NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

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

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

on Monday, 9 November 2015

at 6:00 pm.

D Kennedy
Chief Executive

AGENDA

1. APOLOGIES

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

2. MINUTES

(Copy herewith)

3. 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 OUTTURN 2014-15 — Report of the Chief Executive

(Copy Herewith)

7. FINANCE MONITORING REPORT — Report of the Chief Executive

(Copy herewith)

8. EXTERNAL AUDIT UPDATE — External Audit Update (KPMG)

(Copy herewith)

(A) ANNUAL AUDIT LETTER REPORT — External Audit Update (KPMG)

(Copy herewith)

9. INTERNAL AUDIT UPDATE — Internal Auditor (PWC)

(Copy herewith)

10. EXCLUSION OF PUBLIC AND PRESS

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

SUPPLEMENTARY AGENDA

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

<TRAILER_SECTION>
A7980

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

NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 7 September 2015

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

1. APOLOGIES

There were none.

2. MINUTES

The Minutes of the meeting held on 27th June 2015 were confirmed and signed by the Chair as a true record.

3. DEPUTATIONS / PUBLIC ADDRESSES

There were none.

4. DECLARATIONS OF INTEREST

Councillor Kilbride and Councillor Chunga declared an interest as a member of the Northampton Partnership Homes Board.

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

There were none.

6. STATEMENT OF ACCOUNTS 2014/15 AND ANNUAL GOVERNANCE STATEMENT 2014/15

The Group Accountant presented the report and confirmed that there were minor changes. They had received good feedback from KPMG and requested the report be signed by the Chair.

The Chief Finance Officer requested that authority was delegated to himself in consultation with the Chair of the Audit Committee to agree any further changes that may arise between the Audit Committee date and the date that KPMG issued the Audit Opinion.

Resolved:

1. That the report be approved.
2. That authority be delegated to the Chief Finance Officer in consultation with the Chair of the Audit Committee to agree any further changes that may arise between the Audit Committee date and the date that KPMG issued the Audit Opinion.

7. EXTERNAL AUDIT UPDATE - ISA260

A.Cardoza from KPMG presented the report and confirmed that it was a good set of papers and the teams had worked well together. The report confirmed that they had completed substantive procedures and the delivery of value for money was sound and robust. He considered it was a good report and a complete set of accounts.

He referred to an accounting adjustment by Northampton Partnership Homes for £509k had been made as it was inconsistent with the underlying records.

In response to a question from Councillor Stone, the Chief Finance Officer confirmed that this error was picked up by Northampton Partnership Homes' external auditors who had then notified the Council. It had not effected the operation of NPH and was a timing error where monies were recorded. They had not missed out on any matched funding because of it and there was no danger or double payment due to the controls by LGSS and NPH.

Councillor Golby requested that an update on purchase orders and business rate pooling be presented to Committee.

The Chief Finance officer confirmed that the reports would be presented to Committee again to review the progress and assurance delivered. The first recommendation was a quarter review and the other two recommendation were annual review due in March 2016. They had received clear evidence figures used to substantiate pooling was signed off against each other the KPMG were happy with this.

In response to a question from Councillor Chunga, the Chief Finance Officer that the anomaly on NPH's accounts was immaterial and our accounts did not need to be adjusted. He confirmed that the annual budget process set and approved the management of NPH and they managed their own accounts.

The Borough Secretary confirmed that NPH was a separate Company owned by the Council and there were no shareholder members.

The Chair confirmed that a training session on the Council's relationships with other organisations would be organised.

Resolved: That the report be noted.

8. DRAFT INTERNAL AUDIT PLAN 2015-16

The Borough Secretary presented the report and confirmed that it was the same paper which was presented at the last meeting with the only addition being that PWC had added their contact details.

Resolved: That the report be approved.

The meeting concluded at 18.35

Appendices
1

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	TREASURY MANAGEMENT OUTTURN 2014-15

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date:	2 November 2015
Policy Document:	No
Directorate:	LGSS
Accountable Cabinet Member:	Mike Hallam

1. Purpose

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

2. Recommendations

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

3. Issues and Choices

3.1 Report Background

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

3.2 Issues

Treasury Management Outturn Report 2014-15

3.2.1 The Council's Treasury Management Outturn Report for 2014-15 is attached at Appendix 1. This report was presented at Cabinet on 9 September 2015 and Council on 21 September 2015.

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

3.3 Choices (Options)

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

4. Implications (including financial implications)

4.1 Policy

4.1.1 See attached Cabinet report.

4.2 Resources and Risk

4.2.1 See attached Cabinet report.

4.3 Legal

4.3.1 See attached Cabinet report.

Equality

4.4.1 See attached Cabinet report.

4.5 Consultees (Internal and External)

4.5.1 See attached Cabinet report.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 See attached Cabinet report.

4.7 Other Implications

4.7.1 No other implications have been identified

5. Background Papers

None

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

Appendices **1**

NORTHAMPTON
BOROUGH COUNCIL

COUNCIL
21 September 2015

Agenda Status: Public **Directorate: Management Board**

Report Title	**Treasury Management Outturn 2014-15**

1. Purpose

1.1 The purpose of the report is to inform Council of performance in relation to its borrowing and investment strategy for 2014-15, and provide an update of the same in respect of the first quarter of 2015-16.

2. Recommendations

2.1 That Council note the treasury management performance for 2014-15 (outturn), and updated treasury management data for quarter 1 of 2015-16.

3. Issues and Choices

3.1 Report Background

3.1.1 See Cabinet report attached

4. Implications (including financial implications)

4.1 Policy

4.1.1 See Cabinet report attached

4.2 Resources and Risk

4.2.1 See Cabinet report attached

4.3 Legal

4.3.1 See Cabinet report attached

4.4 Equality

4.4.1 See Cabinet report attached

4.5 Other Implications

4.5.1 See Cabinet report attached

5. Background Papers

5.1 None

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David Kennedy, Chief Executive, 01604 837726
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Appendices
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NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	TREASURY MANAGEMENT OUTTURN 2014-15

AGENDA STATUS: PUBLIC

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

1. Purpose

1.1 To inform Cabinet of the Council's performance in relation to its borrowing and investment strategy for 2014-15, and provide an update of the same in respect of the first quarter of 2015-16.

2. Recommendations

2.1 That Cabinet recommend to Council that they note the Council's treasury management performance for 2014-15 (outturn), and updated treasury management data for quarter 1 of 2015-16.

3. Issues and Choices

3.1 CIPFA Code of Practice on Treasury Management in the Public Services

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

3.2 Issues

Summary of Key Headlines

3.2.1 The main headlines for the period are:

- The Council continued to make use of internal borrowing to fund its capital expenditure programme, generating savings in the revenue budget. This benefits the Council's revenue budget position as the costs of external borrowing are avoided, at least until such time as the Council's cash position or interest rate conditions change and there are drivers to go to the external market. See paragraph 3.2.24

- In house investment returns received on cash balances compared favourably to the benchmarks. A return of 0.66% was achieved compared to the 7 day LIBID benchmarks of 0.35%. In respect of local authority benchmarks the NBC performance has been in line with or above the comparator group averages throughout the year. See paragraphs 3.2.30 to 3.2.36.

