for part of the Authority's portfolio of other land and buildings.
Feb			**1 February 2017** We were informed that the 1 April 2016 valuation exercise resulted higher-than-expected increase in valuation for Council Dwellings. This will form part of the Beacons review undertaken by Underwoods.	
Mar	**March 2017** Planned review of valuation report by KPMG valuation specialist. Interim on-site audit visit from 6 March 2017 to 24 March 2017.	*Note: we deferred engaging our valuation specialist until September 2017 as we had not received the Underwoods valuation report for investment properties.*	**1 Mar 2017** Council Dwellings valuations results received from Underwoods which indicated further work was necessary to ensure compliance with both Code and SVRA requirements.	*Note: we deferred engaging our valuation specialist until September 2017 as we had not received the Underwoods valuation report for other land and buildings.*
Apr			**20 April 2017** The Authority subsequently commissioned Bruton Knowles to carry out a valuation on Council Dwellings to comply with Code and SVRA requirements.	

Appendix 4

Timeline of key events for PPE & investment properties (cntd.)

		INVESTMENT PROPERTIES	COUNCIL DWELLINGS	OTHER LAND & BUILDINGS
May			**End of May 2017** Agreed deadline between the valuer and the Authority for the final valuation report.	
Jun			**23 June 2017** First version of the Council Dwellings valuation report passed on to KPMG for review.	
Jul	**July 2017** The final accounts audit visit took place on site from 10 July 2017 to 4 August 2017.	**17 July 2017** We received the first Underwoods valuation report for investment properties, totalling £7.7m. **24 July 2017** We received the second Underwoods valuation report for investment properties, totalling £8.3m.		
Aug				**1 August 2017** We received the internal valuers' report for other land and buildings. **4 August 2017** We received the Underwoods valuation report for other land and buildings.
Sept KPMG review of assets	**September to October 2017** Rescheduled review of valuation reports by KPMG valuation specialist. This resulted in a revised valuation report from Bruton Knowles for Council Dwellings, and commissioning GVA to re-do the valuations previously carried out by the internal valuers. Initial draft report received from KPMG valuation specialist on 19 September 2018. **29 September 2017** KPMG issued a letter to the former Chief Finance Officer, detailing issues found which will impact on our ability to provide an audit opinion by the statutory deadline.	**September 2017** Adjustments relating to purchase costs total £322,000. Further adjustment identified relating to the classification of Park Inn from other land and buildings to investment properties.	**22 September 2017** Second version of Bruton Knowles report provided to KPMG, in draft version. This included an amendment to the year-end social housing adjustment factor and a revision to the year-end indexation. *Note: this report omits the adjustment to the 1 April 2016 social housing adjustment factor; see Appendix 2.*	**September 2017** Adjustments relating to purchase costs identified. Supporting evidence for assets valued by internal valuers were not readily available; this resulted in further queries from the KPMG valuation specialist.

Timeline of key events for PPE & investment properties (cntd.)

KPMG review of assets

		INVESTMENT PROPERTIES	COUNCIL DWELLINGS	OTHER LAND & BUILDINGS
Oct	**October 2017** Valuation assessment paused due to uncovering issues including incorrect classification of assets, data anomalies, and the lack of evidence available to support valuations.	**4 October 2017** Incorrect classification of Sixfields land found, resulting in audit adjustment of £595,000.		
Nov	**October to November 2017** Authority puts in place a "PPE taskforce" to provide an additional layer of review to audit queries.	**30 November 2017** Further samples provided to the Authority for review given issues found within the initial sample.		**30 November 2017** Further samples provided to the Authority for review given issues found within the initial sample.
Dec	**December 2017** Second tranche of reviews by the KPMG valuation specialist, concentrating on resolving queries for other land and buildings and a further extension of our samples for investment properties.			**December 2017 to January 2018** GVA completed its review of other land and buildings. The final report was dated 19 January 2018.
2018 Jan	**January 2018** Work undertaken in January 2018 on investment properties and other land and buildings including resolution of our valuation specialist's queries and obtaining supporting information (such as rental agreements).		**23 January 2018** Reconciliation between the second valuation report and the fixed asset register requested.	**23 January 2018** We received a schedule from the Authority which details multiple adjustments to other land and buildings as a result of the revised valuation.

