

**NORTHAMPTON BOROUGH COUNCIL
AUDIT COMMITTEE**

Your attendance is requested at a meeting to be held in the
The Jeffrey Room, St. Giles Square, Northampton, NN1 1DE.

on Thursday, 24 November 2011
at 6:00 pm.

**D Kennedy
Chief Executive**

AGENDA

1. APOLOGIES

Please contact Joanne Birkin on 01604 837358 or jbirkin@northampton.gov.uk when submitting apologies for absence.

2. MINUTES

To approve the minutes of the meeting held on 26th September 2011.

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. TREASURY MANAGEMENT MID YEAR REPORT 2011-12 Bev Dixon
X7401

7. INSURANCE MANAGEMENT UPDATE Sue Morrell
X8420

Summary of claims, developments, plans for the coming year.

8. RISK MANAGEMENT STRATEGY Sue Morrell
X8420

9. PROCUREMENT FINAL REPORT Matt Plummer
Internal Auditor
(PWC)

10. CORPORATE DEBT - PROGRESS AND AGE DEBT ANALYSIS Robin Bates
x7119

Summary of claims, developments, plans for the coming year.

11. INTERNAL AUDIT PROGRESS REPORT

C Dickens, Internal Auditor
(PWC)

12. EXTERNAL AUDIT UPDATE

(A) REGULAR UPDATE

Trevor Croote
External Auditor
(Audit Commission)

**(B) AUDIT COMMISSION ANNUAL AUDIT LETTER
2010/11**

13. EXCLUSION OF PUBLIC AND PRESS

THE CHAIR TO MOVE:

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

SUPPLEMENTARY AGENDA

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

Public Participation

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

AUDIT COMMITTEE

Monday, 26 September 2011

PRESENT: Councillor Duncan (Chair); Councillor Patel (Deputy Chair); Councillors Meredith, Nunn, Oldham, Stone and Subbarayan

1. APOLOGIES

Apologies for absence were received from Councillors Beardsworth, and Gowen: Councillors Meredith, and Stone substituted respectively.

2. MINUTES

Subject to the amendments below, the Minutes of the meeting held on 25 July 2011 were confirmed and signed by the Chair as a true record;

The correction of Mr Bellamy's name in minute 13- External Audit Update and in the same minute, the first bullet point be amended to read "The Council's main focus....."; the second bullet point be amended to read "Accounts audit is on target....."; and the final bullet point be amended to read ".....Confirmation on plans to put the audits carried out by the Audit Commission out to competition...."

3. DEPUTATIONS / PUBLIC ADDRESSES

That Mr B. Hoare be granted leave to address the Committee in respect of item 12- Finance and Performance Report to July 2011.

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. CORPORATE DEBT- PROGRESS AND AGED DEBT ANALYSIS

The Head of Revenues and Benefits submitted a report that set out an analysis of debt and the age of debt across the Council and elaborated thereon. He noted that clean, younger and managed debt provided better income for the Council. The Council had recently signed an agreement with four firms of bailiffs who would work to strict guidelines and their performance judged against them. If there were problems with one company the Council could go to another. A debt had to go through the Council's internal processes for recovery and once all the recovery processes had been exhausted, it was then passed to the bailiffs. If it was not collected in a reasonable timescale the debt was referred back to the Council who would then decide how to proceed including potentially referring it to another collection agency, committal to prison, bankruptcy, a charging order or writing it off. The Council used to have an in-house debt collection service but it did not have the capacity to meet the number of cases or to collect it quickly enough. The Head of Revenues and Benefits emphasised that the Council's preferred course of action was to make an arrangement with the person concerned to collect the debt and that bailiffs were used as a last resort when all other avenues had been exhausted. He noted that for some types of debt, legislation

required that bailiffs were used before court action took place.

RESOLVED: That the analysis of debt, the corporate Debt Policy, fair debt principles, progress and practices/procedures detailed in the report, be noted.

7. DECENT HOMES RISK ASSESSMENT

The Director of Housing submitted a report that set out the Decent Homes risk assessment and elaborated thereon. The Director noted that Government confirmation of funding for 2013/14 and 2014/15 would be likely to come late on in the process and therefore alternatives for funding were being investigated if confirmation was not given. Some surveying work had been undertaken and related to works that were currently funded. At the moment £200,000 per annum was being spent on environmental works, mainly the provision of bin stores however it was planned to request Cabinet to approve a four year capital programme of £1m per year for more extensive works.

RESOLVED: That the report be noted.

8. INTERNAL AUDIT PROGRESS REPORT

The Internal Auditor submitted a report that set out progress made against the approved Internal Audit Plan for 2011/12, elaborated thereon and in particular drew attention to paragraph 3.1.3 and the void properties review (high risk) and the recruitment review (medium risk).

RESOLVED: That the report be received.

9. ANNUAL GOVERNANCE STATEMENT

The Head of Finance submitted a report that set out the Council's governance arrangements for 2010/11 and assessed how closely they aligned with best practice. He drew attention to paragraphs 6.1 and 6.2 that set out updates of significant control weaknesses identified in 2009/10 and 2010/11 respectively.

RESOLVED: That the Annual Governance Statement for 2010/11 be approved.

11. EXTERNAL AUDIT UPDATE AND ANNUAL GOVERNANCE REPORT 2010/11

The External Auditor submitted a report, that set out an update of the 2010/11 Statement of Accounts and presented the Annual Governance Report (ISA 260) for 2010/11 and elaborated thereon.

RESOLVED:

1. That the Annual Governance Report (ISA 260) from the Audit Commission be accepted and the adjustments to the accounts detailed therein be noted.
2. That the Section 151 Officer in consultation with the Chair be authorised to agree changes arising from the Annual Governance Report.
3. That the written representations set out in Appendix 3 of the Annual Governance Report (ISA260) be approved.

10. STATEMENT OF ACCOUNTS 2010/11

The Head of Finance submitted a report that presented the audited and amended Statement of Accounts for 2010/11, circulated revised Notes and noted that the format of the Statement complied with the new IRFS Regulations.

RESOLVED: That the Statement of Accounts set out in Appendix 1 of the report be approved subject to any changes arising from the consideration of the report by the External Auditor; agreement of these changes to be delegated to the Director of Finance and Support in consultation with the Chair of the Committee.

12. FINANCE AND PERFORMANCE REPORT TO JULY 2011

Mr B. Hoare asked the Committee to consider whether the report contained adequate information for internal and external stakeholders to assess the Council's financial and performance position. He noted that paragraph 3.2.1 reported exceptions but considered that people needed to be able to see the overall picture as well. He asked if future reports would include trend information as well.

The Director of Finance and Support commented that the report to Cabinet represented a move to a different style of reporting. Cabinet would receive quarterly exception reports but full financial reporting would be posted online monthly. This would be available to all Councillors and the public (via a hyperlink). Councillors would be able to challenge exceptions and risk. Online trend reporting could be considered if members wanted it.

The Head of Finance submitted a report that attached the Finance and Performance report submitted to Cabinet on 14 September 2011. The Director of Finance and Support commented that she would discuss any detailed issues with the Chair and these could be brought to the Committee if the Chair considered it appropriate.

RESOLVED: That the report be noted.

The Chair noted last this was his last meeting of the Committee and wished his successor, Councillor Patel, well for the future. Councillor Patel thanked the Chair for his time in that role.

The meeting concluded at 19.12 hours

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<p>Appendices</p> <p>1</p>



NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	TREASURY MANAGEMENT MID YEAR REPORT 2011-12
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	7 November 2011
Policy Document:	No
Directorate:	Finance & Support
Accountable Cabinet Member:	Alan Bottwood

1. Purpose

1.1 To put the draft Treasury Management Mid Year Report for 2011-12 before Audit Committee for review prior to it going to Cabinet in December and to Council in January.

2. Recommendations

2.1 That Audit Committee review the draft Treasury Management Mid Year Report for 2011-12 and put forward recommendations as they think appropriate.

3. Issues and Choices

3.1 Report Background

3.1.1 The updated CIPFA Treasury Management Code of Practice, published in 2009, requires the Council to place greater emphasis on the scrutiny of treasury management strategies and policies. This includes the nomination of the body (such as an audit or scrutiny committee) responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. The Audit Committee has been nominated for this role, which includes the review of all treasury management policies and procedures, the review of all

treasury management reports to Cabinet and Council, and for making recommendations to Council.

3.2 Issues

Treasury Management Mid Year Report 2010-11

3.2.1 The Council's draft Treasury Management Mid Year Report for 2011-12 is attached at **Appendix A**. This comprises a covering report and annexes (A to J). This report is timetabled to go to Cabinet on 14 December 2011 and Council on 16 January 2011.

3.2.2 Audit Committee are asked to review the report and to put forward recommendations to Cabinet and Council as they think appropriate.

3.3 Choices (Options)

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

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Council is required to adopt the latest CIPFA Treasury Management Code of Practice, and to set and agree the following policy and strategy documents:

- a) A Treasury Management Policy Statement
- b) Treasury Management Practices (TMPs) and TMP Schedules
- c) An annual Treasury Strategy incorporating:
 - (i) The Capital Financing and Borrowing Strategy for the year including:
 - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
 - The Affordable Borrowing Limit for the year as required by the Local Government Act 2003.
 - (ii) The Investment Strategy for the year as required by the CLG Guidance on Local Government Investments issued in 2004, and updated in 2010.
- d) A mid-year review report and an annual review report of the previous year.

Items (a) to (c) are reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2011-12 was approved by Council at its meeting on 28 February 2011.

- 4.1.2 The updated CIPFA Treasury Management Code of Practice, published in 2009, requires the Council to place greater emphasis on the scrutiny of treasury management strategies and policies. This includes the nomination of the body (such as an audit or scrutiny committee) responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. The Audit Committee has been nominated for this role, which includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and for making recommendations to Council.

4.2 Resources and Risk

- 4.2.1 The resources required for the Council's debt management and debt financing budgets are agreed annually through the Council's budget setting process.
- 4.2.2 The risk management of the treasury function is an integral part of day-to-day treasury activities. It is also specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually.

4.3 Legal

- 4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance. The relevant legislative and regulatory documents are referred to within the report and listed in the background papers.

Equality

- 4.4.1 An Equalities Impact Assessment was carried out on the Council's Treasury Strategy for 2011-12, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. This was included as an annex to the report to Cabinet on 23 February 2011 and to Council on 28 February 2011.
- 4.4.2 As a result of that assessment, it was noted that the potential impact of the strategy and associated documents (including Treasury Management Practices (TMPs) and the Schedules to the TMPs) on the different equalities groups must be considered as it is developed and put together each year. This includes the consideration of the potential impact on the different equalities groups of any processes, procedures or outcomes arising from these.

4.5 Consultees (Internal and External)

- 4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury management advisor, Sector, and with the Portfolio holder for Finance.
- 4.5.2 The Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council. Audit Committee reviewed and noted the draft treasury management mid year report and annexes at their meeting on 7 November 2011.

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 Management of performance in relation to treasury management activities supports the Council's priority of providing quality services.

4.7 Other Implications

- 4.7.1 No other implications have been identified

5. Background Papers

The Treasury Management Mid Year Report at Appendix A contains:

- A full list of current statute, regulation and guidance relating to treasury management.
- A full list of relevant reports to Audit Committee, Cabinet and Council.

Report Author: Bev Dixon, Finance Manager – Treasury, ext 7401

Appendices

10



NORTHAMPTON
BOROUGH COUNCIL

Item No.

12

CABINET REPORT

Report Title

TREASURY MANAGEMENT MID YEAR REPORT 2011-12

AGENDA STATUS:

PUBLIC

Cabinet Meeting Date:	14 December 2011
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	Alan Bottwood
Ward(s)	Not Applicable

1. Purpose

- 1.1 To inform the Cabinet of the Council's performance in relation to its treasury management activities, including its borrowing and investment strategy, for the period 1 April to 30 September 2011.
- 1.2 To request approval for temporary changes to the Council's borrowing and investment strategy to accommodate the operational implications of the requirements of Housing Finance Reform as detailed in the Localism Bill

2. Recommendations

- 2.1 That Cabinet recommend to Council that they note the Council's treasury management activities and performance for the period 1 April to 30 September 2011.

2.2 That Cabinet recommend to Council that they agree that:

- For the period from 17 January 2012 to 31 May 2012 the individual limit for all eligible counterparties is raised to £30m for all counterparty types.
- For the period from 17 January 2012 to 31 May 2012 the amount of any single investment transaction is raised from £5m to £30m.
- The amount that may be invested overnight on 26 & 27 March 2012 with HSBC, the Council's own bankers, be set at the actual amount of the CLG payment due, plus £1m to allow for the Council's normal business activity.
- That authority be delegated to the Council's Chief Finance Officer, the Director of Finance and Support, in liaison with the Portfolio Holder for Finance, to make any temporary changes needed to the Council's borrowing and investment strategy to enable the Council to meet its obligations.

3. Issues and Choices

3.1 Report Background

3.1.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("the Treasury Management Code of Practice") fully revised second edition 2009.

3.1.2 The Treasury Management Code of Practice and the associated guidance notes for local authorities include recommendations on reporting requirements, including the requirement for an annual mid year report on treasury activities. The table below shows how the specific reporting requirements of the Treasury Management Code of Practice have been incorporated into this report.

Reporting Requirement	Reference
Activities undertaken	3.2.2 – 3.2.17 Annexes B,C,D,E,F
Variations (if any) from agreed policies and practices	3.2.18 – 3.2.24
Interim performance report	3.2.25 – 3.2.27 Annex G
Regular monitoring	3.2.28 – 3.2.32 Annex H,I,J
Monitoring of treasury management indicators for local authorities	3.2.31 Annex H

3.1.3 The following topics are also covered in this report

Topic	Reference
Economic environment and interest rates	3.2.1 Annex A
Monitoring of prudential indicators for local authorities	3.2.31 Annex I
Monitoring of debt financing budget	3.2.32 Annex J

3.2 Issues and Choices

Economic Environment and Interest Rates

3.2.1 An analysis of the economic position as at the end of September 2011, including the latest interest rate forecasts, is attached at **Annex A**. This information has been provided by Sector, the Council's treasury management advisors.

Activities undertaken

Investments

3.2.2 **Annex B** shows the Council's investments and deposit account balances at 30 September 2011.

3.2.3 Cashflow balances available for investment come from working capital, amounts in provisions and reserves, and funds, such as capital grants, received in advance of expenditure. The Council's overall investments figure as at 30 September 2011 was £72m; average balances for the six-month period to 30 September were £84m. The lowest and highest balances during the period were £69m and £101m.

3.2.4 Since the start of the year, 21 new fixed term deposits have been entered into ranging in value between £1m and £7m, at rates between 0.40% and 1.30%, and for periods between 7 and 364 days. The average value of each single investment was £3m, and the average interest rate achieved for fixed term deposits was 0.81%. The average investment period was 132 days.

3.2.5 Fixed term deposits make up an average of 65% of the Council's investment portfolio, the remainder being balances held in instant access deposit accounts and in money market funds.

3.2.6 Instant access deposit accounts and money market funds have been used extensively during the first half of the year, in order to maintain liquidity and security of funds. The average balance held in deposit accounts, including notice accounts was £20m, around 24% of the Council's average investment

portfolio. The average balance held in instant access money market funds was £9m, around 11% of the Council's average investment portfolio.

- 3.2.7 The Council is in the process of opening two new AAA rated money market funds. Money market funds offer a high degree of liquidity, with instant access to funds, and have a high security rating due to their diversification. Rates are comparable to those on offer from deposit accounts. Greater use of money market funds in place of deposit accounts will create increased capacity with investment counterparties, and will enable more use to be made of direct deals at enhanced rates.
- 3.2.8 **Annex C** shows the maturity profile of the Council's investments at 30 September 2011. Due to ongoing market concerns and uncertainty, the majority of investments have been made for relatively short periods, up to three months duration, to reduce exposure to risk.
- 3.2.9 All investment activity has been carried out within the Council's counterparty policies and criteria, and with a clear strategy of risk management in line with the Council's treasury strategy for 2011-12. This has ensured that the principle of considering security, liquidity and yield in that order (SLY), has been consistently applied.