- The debt financing budget outturn was £477k under budget, due to a number of factors, of which the most important was that the Council had significantly higher levels of cash balances throughout the year than budgeted. See paragraphs 3.2.46 to 3.2.47

- The Council has operated throughout the year within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (TMSS) and in compliance with the Council's Treasury Management Practices. See paragraph 3.2.51 to 3.2.53

- The borrowing position at the end of quarter 1 2015-16 was broadly unchanged from that as at 31 March 2015. See paragraph 3.2.25

- Investment balances during quarter 1 2015-16 averaged £79m, with a weighted average rate of interest of 0.72%. See paragraph 3.2.37

The Economic Environment

3.2.2 A detailed commentary for the quarter ending 30 June 2015 is provided in **Appendix 1** to advise Members of the latest economic position. This information has been provided by Capita Asset Services – Treasury Solutions (CAS Treasury Solutions), the Council's treasury management advisors.

3.2.3 The key economic messages are:

- The economic recovery slowed in the first quarter;
- Survey measures pointed to renewed vigour in Q2;
- Wage growth picked up as the labour market tightens;
- Deflation lasted only one month, but the outlook remain subdued;
- Another split vote on the MPC drew nearer, but a rate hike this year remained unlikely;
- The general election confirmed that the fiscal squeeze will re-intensify next year;
- The possibility of a “Grexit” became greater

Risk implications of decisions taken and transactions executed

3.2.4 The Treasury Management Code of Practice identifies eight main treasury management risks. Definitions of these are included in the Council’s Treasury Management Practices (TMPs) for 2014-15 approved by Council 24 February 2014. The management of these risks during 2014-15 is covered in the following paragraphs.

a) Credit and counterparty risk – This continued to be an area of considerable risk for all local authority investors, given the prevailing uncertain economic and banking environment. The Council managed this risk extremely closely during the year through strict adherence to its treasury management policies and practices and a tightly controlled counterparty list that took into account a range of relevant factors including sovereign rating, credit ratings, inclusion in the UK banking system support package and credit default swap spreads. The advice of the Council’s treasury management advisors was also an underlying feature. None of the Council’s counterparties failed to meet the contractual obligations of their treasury transactions with the Council during 2014-15.

b) Liquidity risk – This was managed effectively during 2014-15 through pro-active management of the Council’s cashflow, including the choice of suitable investment values and maturity dates and the maintenance of sufficient levels of liquid cash in money market funds and deposit accounts. The Council also maintained its access to overdraft facilities and temporary borrowing facilities as a contingency for use in exceptional circumstances. The Council undertook no long or short-term borrowing to manage liquidity during 2014-15.

c) Interest rate risk - The Council’s upper limits for fixed and variable interest rate exposures in respect of investments, borrowing and net external debt are managed as treasury indicators. These are reported at **Appendix 2**. The indicators were not breached during 2014-15.

d) Exchange rate risk - The Council has a policy of only entering into loans and investments that are settled in £ sterling, and has no treasury management exposure to this category of risk.

e) Refinancing risk – The Council did not refinance any of its debt during 2014-15 and was therefore not exposed to this category of risk during the year.

f) Legal and regulatory risk - The Council carried out its treasury management activities for 2014-15 within the current legal and regulatory framework. LGSS officers responsible for strategic and operational treasury management decisions are required to keep abreast of new legislation and regulations impacting on the treasury management function, and have applied any changes as necessary. Legal and regulatory risks associated with other organisations with which the Council deals in its treasury management activities have been managed through counterparty risk management policies.

g) Fraud, error and corruption and contingency management – LGSS officers involved in treasury management are explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council. All treasury activities must be carried out in strict accordance with the agreed systems and procedures in order to prevent opportunities for fraud, error and corruption. The measures in place to ensure this include a scheme of delegation and segregation of duties, internal audit of the treasury function, detailed procedure notes for dealing and other treasury functions, and emergency and contingency planning arrangements (including a business continuity plan for treasury management).

h) Market risk – Investments that may be subject to fluctuations in market value in some circumstances include certificates of deposit, gilts, bonds and money market funds.

   The Council has deposits placed in money market funds, whereby the underlying assets of the fund are subject to capital fluctuations as a result of interest rate risk and credit risk. However the structure of the fund minimises the movement of capital value due to the restrictions laid down by the credit rating agencies. The Council did not experience any fluctuations in the capital value of its money market funds in 2014-15.

   The Council purchased certificates of deposit in 2014-15. In the main these were held to maturity and were not subject to movement in capital value. Two certificates of deposit taken out in 2014-15 were sold prior to maturity in the first quarter of 2015-16, on the advice of the broker, to realise a capital gain.

   The Council did not invest in gilts or bonds during 2014-15.

Summary Portfolio Position

3.2.5 A snapshot of the Council's debt and investment position is shown in the table below:

	Actual as at 31 March 2014		TMSS 2014-15 31 March 15 Forecast (as agreed by Council Feb 2014)		Actual at 31 March 2015		Actual at 30 June 2015	
	£m	Rate %	£m	Rate %	£m	Rate %	£m	Rate %
Borrowing								
HRA	193.0	3.29%	193.0	3.29%	193.0	3.29%	193.0	3.29%
GF	23.0	5.53%	27.7	4.86%	15.1	3.22%	15.1	3.23%
GF - Third Party Loans	10.0	3.32%	39.3	4.75%	15.5	3.14%	15.5	3.14%
Total Borrowing	**226.0**	**3.56%**	**260.0**	**4.28%**	**223.6**	**3.28%**	**223.6**	**3.28%**
Investments	**73.0**	**0.61%**	**35.0**	**0.50**	**64.3**	**0.73%**	**79.9**	**0.75%**
Total Net Debt / Borrowing	**153.0**		**225.0**		**159.2**		**143.7**	
Third party loans	**10.0**		**39.3**		**16.9**		**17.2**	

3.2.6 The table shows the extent of which cash balances are used to finance capital expenditure. This benefits the Council's revenue budget position as the costs of external borrowing are avoided, at least until such time as the Council's cash position or interest rate conditions change and there are drivers to go to the external market.

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

Borrowing

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

New loans and repayment of loans:

3.2.9 The table below shows the details of new loans raised and loans repaid during the year 2014-15. All borrowing activity relates to the General Fund.

3.2.10 Two LOBO loans with a total amortised value of £15.72m were repaid on maturity. These were at interest rates of 5.68% (£11.6m) and 7.03% (£4.12m).

The loans were re-financed using surplus cash resources, realising net savings of £829k in 2015-16.