KPMG review of assets

		INVESTMENT PROPERTIES	COUNCIL DWELLINGS	OTHER LAND & BUILDINGS
Mar	**March to April 2018** Addressing issues raised by KPMG valuation specialist. This includes reviewing lease terms, confirming yields, and other property-specific queries. We liaised with the KPMG valuation specialist to clear off outstanding valuation queries arising from our specialist's review of the valuations.			
Apr			**20 April 2018** Reconciliation between second valuation report and the fixed asset register provided. Difference noted, due to the use of 4.08% uplift originally calculated by the internal valuers. We requested the internal valuer's original report, which we received 30 April 2018. We responded on 30 April 2018 that the internal valuers have used an incorrect social housing adjustment factor. Authority to investigate.	

Appendix 4

Timeline of key events for PPE & investment properties (cntd.)

INVESTMENT PROPERTIES | COUNCIL DWELLINGS | OTHER LAND & BUILDINGS

KPMG review of assets

May

May 2018
Further queries and clarification on specific valuation issues raised by KPMG valuation specialist.

Jun

June 2018 (Council Dwellings)
Communication with the Authority Finance staff that the Traveller's site should be reclassified as Council Dwellings and is incorrectly classified as Other Land and Building in financial statements. KPMG received third valuation report from Bruton Knowles, which contained the correct EUV-SH value of 42%.

June 2018 (Other Land & Buildings)
An updated revaluation for Park Inn was provided by the Authority to the KPMG audit team for review.

Jul

July 2018 (Council Dwellings)
2 July - KPMG provided with fourth version of valuation report form Bruton Knowles: minor internal inconsistencies still to be updated. Final report received 9 July.

12 July 2018 (Other Land & Buildings)
The revaluation of Old Gaol Block was provided by the Authoirty to KPMG for review.

Aug

13 August 2018 (Council Dwellings)
KPMG were notified that the RAM consultant had started to remove incorrect valuations and update the Council Dwellings valuation with the correct EUV-SH. Five working days were estimated.

2 August 2018 (Other Land & Buildings)
The Authority responds to queries sent 2 July regarding the Park in Valuation.

Sept

4 September 2018 (Council Dwellings)
KPMG were notified that the RAM work was taking longer than anticipated and would be complete by 14 September.

Oct

October 2018
Once the RAM work was completed, a "final set of statements were produced. KPMG had an additional set of queries to confirm treatment of Council Dwellings and OLB were transacted and presented appropriately.

October 2018 (Investment Properties)
Final figures for Investment Properties agreed. All queries resolved.

2 October 2018 (Council Dwellings)
KPMG were notified that the RAM work was now complete and the updated figures were being included in the financial statements.

2019
Jan

January 2019
Final set of Financial Statements for 2016/17 ready for presentation to Audit Committee.

Materiality and reporting of audit differences

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

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

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

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

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

Materiality was set at £1.5 million for the Authority's standalone accounts and group accounts, which equates to 0.6% of the Group's gross expenditure. This is a reduction in the level of materiality compared to the prior year to reflect the increased risk to the audit (*2015/16:* £2.7 million, or 1% of the Group's gross expenditure).

We design our procedures to detect errors in specific accounts at a lower level of precision. This is £1.1 million.