Borrowing

- 3.2.10 **Annex D** shows outstanding long-term borrowing at 30 September 2011 at amortised cost. The total long-term debt outstanding, including non-current finance leases, is £32m. Of this amount, 76% is in the form of money market LOBO loans, 19% is PWLB borrowing, 4% is the long-term element of an annuity loan with the Homes and Communities Agency (HCA), and 1% relates to non-current finance leases.
- 3.2.11 No loans have been repaid since April 2011 other than the principal element (£17k) of the HCA annuity payment made in September, and annual amounts due on some finance leases.
- 3.2.12 No rescheduling of loans took place in the first half of the year.
- 3.2.13 No new borrowing was taken out in the first six months of 2011-12. The Council's policy during 2011-12 is to use internal borrowing (ie from cash flow balances) to fund capital programme expenditure financed by borrowing, subject to external borrowing rates remaining at high levels relative to investment rates.
- 3.2.14 **Annex E** shows the Council's long-term debt maturity profile of external debt at cash value as at 30 September 2011. Three loans are due for repayment during the next five years; two LOBO loans totalling £15.6m mature in 2014-15, and a PWLB loan of £2m matures in 2015-16. Options for the repayment and replacement (if appropriate) of these loans will be examined in the period leading up to their maturity date, with advice taken from the Council's external treasury management advisors, Sector.

3.2.15 **Annex F** shows outstanding balances and applicable rates for short-term borrowing at 30 September 2011. The total outstanding for temporary borrowing at 30 September 2011 was £203k.

3.2.16 The Council has long-standing agreements with two local organisations, Billing Parish Council and Northampton Volunteering Centre, for the short-term deposit of funds with the Council. Accounting regulations require that these be treated in the accounts as short-term borrowing. The interest rate applicable on these accounts is set quarterly using the Council's average investment rate for the previous quarter, less 0.5% to cover administrative costs. The range of balances in these accounts during the period April to September 2011 was between £80k and £115k, at interest rates between 0.41% and 0.46%.

3.2.17 For consistency with accounting requirements:

- The principal element of the HCA annuity repayment due within 12 months (£19k) is included as short term borrowing
- Current commitments on finance leases – i.e. amounts due within the current financial year – are not included in the short term borrowing balances shown.

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

3.2.18 There have been no variations to agreed policies and practices during the first six months of the year.

3.2.19 At the Council meeting of 24 October 2011 the following revisions to agreed policies and practices were approved:

- Uplifted prudential indicators for external debt in order to meet the requirements of Housing Finance Reform as detailed in the Localism Bill, which will require the Council to undertake borrowing of approximately £200m before the end of the financial year in order to make the statutory payment to CLG on 28 March 2012 to buy out the housing stock.
- Revised TMP Schedules for 2011-12 to reflect changes in roles and responsibilities due to staff and role changes that are required in the Finance Section following a number of resignations and taking into account the need to make budget savings
- Changes to the Treasury Strategy for 2011-12 to incorporate both of the above, including the amendment of the Affordable Borrowing Limit for 2011-12 as required by the Local Government Act 2003

3.2.20 The requirement to make the statutory payment to CLG on 28 March will also require temporary changes to investment counterparty limits as the money will need to be borrowed in advance, and temporarily invested until it is due for payment. Borrowing will be available from the PWLB for this purpose at special rates from a date in January (to be specified by Government) to 26 March 2011. The actual date of borrowing, which is likely to be taken in more than one tranche, will depend on interest rate movements and forecasts

during that time period; the Council will aim to borrow at the optimum (ie cheapest) rate.

3.2.21 In order to be able to invest the sums borrowed from the date of receipt until the date of payment it is proposed that for the period from 17 January 2012 to 31 May 2012:

- The individual limit for all eligible counterparties is raised from £12m or £15m depending on counterparty type to £30m for all counterparty types.
- The amount of any single investment transaction is raised from £5m to £30m

3.2.22 The payment to the CLG will be due by noon on 28 March 2012. In order to ensure compliance, and taking into account cut-off times for guaranteed bank transactions, it will, as a minimum, be necessary to have the funds available in the Council's bank accounts the day before the due date. It may even be necessary to bring the payment to CLG forward to the day before, in which case the funds will need to be available in the Council's bank account two days beforehand.

3.2.23 In order to meet these requirements it is proposed that:

- The amount that may be invested overnight on 26 & 27 March 2012 with HSBC, the Council's own bankers, be set at the actual amount of the CLG payment due, plus £1m to allow for the Council's normal business activity.

3.2.24 In order to be able to deal with any unforeseen requirements of the impacts of the HRA reform on the Council's investment and borrowing strategy, it is proposed that authority be delegated to the Council's Chief Finance Officer, the Director of Finance and Support, in liaison with the Portfolio Holder for Finance, to make any temporary changes needed to the Council's borrowing and investment strategy to enable the Council to meet its obligations. Any such temporary changes will be reported to Council at the earliest opportunity following their implementation

Interim performance report

3.2.25 Investment performance to 30 September 2011 is attached at **Annex G**. During the first four months of the year, the monthly rate of return on investments remained steady at around 0.94%. The rate of return for August and September increased slightly to around 1.00%.

3.2.26 The variance between the Council's monthly rate of return on investments and the average 7-day Libid rate (at the time of investment) is used as a measure of treasury performance, where a positive variance reflects an enhanced level of performance.

3.2.27 Variance to the 7-day libid rate averaged 0.48% in the first four months of the year, rising to 0.53% in August and September. The improvement is due to the increased use of a 95-day notice account at an enhanced rate, as well as a small number of investments placed for longer (6 month) periods. However recent restrictions advised by Sector to counterparty investment periods, to offset risk in the recent round of credit rating downgrades, mean that only a limited number of counterparties are now available to us to place for over three months.

Regular monitoring

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

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

3.2.30 The Chief Finance Officer receives monthly treasury investment performance data and minutes from monthly treasury management meetings.

3.2.31 Prudential and treasury indicators are monitored on a regular basis. Any variances or breaches of the indicators are reported to Cabinet and Council on a timely basis. **Annex H** contains treasury management indicator monitoring information at 30 September 2011. **Annex I** contains prudential indicator monitoring information at 30 September 2011. Where appropriate figures include borrowings arising from finance leases. There have been no breaches of any indicators during the first half of the financial year.

3.2.32 The debt financing and debt management budgets have been monitored monthly since the start of the year, with any significant variances feeding into the dashboard reports to Cabinet. The debt financing budget forecast as at 30 September 2011 is attached at **Annex J**. A net underspend of £367k is currently forecast for debt financing in 2011-12. This can be broken down as follows:

- £187k - Reduced MRP (Minimum Revenue Provision) due to refinancing of prior years General Fund capital programme expenditure from borrowing to capital receipts, and carry forward of capital programme expenditure from 2010-11
- £163k - Increased income from investments due to cash balances being higher than budgeted and rates achieved out performing the budgeted rate. The figure is net of recharges from the HRA to recognise HRA cash balances
- £49k - Contributions from services for self financed prudential borrowing for capital expenditure

Less

- £32k - Increased recharge from the HRA for interest on the CFR (Capital Financing Requirement) due to carry forward of expenditure from the 2010-11 HRA capital programme

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Council is required to adopt the latest CIPFA Treasury Management Code of Practice, and to set and agree the following policy and strategy documents:

- a) A Treasury Management Policy Statement
- b) Treasury Management Practices (TMPs) and TMP Schedules
- c) An annual Treasury Strategy incorporating:
 - (i) The Capital Financing and Borrowing Strategy for the year including:
 - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
 - The Affordable Borrowing Limit for the year as required by the Local Government Act 2003.
 - (ii) The Investment Strategy for the year as required by the CLG Guidance on Local Government Investments issued in 2004, and updated in 2010.
- d) A mid-year review report and an annual review report of the previous year.

Items (a) to (c) are reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2011-12 was approved by Council at its meeting on 28 February 2011.

4.1.2 The updated CIPFA Treasury Management Code of Practice, published in 2009, requires the Council to place greater emphasis on the scrutiny of treasury management strategies and policies. This includes the nomination of the body (such as an audit or scrutiny committee) responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. The Audit Committee has been nominated for this role, which includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and for making recommendations to Council.

4.2 Resources and Risk

- 4.2.1 The resources required for the Council's debt management and debt financing budgets are agreed annually through the Council's budget setting process. The debt financing budget position as at 30 September 2011 is shown at paragraph 3.2.26 and **Annex J**.
- 4.2.2 The risk management of the treasury function is an integral part of day-to-day treasury activities. It is also specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually.

4.3 Legal

- 4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance. The relevant legislative and regulatory documents are referred to within the report and listed in the background papers.

4.4 Equality

- 4.4.1 An Equalities Impact Assessment was carried out on the Council's Treasury Strategy for 2011-12, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. This was included as an annex to the report to Cabinet on 23 February 2011 and to Council on 28 February 2011.
- 4.4.2 As a result of that assessment, it was noted that the potential impact of the strategy and associated documents (including Treasury Management Practices (TMPs) and the Schedules to the TMPs) on the different equalities groups must be considered as it is developed and put together each year. This includes the consideration of the potential impact on the different equalities groups of any processes, procedures or outcomes arising from these.

4.5 Consultees (Internal and External)

- 4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury management advisor, Sector, and with the Portfolio holder for Finance.
- 4.5.2 The Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council. Audit Committee reviewed and noted the draft treasury management mid year report and annexes at their meeting on 7 November 2011.

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 Management of performance in relation to treasury management activities supports the Council's priority of providing quality services.

4.7 Other Implications

4.7.1 No other implications have been identified

5. Background Papers

Statute, Regulation and Guidance

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition) 2009

Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010

CIPFA Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition) 2009

ODPM Guidance on Local Government Investments 2004

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Third Edition) 2009

CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007

Audit Commission. Risk & Return: English Local Authorities and the Icelandic Banking Crisis (March 2009)

CLG Select Committee report on Local Authority Investments (11 June 2009)

The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008

CLG Guidance on Local Government Investments (11 March 2010)

CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010-11

Reports to Cabinet & Council

Treasury Strategy 2011-12 to 2013-14 – Report to Cabinet 23 February 2011 & Council 28 February 2011

Prudential Indicators for Capital Finance 2011-12 to 2013-14 – Report to Cabinet 23 February 2011 & Council 28 February 2011

Treasury Strategy and Prudential Indicators 2011-12 Update - Report to
Council 24 October 2011

Bev Dixon, Finance Manager – Capital & Treasury, ext 7401

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Economic Update provided by Sector

1. Global economy

The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the €440bn bail out fund in September has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.

This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy.

Growth prospects in the US, UK and the euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011-12 as a consequence.

2. UK economy

Following zero growth in the final half of 2010-11 the UK economy grew by a weaker than expected 0.1% in the first quarter of 2011-12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

The announcement by the MPC on 6 October of a second round of quantitative easing of £75bn emphasised how seriously the MPC now views recession as being a much bigger concern than inflation. Although inflation remains stubbornly high, the MPC's expectation of future falls resulting in an undershoot of its 2% target opened the way for this new round of QE.

International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PwLB borrowing rates to low levels.

3. Outlook for the next six months of 2011-12

There remain huge uncertainties in economic forecasts due to the following major difficulties:

- the increase in risk that the UK, US and EU could fall into recession
- the likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economies
- the degree to which government austerity programmes will dampen economic growth;
- the potential for further quantitative easing, and the timing of this in both the UK and US

- the speed of recovery of banks' profitability and balance sheet imbalances and the risk of substantial losses being incurred on EU sovereign debt

The overall balance of risks is weighted to the downside:

- We expect low growth in the UK to continue, with a low Bank Rate to continue for at least 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.
- The expected longer run trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2012.

Sector's interest rate forecast

	NOW	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.25	2.50
3 month LIBID	0.75	0.70	0.70	0.70	0.70	0.70	0.75	0.80	0.90	1.20	1.40	1.60	2.10	2.40	2.60
6 month LIBID	1.00	1.00	1.00	1.00	1.00	1.00	1.10	1.20	1.40	1.60	1.80	2.00	2.50	2.70	2.90
12 month LIBID	1.50	1.50	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.20	2.40	2.60	3.10	3.20	3.30
5 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.10	3.30	3.50	3.70
10 yr PWLB	3.30	3.30	3.30	3.30	3.40	3.40	3.50	3.60	3.70	3.80	4.00	4.20	4.40	4.60	4.80
25 yr PWLB	4.20	4.20	4.20	4.20	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.20
50 yr PWLB	4.30	4.30	4.30	4.30	4.40	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.20	5.30

Outstanding Investments at 30th September 2011

Deposit Accounts

Counterparty	Balance (£000)
Santander UK plc	4,755
Bank of Scotland plc	138
Bank of Scotland plc 95 day notice	10,000
HSBC Bank plc	50
Ignis Sterling Liquidity Fund	10,670
Total balance in deposit accounts at 30th September 2011	<u>25,613</u>

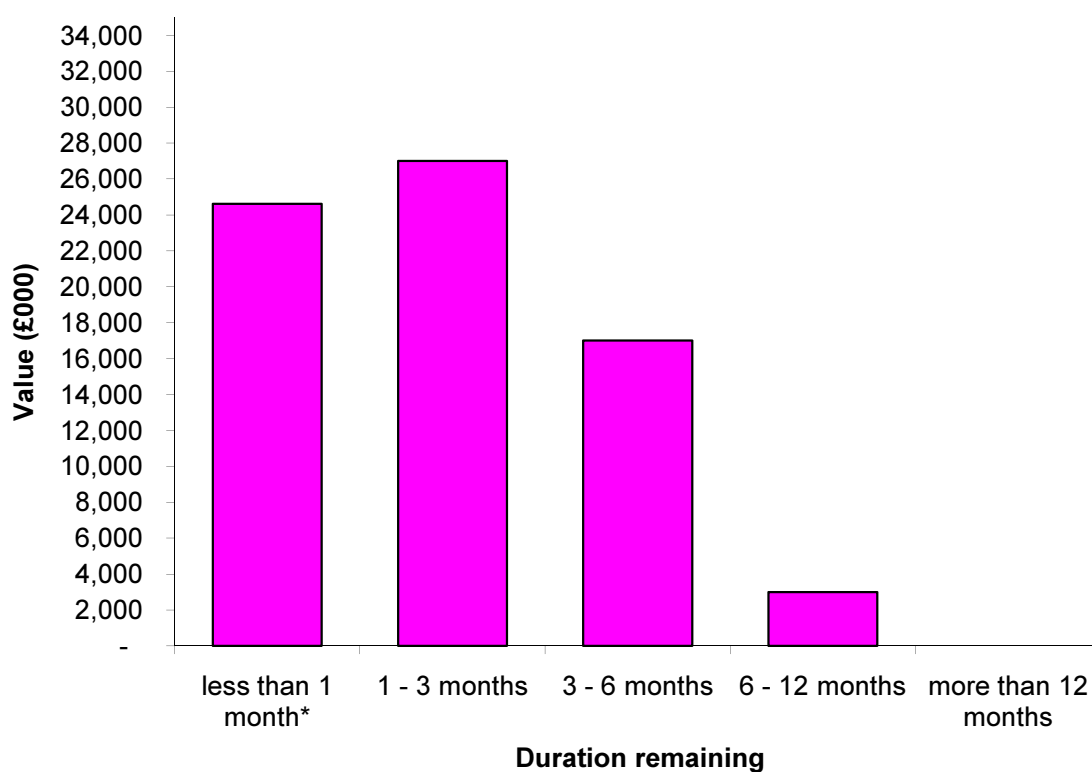
Fixed Term Investments

Counterparty	Start Date	End Date	Value Invested (£000)
Barnsley Metropolitan Borough Council	15/11/10	04/11/11	2,000
Lloyds TSB Bank plc	01/12/10	30/11/11	2,000
Ulster Bank Ltd	17/01/11	17/10/11	2,000
United Overseas Bank Ltd	01/04/11	03/10/11	5,000
Barclays Bank plc	08/04/11	07/10/11	2,000
Oversea-Chinese Banking Corporation Ltd	15/04/11	13/04/12	3,000
Nationwide Building Society	16/05/11	16/11/11	4,000
Barclays Bank plc	15/06/11	15/12/11	4,000
West Yorkshire Police Authority	15/06/11	15/12/11	3,000
Nationwide Building Society	15/06/11	15/12/11	1,000
Nationwide Building Society	04/07/11	04/01/12	1,000
Nationwide Building Society	05/07/11	05/01/12	2,000
Barclays Bank plc	03/08/11	03/02/12	4,000
Landesbank Berlin AG	05/08/11	04/11/11	2,000
Nationwide Building Society	15/08/11	15/11/11	5,000
Landesbank Berlin AG	15/08/11	15/11/11	2,000
Landesbank Berlin AG	15/09/11	19/12/11	2,000
Total fixed term investments outstanding at 30th September 2011			<u>46,000</u>