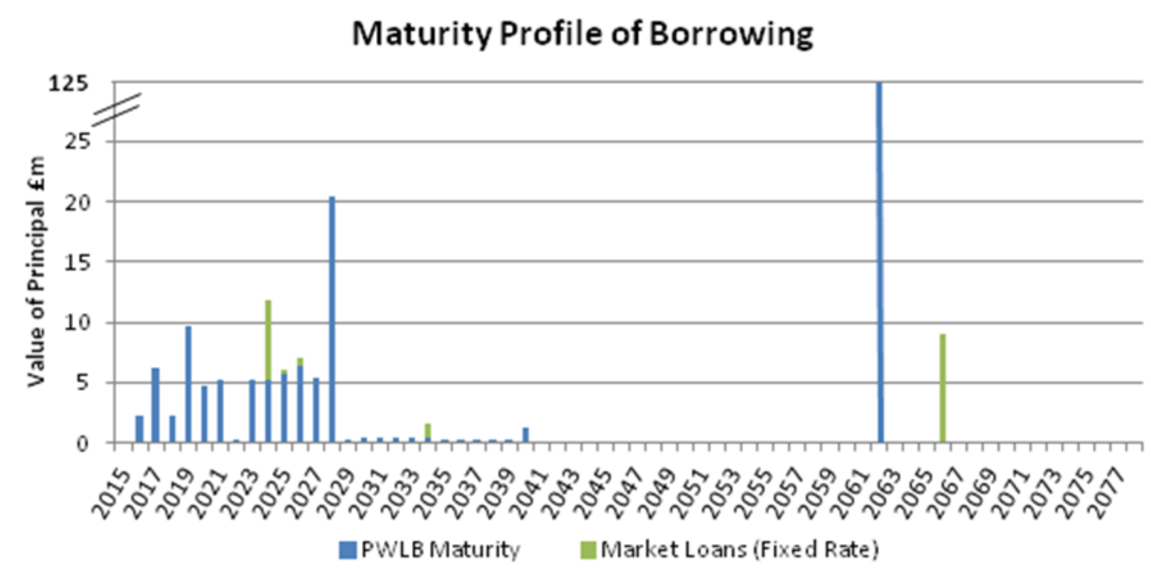
3.2.11 The Growing Places Fund (GPF) and Local Infrastructure Funding (LIF) are loans provided through government agencies to support the infrastructure schemes in the Enterprise Zone (EZ). The GPF loan, accessed through SEMLEP, is funding St Peters Way Roundabout/Black Lion Hill and the Cosworth site. The LIF loan, provided by the Homes and Communities Agency (HCA), is funding the St James Mill Road sub-station. Both provide bridge funding until such time as they can be repaid from the business rates uplift that will arise in the EZ.

3.2.12 Much of the remaining activity related to borrowing from the PWLB to fund loans to third parties, and repayment of annual amounts on EIP and annuity loans related to this borrowing.

Lender	Loan Type	Start Date	Maturity Date	£m	Interest Rate %	Duration (yrs)	Comments
Raised							
Public Works Loan Board	Maturity	17/04/2014	17/04/2019	1.52	2.54	5	To fund third party loan
Public Works Loan Board	Maturity	12/05/2014	12/05/2019	1.52	2.68	5	To fund third party loan
Public Works Loan Board	Maturity	19/08/2014	19/08/2019	1.50	2.58	5	To fund third party loan
Public Works Loan Board	Annuity	22/07/2014	22/07/2039	1.24	3.82	25	To fund third party loan
Growing Places Fund	Bespoke	01/09/2014	01/04/2022	1.04	1.74	8	To be repaid from business rates uplift. Repayment date is target repayment date
Growing Places Fund	Bespoke	23/10/2014	02/04/2022	2.46	1.74	7	
Growing Places Fund	Bespoke	13/01/2015	03/04/2022	0.13	1.74	7	
Growing Places Fund	Bespoke	14/01/2015	04/04/2022	3.01	1.74	7	
Local Infrastructure Funding	Bespoke	24/12/2014	31/03/2026	0.34	3.07	11	To be repaid from business rates uplift. Repayment date is final repayment date (some amounts are due for repayment earlier)
Local Infrastructure Funding	Bespoke	06/02/2015	31/03/2026	0.28	3.07	11	
Local Infrastructure Funding	Bespoke	27/02/2015	31/03/2026	0.26	3.07	11	
Local Infrastructure Funding	Bespoke	31/03/2015	31/03/2026	0.15	3.07	11	
Repaid							
Landesbank Hessen-Thuringen	LOBO	06/03/2000	06/03/2015	4.12	7.03	15	Repayment on maturity
Landesbank Hessen-Thuringen	LOBO	04/02/2000	04/02/2015	11.60	5.68	15	Repayment on maturity
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.04	3.97	25	Repayment of annual EIP amount re borrowing to fund third party loan
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.04	3.97	25	
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.04	3.97	25	
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.04	3.97	25	
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.06	3.97	25	
Homes & Communities Agency	Annuity	01/04/1985	01/10/2033	0.02	9.25	49	Repayment of annual annuity amount

Profile of borrowing:

3.2.13 The following graph shows the maturity profile of the Council's loans, including borrowing to fund loans to third parties.



3.2.14 The graph is dominated by a 50 year loan of £125m taken out in March 2012 as part of the HRA self-financing.

3.2.15 The Council has one remaining LOBO loan of £9m, with an interest rate of 4.85%, maturing in February 2066. The loan equates to 4% of the total loan portfolio. It is assigned to the HRA and is represented in the graph by the blue bar on the right hand side.

3.2.16 The presentation differs from that in the treasury indicator for maturity structure of borrowing at Appendix 2, in that the Council's remaining LOBO loan is included at final maturity rather than the next call date. In the current low interest rate environment the likelihood of the interest rates on this loan being raised and the loan requiring repayment at the break period is extremely low.

3.2.17 All the Council's borrowing is at a fixed interest rate which limits the Council's exposure to interest rate fluctuations.

Loan restructuring

3.2.18 When market conditions are favourable long term loans can be restructured to:

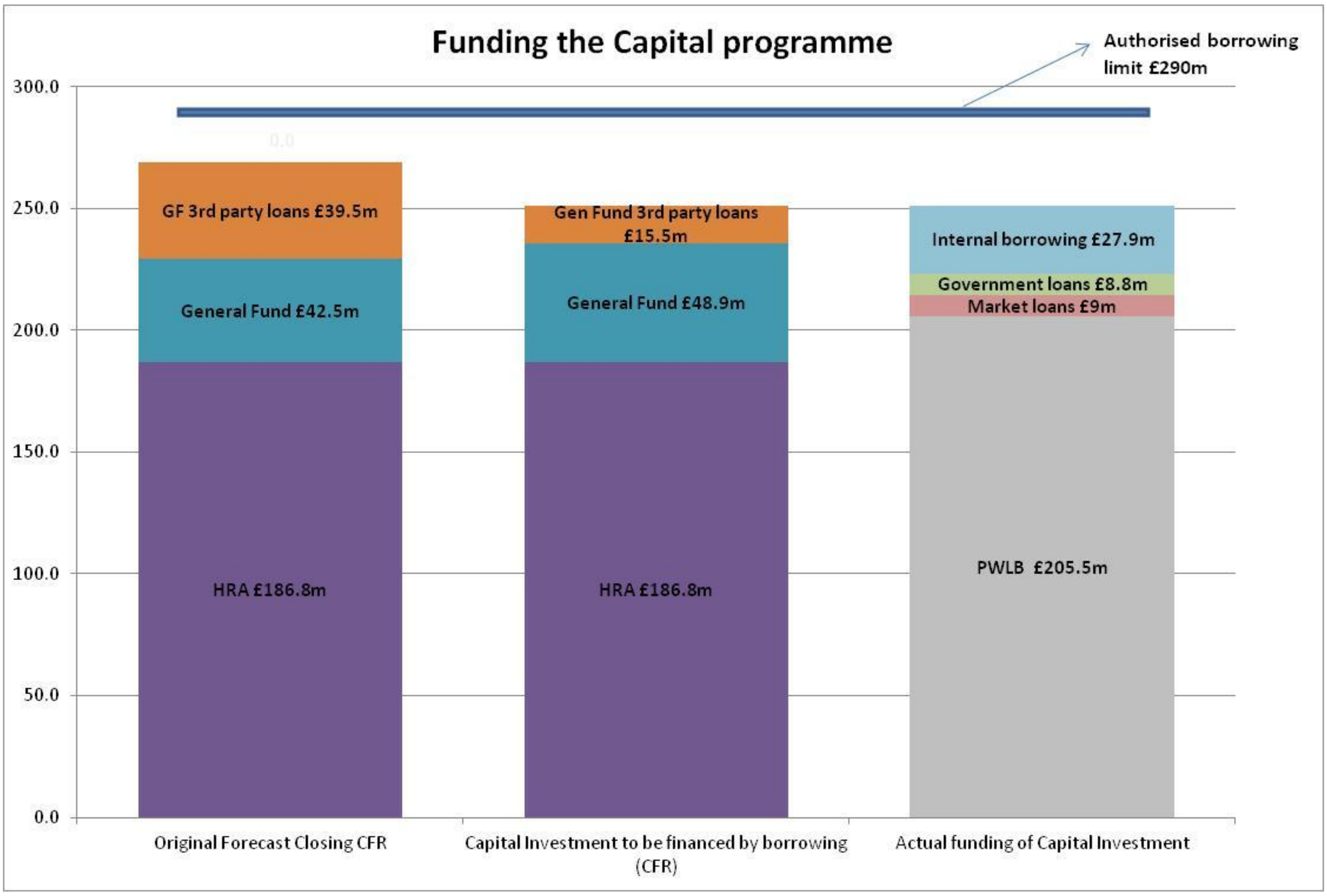
- generate cash savings,
- reduce the average interest rate,
- enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility. (Volatility is determined by the fixed/variable interest rate mix.)