Reporting to the Audit Committee

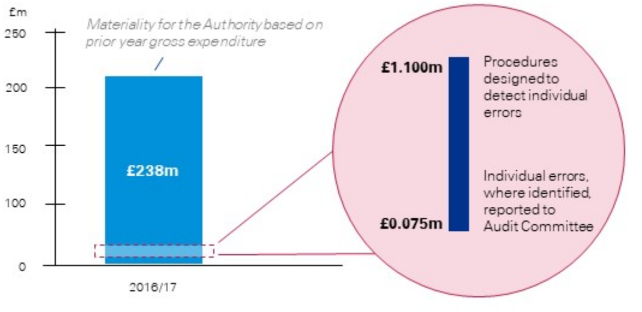
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £75,000 for the Authority.

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



We report all individual unadjusted differences greater than £75,000 to the Audit Committee.

We also have regard to other errors below this amount if evidence of systematic error or if material by nature.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

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

General procedures to safeguard independence and objectivity

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Northampton Borough Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Northampton Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Non-audit work and independence

We have not undertaken any non-audit work for the financial year ending 31 March 2017.

Audit fees

Audit fees

As communicated to you in our *External Audit Plan 2016/17*, our scale fee for the audit is £80,775 plus VAT *(£80,775 in 2015/16)*, thereby preserving the 25 per cent reductions that were applied in the previous year. Our fee is based on a number of assumptions, including that Officers provide us with complete and materially-accurate financial statements, accompanied by good-quality supporting working papers within agreed timeframes.

During the audit, we experienced quality issues with working papers and various delays. These issues have been communicated to the Audit Committee within this report, and we are currently in discussions with the Section 151 Officer about the additional costs which we have incurred. We have discussed additional fees of approximately £200,000 with the Section 151 Officer. These are subject to PSAA approval. We have also undertaken additional work in response to Code changes and changes made by the Pension fund in response to the triennial pensions revaluation. We have discussed additional fees of £4,813 with the Section 151 Officer in relation to these two areas. See table below for further detail.

Our work on the certification of Housing Benefits (BEN01) was completed in November 2017. The planned scale fee for this is £18,972 plus VAT per PSAA notification. All PSAA scale fees are available on the PSAA's website.

PSAA fee table

Component of audit	2016/17 *(planned fee)* £	2015/16 *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set in 2014/15	80,775	80,775
Code changes for 2016/17 and the triennial pensions revaluation (note 1)	4,813	–
Additional work to conclude our opinions (note 2)	200,000	17,250
Subtotal	**285,588**	**98,025**
Other		
Housing benefits (BEN01) certification work (PSAA scale fee)	18,972	10,579
Elector work – NTFC (note 3)	TBC	52,413
Elector work – Council Tax (note 4)	4,700	-
Total fee for the Authority set by the PSAA	**TBC**	**161,017**

All fees are quoted exclusive of VAT.

Note 1: Code changes and the triennial pensions revaluation

The Code introduced changes in the way the Authority is required to present its financial statements for the year 2016/17. This involved a restatement of the prior year's Comprehensive Income and Expenditure Statement (CIES) and the introduction of the Expenditure and Funding analysis (EFA), together with the corresponding notes to the EFA. We undertook additional work to gain understand and assurance over the restatement process and agreeing the new disclosures to the Authority's trial balance.

We also undertook additional work in relation to process changes introduced by the Pension Fund in response to the triennial pensions revaluation.

Note 2: Additional work to conclude our opinions

For 2015/16, an additional £17,250 was agreed by the Section 151 Officer and the PSAA to meet additional costs incurred by the audit team. These were predominantly caused by additional work and issues over the Authority's loans and fixed assets. We have reported these issues in our External Audit Report 2015/16 (ISA 260) and the 2015/16 Annual Audit Letter, which were previously presented to the Audit Committee.

For 2016/17, we have experienced significant delays and undertook additional work in the course of performing the audit. These predominantly relate to the Authority's fixed assets, including Council Dwellings. We have provided details of these issues in our initial reporting in September 2017, and subsequent updates to the Audit Committee. Further detail can be found throughout this report. The fee also includes additional work carried out by our valuation specialist over the Authority's fixed assets, additional work carried out by our Data & Analytics team due to incorrect data submitted for review, and additional work by our IT specialist team in response to the change in the Authority's Non Domestic Rates System, as well as the updated to the Real Asset Management System. The estimate of our additional fee to date is of £200,000 and this has been discussed throughout the audit with the Section 151 Officer who has been provided with detailed breakdowns at each stage. The final agreed fee will also be subject to PSAA determination.