Total outstanding at 30th September 2011	<u><u>71,613</u></u>
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Maturity profile of investments (days remaining at 30/09/2011)



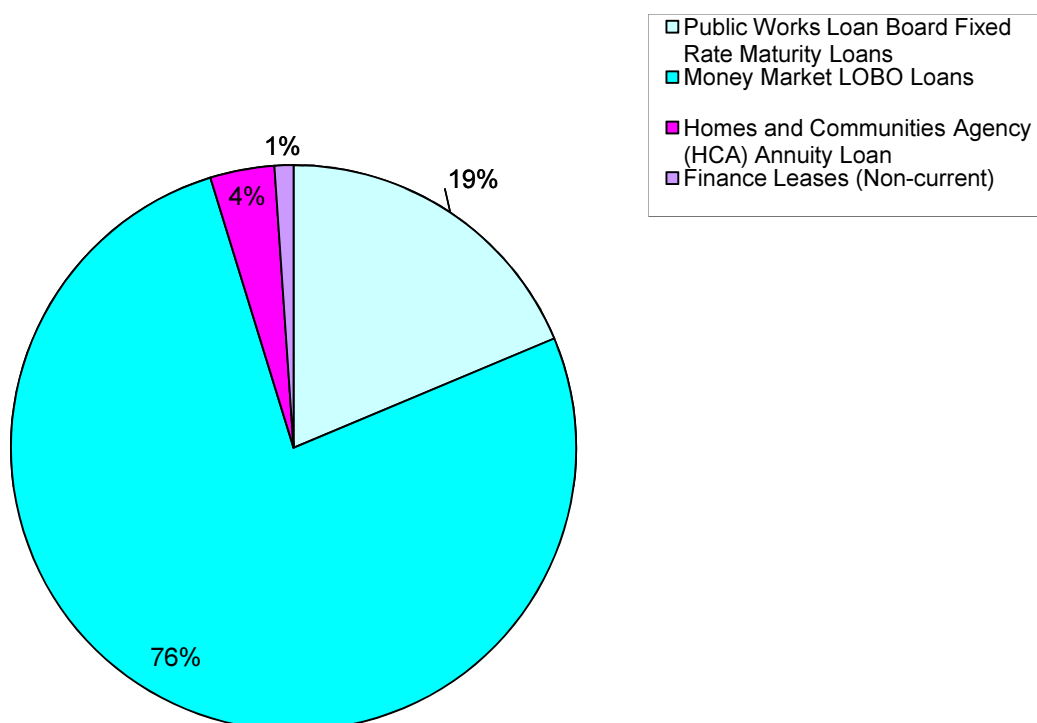
Duration remaining	Value (£000)	% of total
less than 1 month*	24,614	34
1 - 3 months	27,000	38
3 - 6 months	17,000	24
6 - 12 months	3,000	4
more than 12 months	-	-
Total	71,614	100

* Includes instant access deposit accounts and Money Market Funds

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Long Term Borrowing as at 30th September 2011

	Principal £'000	Proportion of Debt %	Range of Interest Rates Paid to 30/09/2011	
			From %	To
Public Works Loan Board Fixed Rate Maturity Loans	6,049	18.68	3.47	3.97
Money Market LOBO Loans	24,788	76.56	4.85	7.03
Homes and Communities Agency (HCA) Annuity Loan	1,191	3.68	9.25	9.25
Finance Leases (Non-current)	351	1.08		
Total Long Term Debt Outstanding at 30th September 2011	32,378	100		



Figures shown at amortised cost as per the CIPFA SORP 2009

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Long Term Debt Maturity Profile as at 30th September 2011

Time Frame	Value of Loans Maturing £'000	Proportion of Long Term Debt %
Within: 5 years	18,153	56.1
10 years	4,193	13.0
15 years	249	0.8
20 years	387	1.2
25 years	329	1.0
30 years	0	0.0
35 years	0	0.0
40 years	0	0.0
Over: 40 years	9,068	28.0
Total	32,378	100

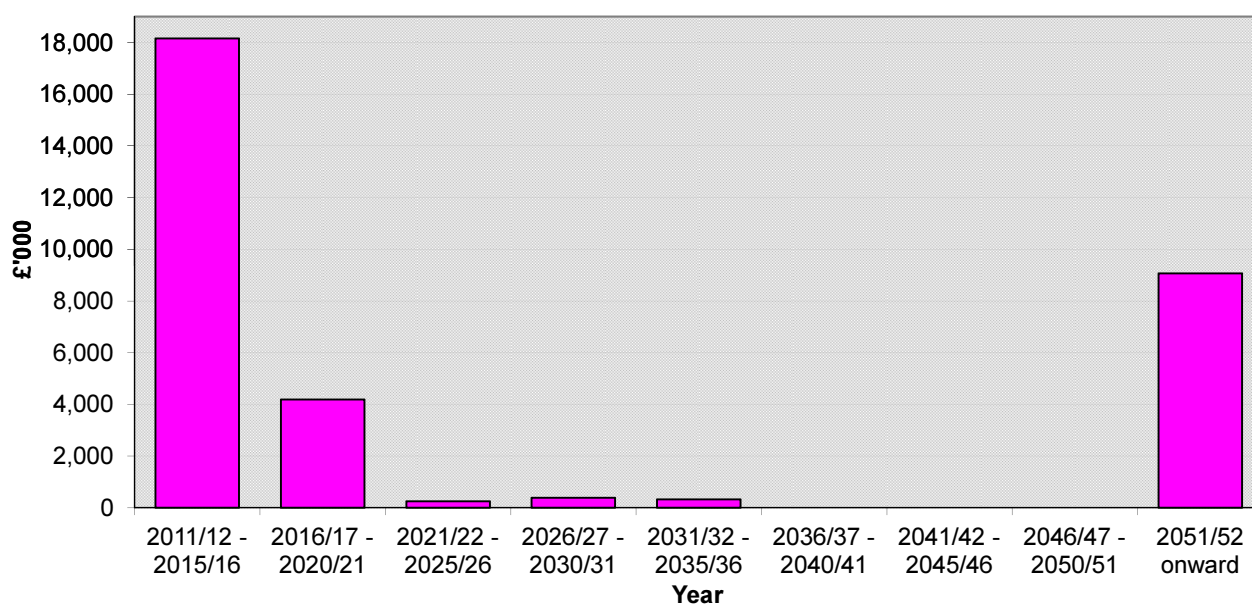
The LOBO loans mature in 2014-15 (£15.7m) and in 2065/66 (£9.1m).

The PWLB Loans mature in 2016, 2017 and 2018 (£2m each year, £6m in total).

The HCA annuity is repaid across the term of the loan, with the final payment due in 2033-34.

The finance leases all mature within the next five years

Long Term Debt Maturity Profile as at 30th September 2011



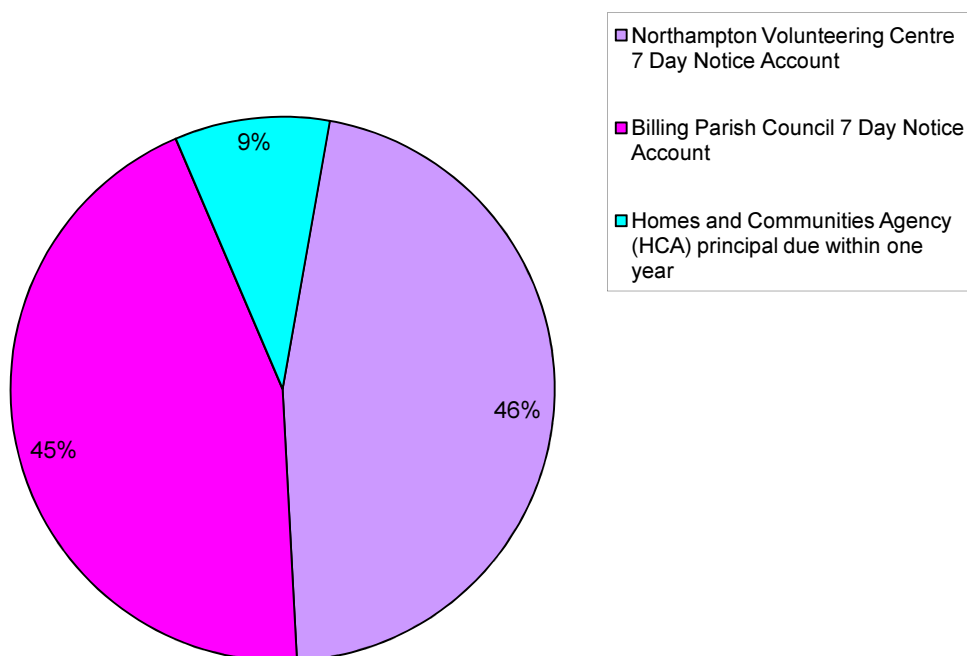
Figures shown at original (cash) value rather than amortised cost to reflect commitment at maturity

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Short Term Borrowing as at 30th September 2011

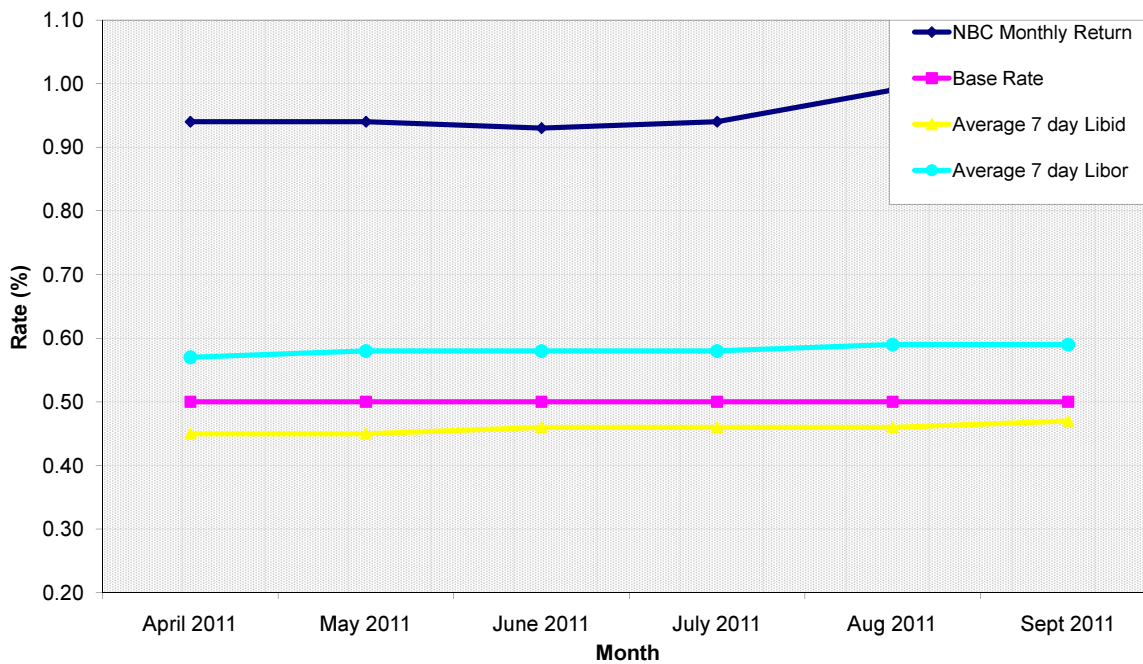
	Principal £'000	Proportion of Debt %	Range of Interest Rates Paid to 30/09/2011	
			From %	To %
Northampton Volunteering Centre 7 Day Notice Account	94	46	0.41	0.46
Billing Parish Council 7 Day Notice Account	90	44	0.41	0.46
Homes and Communities Agency (HCA) principal due within one year	19	9	9.25	9.25
Total Debt Outstanding at 30th September 2011	203	100		

Shown at original (cash) value as per the CIPFA SORP 2009



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Investment Performance 2011-12



Temporary Investments - Comparison of Monthly Rate of Return to Base Rate and 7 Day Libid Rate					
Month	NBC Monthly Return %	Base Rate %	Average 7 day Libid %	Average 7 day Libor %	Variance - Monthly Return - Libid %
April 2011	0.94	0.50	0.45	0.57	0.49
May 2011	0.94	0.50	0.45	0.58	0.49
June 2011	0.93	0.50	0.46	0.58	0.47
July 2011	0.94	0.50	0.46	0.58	0.48
Aug 2011	0.99	0.50	0.46	0.59	0.53
Sept 2011	1.00	0.50	0.47	0.59	0.53
Average to 30/09/11	0.96	0.50	0.46	0.58	0.50

Average LIBID and LIBOR rates supplied by Sector Treasury Services originally to 4 decimal places rounded to 2 decimal places above.

The monthly rate of return is the average interest rate the Council achieved on fixed investments and deposit account balances it held during the month.

The average 7 day Libid/Libor rate is the rate of return the Council would have achieved in the month if the interest rate applicable on fixed investments held during the month had been the 7 day Libid/Libor rate at the time of investment, and interest had been calculated daily for deposit accounts using the 7 day Libid/Libor rate for each day.

The monthly return - Libid variance is the difference between the rate achieved during the month and the rate that could have been achieved at the average 7 day Libid rate as defined above.

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Treasury Indicators monitoring at 30 September 2011

1a. Upper limits on interest rate exposures - Investments

Upper limits on interest rate exposures - Investments			
	2011-12	2011-12	2011-12
	Limit %	Actual at 30/09/2011 %	Maximum to 30/09/2011 %
Fixed Interest Rate Exposures	100%	64%	74%
Variable Interest Rate Exposures	100%	36%	49%

1b. Upper limits on interest rate exposures - Borrowing

Upper limits on interest rate exposures - Borrowing			
	2011-12	2011-12	2011-12
	Limit %	Actual at 30/09/2011 %	Maximum to 30/09/2011 %
Fixed Interest Rate Exposures	100%	24%	24%
Variable Interest Rate Exposures	100%	76%	76%

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

Upper limits on interest rate exposures - Net borrowing			
	2011-12	2011-12	2011-12
	Limit %	Actual at 30/09/2011 %	Maximum to 30/09/2011 %
Fixed Interest Rate Exposures	150%	98%	107%
Variable Interest Rate Exposures	150%	2%	29%

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

Upper limit on investments for periods longer than 364 days			
	2011-12	2011-12	2011-12
	Limit £000	Actual at 30/09/2011 £000	Maximum to 30/09/2011 £000
Investments longer than 364 days	9,000	0	0

3. Maturity Structure of Borrowing

Maturity structure of borrowing			
	2011-12	2011-12	2011-12
	Lower Limit %	Upper Limit %	Actual at 30/09/2011 %
Under 12 months	0%	25%	1%
1-2 years	0%	25%	0%
2-5 years	0%	60%	55%
5-10 years	0%	100%	13%
Over 10 years	0%	100%	31%

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Prudential Indicators Monitoring at 30 September 2011

Affordability

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

Ratio of financing costs to net revenue stream		
	2011-12 Estimate %	2011-12 Estimate at 30/09/2011 %
General Fund	7.58%	6.16%
HRA	17.67%	18.31%

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

Estimates of incremental impact of new capital investment decisions on the Council Tax	
	2011-12 Estimate £.p
General Fund	(0.04)

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

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

Estimates of incremental impact of new capital investment decisions on average weekly housing rents	
	2011-12 Estimate £.p
Housing Revenue Account	0.74

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

Prudence

d) Net borrowing and the capital financing requirement (CFR)

Net external debt less than CFR				
	2011-12 £000	2011-12 Position at 30/09/2011 £000	2011-12 Maximum Net to 30/09/2011 £000	2011-12 Forecast Maximum £000
Borrowing	32,007	32,026	32,051	32,051
Less investments	65,962	71,644	101,289	101,289
Net external debt	0	0	0	0
2009-10 Closing CFR (Forecast)	25,043	20,106	20,106	20,106
Changes to CFR:				
2010-11	9,580	8,965	8,965	8,965
2011-12	12,249	12,036	12,036	12,036
2012-13	(893)	(1,107)	(1,107)	(1,107)
Adjusted CFR	45,979	40,000	40,000	40,000
Net external debt less than adjusted CFR	Yes	Yes	Yes	Yes

Capital Expenditure

e) Estimate of capital expenditure

Capital Expenditure		
	2011-12 Estimate £000	2011-12 Estimate at 30/09/2011 £000
General Fund	9,864	18,837
HRA	19,748	22,668
Total	25,490	41,505

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)		
	2011-12 31 March 2012 Estimate £000	2011-12 31 March 2012 Estimate at 30/09/2011 £000
General Fund	31,081	31,509
HRA	3,542	(2,437)
Total	34,623	29,072

External Debt

g) Authorised limit for external debt

Authorised limit for external debt				
	2011-12 Limit £000	2011-12 Actual at 30/09/2011 £000	2011-12 Maximum to 30/09/2011 £000	2011-12 Forecast Maximum £000
Borrowing	51,000	32,026	32,051	32,051
Other long-term liabilities	4,000	518	518	518
Total	55,000	32,544	32,569	32,569

h) Operational boundary for external debt

Operational boundary for external debt				
	2011-12 Boundary £000	2011-12 Actual at 30/09/2011 £000	2011-12 Maximum to 30/09/2011 £000	2011-12 Forecast Maximum £000
Borrowing	46,000	32,026	32,051	32,051
Other long-term liabilities	4,000	518	518	518
Total	50,000	32,544	32,569	32,569

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

The fully revised second edition of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2009), as set out at Annex A of the Treasury Management Strategy 2010-11 to 2012-13, was adopted by Council on 25th February 2010.