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

Funding the Capital Programme

3.2.20 The Treasury Management Strategy Statement (TMSS) sets out the plan for treasury management activities over the next year. It identifies where the authority expects to be in terms of borrowing and investment levels. When the 2014-15 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR), the Council's liability for financing the agreed Capital Programme (including loans to third parties), would be £268.8m. This figure is naturally subject to change as a result of changes to the approved capital programme and carry forwards that might occur.

3.2.21 The graph below compares the maximum the Council could borrow in 2014-15 with the forecast CFR at 31 March 2015 and the actual position of how this is being financed as at 31 March 2015.



3.2.22 The graph shows the Council's estimated CFR at budget build and actual CFR at year end split between HRA, General Fund and GF borrowing to fund loans to third parties.

3.2.23 Council's current capital investment financed via borrowing as at 31 March 2015 was £38.8m below the Authorised Borrowing Limit set for by Council at the start of the year.

3.2.24 In addition, the graph shows how the Council is currently financing its borrowing requirement. As at 31 March the Council was using £27.9m of internal borrowing to finance capital investment. Internal borrowing is the use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally. The strategy of internally borrowing, by carefully managing the Councils balance sheet, is currently the most appropriate strategy which enables savings to be generated and reduces the level of cash invested and credit risk associated with investing.

Quarter 1 2015-16

3.2.25 The borrowing position at the end of quarter 1 2015-16 is unchanged from that at 31 March 2015 apart from small movements in temporary borrowing relating to amounts deposited with NBC by two local organisations under long standing arrangements.

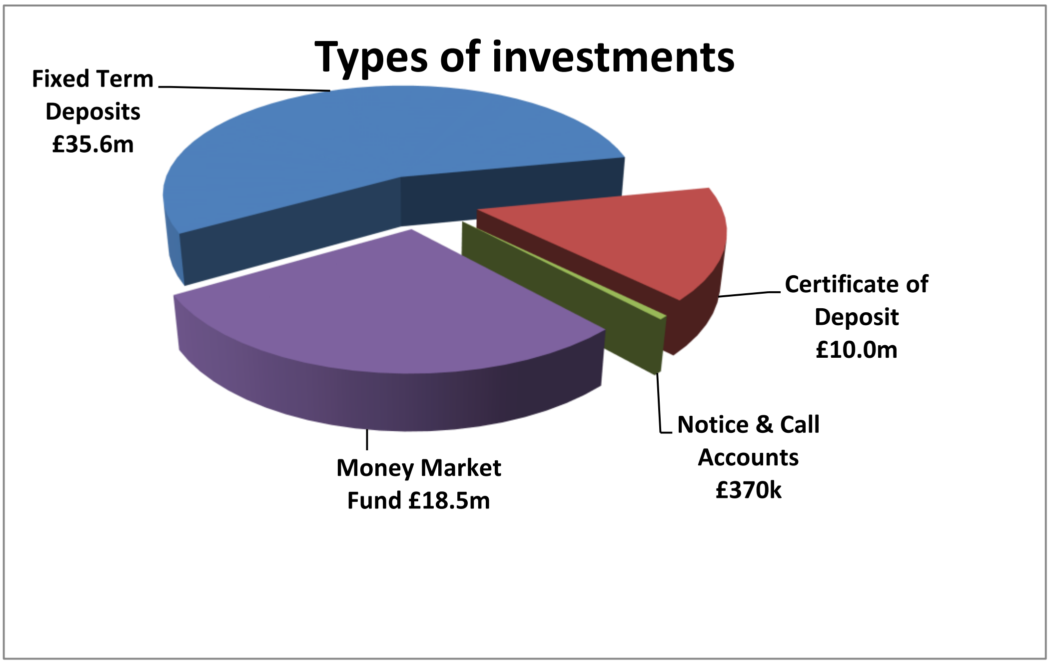
Investments

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

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

3.2.28 The Council's investment portfolio as at 31 March 2015 is attached at **Appendix 3**. As at 31 March the level of investment totalled £64.47m. This excludes loans to third parties, which are classed as capital expenditure. The level of cash available for investment is as a result of reserves, balances and working capital the Council holds. These funds can be invested in money market deposits, placed in funds or used to reduce external borrowings.

3.2.29 A breakdown of investments, as at 31 March by type is shown in the graph below. The majority of investments are fixed term deposits with banks for periods up to one year. Investments are made within the boundaries of the Investment Strategy and credit worthiness criteria. The weighted average time to maturity is 148 days.



Investment Performance

3.2.30 The Council's average rate of return on investments in 2014-15 was 0.66%. Performance above the 7 day LIBID (London Interbank Bid Rate) averaged 0.31% against a target of 0.29%. The average differential to 7 day LIBID represents an uplift of £3,100 per £1m invested.

3.2.31 The ability to meet the 7 day LIBID performance target is reliant on the market providing financial products with suitable rates that also comply with the risk requirements set out within the Council's Treasury Management Strategy.

3.2.32 The Council has benchmarked its investment performance against other local authorities, using data from the Capita Investment Benchmarking Forum, which provides quarterly benchmarking data, on a snapshot basis, on investment returns. The following table sets out the Council's performance compared with other local authorities during 2014-15 using this indicator.

Average Investment Returns 2014-15				
Benchmarking Forum Classification	**30 June 2014**	**30 Sept 2014**	**31 Dec 2014**	**31 March 2015**
Northampton Borough Council	0.67%	0.68%	0.70%	0.73%
Benchmarking Group	0.60%	0.62%	0.64%	0.67%
Non Metropolitan Districts	0.67%	0.69%	0.69%	0.72%
Whole population	0.66%	0.68%	0.68%	0.70%

3.2.33 The NBC performance has been above or in line with the comparator group averages throughout the year. The circumstances and risk appetite of individual local authorities will be reflected in their returns. For example some local authorities will invest in non-rated building societies and consequently have access to higher rates, but with an increased level of risk; others will limit their investments to the least risky counterparties and investment types such as the DMO and/or government gilts, but with a commensurate reduction in returns. The aim is to optimise returns within the parameters of the Council's Treasury Strategy, which reflects its assessment of risk.