Note 3: Elector work – NTFC objection

In 2015/16, we received an objection from a local elector in relation to the loan provided to the Northampton Town Football Club (NTFC). We reported in our *2015/16 Annual Audit Letter* that our work was temporarily suspended due to the on-going police investigation. The £52,413 disclosed in the 2015/16 column relate to costs incurred up to the temporary suspension of our work. We have since received permission from the police to recommence our work, and anticipate incurring further costs. We will discuss further costs with the Section 151 Officer and the PSAA.

Note 4: Elector work – Council Tax

In 2016/17, we received an objection from a local elector in relation to the setting of the Authority's Council Tax. We have accepted this objection and have issued our findings to the elector and the Authority. The additional fee of £4,700 was agreed with the Section 151 Officer and the PSAA.

External Audit Letter - September 2017

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Our ref DH/AC/NBC

Contact Daniel Hayward
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29 September 2017

Dear Glenn,

Northampton Borough Council – 2016/17 External Audit progress

Following the Audit Committee on Wednesday 27 September 2017 I am writing to you to provide an update regarding the status of our audit.

At the Audit Committee I had highlighted the potential risk that the audit may not be completed and the audit opinion issued before 30 September. Unfortunately as I have discussed with you this risk looks likely to be realised, and I know you share my disappointment in this situation. My team and I, as well as your team, have worked tirelessly to try avoid this situation, however, and again as discussed I am of the view that we have not as yet performed sufficient testing nor obtained sufficient evidence to enable me to issue an opinion.

As you are aware and as noted at the Audit Committee, and as per previous discussions with yourself, other Officers and Members at the time, our work to that point had identified a significant number of issues relating to the Authority's fixed assets, including but not limited to the valuation of social housing, other land and buildings, and investment properties, as well as the methodology adopted towards componentisation.

Whilst significant work has been undertaken by both my audit team and your Closedown team in order to respond to and address these issues, the result of our findings so far has provided me with insufficient assurance that your financial statements present a true and fair view in this respect and many of these issues remain unresolved.

Due to the number of areas of concern and errors found during KPMG's valuer's review of a sample of assets, my consideration in consultation with KPMG colleagues is that resolution of these specific issues currently would not provide sufficient audit assurance that the remaining population of assets, not sampled, are appropriately valued. Therefore there remains a risk of possible material misstatement.

Given the issues identified, and unanswered questions remaining around the reporting from the fixed asset system, this also brings into question the accuracy of those assets which have not been revalued in the year, transactions processed during the period and the accuracy of overall reporting and disclosures in this respect.

As you will no doubt appreciate the responsibility for ensuring that a materially correct set of accounts is presented for audit lies first and foremost with you as the section 151 officer. At this stage we think that there is still an uncertainty surrounding the robustness of the valuation that would enable you to be able to discharge your statutory responsibilities.

External Audit Letter - September 2017

KPMG

KPMG LLP
Northampton Borough Council – 2016/7 External Audit progress
29 September 2017

It may be very likely that there is no change in the values in the accounts, I certainly hope that is the case. However, we will only be able to judge this when we have completed our testing and evaluated the evidence.

We are hoping to complete the audit as quickly as possible and I am aware that my team is in discussion with your team on what testing we still need to complete and what evidence that needs to be collected. Whilst we need to do this as quickly as possible I also am conscious that we need to avoid the situation of information being given to us in haste that raises further questions that often take longer to clear. We will be working with your team to try and avoid this situation.

If you have any questions please do not hesitate to contact me.

Yours sincerely

Andrew Cardoza
Director, KPMG LLP

cc: Northampton Borough Council Audit Committee