2011-12 Debt Financing Budget - Monitoring position at 30 September 2011

	Budget	Actual	Variance Actual to Budget	Forecast	Variance Forecast to Budget
	2011-12	2011-12	2011-12	2011-12	2011-12
	£	£	£	£	£
Debt Financing & Interest					
<u>INTEREST PAYABLE</u>					
Interest on long term debt	1,768,494	796,782	(971,712)	1,719,074	(49,420)
Interest on temporary borrowing	370	197	(173)	875	505
Other miscellaneous interest payable	952	1,654	702	900	(52)
Interest payable on Finance Leases	0	11,665	11,665	0	0
TOTAL INTEREST PAYABLE	1,769,816	810,297	(959,519)	1,720,849	(48,967)
<u>INTEREST RECEIVABLE</u>					
Interest on temporary investments	(429,380)	(139,297)	290,083	(703,728)	(274,348)
TOTAL INTEREST RECEIVABLE	(429,380)	(139,297)	290,083	(703,728)	(274,348)
NET INTEREST PAYABLE/RECEIVABLE	1,340,436	671,001	(669,435)	1,017,121	(323,315)
<u>OTHER ADJUSTMENTS</u>					
Recharges to/from HRA	51,580	0	(51,580)	195,309	143,729
Minimum Revenue Provision for debt repayment	826,116	0	(826,116)	638,831	(187,285)
TOTAL OTHER ADJUSTMENTS	877,696	0	(877,696)	834,140	(43,556)
Total Debt Financing & Interest	2,218,132	0	(1,547,131)	1,851,261	(366,871)
				Forecast variance at period 6 September 2011	(366,871)

Note: The period 6 forecast excludes finance lease charges (interest and MRP), which will fall to the debt-financing budget under IFRS accounting rules. The budgets, actuals and forecasts for these are currently held in the service budgets (as operating lease expenditure), and will be transferred across during the second half of the year. It is anticipated that the impact on the bottom line forecast variance will be neutral.

2011-12 Debt Financing Budget - Monitoring position at 30 September 2011

	Budget	Actual	Variance	Forecast	Variance
	2011-12	2011-12	Actual to	2011-12	Forecast to
	£	£	Budget	£	Budget
			2011-12		2011-12
			£		£
Debt Financing & Interest					
<u>INTEREST PAYABLE</u>					
Interest on long term debt - LOBOs	1,381,705	684,882	(696,823)	1,381,705	0
Interest on long term debt - HCA Annuity	112,956	0	(112,956)	112,956	0
Interest on long term debt - PWLB	224,413	111,900	(112,513)	224,413	0
Interest on long term debt - Other borrowing	49,420	0	(49,420)	0	(49,420)
Interest on temporary borrowing	370	197	(173)	875	505
Other miscellaneous interest payable	952	1,654	702	900	(52)
Interest payable on Finance Leases	0	11,665	11,665	0	0
TOTAL INTEREST PAYABLE	1,769,816	810,297	(959,519)	1,720,849	(48,967)
<u>INTEREST RECEIVABLE</u>					
Interest on temporary investments	(429,380)	(139,297)	290,083	(703,728)	(274,348)
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				Forecast variance at period 6 September 2011	(366,871)

Note: The period 6 forecast excludes finance lease charges (interest and MRP), which will fall to the debt-financing budget under IFRS accounting rules. The budgets, actuals and forecasts for these are currently held in the service budgets (as operating I



AUDIT COMMITTEE REPORT

Report Title	Insurance Management Update
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AGENDA STATUS: PUBLIC

Meeting Date:	7 th November 2011
Policy Document:	No
Directorate:	Finance and Support
Accountable Cabinet Member:	Cllr Alan Bottwood

1. Purpose

- 1.1 To provide the Committee with an overview of the Council's Insurance Management function.

2. Recommendations

- 2.1 To note the developments within insurance.

3. Issues and Choices

3.1 Report Background

- 3.1.1 This report outlines the Council's arrangements for managing its insurance needs. The report summarises the insurance cover in place and provides a snapshot of the recent claims history.

3.2 Issues

- 3.2.1 The Council has a number insurance policies in place, each covering a suite of perils and protecting different assets, for example, staff, buildings, fine art and the wider public.
- 3.2.2 Each of the insurance policies has a policy-excess, below which the Council manages the claim and pays the associated costs. The excess for Public Liability and Employer's Liability claims is £25,000 and for Motor Vehicle and Property Damage claims is £1,000.

3.2.3 The table below summarises the policies the Council has in place and the approximate sums insured:

Table 1 – Council Insurance Policies

Policy	Approximate Sum Insured
Leasehold Properties	£55,000,000
Fine Arts Policy	£31,000,000
Travel	£10,000,000
Engineering Insurance	£250,000
Engineering Inspection	Included in other policies
General Properties	£186,000,000
Commercial Properties	£147,000,000
Work In Progress	£4,000,000
Domestic Housing Stock	£1,300,000,000
Mortgaged properties	£250,000
Money	£60,000
Computer	£2,800,000
Business Interruption	£30,000,000
Fidelity Guarantee	£3,000,000
Motor vehicle	£5,000,000
Public/Employer's Liability	£30,000,000
Officials Indemnity	£5,000,000
Terrorism	Included in other policies

3.2.4 Each year the Council's Insurance Broker will undertake an Insurance Fund Review and Gap Analysis to identify where the Council may need to adjust its cover.

3.2.5 The table below provides a summary of the Council's recent claims history:

Table 2 – Recent Claims History

Year	Motor Vehicle	Employers Liability	Public Liability	Property Damage
2006/07	96	9	276	35
2007/08	87	3	246	25
2008/09	76	4	220	23
2009/10	62	5	213	10
2010/11	64	10	215	14
2011/12	17	0	75	8

- 3.2.6 There is a general trend towards a reduction in the number of claims received by the Council. However, claims can be brought against the Council for up to three years for a personal injury claim and six years for property damage, following the claim-event and therefore, for 2010/11 and 2011/12 in particular, we would expect further claims to be made relating to this period.
- 3.2.7 Each month the Insurance Department issues an Insurance Monitoring Report to Heads of Service and Directors. The report highlights the new claims received, claims closed during the month and provides the service with a summary of the current cost exposure relating to Insurance.
- 3.2.8 The table below provides an extract taken from the September Insurance Monitoring Report:

Table 3 - extract from the September Insurance Monitoring Report

Financial Values	Estimate (£)	Paid (£)	Total (£)
Sep-11			
Housing Services	433,487	58,484	491,971
Asset Management	53,609	1,424	55,033
Culture & Leisure*	1,007,165	41,443	1,048,608
Facilities	11,400	5,741	17,141
Town Centre Operations	101,806	12,464	114,270
Revenues & Benefits	0	0	0
Neighbourhood Environmental Services	123,490	123,925	247,415
Finance and Support	12,200	0	12,200
Total (£)	1,743,157	243,480	1,986,637

- 3.2.9 *Please note - the figure for Culture and Leisure includes a £1M claim dating back to 2002. As the claim involved a minor the claim remains open until the minor reaches the age of 21. The Council's financial exposure relating to this claim is £25,000 as this is the excess payable. All other costs will fall to the Insurance Company.
- 3.2.10 In table three above, the 'Estimate' is the amount we initially allocate to a claim upon receipt. The 'Paid' can either be an interim or final payment. If an interim payment, there would normally be an estimate still attached to the claim. The 'Total' is the cumulative sum taking into account both the estimate and paid amount.
- 3.2.11 The report acts as an additional trigger for action to be taken to remedy the defect that has caused the claim or to put new procedures in place to prevent similar claims occurring in future.
- 3.2.12 In the future the Council expects to see a reduction in the number of claims due to the outsourcing of some higher-risk services, Environmental Services and Leisure. Claims relating to these services will now fall to the respective contractor.
- 3.2.13 The Council has Insurance Broking Services in place. This service has recently been through a tender exercise and new Brokers, AON, have been appointed. When a new Broker comes onboard it is a good opportunity to

have a fresh look at our insurance cover and identify any potential savings or gaps that require attention.

3.2.14 The Broker arranges all the Insurance cover required by the Council, provides advice on insurance matters and manages unusual or employee related claims. We ask our Broker to manage all Employee Liability claims to avoid any potential conflict of interest.

3.2.15 The Insurance Department currently has an electronic Claims Management System in place, MIMS, which enables reports and research on the Council's claims history to be undertaken.

3.2.16 This system has been in place for many years and we are now seeking to update the current system, over the coming months, with the aim of improving Management Information. For example, a useful report would be on the claims history broken down by service area and by type of claim (e.g. trip, flood etc.). At present the retrieval of this information requires a large amount of manual intervention.

3.3 Choices (Options)

3.3.1 None.

4. Implications (including financial implications)

4.1 Policy

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

4.2 Resources and Risk

4.2.1 There are no specific resource implications arising from this report.

4.3 Legal

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

4.4 Equality

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

4.5 Consultees (Internal and External)

4.5.1 The Director of Finance and Support and the Insurance Officer.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 *To be completed.*

4.7 Other Implications

4.7.1 None.

5. Background Papers

None.

Sue Morrell
Corporate Risk Manager, ext 8420

Appendices
1



NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Risk Management Strategy
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AGENDA STATUS: PUBLIC

Meeting Date:	7 th November 2011
Policy Document:	No
Directorate:	Finance and Support
Accountable Cabinet Member:	Cllr Alan Bottwood

1. Purpose

- 1.1 To provide the Committee with an opportunity to review and comment on the Council's updated Risk Management Strategy.

2. Recommendations

- 2.1 To note the updated Risk Management Strategy.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Council's Risk Management Strategy undergoes a bi-annual review.
- 3.1.2 In response to the 2011 review, the Strategy has been updated. The updated Strategy is attached, Appendix A.
- 3.1.3 As the Audit Committee has a specific role in considering the effectiveness of the Council's risk management arrangements, the Audit Committee's comments are sought prior to the final Strategy going before Cabinet for approval.

3.2 Issues

- 3.2.1 The key developments within the draft Risk Management Strategy are set out below:
- Risk Appetite – the Council's Risk Appetite was reviewed and updated by Management Board. The Council's Risk Appetite has been adjusted from a score of 12 to 15.

- Risk Management Hierarchy – changed to reflect the introduction of ‘Corporate’ risks, high-level risks owned by a particular service area but with crosscutting implications.
- Risk Management Methodology – revised in line with the introduction of an ‘actual’ score. The actual score is the current position of the risk, only taking into account those mitigations that are currently in place.
- Risk Integration – updated to incorporate strategic developments across the authority, introduction of new policies, procedures and strategies.
- Monitoring and Reporting – this section has been updated to reflect the changes adopted by the Council in the frequency and forum of some risk monitoring activities.
- Strategy Action Plan – updated to outline the actions to be undertaken in 2012/13 to further improve the Council’s Risk Management Function.

3.3 Choices (Options)

3.3.1 None.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The updated Risk Management Strategy has no new policy implications.

4.2 Resources and Risk

4.2.1 There are no specific resource implications arising from this report.

4.3 Legal

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

4.4 Equality

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

4.5 Consultees (Internal and External)

4.5.1 The Director of Finance and Support and the Head of Finance.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Deliver value for money services.

4.6.2 Sustain effective and prudent financial management.

4.6.3 Be an agile, transparent organisation with good governance.

4.7 Other Implications

4.7.1 None.

5. Background Papers

Appendix A – Draft Risk Management Strategy.

Sue Morrell
Corporate Risk Manager, ext 8420



Northampton Borough Council

Draft Risk Management Strategy

Document Control

Author (Post holder title)	Corporate Risk Manager
Type of document	Strategy
Version Number	V4
Document File Name	Risk Management Strategy v4
Issue date	
Document held by (name/section)	Sue Morrell/Risk Management
For internal publication only or external also?	Internal
Document stored on Council website?	No
Next review date	November 2013

Change History

Issue	Date	Comments
Version 1	13/01/09	Full update – Approved by Cabinet
Version 2	22/03/10	Minor improvements – approved by Audit Committee and Director of Finance and Support.
Version 3	23/02/11	Minor changes following audit recommendations.
Version 4		Bi-annual update

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Northampton Borough Council

Risk Management Policy Statement

Whilst an element of risk is an integral part of everyday life, the level of exposure to risk is controllable. Northampton Borough Council will take all reasonable steps to remove or reduce sources of significant risk to its employees, assets and stakeholders.


Risk management is a positive tool that is incorporated into the management process to help achieve strategic and service objectives. The Council is committed to adopting a corporate, systematic and structured approach to the control of risk.

It is the responsibility of each individual employee to review their methods and conditions of work to ensure that significant sources of risk are removed, or controlled to an acceptable level. To assist in this, the Corporate Risk Manager will perform a facilitating role, providing information, support and expertise.

Wherever possible the Council will support any initiatives that significantly reduce the level of risk.

To give effect to this Policy Statement the Council will issue a Risk Management Strategy, the core elements include:

- Risk Management Objectives
- Risk Management Defined
- Benefits of a sound risk management function
- Risk Management Methodology
- Approach to Business Continuity
- Roles and responsibilities
- Monitoring and reporting
- Training and support



Director of Finance and Support

Chair of Audit Committee

1. Introduction

Northampton Borough Council recognises there is uncertainty in everything it does and the uncertainties present both threats and opportunities. This strategy describes how the authority will manage these uncertainties by identifying, evaluating and controlling risk, increasing the authority's success in achieving its priorities and objectives. Details of the Council's Priorities are included in the Council's Corporate Plan.

The Council has a legal responsibility to manage risk and this Strategy supports the Council in meeting its responsibilities. Some of the key duties are detailed below:

The Accounts and Audit Regulations 2011 state:

The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.

Under the Civil Contingencies Act (CCA) 2004 the Council has specific responsibilities relating to Business Continuity. All Local Authorities are classified as a Category 1 responder. As a Category 1 responder the Council is required "to maintain plans to ensure that they can continue to perform their functions in the event of an emergency, so far as is reasonably practicable."

The act goes on to explain that as a Category 1 responder the Council needs to be able to deliver the critical aspects of its own business functions to enable it to help others in an emergency situation, keeping the impact on the public to a minimum.

The Civil Contingencies Act also places a responsibility on Local Authorities to provide advice and assistance to businesses and voluntary organisations about business continuity management.

The Audit Committee is the lead Councillor body responsible for overseeing risk management across the authority and this strategy is one tool that can be used by the Audit Committee to understand the Council's adopted approach to risk management, the processes that sit behind the procedures and where the responsibilities for risk management lie within the organisation.