3.2.34 To ensure the Council is maximising the current opportunities contained in the Treasury Management Strategy it will continue to work with its external treasury management advisers to review the position, and if opportunities exist outside of the existing strategy , it will propose these to senior management and members for consideration.

3.2.35 Where appropriate, investments have been locked out for periods of up to one year with nationalised banks (UK Government backed) at higher rates of interest. In a rising interest rate environment it is appropriate to keep investments fairly short in duration so as to take advantage of interest rate rises as soon as they occur.

3.2.36 Leaving market conditions to one side, the Council's return on investment is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument. Credit risk is a measure of the likelihood of default and is controlled through the creditworthiness policy approved by Council. The duration of an investment introduces liquidity risk, the risk that funds can't be accessed when required, and interest rate risk, the risk that arises from fluctuating market interest rates. These factors and associated risks are actively managed by the LGSS Treasury team together with the Council's Treasury Advisors (CAS). Using credit ratings, the investment portfolio's historic risk of default stand at 0.031%. This simply provides a calculation of the possibility of average default against the historical default rates. The Council is also a member of a benchmarking group run by CAS which shows that, for the value of risk undertaken, the returns generated are in line with the Model Band.

Quarter 1 2015-16

3.2.37 Investment balances in quarter 1 of 2015-16 averaged £79m, with a weighted average rate of interest of 0.72%. In terms of performance this was 0.35% (35 basis points) above the average 7 day LIBID, against a target of 0.29% above 7 day LIBID.

Outlook

3.2.38 The Council's treasury advisor, Capita Asset Services, has provided the following forecast of interest rates:

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%
5yr PWLB rate	2.30%	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%
10yr PWLB rate	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%
50yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%

3.2.39 Capita Asset Services undertook a review of its interest rate forecasts after the May Bank of England Inflation Report. The ECB's quantitative easing programme to buy up EZ debt caused an initial widespread rise in bond prices and, correspondingly, a fall in bond yields to phenomenally low levels, including the debt of some European countries plunging into negative yields. Since then, fears about recession in the EZ, and around the risks of deflation, have abated and so there has been an unwinding of this initial phase with bond yields rising back to more normal, though still historically low yields.

3.2.40 This latest forecast includes a move in the timing of the first increase in Bank Rate from quarter 1 of 2016 to quarter 2 of 2016 as a result primarily of poor growth in quarter 1, weak wage inflation and the recent sharp fall in inflation due to the fall in the price of oil and the impact of that on core inflation. The UK fell marginally into deflation in April (-0.1%) and figures near zero will prevail for about the next six months until the major fall in oil prices in the latter part of 2014 falls out of the twelve month calculation of CPI inflation. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in

Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.

3.2.41 From a strategic perspective, the Council is continually reviewing options as to the timing of any potential borrowing and also the alternative approaches around further utilising cash balances and undertaking shorter term borrowing which could potentially generate savings subject to an assessment of the interest rate risks involved. Cash flows this year have been sufficiently robust for the Council to use its balance sheet strength and avoid taking on new borrowing.

Third Party Loans

3.2.42 Northampton Town Football Club – Further loan tranches to the value of £5.75m were drawn down by Northampton Town Football Club during the year to support stadia expansion and associated development. Loans under the original facility agreement were granted as maturity loans; drawdowns on the hotel facility loan agreement take the form of annuity loans.

3.2.43 Cosworth - A loan of £1.4m was made to Cosworth to fund the acquisition of machinery at their new factory in the enterprise Zone. Repayments of principal are on an EIP basis.

3.2.44 Unity Leisure – During 2014-15 Cabinet approved the provision of a £300k loan to Northampton Leisure Trust (NLT) to facilitate purchase a soft play facility, based in Northampton. This will be drawn down during 2015-16 and will be cost-neutral to the Council.

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

Debt Financing Budget

3.2.46 The table below shows the budget, outturn and variance for the Council's General Fund debt and investment portfolio in 2014-15. This demonstrates the revenue (current) effects of the treasury transactions executed.

	Budget	Outturn	Variance
	£000	**£000**	**£000**
Interest payable	1,910	1,770	(140)
Interest receivable	(872)	(1,323)	(451)
Soft Loan Accounting Adjustments	(419)	(419)	0
MRP	1,342	1,253	(89)
Recharges from/(to) HRA – interest on balances	136	339	203
Total	**2,097**	**1,620**	**(477)**

3.2.47 The main reasons for the variances were as follows:

- Interest payable – budgeted new and replacement borrowing was actually funded internally from cash balances creating a saving.
- Interest receivable – cash balances and interest rates were both higher than budgeted; interest earned on a third party loan was not anticipated at the start of the year and so not budgeted
- MRP – there was a lower level of funding by borrowing in 2013-14 due to carry forwards in capital programme
- HRA recharges - cash balances and interest rates achieved were both higher than budgeted.

PWLB Governance Arrangements

3.2.48 The Government has tabled an amendment to the infrastructure Bill which would enable the Government to abolish the Public Works Loan Board and transfer its lending to another body using the processes set out in the Public Bodies Act 2011.

3.2.49 The Government plans to set out its proposals on transferring the lending function to another body in a consultation document in due course.

3.2.50 As a Council we have been reassured by the Department for Communities and Local Government that the reform is about the governance only and that that proposals will have no impact on existing loans held by local authorities or the government's policy on Local Authority borrowing.

Compliance with Treasury Limits and Prudential Indicators

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

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

3.2.53 During the financial year 2014-15 the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (TMSS) and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in **Appendix 2**.

4. Implications (including financial implications)

4.1 Policy

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

4.1.2 This report complies with the requirement to submit an annual treasury management review report to Council.

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

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 outturn position is shown at paragraph 3.2.46 to 3.2.47.

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

4.2.3 The risk implications of decisions taken and transactions executed during 2014-15 financial year are discussed in the body of the report at paragraph 3.2.4.

4.3 Legal

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

4.4 Equality

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

4.5 Consultees (Internal and External)

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

4.5.2 Under the regulatory requirements, the Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council. This report will be presented to Audit Committee at their meeting of 9 November 2015.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 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").

4.6.2 Under the umbrella of the Treasury Management Code of Practice, the Council's Treasury Management Policy Statement "…acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management."

4.6.3 This supports the Council's priority of making every £ go further.

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4.7 Other Implications

4.7.1 No other implications have been identified.

5. Background Papers

None

Glenn Hammons, Chief Finance Officer 0300 330 7000

Appendix 1

Economic Update (provided by CAS Treasury Solutions)

Quarter Ended 30th June 2015

1. The latest economic data showed that the recovery slowed in the first quarter. However, the latest National Accounts painted the recovery in a better light than previously thought. Indeed, Q1's quarterly GDP growth estimate was nudged up from 0.3% to 0.4% on the back of some stronger construction data. What's more, given the strength of the business surveys, we wouldn't be surprised if Q1's growth figure was revised even higher in time.
2. In any case, the surveys suggest that the recovery got swiftly back on track in Q2. On the basis of past form, the average level of the Markit/CIPS composite PMI is consistent with quarterly GDP growth of around 0.8%. And the Bank of England's Agents' scores point to a similarly-strong pick-up. Granted, only limited official data has been published so far for Q2, but April's industrial production and trade figures paint an encouraging picture for the economic recovery at the start of the quarter.
3. Early indicators suggest that the recovery in household spending has maintained plenty of momentum in Q2. Although retail sales volumes rose by just 0.2% on the previous month in May, this followed a 0.9% rise in April. Accordingly, even if sales volumes were unchanged in June, they would still have risen by 0.9% over Q2 as a whole, matching Q1's rise. What's more, spending off the high street looks to have remained robust as well. The Bank of England's Agents' Score of turnover in the services sector points to a further acceleration in nominal spending on services in the near term. In addition, the latest consumer confidence figures suggest that households still think now is a good time to undertake major purchases.
4. Household spending should continue to be supported by developments in the labour market. The ILO unemployment rate has now fallen to 5.5%, not far above pre-crisis levels. And the employment rate is the highest since records began. The significant tightening in the labour market over the past eighteen months or so has begun to feed through into pay, with annual growth in headline average weekly earnings (excluding bonuses) picking up to 2.7% in April, its strongest since February 2009. We expect nominal wage growth to strengthen a bit further over the coming months as the unemployment rate continues to nudge down. The subdued outlook for inflation should underpin real wage growth.