The Council's Risk Management Policy states that "Risk management is a positive tool that is incorporated into the management process to help achieve strategic and service objectives. The Council is committed to adopting a corporate, systematic and structured approach to the control of risk".

This strategy defines the approach Northampton Borough Council will take in managing risk as an intrinsic business function. The core elements of the strategy are:

- Risk Management Objectives
- Risk Management Defined
- Benefits of a sound risk management function
- Risk Management Methodology
- Business Continuity
- Roles and responsibilities
- Monitoring and reporting
- Training and support

1.1 Scope

This Strategy is a corporate document, affecting all service areas. The management of risk is not a service specific function but cuts across all of the Council's business areas.

The Strategy is supported by an action plan (see appendix A), that details the activities scheduled to implement the objectives of the Strategy, and the Risk and Business Continuity Management Handbook aimed at assisting Managers in identifying and managing their risks.

Recognising that the Council is striving to continually improve risk and business continuity management across the authority and that risk and business continuity management are evolving functions, the Council's Risk Management Strategy is a living document that will adapt to a dynamic environment. This strategy will be reviewed bi-annually or in response to new legislation or national standards. The Cabinet will approve any significant changes.

1.2 The key objectives of this strategy are:

1. To facilitate the achievement of Council priorities and objectives by:
 - a) Embedding an effective process of identification and management of strategic, service level and key operational, partnership and project risks.
 - b) Embedding risk management in day-to-day management processes.
 - c) Maintaining and reviewing a centrally co-ordinated register of strategic and service level risks.
 - d) Defining roles and responsibilities for risk and business continuity management within the Council.
 - e) Engendering commitment to risk and business continuity management throughout the Council.
2. To manage risks associated with partnership ventures, through the application of the Council's Partnership Protocol.
3. To manage risks associated with projects, through the Council's Programme Management processes.

4. To ensure the Council fulfils its business continuity obligations under the Civil Contingencies Act 2004.
5. To provide a corporate approach to business continuity.
6. To provide a schedule of routine testing and review of Business Continuity Plans.
7. To provide risk and business continuity training and support.
8. To define the Council's risk appetite and escalation process.
9. To increase the accessibility and visibility of the Council's Risk and Business Continuity Management processes and procedures.

These objectives will be met by:

Please see the Risk Management Strategy Action Plan, Appendix A, for a detailed breakdown of the Council's planned risk and business continuity management activities.

1.3 Risk Management Defined

The Office of Government Commerce (OGC) defines risk as:

"An uncertain event or set of events that, should it occur, will have an effect on the achievement of objectives. A risk is measured by a combination of the probability of a perceived threat or opportunity occurring and the magnitude of its impact on objectives."

The OGC goes on to define risk management as "the systematic application of principles, approach and processes to the tasks of identifying and assessing risks, and then planning and implementing risk responses. This provides a disciplined environment for proactive decision-making".

1.4 The benefits of risk management

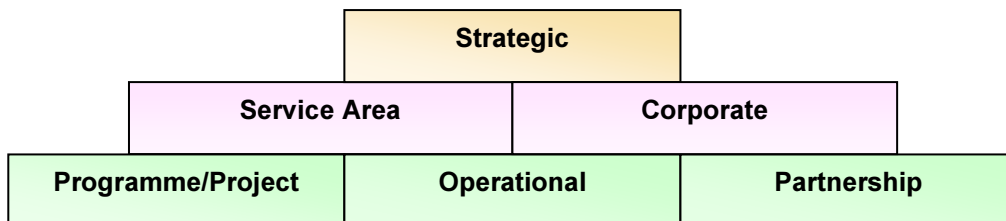
There are a number of benefits to the Council in continuing to develop and embed a sound risk management function. The key benefits include:

- Supporting the Council in achieving its priorities and objectives at all levels within the organisation.
- Providing an early warning system to alert Officers and Members to potential opportunities and threats.
- Reduction in interruptions to service delivery.
- Continuity of critical Council activities.
- Enabling the Council to act proactively, avoiding reactive management wherever possible.
- Targeting resources at areas and issues of greatest risk where the Council's objectives are most under threat.
- Better-informed decision-making throughout the Council.
- Protecting and enhancing the reputation of Northampton Borough Council.
- Providing a vehicle for external assurance.

2. Risk Management Approach

2.1 Risk Management Hierarchy

To assist in aligning risks to the Council's objectives and in defining specific roles and responsibilities, the Council has adopted a hierarchical approach to managing risk.



Strategic - Risks concerned with ensuring overall business success, vitality and viability.

Corporate - High-level risks owned by a particular service area but with crosscutting implications.

Service - Risks relating to achieving service objectives, in line with the Annual Service Plan.

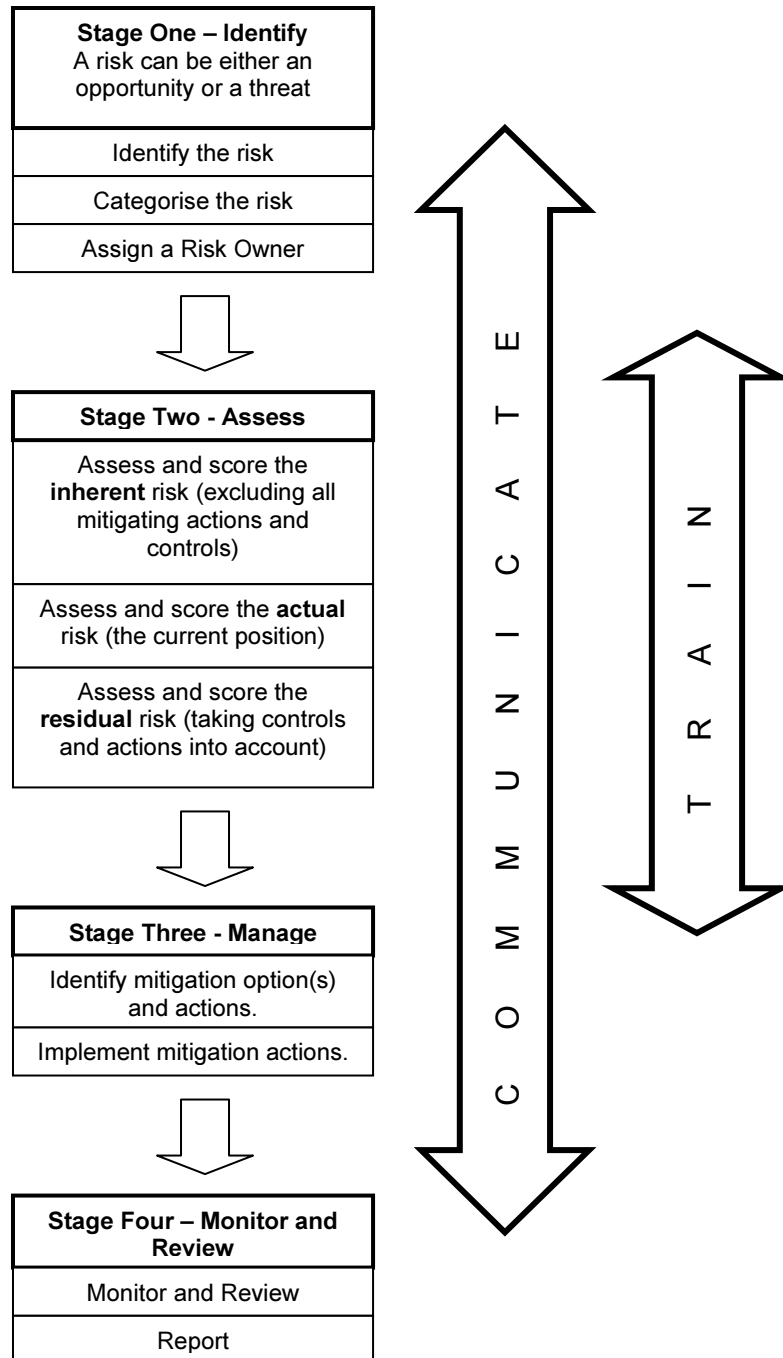
Programme, Project and Partnership - Risks relating to the delivery of a specific programme, project or partnership.

Operational - Day to day risks associated with operational activities.

2.2 Risk Management Methodology

There are four generic stages to the management of risk. Each stage should be viewed in two phases, initial and continuous. Risk Management should not be seen as a one-off exercise.

The Council's approach to each of these stages is set out in detail in the Risk and Business Continuity Management Handbook.



2.3 Risk Appetite

Recognising that the Council should not manage all risks to the same extent, scoring helps to prioritise each risk enabling the Council to understand where time and resources should be focussed.

One of the key stages for the implementation of a risk management framework is the need to define the 'risk appetite'. Risk appetite refers to the Council's attitude to taking risk and defines the amount of risk the Council considers acceptable in order to achieve its objectives.

The Council's risk appetite can be defined as set out in Table 1 below. Any residual risk scoring more than 15 is above the acceptable tolerance level and further work needs to be done to effectively manage this risk.

Table 1: Risk appetite as it relates to residual risk score

Overall Residual Risk Score	RISK APPETITE	
20-25	Unacceptable level of risk exposure which requires <i>immediate corrective action to be taken or escalation to next level</i>	EXCEEDS OUR RISK APPETITE
15-16	Unacceptable level of risk exposure which requires <i>constant active monitoring, and measures to be put in place to reduce exposure and/or escalation to next level</i>	
5-12	Acceptable level of risk exposure subject to <i>regular active monitoring measures</i>	WITHIN OUR RISK APPETITE
3-4	Acceptable level of risk exposure subject to <i>regular passive monitoring measures</i>	
1-2	Acceptable level of risk exposure subject to <i>periodic passive monitoring measures</i>	

2.4 Risk Integration

The Council aims to fully integrate its approach to risk management across all services and activities. Using existing systems of internal control, there are a number of routine management processes that support, and are supported by, the Council's risk management approach. A selection of the key processes are detailed in Table 2 below:

Table 2 Existing Systems of Internal Control

Corporate Planning	<ul style="list-style-type: none"> • Corporate plan • Service plans • Team plans
Financial Management	<ul style="list-style-type: none"> • Annual Budget Setting Process • Medium Term Financial Strategy • Capital Strategy • Treasury Management Strategy (inc. Investment Strategy)
Councillor Decision Making	<ul style="list-style-type: none"> • Reports to Full Council • Reports to Cabinet • Overview and Scrutiny Reports
Performance and Change Management	<ul style="list-style-type: none"> • Performance Management Framework, • Directorate Management Team Meetings • Change Plan
Annual Appraisals and personal development	<ul style="list-style-type: none"> • Training • Mentoring • Appraisals • One-to-ones
Partnership Plans	<ul style="list-style-type: none"> • Partnership Governance Protocol
Audit	<ul style="list-style-type: none"> • Annual Audit Programme • Audit Committee Reports • Internal and External Audit functions.
Strategic plans	<ul style="list-style-type: none"> • Anti-Fraud and Corruption Policy • People Plan • Data Quality Strategy • Whistleblowing Policy • Equalities Strategy
Project Management	<ul style="list-style-type: none"> • Project Initiation Group. • Project Initiation Requests, • Project Initiation Documents

3. Business Continuity Management

One mitigation response available to reduce the impact of a risk is the preparation of a business continuity plan. This is of particular importance to Local Authorities who have an obligation to maintain their own critical services, in the event of a major disruption, whilst supporting partner agencies in managing the wider emergency.

3.1 Introduction to Business Continuity Management

Business Continuity Management (BCM) is the process that supports the Council in delivering its critical services and functions in the event of an unexpected emergency or disruption. The purpose of BCM is to provide the Council with a framework of procedures and plans that will assist in the recovery of its key functions as quickly as possible and practicable. This ensures the Council can respond to an emergency proactively, with a well planned and tested response rather than a reactive ad-hoc response.

BCM assists Managers in considering how they would deliver their service whilst facing a disruption or emergency, enabling them to recover their critical functions and services within the agreed timescales.

3.2 Business Continuity Approach

The Risk and Business Continuity Management Handbook details the approach the Council has adopted to business continuity management. In essence there are six key steps:

Identify Critical Functions - The first step in the process is to identify which functions are critical to the Council i.e. those that need to be up and running within a short period of time immediately following an incident.

A copy of the Council's approved Critical Functions is included in the Risk and Business Continuity Management Handbook.

For consistency the following timings are to be used to define the level of critical function.

- 0 – 24 hours - Critical Function 1 (CF1)
- 1 – 3 days - Critical Function 2 (CF2)
- 3 – 7 days - Critical Function 3 (CF3)
- > 1 week – not a Critical Function (NCF)

Resources - Consider the type and level of resources required to maintain the critical activities within the timescales specified above i.e. premises, people, technology, communications, suppliers, information, transportation.

Risk and impact - To help us understand where we should focus our risk management activities, it is important for us to understand the type of risks that could occur, how probable they are and what the impact on services could be. This will be undertaken as part of the routine risk management activities.

Strategy for managing the risk – Decide on the options available to manage the risk. This step will be undertaken as part of the routine risk management activities.

Development of Business Continuity Plans – A Business Continuity Plan should be developed covering each Critical Function, setting out how the strategy above will be delivered. A decision will need to be taken on whether a plan is developed by Service area or Critical Function. An outline of the key headings to be included in all Business Continuity Plans, along with a Business Continuity Plan Template, is included in the Risk and Business Continuity Management Handbook.

Testing and exercising – A Business Continuity Plan cannot be considered reliable until it has been exercised and tested. Valuable lessons will be learnt during an exercise that can be recorded as lessons learnt and changes incorporated within the plan. Exercises can be desktop based or live.

4. Roles and Responsibilities

Successful risk management is the responsibility of all employees and Members of the Council and it is vital that everybody understands the role they play in managing the Council's risks.

The Council's Audit Committee is the lead Member body and the Director of Finance and Support the lead Officer responsible for risk management within the authority.

Specific roles and accountabilities are detailed in Table 3 below. Those with specific responsibilities will be briefed on their roles to gain commitment to and approval of the responsibilities. As natural staff and Member turnover occurs, the Risk Manager will ensure individuals new in post are fully briefed on their responsibilities for risk management.

Table 3 Roles and Responsibilities

Who	Responsibilities
Audit Committee	<ul style="list-style-type: none"> ➤ The Audit Committee is the lead Councillor body responsible for overseeing risk management across the Council. ➤ To ensure that the Council operates effective risk management systems. ➤ To hold the Management Board accountable for effective risk management across the Council.
Management Board	<ul style="list-style-type: none"> ➤ To review and update the Strategic Risk Register and ensure that mitigating actions are completed. ➤ To champion the effective application of risk management processes and principles across the Council's business systems. ➤ To lead risk management by example.
Director of Finance and Support	<ul style="list-style-type: none"> ➤ Lead officer responsible for embedding risk management across the Council. ➤ To meet with the Risk Manager quarterly to report on progress and issues relating to the risk management framework.
Cabinet Members	<ul style="list-style-type: none"> ➤ To have recognition of risks associated with Cabinet decisions.
Councillors	<ul style="list-style-type: none"> ➤ To use risk management as a tool to support decision-making. ➤ To raise risk issues and concerns.

<p style="text-align: center;">Directors</p>	<ul style="list-style-type: none"> ➤ To review and challenge risk registers within their Directorate Management Team Meetings. ➤ To ensure effective risk management within their Directorate. ➤ To escalate risks for inclusion on the Strategic Risk Register. ➤ To instigate and manage actions to mitigate risks.
<p style="text-align: center;">Heads of Service</p>	<ul style="list-style-type: none"> ➤ To create risk registers within their service area. ➤ To ensure effective risk management within their service area. ➤ To Instigate and manage actions to mitigate risks. ➤ To escalate risks where appropriate.
<p style="text-align: center;">Programme/Project Managers</p>	<ul style="list-style-type: none"> ➤ To identify and manage project level risks. ➤ To escalate risks for inclusion on Service level risk registers ➤ To report risks to Programme/Project Board.
<p style="text-align: center;">Partnership Lead Officers</p>	<ul style="list-style-type: none"> ➤ To manage partnership risks in line with the council's Partnership Protocol. ➤ To escalate risks for inclusion on Service or Strategic level risk registers.
<p style="text-align: center;">Employees</p>	<ul style="list-style-type: none"> ➤ To escalate information regarding opportunities or threats within their working environment to senior management. ➤ To take steps in everyday work activities to reduce risk. ➤ Report incidents or near misses to senior management. ➤ To create and maintain operational level risk registers as required.
<p style="text-align: center;">Risk Coordinators</p>	<ul style="list-style-type: none"> ➤ To support Services in managing their Service Risk Register. ➤ To maintain the Service Risk Register. ➤ To act as the key point of contact within their Service Area on risk issues.