5. The latest consumer prices figures showed that deflation lasted just one month. CPI inflation rose from -0.1% in April to +0.1% in May, reflecting the slower pace of falls in food prices and a rebound in petrol prices. We had stressed for a long while that deflation was likely to be fleeting, as it primarily reflected temporary external factors such as the fall in energy prices and food prices, as well as an appreciation in sterling, rather than weakness in domestic demand. Meanwhile, there have not been any signs that very low inflation has had any adverse second round effects on inflation expectations or spending decisions. Nonetheless, inflation looks set to hover just above zero for the next six months, and it wouldn't take much during that period, perhaps a renewed 10% fall in the oil price, for the UK to be tipped back into deflation.

6. Unsurprisingly, then, the Monetary Policy Committee do not appear to be in any rush to raise interest rates. Granted, the minutes of June's MPC meeting showed that for two members, the decision to leave rates on hold was "finely balanced". And a recent interview with the Financial Times, resident MPC hawk Martin Weale suggested that he is not too far off restoring his vote to raise rates again. But with inflation close to zero, the first budget of the next parliament due to be published in July, and the situation in Greece becoming increasingly troubling, it looks that they will wait at least another few months before turning against the grain again. And with the rest of the committee likely to stand pat for even longer, it looks unlikely that there will be an increase in interest rates this year. Indeed, we still think that the first hike in Bank Rate will occur in Q2 next year, broadly in line with market expectations.

7. Meanwhile, with the Conservatives winning an outright majority in May's general election, the fiscal squeeze is set to re-intensify next year. We will know more detail about the Chancellor's plans at the Budget on the 8th July, but we already know that in order to meet their manifesto pledge, the Conservatives will have to implement a fiscal consolidation worth around 5% of GDP over the next four years. And given that they have pledged to not increase VAT, income tax or national insurance in the next parliament, more of the planned squeeze will have to come through cuts to spending than in the last parliament. Admittedly, these plans may be watered down, but it is clear that fiscal policy will be a hindrance, not a help, to the economic recovery over the next few years, and underlines that monetary policy will have to remain extremely accommodative. Meanwhile, the general election brought with it another cloud to the economic recovery – namely a referendum on the UK's membership of the European Union which could happen during 2016, though a May date now appears unlikely.

8. Internationally, the major development over the past quarter has been the deterioration of the situation in Greece. At the time of writing, the country is still a member of the euro-zone, but its future as part of the single currency

has become increasingly uncertain. Greece urgently needs financial assistance in order to meet its debt repayments, but is unwilling to accept the reforms which creditors demand in exchange for funds. The situation is so severe that emergency capital controls have been imposed in order to stop the Greek banking system from collapsing. It is still possible that Greece and its creditors are able to strike a last-minute deal, but it is clear that this is likely to only offer a short-term solution, and Greece will need to undertake substantial debt restructuring or outright default if it is to return its public finances to a sustainable position in the long run. Whilst the UK's direct economic and financial exposures to Greece are small, there could be an adverse impact on the UK's economy from a wider fallout and period of general financial market instability that would be likely to prevail if a "Grexit" were to occur.

9. Finally, UK equity prices have significantly underperformed their US counterparts since the beginning of Q2, with the FTSE 100 falling by 2.3%, whilst the S&P 500 has fallen by only 0.5%. That said, UK equity prices have performed better than those in Europe, which have been hit by renewed fears of a Grexit. Meanwhile, sterling has remained strong against the euro, due to these fears as well as the ECB's ongoing programme of Quantitative Easing. UK 10-year government bond yields have also increased by about 50 basis points since the beginning of Q2. This probably reflects a confluence of factors, such as easing fears of a prolonged bout of deflation, and growing concerns about the impact of a deterioration in the situation in the euro-zone. In any case, gilt yields had looked too low early this year given the fundamental strength of the economic recovery.

Appendix 2

Prudential & Treasury Indicators – 2014-15 Outturn Position

Background and Definitions

For the background, definitions and risk analysis for the prudential and treasury indicators for 2014-15, please see the Treasury Management Strategy 2014-15 report to Council 24 February 2014.

Prudential Indicators

Affordability

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

Ratio of financing costs to net revenue stream		
	2014-15	2014-15
	Estimate %	Actual 31 March 2015 %
General Fund	8.58%	5.85%
HRA	34.18%	33.81%

The driver for actual financing costs on the General Fund being lower than estimated is an underspend of £477k on the debt financing budget, the reasons for which are set out in the main body of the report.

Actual financing costs on the HRA were broadly in line with budget.

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

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

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

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

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

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

Prudence

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

Gross external debt less than CFR					
	Excluding third party loans			**Including third party loans**	
	2014-15 Budgeted	2014-15 Actual 31 March 2015		2014-15 Budgeted	2014-15 Actual 31 March 2015
	£000	£000		£000	£000
Gross external debt at 30 Nov 2014	216,441	208,568		228,441	224,083
2013-14 Closing CFR	222,454	222,042		234,454	232,042
Changes to CFR:					
2014-15	6,879	13,672		34,380	19,187
2015-16	2,418	10,421		26,418	59,720
2016-17	429	11,205		429	8,759
Adjusted CFR	235,989	257,340		299,490	319,708
Gross external debt less than adjusted CFR	Yes	Yes		Yes	Yes

This is the key indicator of prudence. It is intended to show that external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital requirement for the current and new two financial years.

The forward looking changes to CFR (2015-16 and 2016-17) are estimates that will be firmed up on an ongoing basis as new capital programme expenditure decisions are made and more accurate forecasts on existing schemes in the programme become available.

Gross external debt during the year, and at 31 March 2015, remained below the adjusted Capital Financing Requirement

Capital Expenditure

e) Estimate of capital expenditure

Capital Expenditure		
	2014-15	2014-15
	Estimate £000	Outturn £000
General Fund	18,352	24,504
HRA	46,700	29,965
Total	**65,052**	**54,469**
Loan to Third Parties	27,500	7,150
Total	**92,552**	**61,619**

In the General Fund, the original capital programme expenditure estimate was increased by scheme carry forwards from 2013-14, and the addition of new schemes during the year.

In the HRA, expenditure was below budget and schemes will be carried forward into the 2015-16 capital programme.

Expenditure on loans to third parties was significantly lower than budgeted due to the re-profiling of loans to the University of Northampton scheme into 2015-16.

Full details of the 2014-15 capital outturn, variances and budget carry forwards to 2015-16 are set out in the Finance and Monitoring Outturn Report to Cabinet on 15 July 2015.