Risk Manager	<ul style="list-style-type: none">➤ To report to the Director of Finance and Support on a quarterly basis, on the effectiveness of risk management systems.➤ To promote risk management throughout the Council➤ To provide guidance and advice on the Council's risk management approach.➤ To co-ordinate risk management across the Council.➤ To arrange and facilitate risk workshops and training exercises.➤ To maintain the Strategic Risk Register.
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5. Monitoring and Reporting Risk

The table below summarises the frequency, responsibility and purpose of routine monitoring functions and activities.

Table 4 Monitoring and Reporting Functions

Task	Purpose	Who	Frequency
Strategic Risk Review.	Identify new risks. Refresh previous register. Challenge. Lessons learned.	Management Board	In line with Corporate Planning Process.
Review of Strategic risk register	Challenge, input and for information.	Management Board	Quarterly
Review of high Service Risks	Challenge, input and for information.	Management Board	Twice a year.
Service Level Risk Review	Identify new risks. Refresh previous register. Challenge. Lessons learned.	Heads of Service	Annually – in line with Service Plan development.
Service Level risk review/Directorate Management Team Meetings	Challenge and input	Heads of Service to Director/Portfolio Holder	Quarterly as a minimum.
Review and update risk register.	Identify new risks, archive old risks, monitor actions, early warning.	All Risk Owners	Monthly as a minimum
Risk Management Framework and Strategy Action Plan Review	Challenge, unblock issues, support	Risk Manager to Director of Finance and Support.	Quarterly
Risk Management update and progress review	Challenge, unblock issues, support	Audit Committee	Annually

6. Risk Management and Business Continuity Training and Support

The Corporate Risk Manager will provide training designed to meet the needs of the following groups as required:

- Council Members as part of the Member Development Programme
- Audit Committee
- Management Board
- Heads of Service
- Risk Owners
- Risk Coordinators

Risk management workshops are available to support the development of a new risk register or the review of an existing risk register. These will build on previous training exercises and give staff sufficient expertise to produce and maintain their own registers. Ad hoc support will be available from the Corporate Risk Manager, and externally, as required.

7. Glossary of terms

Action Owner	An individual responsible for the implementation of specific risk mitigation actions.
Actual Risk	The current exposure to a specific risk, taking into account only those mitigations that are in place.
Business Continuity Plan	A documented set of procedures and information intended to deliver continuity of critical functions in the event of a disruption.
Category 1 Responder	A person or body listed in Part 1 of Schedule 1 to the Civil Contingencies Act. Those in Category 1, are those organisations at the core of the response to most emergencies (e.g. emergency services, local authorities, NHS bodies). Category 1 responders are subject to the full set of civil protection duties.
Civil Contingencies Act	The Civil Contingencies Act 2004 establishes a single framework for civil protection in the United Kingdom. Part 1 of the Act establishes a clear set of roles and responsibilities for local responders. Part 2 modernises the emergency powers framework in the United Kingdom.
Critical Function	The functions which must be kept going or rapidly reinstated, at least in part, in the event of a disruption.
Impact	Impact is the result of a particular threat or opportunity actually occurring.
Inherent Risk	The exposure arising from a specific risk before any action has been taken to manage it.
Issue	An event that has happened, was not planned and requires management action.
Opportunity	An uncertain event that could have a positive impact on objectives or benefits.
Probability	The evaluated likelihood of a particular threat or opportunity actually happening.
Residual Risk	The risk remaining after the risk response has been applied.
Risk	An uncertain event or set of events that, should it occur, will have an effect on the achievement of objectives.
Risk Appetite	An organisation's unique attitude to risk taking.
Risk Cause	A description of the source of the risk.
Risk Event	A description of the area of uncertainty in terms of the threat or opportunity.

Risk Identification	Determination of what could pose a risk (opportunity or threat).
Risk Management	Systematic application of principles, approach and processes to the tasks of identifying and assessing risks.
Risk Owner	An individual responsible for the management and control of all aspects of individual risks.
Risk Register	A record of all identified risks.
Risk Response	Actions that may be taken to bring the situation to a level where the exposure to risk is acceptable to the organisation.
Strategic risk	Risk concerned with where the organisation wants to go, how it plans to get there, and how it can ensure survival.
Threat	An uncertain event that could have a negative impact on objectives or benefits.

Appendix A

Strategy Action Plan

Action	Link to Objective	Target Completion Date	Responsible Officer
To create an area on the Council's Intranet for Corporate Risks and Business Continuity guidance documents.	9	December 2011	Corporate Risk Manager
Test Business Continuity Plans.	6	March 2012	Corporate Risk Manager
Target training opportunities within existing training programmes.	7	June 2012	Corporate Risk Manager
Test Corporate Continuity Plan.	6	December 2012	Corporate Risk Manager
Create Risk and Business Continuity Management Training programme on the Learning Zone.	7	December 2012	Corporate Risk Manager
Investigate the use of Risk Management software systems.	1	December 2012	Corporate Risk Manager
Define an approach for business continuity functions with a recovery tolerance of more than 1 week.	4	December 2012	Corporate Risk Manager

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Appendices - 1



NORTHAMPTON
BOROUGH COUNCIL

Item No.
[Item number and
title as on agenda]

AUDIT COMMITTEE REPORT

Report Title	2011/12 procurement internal audit report
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	7 November 2011
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	Councillor Alan Bottwood

1. Purpose

1.1 To provide the Audit Committee with a report summarising the results of the 2011/12 procurement internal audit.

2. Recommendations

2.1 Receive the report.

3. Issues and Choices

3.1 Report Background

3.1.1 The report is produced to inform the Committee of the results of the 2011/12 procurement internal audit report.

3.2 Issues

The procurement review (**11_12 NBC Procurement 01**) was conducted following a management request for internal audit assistance. The procurement function became the responsibility of the finance function from the 1st April 2011 following a restructure. The procurement audit was designed to assess the design and operation of controls within procurement and provide recommendations to help management improve these controls where necessary.

We identified two high risk findings and one medium risk finding.

High risk findings:

- Signed copies of contracts selected for testing could not be located by the services responsible for managing the contracts.
- Sample testing of procurement transactions pointed to a number of issues with cases tested; for example members of staff ordering goods often did not obtain the minimum required number of quotations, or comply fully with tender processes prior to purchasing goods or services. This leads to increased risks of poor value for money and inappropriate or unauthorised transactions.

Medium risk finding:

- Control issues were identified regarding the use of existing supply and framework agreements in place at the Authority. Compliance with existing agreements is not enforced, and members of staff can place orders with any supplier and then request for these new suppliers to be added to the creditors system without challenge.

Our overall report classification for procurement was **high risk**.

The procurement final report has been included as Appendix 1 to this report.

3.3 Choices (Options)

3.3.1 N/a

4. Implications (including financial implications)

4.1 Policy

4.1.1 No implications.

4.2 Resources and Risk

4.2.1 Risks may be highlighted as a result of audit issues being reported.

4.3 Legal

4.3.1 N/a

4.4 Equality

4.4.1 N/a

4.5 Consultees (Internal and External)

4.5.1 Director of Finance and Support and Head of Finance.

4.6 Other Implications

4.6.1 N/a

5. Background Papers

5.1 Appendices to the report

- Appendix 1 – Procurement Final Audit Report

Chris Dickens
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Northampton Borough Council

Internal Audit Report 2011/2012 for Northampton Borough Council

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Distribution List

For action	Stuart Taylor, Procurement Manager Sue Morrell, Risk and Business Continuity Manager Bill Lewis, Head of Finance
For information	Isabell Procter, Director of Finance and Support Audit Committee Alan Bottwood, Portfolio Holder Finance

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1. Executive summary

Report classification



High risk

Trend

N/A

No Procurement review was conducted in 2010/11.

Total number of findings

	Critical	High	Medium	Low
Control design	0	0	1	0
Operating effectiveness	0	2	0	0
Total	0	2	1	0

Headlines / summary of findings

Control issues have been identified regarding the use of existing supply and framework agreements in place at the Authority. Compliance with existing agreements is not enforced, and members of staff can place orders with any supplier and then request for these new suppliers to be added to the Agresso system without challenge. Use of these agreements is not encouraged because these are based on historic relationships with suppliers, as opposed to resulting from a strategic intention to hold agreements with specific suppliers, or because these suppliers offer discounts of value for money.

The Authority already have plans in place to resolve these issues, as the intention is to replace supply agreements with formalised contracts, and then to enforce the use of such contracts via the Agresso purchasing system, and any new 'e-sourcing' system.

The need for training and reinforcement of the procurement procedures is highlighted through the results of sample testing undertaken over the procurement process. This testing pointed to a number of issues with cases tested; for example members of staff ordering goods often did not obtain the minimum required number of quotations, or comply fully with tender processes prior to purchasing goods or services.

Service areas rarely use centralised templates in their procurement activities.

Discussions with management in service areas outside of the central procurement team has highlighted that they would benefit from this procurement manual being supported by formal and frequent training on procurement processes.

Signed copies of contracts selected for testing could not be located.

2. Background and scope

In 2010/11 the Authority had a separate procurement function with a core team reporting to a Head of Procurement. A restructure at the Authority at the beginning of 2011/12 has led to the procurement function being amalgamated into the finance department, with the procurement team reporting to the Head of Finance. We identified operating effectiveness weaknesses relating to procurement processes as part of our 2010/11 review of creditors (Agresso system). This review did not cover procurement in detail. However these weaknesses, along with the restructure, led to the inclusion of a full review of procurement within the 2011/12 audit plan.

Scope and limitations of scope

We have reviewed the design and operating effectiveness of key controls in place relating to procurement during the period 2011/12.

The sub-processes and related control objectives included in this review are:

- Tendering
- Selection of Suppliers
- Purchasing

We have not reviewed contract management as part of this audit

3. Detailed current year findings

1. Compliance with tender processes – operating effectiveness

Finding

In 3 of 5 cases reviewed, the signed contract with the supplier could not be located.

In 1 of the cases, the service area had utilised an existing framework agreement to procure the product, but no record had been maintained to demonstrate how the team had decided that the supplier selected under the agreement represented the best value for money, although this was required by the agreement itself. Furthermore, no formal contract was ever put in place for this agreement, as the terms and conditions of the existing framework agreement were not considered to be applicable to the nature of this order.

In another 1 of the cases tested, the following issues were noted with the tender process undertaken:


- Standard templates were not used.
- No record has been maintained to show the evaluation of the tender.

Risks

The Authority may enter into purchases or contracts that do not meet required standards or represent sufficient value for money.

The Authority does not have evidence of signed contracts and can't refer to the contract in the event of a dispute.

Action plan

Finding rating	Agreed action	Responsible person / title
 High risk	i. A complete list of contracts will be compiled and maintained. A central repository of signed contracts will be created, with departments retaining copies. Replacement copies will be requested for any missing contracts – to be completed September 2011. ii. A gap analysis is currently underway to identify where inadequate arrangements are in place. Steps will then be taken to ensure contracts are in place through the use of frameworks, mini competitions or full tender exercises as required. The gap analysis will be completed in September 2011. The replacement of inadequate contracts will depend on the contract value - To be in place by 31st January 2012. iii. Training will be provided to all Managers and Team Leaders on the procurement process and the	Stuart Taylor – Procurement Manager Target date: See agreed action

Action plan

Finding rating	Agreed action	Responsible person / title
	importance of adhering to it - DMT's have been attended by the Procurement Manager to provide training and update on changes that have taken place within Procurement. A training package will be developed on the Council's e-learning portal – to be completed and in use by December 2011.	
iv.	All staff with the ability to purchase will be required to complete a 'signed' declaration that they understand the procurement requirements and they will adhere to them. Disciplinary action will be considered against staff who continue to pursue non-compliant practices - declarations will form part of the procurement e-learning tool that is currently being developed. An auditable trail will identify all those that accept the online declaration at the end of the training – all relevant staff signed up by 31st January 2012.	
v.	Increased control and direction for procurement across the Council through the creation of the Strategic Procurement Group (SPG) – terms of reference created, email sent to request senior nominations from each directorate, initial meeting to be held by the end of November 2011.	
vi.	Procurement Officers to attend Service Managers Team Meetings (SMTs), for the services they are responsible for, twice a year to enable services to flag forthcoming procurement exercises, raise issues and queries. Procurement Officers can get involved and provide guidance at inception stage, monitor compliance, raise non-conformity issues and identify and tailor any training needs – to commence with immediate effect.	
vii.	The introduction of the electronic tendering portal will improve central control and transparency of process moving forward, provide 'audit capability' and a central repository for all future procurement documentation – October 2011.	
viii.	Introduce a requirement as part of the standard service plan template to capture all planned procurements for the coming year. This will provide the Procurement Team and Strategic Procurement Group with an annual plan of procurement exercises. This plan will improve resource planning for the Procurement Team and provide a useful 'birds eye view' for the SPG to capture opportunities for collaborative working and highlight key procurements for review – new template to be finalised 30th November 2011.	
ix.	Introduce procurement to the new Management Accountants Monitoring Pack to capture information and flag developments with the Procurement Team – to commence by the end of November 2011.	

2. Compliance with the quotations process – operating effectiveness

Finding

In 11 of 25 cases tested where service areas are required to obtain quotations prior to purchase, the appropriate number of quotes had not been obtained.

- in 6 of these cases, this had occurred because the team placing the order believed a contract or agreement was in place with the supplier which did not exist
- in 2 of these cases, only one quotation had been obtained when two were required
- in 1 case only two quotations had been obtained when three were required
- in 2 cases, no quotations had been obtained. In 1 of these cases, this was because goods were selected from a catalogue.

Furthermore, 1 of 4 managers surveyed stated that they commonly use suppliers who they are familiar with, instead of following a procurement process. 3 of 4 managers identified that they would like further training on the procurement process. The Authority does not provide training on procurement as part of the induction process.

In 1 of 25 cases, an order had been placed against an existing contract with Kingston Communications; however the contract was negotiated by Northamptonshire County Council and a copy is not held by Northampton Borough Council, meaning assurance could not be gained that this contract was in place.

In 2 of 25 cases, the Authority believe that a contract is in place with the suppliers and so it was correct for the member of staff not to obtain alternative quotations when placing the purchase order; however no evidence could be obtained to support this as the supplier is not referred to in any formal contract.

3 of 25 cases were noted where although it was appropriate that the order had not followed set procurement procedures, there was no exemption from the procurement process stated in the Procurement Manual for these cases. These included:

- temporary accommodation is selected from a list of approximately 5 places, although there has been no procurement process behind which suppliers are used on this list
- a subscription to a benchmarking organisation
- training on sheltered housing.

In 3 of 25 cases, no evidence was provided to audit about whether the correct number of quotes was obtained. In 1 case, this had arisen because the people who had raised and authorised the order had left the Authority, and so could not provide the relevant details. In another case, quotes were only obtained verbally, and so no evidence was retained of quotes obtained. In the remaining case, no response was received from the person placing the order as to the procurement process followed during the review period.


In 3 of 25 cases tested standard templates, such Invitation to Quote forms, were not used.

Risks

The Authority may enter into purchases or contracts that do not meet required standards or represent sufficient value for money.

Increased risks of inappropriate transactions.