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)		
	2014-15	2014-15
	Estimate £000	31 March 2015 Actual £000
General Fund	42,531	48,911
HRA	186,803	186,803
Total	**229,334**	**235,714**
Loan to Third Parties	39,500	15,515
Total	**268,834**	**251,229**

The CFR can be understood as the Council's underlying need to borrow money long term for a capital purpose – that is, after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions. Changes to the CFR are linked directly to the use of borrowing to finance new capital expenditure (including finance leases), and to the repayment of debt through Minimum Revenue Provision (MRP).

The General Fund CFR at 31 March 2014 is above the estimate due to an increase capital expenditure funded by borrowing for the reasons set out at (e) above.

The HRA CFR has remained unchanged since none of the HRA capital programme in 2014-15 was financed by borrowing.

External Debt

g) Authorised limit for external debt

Authorised Limit for external debt		
	2014-15	2014-15
	Boundary £000	31 March 2015 Actual £000
Borrowing - NBC	245,000	208,072
Borrowing - Third Party Loans	40,000	15,515
Other long-term liabilities	5,000	496
TOTAL	**290,000**	**224,083**

The long term liabilities figure relates to finance leases.

External debt remained below the authorised limit throughout 2014-15.

h) Operational boundary for external debt

Operational boundary for external debt		
	2014-15	2014-15
	Boundary £000	31 March 2015 Actual £000
Borrowing - NBC	235,000	208,072
Borrowing - Third Party Loans	40,000	15,515
Other long-term liabilities	5,000	496
TOTAL	**280,000**	**224,083**

The long term liabilities figure relates to finance leases.

External debt remained below the operational boundary throughout 2014-15.

i) HRA Limit on Indebtedness

HRA Limit on Indebtedness	
2014-15	2014-15
Limit £000	Closing HRA CFR 31 March 2015 £000
208,401	186,803

The HRA limit on indebtedness is £208.401m. This is the HRA debt cap imposed by the Department for Communities and Local Government at the implementation of HRA self-financing. The HRA CFR of £186.803m, which is the measure of indebtedness, is below the limit.

Compliance

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

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. The adoption is included in the Council's Constitution, approved by the Council on 14 March 2011, at paragraph 6.10 of the Financial Regulations

Treasury Indicators

l) Upper limits on interest rate exposures

Upper limits on interest rate exposures - Investments and Borrowing		
	2014-15	2014-15
	Limit %	Actual 31 March 2015 %
Fixed Interest Rate Exposures	150%	106%
Variable Interest Rate Exposures	150%	-6%

Upper limits on interest rate exposures - Investments		
	2014-15	2014-15
	Limit %	Actual 31 March 2015 %
Fixed Interest Rate Exposures	100%	71%
Variable Interest Rate Exposures	100%	29%

Upper limits on interest rate exposures - Borrowing		
	2014-15	2014-15
	Limit %	Actual 31 March 2015 %
Fixed Interest Rate Exposures	100%	96%
Variable Interest Rate Exposures	100%	4%

The purpose of these three indicators is to express the Council's appetite for exposure to variable interest rates, which may, subject to other factors, lead to greater volatility in payments and receipts. However this may be offset by other benefits such as lower rates. Separate indicators have been set and monitored for debt and investments, as well as for the net borrowing position. Maximum exposure for fixed and variable rates during the year may add up to more than 100% (or 150% in the case of the combined indicator) as each is likely to occur on a different date. Actual exposure at 31 March 2015, and during the year, remained within the agreed limits.

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

Upper limit on investments for periods longer than 364 days		
	2014-15	2014-15
	Upper Limit £000	Actual 31 March 2015 £000
Investments longer than 364 days	6,000	2,500

Investment periods have generally been kept to 364 days or below to maintain liquidity and to minimise counterparty risk in line with the Council's treasury strategy.

k) Maturity Structure of Borrowing

Maturity structure of borrowing			2014-15	2015-15
	Lower Limit %	Upper Limit %	Actual 31 March 2015 %	Actual 31 March 2015 £000
Under 12 months	0%	20%	1%	2,339
1-2 years	0%	20%	3%	6,296
2-5 years	0%	20%	8%	16,932
5-10 years	0%	20%	13%	28,522
10-20 years	0%	40%	15%	34,224
20-30 years	0%	60%	1%	1,200
30-40 years	0%	80%	0%	-
Over 40 years	0%	100%	60%	134,116

The Treasury Management Code of Practice requires the maturity of borrowing to be determined by reference to the earliest date on which the lender can require payment.

The Council's one remaining LOBO loan is presented as maturing within 12 months, due to the six monthly break clauses, whereby the lender can opt to increase the rate, and the Council can choose to accept or decline the new rate. However in the current interest rate environment it is not to the lender's advantage to increase the rate at the break dates and this option is not likely to be exercised.

Appendix 3

NBC Investment Portfolio as at 31 March 2015

Type	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Fixed	22/04/14	21/04/15	Bank of Scotland plc	Maturity	0.9500%	-2,000,000.00
Fixed	21/05/14	20/05/15	Bank of Scotland plc	Maturity	0.9500%	-3,000,000.00
Fixed	27/08/14	26/08/15	Bank of Scotland plc	Maturity	0.9500%	-3,000,000.00
Fixed	09/09/14	09/06/15	DBS Bank Ltd	Maturity	0.6500%	-4,000,000.00
Fixed	09/09/14	08/09/15	Bank of Scotland plc	Maturity	0.9500%	-2,000,000.00
Fixed	30/09/14	30/09/15	East Lothian Council	Maturity	0.7000%	-3,000,000.00
Fixed	14/11/14	14/05/15	Credit Suisse AG	Maturity	0.6500%	-5,000,000.00
Fixed	16/12/14	16/12/16	Blaenau Gwent County Borough Council	Maturity	0.9300%	-2,500,000.00
Fixed	12/12/14	04/06/15	Royal Bank of Scotland plc	Maturity	0.9400%	-5,000,000.00
Fixed	07/01/15	06/01/16	Bank of Scotland plc	Maturity	1.0000%	-2,500,000.00
Fixed	16/02/15	15/02/16	Bank of Scotland plc	Maturity	1.0000%	-2,500,000.00
Fixed	20/02/15	19/02/16	DBS Bank Ltd	Maturity	0.7000%	-3,000,000.00
Fixed	26/02/15	25/02/16	Bank of Scotland plc	Maturity	1.0000%	-3,000,000.00
Fixed	26/03/15	24/03/16	Bank of Scotland plc	Maturity	1.0000%	-2,000,000.00
Fixed	12/03/15	10/09/15	Nationwide Building Society	Maturity	0.6600%	-3,000,000.00
Fixed Total						**-45,500,000.00**
Call	31/03/14		HSBC Bank plc	Maturity	0.0500%	-370,000.00
Call Total						**-370,000.00**
MMF	31/03/14		Ignis Sterling Liquidity 2 GBP	Maturity	0.4734%	-15,000,000.00
MMF	31/03/14		Insight Liquidity Sterling C3	Maturity	0.4352%	-1,335,000.00
MMF	01/07/14		LGIM Sterling Liquidity 4	Maturity	0.4348%	-2,138,000.00
MMF Total						**-18,473,000.00**
						-64,343,000.00

Appendices: 6

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Financial Monitoring Report

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date:	9 November 2015
Policy Document:	No
Directorate:	Finance Directorate LGSS
Accountable Cabinet Member:	Cllr Mike Hallam

1. Purpose

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

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

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

2. Recommendations

2.1 To consider the contents of the following finance reports:

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

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

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

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

3. Issues and Choices

3.1 Report Background

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

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

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

3.2 Issues

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

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

3.2.2.1 General Fund Revenue – (£271k) favourable

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

	£000
Controllable Service Budgets	61
Debt Financing & HRA Recharges	(332)
Contribution From Reserves	0
General Fund Revenue	**(271)**

The major variations are detailed below.