Action plan

Finding rating	Agreed action	Responsible person / title
 <p>High risk</p>	<ul style="list-style-type: none"> <li data-bbox="357 602 501 1749">i. Training will be provided to all Managers and Team Leaders on the procurement process and the importance of adhering to it - DMT's have been attended by the Procurement Manager to provide training and update on changes that have taken place within Procurement. A training package will be developed on the Council's e-learning portal – to be completed and in use by December 2011. <li data-bbox="501 602 644 1749">ii. All staff with the ability to purchase will be required to complete a 'signed' declaration that they understand the procurement requirements and they will adhere to them. Disciplinary action will be pursued against staff who continue to pursue non-compliant practices - declarations will form part of the procurement e-learning tool that is currently being develop. An auditable trail will be available to identify all those that accept the online declaration at the end of the training – all relevant staff signed up by 31st January 2012. <li data-bbox="644 602 708 1749">iii. The procurement manual will be updated to clearly reflect Contract Procedure Rules where there are exemptions from the procurement process – to be completed September 2011. <li data-bbox="708 602 740 1749">iv. A revised supplier list for temporary accommodation is currently being finalised – Action complete. <li data-bbox="740 602 884 1749">v. The procurement team will reiterate to staff the importance of using standard templates, to ensure all tender processes are compliant with procurement and EU requirements, and to ensure consistent branding for the Authority - the adoption of electronic tendering will prevent incorrect templates from being used in the future. The frequent contact with service teams through the attendance at SMTs will also enable Procurement Officers to provide guidance at the earliest opportunity – October 2011. <li data-bbox="884 602 1024 1749">vi. The procurement team will liaise with individual departments in designing templates, to ensure that templates are meeting the individual needs of service areas. This may lead to a series of different standard templates being available for staff to use - the adoption of an electronic procurement system will ensure templates meet the needs of service areas and prevent incorrect templates from being used – October 2011. 	<p>Stuart Taylor – Procurement Manager Target date: See agreed action</p>

3. Supply agreements – control design

Finding

Compliance with existing supply agreements is not enforced.

Members of staff can place orders with any supplier and then request for these new suppliers to be added to the Agresso system without challenge.

There is no active consideration of whether the supply agreements in place adequately identify the optimal number of suppliers for a specific type of product or service.

There is no mechanism in place for members of staff to actively seek and take advantage of early payment or bulk purchase discounts. This is predominantly because there is no uniform approach to obtaining quotes or placing orders, as this is at the discretion of individual departments.

Although the use of framework agreements is encouraged, there is no listing of agreements already established at the Authority for members of staff to consider using when placing orders.

If a member of staff wishes to consider using a framework agreement, they must contact the central procurement team, who then review all contracts in this area to identify whether an agreement is in place, making the process cumbersome for both service areas and the central procurement team alike.


Risks

Supply agreements are not used, potentially leading to orders placed with inappropriate suppliers, or value for money not being achieved.

The Authority may not be obtaining value for money on orders raised, as prices are not sufficiently negotiated prior to committing to orders.

Increased risks of inappropriate transactions.

Action plan

Finding rating	Agreed action	Responsible person / title
 Medium risk	<ol style="list-style-type: none"> i. As an interim measure, a central register of supply and framework agreements will be developed to enable staff to easily see existing agreements in place – September 2011. ii. The Authority will replace supply agreements with formal contracts, and use of these contracts will be enforced through the Agresso system, where the system will only allow orders to be placed with named suppliers for certain products and services – a gap analysis will be completed and appropriate procurement exercises conducted in accordance with Contract Procedure Rules – September 2011. iii. Any requests to add new suppliers to the system will be challenged ensuring quality and price of these orders have been considered, or whether a contract could provide a better deal - process introduced by end of September 2011. iv. The Authority will enforce the use of framework agreements through use of the Agresso system, as users will only be allowed to raise orders with named suppliers for certain products and services - 	Stuart Taylor – Procurement Manager Target date: See agreed action

Action plan

Finding rating	Agreed action	Responsible person / title
	initial work complete on existing agreements. This will be an ongoing action as and when procurement exercises are completed – February 2012.	
v.	The 'Due North' e-sourcing system will support the use of framework agreements where a mini-competition is required - system to go live October 2011.	
vi.	The Authority will negotiate early payment and / or bulk purchase discounts as part of the process of negotiating new contracts with suppliers whilst replacing supply agreements - Early payment discounts and bulk purchasing will be investigated in the replacement of current supply agreements – January 2012	





Appendix 1: Basis of our classifications

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance (quantify if possible); or • Critical monetary or financial statement impact (quantify if possible = materiality); or • Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance (quantify if possible); or • Significant monetary or financial statement impact (quantify if possible); or • Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or • Significant impact on the reputation or brand of the organisation (quantify if possible).
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance (quantify if possible); or • Moderate monetary or financial statement impact (quantify if possible); or • Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or • Moderate impact on the reputation or brand of the organisation (quantify if possible).
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance (quantify if possible); or • Minor monetary or financial statement impact (quantify if possible); or • Minor breach in laws and regulations with limited consequences (quantify if possible); or • Minor impact on the reputation of the organisation (quantify if possible).
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Appendix 2: Terms of reference

To: Stuart Taylor, Procurement Manager and Bill Lewis, Head of Finance
 From: Matthew Plummer, Internal Audit Team Manager

This review is being undertaken as part of the 2011/2012 internal audit plan approved by the Audit Committee.

Background

In 2010/11 the Authority had a separate procurement function with a core team reporting to a Head of Procurement. A restructure at the Authority at the beginning of 2011/12 has led to the procurement function being amalgamated into the finance department, with the procurement team reporting to the Head of Finance.

We identified operating effectiveness weaknesses relating to procurement processes as part of our 2010/11 review of creditors (Agresso system). This review did not cover procurement in detail. However these weaknesses, along with the restructure, led to the inclusion of a full review of procurement within the 2011/12 audit plan.

Scope

We will review the design and operating effectiveness of key controls in place relating to procurement during the period 2011/12

The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
Tendering	Determine the requirements and explicitly communicate those to potential suppliers Ensure that tenders are advertised, received and recorded in accordance with an appropriate approved protocol Comply with European Union tendering requirements / directives.
Selection of suppliers	To ensure that tenders are evaluated in a transparent consistent manner in line with approved procedures Investigate the financial strength and business reputation of final candidates
Purchasing	Clear instructions are available for budget managers to undertake purchasing Use of supplier agreements is maximised to promote value for money Quotations are obtained in line with appropriately approved protocol Purchases are appropriately approved Reputable suppliers are used Goods or services are purchased at an agreed price

Limitations of scope

We will not review contract management as part of this audit.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of procurement through discussions with key personnel, review of systems documentation and walkthrough tests
- Identify the key risks of relating to procurement
- Evaluate the design of the controls in place to address the key risks
- Test the operating effectiveness of the key controls.

Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Engagement Manager
Matthew Plummer	Team Manager
Nikki Smith	Audit Team Member

Key contact – Northampton Borough Council

Name	Title	Role	Responsibilities
Stuart Taylor	Procurement Manager	Audit Sponsor	Review and approve terms of reference Review draft report. Review final report. Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

Other Roles and Responsibilities – Northampton Borough Council

Name	Title	Responsibilities
Bill Lewis	Head of Finance	Review and approve terms of reference Review draft report. Review final report
Isabell Procter	Director of Finance and Support	Review draft report. Review final report
Audit Committee	N/A	Review final report
Portfolio Holder - Finance		

Timetable

Fieldwork start	23/05/2011
Fieldwork completed	3/6/2011
Clearance Meeting	17/6/2011 (TBC)
Draft report to client	24/6/2011 (TBC)
Response from client	1/7/2011 (TBC)
Final report to client	8/7/2011 (TBC)

Agreed timescales are subject to the following assumptions:

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

Appendix 3: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of procurement, subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to procurement is for the period 31/3/2011 to 31/3/2012. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or

- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



This document has been prepared only for Northampton Borough Council and solely for the purpose and on the terms agreed with Northampton Borough Council. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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Appendices
1



AUDIT COMMITTEE REPORT

Report Title	Corporate debt – Progress and Age debt analysis
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AGENDA STATUS: PUBLIC

Audit Committee Meeting date:	7 th November 2011
Policy Document:	No
Directorate:	Finance and Support
Accountable Cabinet Member:	Councillor Alan Bottwood

1. Purpose

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

2. Recommendations

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

3 Issues and Choices

3.0 Report Background

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

- Council Tax
- Business Rates (NNDR)
- Business improvement district levy (NNDR)
- Council Tenants but not current rent arrears
- Former Council Tenants
- Service Charges for leaseholders
- Re-chargeable repairs – current tenants
- Re-chargeable repairs – former tenants
- Housing benefit overpayments
- Sundry debts (i.e. Council services)

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

4.0 Issues

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

5 Progress

- Data cleansing and action against old debt continues. An analysis of progress in debt reduction within the IRAS system is shown below: This is all debt from the issue of a level 2 letter, the recovery team's first involvement

	Mar-10	Mar-11	Apr-11	Jun-11	Jul-11	Sep-11
Pre 07-08	613,897.53	442,858.22	439,022.83	410,412.12	402,588.64	384,889.20
07-08	225,881.06	147,882.14	138,813.67	122,659.47	117,916.33	111,447.63
08-09	344,995.10	138,217.29	128,594.37	116,849.60	103,752.30	87,323.63
09-10	551,858.76	132,219.96	128,187.76	110,793.71	85,096.95	75,412.96
10-11		548,489.32	709,499.47	325,464.31	248,902.34	178,424.00
Total	1,736,632.45	1,409,666.93	1,544,118.10	1,086,179.21	958,256.56	837,497.42

Historic debt has been reduced by £572,170 since the end of March 2011. Which demonstrates that processes for recovery, write-off and new arrangements are still being delivered. Although, many of the arrangements in place are for nominal payment arrangements, either weekly and in some cases monthly.

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

- The target this year is to continue to reduce the amount of the amount of unmanaged debt and this is demonstrated in APPENDIX A – Managed Debt Analysis 2011/12.
- Overall debt levels as at 30th September 2011
Unmanaged debt is 13.7% less than at the end of March 2011 and 36.2% less than the same time last year.
The overall outstanding arrears are £373.3k less than at the same point last year.
- Council Tax as at 30th September 2011
Unmanaged debt is 55.7k more than the same time last year, these are cases where we are considering obtaining a charging order, bankruptcy order, or committal to prison.
The overall outstanding arrears are £754k less than at the same point last year.
- Business Rates as at 30th September 2011
Unmanaged debt remains unchanged.
The overall outstanding arrears are £434.9k less than at the same point last year.
- Former Tenant Arrears as at 30th September 2011
Unmanaged debt is 53.2k less than the same time last year.
The overall outstanding arrears are £194.1k less than at the same point last year.
- Housing Benefit Overpayments Payments as at 30th September 2011
Unmanaged debt is 56.5k less than the same time last year.
The overall outstanding arrears are £841.2k more than at the same point last year. Which demonstrates that whilst working harder to collect the monies, and income collection is above target, these cases remain very difficult to collect due recovery methods available to us, and the economic climate.
- Sundry Debts as at 30th September 2011
Unmanaged debt is 504.2k less than the same time last year.
The overall outstanding arrears are £258.5k more than at the same point last year.
- Write-offs on all debt types are processed and managed within agreed timescales.

6. Choices (Options)

N/A

7. Implications (including financial implications)

7 Policy

7.1 A Corporate Debt Policy was agreed at the cabinet meeting in July 2010.

Resources and Risk

We are still reviewing the implications of welfare reform on the collection of debts across the Council. Reductions in benefits will start to have an impact in 2011/12 and then properly in 2012/13. It is estimated that for those affected, benefits administered by Northampton Borough Council will reduce by over £2million in 2012/13. Reductions in state benefits may also occur meaning household will have less money to allocate to debts they may owe to Northampton Borough Council.

8 Legal

N/A

9 Equality

An equality impact assessment, initial screening has been completed and a subsequent action plan will be created identifying areas to develop as part of ongoing assessments.

10 Consultees (Internal and External)

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

11 Implications

N/A

12. Background Papers

N/A

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

APPENDIX A – Managed Debt Analysis 2010/11

	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
TOTAL ARREARS	21,148.5k	20,435.0k	19,288.2k	18,530.0k	17,911.3k	17,019.4k	16,862.9k	16,518.3k	15,435.1k	15,082.5k	14,844.7k	14,616.4k
Awaiting Action	2,342.3k	2,137.1k	2,476.6k	1,805.0k	1,610.3k	1,571.6k	1,444.0k	1,313.2k	1,254.1k	1,335.9k	1,291.0k	1,161.8k
Debt in Progress	18,806.2k	18,297.9k	16,811.6k	16,725.0k	16,301.0k	15,447.8k	15,418.9k	15,205.1k	14,181.0k	13,746.6k	13,553.7k	13,454.6k
% Inactive debt [PI]	11.08%	10.46%	12.84%	9.74%	8.99%	9.23%	8.56%	7.95%	8.13%	8.86%	8.70%	7.95%
CTAX	10,493.0k	10,104.6k	9,863.9k	9,090.8k	8,918.5k	8,654.8k	8,515.0k	8,285.3k	7,438.3k	7,135.0k	6,970.0k	6,806.5k
Inactive	715.8k	520.3k	429.7k	474.5k	266.1k	339.3k	368.6k	289.7k	383.5k	330.0k	401.5k	343.1k
In progress	9,777.2k	9,584.3k	9,434.2k	8,616.3k	8,652.4k	8,315.5k	8,146.4k	7,995.6k	7,054.8k	6,805.0k	6,568.5k	6,463.4k
Inactive debt	6.82%	5.15%	4.36%	5.22%	2.98%	3.92%	4.33%	3.50%	5.16%	4.63%	5.76%	5.04%
NDR	3,296.4k	3,101.0k	2,553.2k	2,697.4k	2,237.5k	1,918.6k	1,610.6k	1,435.9k	1,242.0k	1,124.6k	1,055.9k	1,263.7k
Inactive	0	0	0	0	0	0	0	0	0	0	0	0
In progress	3,296.4k	3,101.0k	2,553.2k	2,697.4k	2,237.5k	1,918.6k	1,610.6k	1,435.9k	1,242.0k	1,124.6k	1,055.9k	1,263.7k
Inactive debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
FTA	1,694.6k	1,715.1k	1,739.7k	1,772.4k	1,731.8k	1,531.3k	1,511.4k	1,498.8k	1,537.0k	1,523.2k	1,496.7k	1,396.0k
Inactive	3.0k	2.1k	758.5k	271.7k	202.9k	198.5k	215.5k	178.2k	103.8k	149.0k	88.8k	103.4k
In progress	1,691.6k	1,713.0k	981.2k	1,500.7k	1,528.9k	1,332.8k	1,295.9k	1,320.6k	1,433.2k	1,374.0k	1,407.9k	1,292.6k
Inactive debt	0.18%	0.13%	43.60%	15.33%	11.72%	12.97%	14.26%	11.89%	6.75%	9.79%	5.94%	7.41%
HBOP	3,615.5k	3,622.8k	3,650.0k	3,695.6k	3,610.7k	3,682.3k	3,761.5k	3,875.6k	3,948.6k	4,022.1k	4,077.1k	4,063.7k
Inactive	475.5k	498.2k	500.5k	415.3k	376.3k	418.1k	368.0k	391.3k	384.4k	345.0k	320.6k	270.0k
In progress	3,140.0k	3,124.6k	3,149.5k	3,280.3k	3,234.4k	3,264.2k	3,393.5k	3,484.3k	3,564.2k	3,677.1k	3,756.5k	3,793.7k
Inactive debt	13.15%	13.75%	13.71%	11.24%	10.42%	11.36%	9.78%	10.10%	9.74%	8.58%	7.86%	6.64%
SD	2,048.9k	1,891.4k	1,481.2k	1,273.8k	1,412.7k	1,232.1k	1,464.3k	1,422.5k	1,269.0k	1,277.4k	1,244.8k	1,086.3k
Inactive	1,148.0k	1,116.3k	787.9k	643.6k	764.9k	615.5k	491.9k	453.8k	382.4k	511.8k	480.0k	445.2k
In progress	900.9k	775.1k	693.3k	630.2k	647.8k	616.6k	972.4k	968.7k	886.6k	765.6k	764.8k	641.1k
Inactive debt	56.03%	59.02%	53.19%	50.52%	54.14%	49.96%	33.59%	31.90%	30.13%	40.06%	38.56%	40.99%

APPENDIX A – Managed Debt Analysis 2011/12

	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
TOTAL ARREARS	19,131,164	18,858,181	17,853,179	18,300,059	17,543,736	16,546,113						
Awaiting Action	1,471,740	1,344,078	1,130,890	1,194,846	1,095,421	1,003,148						
Debt in Progress	17,659,424	17,514,103	16,722,289	17,105,213	16,448,315	15,542,965						
% Inactive debt [PI]	7.69%	7.13%	6.33%	6.53%	6.24%	6.06%						
CTAX	9,861,308	9,312,254	8,965,583	8,798,626	8,317,736	7,900,988						
Inactive	388,267	302,148	357,223	330,884	338,801	384,974						
In progress	9,473,041	9,010,106	8,608,360	8,467,742	7,978,935	7,516,014						
Inactive debt	3.94%	3.24%	3.98%	3.76%	4.07%	4.87%						
NDR	2,523,997	2,419,223	1,949,323	2,031,969	1,624,011	1,483,784						
Inactive	0	0	0	0	0	0						
In progress	2,523,997	2,419,223	1,949,323	2,031,969	1,624,011	1,483,784						
Inactive debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%						
FTA	1,414,084	1,390,874	1,422,396	1,400,314	1,417,501	1,347,224						
Inactive	121,473	112,976	157,715	191,959	154,045	145,330						
In progress	1,292,611	1,277,898	1,264,681	1,208,355	1,263,456	1,201,894						
Inactive debt	8.59%	8.12%	11.09%	13.71%	10.87%	10.79%						
HBOP	4,078,858	4,132,484	4,281,919	4,245,479	4,283,298	4,323,498						
Inactive	365,030	300,500	351,403	363,711	319,252	361,588						
In progress	3,713,828	3,831,984	3,930,515	3,881,768	3,964,046	3,961,910						
Inactive debt	8.95%	7.27%	8.21%	8.57%	7.45%	8.36%						
SD	1,252,917	1,603,346	1,233,958	1,823,673	1,901,189	1,490,617						
Inactive	596,969	628,454	264,548	308,293	283,323	111,255						
In progress	655,948	974,892	969,410	1,515,380	1,617,866	1,379,362						
Inactive debt	47.65%	39.20%	21.44%	16.91%	14.90%	7.46%						

Appendices - 1



Item No.
[Item number and title as on agenda]

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Internal audit progress report
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	7 November 2011
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	Councillor Alan Bottwood

1. Purpose

1.1 To provide the Audit Committee with a report summarising progress made against the approved internal audit plan for 2011/12.

2. Recommendations

2.1 Receive the report.

3. Issues and Choices

3.1 Report Background

3.1.1 The report is produced to inform the Committee on internal audit activity in the current year up to the date of the Committee meeting.

3.2 Issues

3.2.1 As detailed in the report

3.3 Choices (Options)

3.3.1 N/a

4. Implications (including financial implications)

4.1 Policy

4.1.1 No implications other than enabling monitoring of internal audit reporting performance.

4.2 Resources and Risk

4.2.1 Risks may be highlighted as a result of audit issues being reported.

4.3 Legal

4.3.1 N/a

4.4 Equality

4.4.1 N/a

4.5 Consultees (Internal and External)

4.5.1 Director of Finance and Support and Head of Finance.

4.6 Other Implications

4.6.1 N/a

5. Background Papers

5.1 Appendices to the report

- Appendix 1 –Internal Audit Progress Report

Chris Dickens
Senior Manager
PricewaterhouseCoopers LLP
01509 604041

Internal audit progress report for Audit Committee

November 2011



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Plan outturn

2011/12 Audit Plan

We have undertaken work in accordance with the 2011/12 Internal Audit Plan which was presented to the Audit Committee at its meeting in March 2011.

An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix One. At present we have completed, at the time this report was produced, **83 days out of a total planned 299 days (28%)**. This is in line with the agreed profile of work within our plan as the majority of financial systems work is performed in Q3 of the financial year. We commit to completing our plan ahead of the year end.

Reporting Activity and Progress

TeamCentral Report

We have included a report in Appendix 2 detailing progress against recommendations raised within our 2011/12 audit work.

2011/12 Plan Outturn

We have undertaken work in accordance with the 2011/12 Internal Audit Plan which was presented to the Audit Committee at its meeting in March 2011.

We have issued final reports for the following reviews:

- Procurement (**11_12 NBC Procurement 01**). This report has been included as a separate paper to the Audit Committee.
- The Treasury Management review (**11_12 NBC Treasury Management 04**) focussed on controls in place over treasury management, borrowings and investments. The controls reviewed were well designed and found to be operating effectively. We identified two low risk recommendations which if implemented would help to improve control further.

Our overall report classification for Treasury Management was **low risk**.

- The Expenses review (**11_12 NBC Expenses 05**) focussed on expenses policies and procedures and the process for claiming expenses. We identified one medium and two low risk issues. The medium risk issue related to access rights:
 - Seven individuals had edit access to the payroll system (through which expenses are processed) when their roles only required read access.

Overall we identified excellent progress since the prior year for the expenses function. All prior year recommendations had been implemented and the level of control around expenses has improved significantly.

Our overall report classification for Expenses was **low risk**.

- The Risk Management and Business Continuity review (**11_12 NBC Risk Management and Business Continuity 06**) focussed on the risk management framework and business continuity arrangements at the Authority. We identified two medium risk issues:
 - Risk registers were not always fully or accurately completed by services
 - The Business Continuity Plan for the outsourced Environmental Service had not been obtained by the Authority at the time of our review, although it has now been received.

Overall we identified that both risk management and business continuity control had improved since the prior year. Our report classification for Risk Management and Business Continuity was **low risk**.

We have recently completed our fieldwork for the Development Governance review and anticipate issuing a draft report shortly.

The fieldwork for our core financial systems reviews has commenced. We will be issuing a joint report for this work covering the following systems:

- Payroll
- General ledger
- Cash and Bank
- Debtors
- Creditors (Agresso System)

Appendix A – Plan Outturn Statement

Auditable Unit	2011/12				Planned audit days	Actual Audit Days	Progress
	Q1	Q2	Q3	Q4			
Cross-cutting							
Risk Management and Business Continuity		X			5	5	Final report
Procurement		X			10	10	Final report
Treasury Management		X			5	5	Final report
Budgetary Control				X	8	-	Quarter 4
General Ledger			X		8	1	Terms of reference agreed
Debtors			X		6	1	Terms of reference agreed
Creditors (Agresso)			X		6	1	Terms of reference agreed
Creditors (IBS)			X		8	1	Scoping commenced
Payroll			X		10	1	Terms of reference agreed
Fixed Assets				X	6	-	Quarter 4
Cash and Banking			X		10	1	Terms of reference agreed
Expenses		X			7	7	Final report
Housing Benefits				X	8	-	Quarter 4
Housing rents			X		10	1	Scoping commenced
Debt Recovery				X	7	-	Quarter 4
Partnership Arrangements				X	8	-	Quarter 4
Sub Total					122	34	
Departmental							
Human Resources – Induction Training				X	8	-	Quarter 4
Human Resources - Recruitment	X				8	8	Final report
Customer Services and ICT - IT reviews				X	15	-	Quarter 4
Landlord Services – Decent Homes – contract management/monitoring arrangements			X		10	1	Planning meetings held
Strategic Housing - Voids	X				10	10	Final report
Planning - West Northamptonshire Development Corporation (WNDC) – Review of governance arrangements for stage 2 transition of WNDC				X	10	-	Quarter 4

Auditable Unit	2011/12				Planned audit days	Actual Audit Days	Progress
	Q1	Q2	Q3	Q4			
Planning - Locally set planning fees – Assumptions within costing model			X		8	-	Quarter 3 – Scoping to commence shortly
Regeneration and Development – Development governance		X			10	8	Fieldwork Completed
Culture and Leisure – Leisure Trust contract management/monitoring arrangements			X		10	1	Scoping commenced
Corporate Performance and Change - <i>Performance Management Framework</i> -Oversight of data quality and performance management and arrangements for performance related pay			X		10	1	Planning meeting held
Corporate Performance and Change - <i>Project governance</i> – Specific review of Electronic Data Management System (EDMS) project			X		5	-	Quarter 3 – Scoping to commence shortly
Democratic and Chief Executive Services - <i>Community Asset Transfer Scheme</i> –Risk management arrangements				X	5	-	Quarter 4
Sub Total					109	29	
Value Enhancement							
Anti-fraud and corruption training (Members and Officers)			X		10	2	Planning commenced – work to include an anti-fraud healthcheck
Governance survey				X	10	-	Quarter 4
Audit Committee Effectiveness Training	X				2		Completed
Environmental Services Contract Review			X		10	1	Planning meetings held
HRA –Business Plan assumptions review		X			5	4	Fieldwork Completed
Sub Total					37	7	
Project Management/Other							
Follow Up - Museums			X		3	-	-
Teamcentral	X	X	X	X	10	4	Reports added to Teamcentral
Audit Management	X	X	X	X	18	9	-
Sub Total					31	13	-
Grand Total					299	83	28% Completed

Appendix B – Teamcentral Report Summary

Summary of 2010/11 recommendations

Year	Number of recommendations made	Implemented / Closed	Outstanding
2010/11	124	111	13 – (1 overdue)

- Only finalised reports are being tracked through Teamcentral
- There is one overdue recommendation relating to Project Governance, progress has been made against the recommendation and this is documented on Teamcentral
- The 2011/12 recommendations are detailed in the table below:

Summary of recommendations 2011/12 (final reports only)

Review title and number of recommendations in the final report	Responsible Head of Service	Total Outstanding	Outstanding and Overdue	Outstanding but not yet due	Total Implemented
11_12 NBC 02 Voids (7)	Christine Ansell/Fran Rodgers	7	3	4	0

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AUDIT COMMITTEE REPORT

Report Title	External Audit Update
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	7 th November 2011
Policy Document:	No
Directorate:	Finance and Support
Accountable Cabinet Member:	Cllr Alan Bottwood

1. Purpose

- 1.1 To provide a verbal update on the progress of external audit plans and to present the Annual Audit Letter 2010/11.

2. Recommendations

- 2.1 To note the progress of external audit plans as presented to the Committee by the Council's external auditors; and
- 2.2 To receive the Annual Audit Letter 2010/11.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Council's external auditors, the Audit Commission, audit the Statement of Accounts and major grant claim and returns.

3.2 Issues

- 3.2.1 The Council's external auditors, the Audit Commission completed their audit of the Council's Statement of Accounts for 2010/11 in September. The Council has now received the Annual Audit Letter for 2010/11 and the external auditors will provide the Audit Committee with a verbal update on progress.

3.3 Choices (Options)

3.3.1 To comment on the letter and to question the Council's external auditors on any matters arising.

4. Implications (including financial implications)

4.1 Policy

4.1.1 None.

4.2 Resources and Risk

4.2.1 There are no specific resources and risk implications arising from this report.

4.3 Legal

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

4.4 Equality

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

4.5 Consultees (Internal and External)

4.5.1 None.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Protecting and enhancing the reputation of Northampton Borough Council.

4.7 Other Implications

4.7.1 Not applicable

5. Background Papers

None

Bill Lewis
Head of Finance, ext 7167

Annual Audit Letter

Northampton Borough Council

Audit 2010/11



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Key messages

- This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**
- **the audit of your financial statements; and**
 - **my assessment of your arrangements to achieve value for money in your use of resources.**

Area of work	Our findings
Audit opinion on your financial statements	●
Arrangements to secure value for money	●

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Audit opinion and financial statements

I issued an unqualified opinion on your financial statements on 28 September 2011.

- The financial statements were prepared for the first time on the basis of International Financial Reported Standards (IFRS) and the work involved in their preparation and auditing has increased considerably.
- The statements had not been finalised by 30th June deadline but were certified on the basis that they were substantially complete.

Value for money

I concluded that the Council has adequate arrangements for securing economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 28 September 2011.

Current and future challenges

Financial position and economic downturn

The ongoing economic downturn and reductions in government funding are creating severe financial pressures for all councils. For Northampton, this provides a further challenge to the Council's ambition to be amongst the best councils in terms of public service delivery by 2013.

The Council's medium term financial strategy shows that the budget can be balanced over the three years from 2011 to 2014. This has been achieved through a number of measures, including:

- Seeking savings and efficiencies wherever possible within a framework of clear corporate and service priorities aimed at protecting and enhancing front-line services wherever possible.
- Seeking new funding streams and new ways of working, including partnership working and collaboration with other councils.
- Annual risk assessment of reserves and balances to manage the impact on services and council tax levels.
- A programme of strategic business reviews to deliver better service outcomes and efficiencies.

As part of preparing the 2011/12 budget the Council identified efficiency savings of £4.8 million which, together with the use of approximately £1.5 million of reserves, effectively eliminated the budget gap for the next three years. Nevertheless, there remains considerable uncertainty and a number of key risks in relation to the council's financial position over short to medium term. In particular, the potential for a prolonged period of economic stagnation, increased demand for council services, tight government funding settlements and potential financial reforms.

The financial position of the HRA is also challenging for a number of reasons, not least the need to meet and maintain the decent homes standard with approximately half of the council's housing stock assessed as non-decent. In addition the Council will be faced with the introduction of a new national self financing regime for council housing from April 2012.

Latest projections for 2011/12 show a forecast general fund under-spend of £525k and an HRA under-spend of £159k.

As reported in my VFM conclusion (page 7), the Council's arrangements for preparation and management of its budgets are robust. Members will need to ensure that the focus on strong financial management is maintained for the foreseeable future.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an audit report including an unqualified opinion on the financial statements on 28 September 2011.

The draft accounts submitted for audit were incomplete but I was able to prioritise my work to minimise the impact on the efficiency of the audit. The working papers to support the accounts were of a good standard and officers were responsive and supportive throughout the audit.

I identified errors in the draft financial statements submitted for audit but all were corrected by management and had no impact on either net expenditure or the net balance sheet position. I reported details of the errors to the Audit Committee on 26 September 2011.

I made two recommendations for improvement in respect of the allocation of cash at the year-end and clarification of accounting requirements in respect of expenditure on council dwellings. Both recommendations were agreed by management.

Weaknesses in internal control

I identified and reported one weakness due to the lack of documentation to support internal journal transfers. This was attributed by management to a temporary problem associated with the recent office move.

I will follow-up all issues arising from the audit as part of my work on your 2011/12 financial statements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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Value for money criteria

Criterion

1. Financial resilience

The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Findings

Adequate

The 2010/11 outturn was delivered within budget leading to a net increase in the general fund (GF) balance of £474k. The GF balance at 31 March 2011 increased to £2,480k in accordance with plans to achieve a minimum balance of £3m over the next 3-5 years.

The Council set a balanced budget for 2011/12. Effective preparations were made to deliver budget savings in advance of the anticipated government funding cuts.

The Medium Financial Strategy (MTFS) is reviewed and updated on an annual basis together with an annual review and risk assessment of balances and reserves.

Budgetary control arrangements remain robust.

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings

Adequate

The Council has a good track record of reviewing its services and management arrangements to deliver economy, efficiency and effectiveness through, for example, its programme of strategic business reviews and development of partnership working.

It has recently completed a joint procurement exercise with Daventry District Council to deliver environmental services. Leisure services have been transferred to a charitable trust and office space has been rationalised through the sale of Cliftonville House.

Closing remarks

Ongoing independent support

During the year we have continued to support the Council by:

- attendance at Audit Committees to inform Members about progress on the audit, report our key findings and provide an update on emerging local and national issues;
- hosting our annual final accounts workshop for finance staff; and
- ongoing development of joint working arrangements and local training on housing benefit testing.

Summary

I have discussed and agreed this letter with the Chief Executive and the Director of Finance and Support. I will present this letter at the Audit Committee on 7 November 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit fee letter	28 April 2010
Audit opinion plan	12 April 2011
Annual governance report	23 September 2011
Audit opinion on the financial statements and value for money conclusions	28 September 2011
Annual audit letter	October 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Neil Bellamy

District Auditor

October 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Audit fee	£204,500	£204,500	£0
Inspection work	£0	£8,320	- £8,320
Non-audit work	£0	£0	£0
Total	£204,500	£212,820	- £8,320

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In July 2009, in recognition of the financial pressures that public bodies are facing, the Commission confirmed that it would give a “one-off” subsidy to cover the additional cost of transition to IFRS for local authorities in 2010/11 only. A refund of £9,455 against the above audit fee was issued in April 2010. The Audit Commission issued a further rebate of 1.5% (£2,921) in December 2010.

The planned inspection fee was not charged as a result of the government’s decision to abolish Comprehensive Area Assessment in May 2010.

The fee for certification of claims and returns is charged at published daily rates. The work is ongoing and our latest estimate is that the fee will be in the region of £34,000 (£41,990 in 2009/10).

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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