Corporate Service Budgets

- Local Government Shared Services £116k adverse – This reflects the forecast underachievement of budgeted savings for Revenues and Benefits partially offset by the pension auto enrolment scheme not starting in 2015/16.

Corporate Budget

- Debt Financing (£332k) favourable mainly arising from a lower level of funding by borrowing in 2014/15 due to carry forwards in the capital programme. A further saving is forecast on new long term borrowing premised on the likelihood of using internal borrowing to finance instead of externalising. In addition to this, due to carrying higher level of cash balances, the interest earnt is forecast to exceed the budget.

3.2.2.2 HRA Revenue – (£43k) favourable

- The HRA position reflects a forecast position more favourable than budgeted mainly on Non–dwelling rent income, the leaseholder charges and garage rents. In addition to this the Interest and Finance costs are forecast to be under due to the higher level of HRA balances due to carry forwards in the capital programme from 2014/15.

3.2.2.3 Capital Programme -

- General Fund Capital Programme - Cabinet in July approved carry forwards from 2014/15 of £7.23m. In line with approved processes, the Capital Programme Board has approved changes to the General Fund capital programme as set out in Appendix 3. These additions, totalling £185k, are predominantly funded from section 106 contributions and therefore have no impact on the forecast funding from capital receipts and borrowing. The General Fund Capital Programme now stands at £69.05m. There are no significant variances reported to the end of July.

- HRA Capital Programme – The HRA Capital programme is managed by Northampton Partnership Homes apart from the New Build and Repurchase of Former Council Houses. Cabinet in July approved carry forwards from the 2014/15 budget of £7.77m. The approved Capital Programme includes £9.3m to fund the construction of 100 new Council dwellings at Dallington. The phasing of the construction programme and the approved borrowing limits by Central government requires the budget to be re-phased with £0.6m in 2015/16 and £8.7m in 2016/17. This explains the forecast of £8.7m.

3.2.3 Appendix 5 shows the monthly levels of car parking usage and income to 30 September.

3.2.4 The managed debt analysis and commentary to 30 September are shown at Appendix 6.

3.3 Choices (Options)

3.3.1 None

4. Implications (including financial implications)

4.1 Policy

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

4.2 Resources and Risk

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

4.3 Legal

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

4.4 Equality

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

4.5 Consultees (Internal and External)

4.5.1 None at this stage.

4.6 How the Proposals deliver Priority Outcomes

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

4.7 Other Implications

4.7.1 Not applicable

5. Background Papers

None

Glenn Hammons
Chief Finance Officer, Telephone 01604 366521

Appendix 1

NB General Fund

Revenue Budget Forecasts 2015/16

July 2015

Division	Ksa	Service Area	Revised Budget £000's	Forecast £000's	Forecast Variance £000's	RAG Status	Notes on Forecast Variances
	FA01	Asset Management	1,246	1,305	60	A	£60k due to late implementation of a restructure and interim cover of vacant posts.
	FA06	Other Buildings & Land	(1,496)	(1,547)	(50)	G	Overachievement of rental income.
Asset Management			**(251)**	**(241)**	**10**	**G**	
	DR02	Director of Regeneration, Enterprise and Planning	221	245	23	G	
Director of Regeneration, Enterprise & Planning			**221**	**245**	**23**	**G**	
	RG01	Head of Economic Development and Regeneration	97	113	16	G	
	RG02	Programmes & Enterprise	1,255	1,278	22	G	
Economic Development and Regeneration			**1,353**	**1,391**	**38**	**G**	
	PE02	Building Control	(53)	(73)	(19)	G	
	PE03	Development Control	160	129	(31)	G	
	PE06	Head of Planning	110	141	31	G	
	PE15	Joint Planning Unit	132	132	0	G	
	PE17	Planning & Regn Project Support	47	51	4	G	
	PE18	Town Centre Team	0	0	0	G	
	RG04	Planning Policy & Heritage	618	577	(41)	G	
Head of Planning			**1,013**	**957**	**(56)**	**G**	
Director of Regeneration, Enterprise & Planning			**2,336**	**2,351**	**15**		
	DR05	Director of Housing	119	124	6	G	
Director of Housing			**119**	**124**	**6**	**G**	
	HS05	Home Choice & Resettlement	407	407	0	G	
	HS12	Housing Options	653	652	(0)	G	
	HS13	Head of Housing Needs	(25)	(19)	6	G	
	PE09	Travellers Sites	26	28	2	G	
	PE12	Private Sector Housing Solutions	(89)	(114)	(25)	G	
	RG03	Housing Strategy	45	52	7	G	
Head of Strategic Housing			**1,017**	**1,006**	**(10)**	**G**	
Housing			**1,135**	**1,131**	**(4)**		

Division	Ksa	Service Area	Revised Budget	Forecast	Forecast Variance	RAG Status	Notes on Forecast
	GC08	Communications	249	271	23	G	
	GC15	Emergency Planning	52	52	0	G	
	PI20	Performance and change	97	110	13	G	
Business Change			**398**	**433**	**36**	**G**	
	CX01	Chief Executive	179	190	11	G	
	GC02	Civic and Mayoral Expenses	88	105	17	G	
	GC05	Overview & Scrutiny	43	47	4	G	
	GC06	Councillor & Managerial Support	530	522	(8)	G	
	LD02	Electoral Services	314	307	(7)	G	
	LD03	Land Charges	0	0	0	G	
	LD04	Legal	120	140	20	G	
	LD08	Democratic Services	277	236	(42)	G	
Borough Secretary			**1,552**	**1,547**	**(5)**	**G**	
Borough Secretary			**1,949**	**1,980**	**31**		
	DR01	Director of Customers & Communities	164	208	44	G	
Director of Customers & Communities			**164**	**208**	**44**	**G**	
	CE03	Events	221	215	(6)	G	
	CE06	Museums and Arts	656	687	31	G	
	CE23	Town Centre Management	33	63	30	G	
	CE24	Car Parking	(894)	(976)	(82)	G	Savings on NNDR (£47k), Utilities (£41k) and reduced rent costs on St Peters Way Car Park reflecting lower usage (£65k). £60k costs in relation to new cleaning contract, (£30k) additional income on contract parking and £36k on additional electrical works and CCTV enhancements.
	CE26	Bus Station	100	73	(28)	G	
	CS02	Call Care	(71)	(32)	39	G	This reflects the reduced level of income forecasted to be received in 2015/16.
	CS03	Head of Customer & Cultural Services	87	89	2	G	
	CS04	Customer Services	1,071	1,113	41	G	
	CS05	Print Unit	1	2	1	G	
	FA08	Facilities Management	1,299	1,290	(9)	G	
	FA09	Markets	(48)	(25)	23	G	
Head of Customer & Cultural Services			**2,455**	**2,497**	**42**	**G**	
	CE02	Community Safety	231	251	20	G	
	CE04	Leisure Contract	322	322	0	G	
	GC04	Policy	5	5	0	G	
	GC09	Community and Other Grants	1,068	1,068	0	G	
	GC10	Community Developments	71	87	16	G	
	GC11	Community Centres	97	99	2	G	
	LD05	Licensing	(301)	(264)	37	G	
	LS01	Head of Partnership Support	0	0	0	G	
	PE07	Pest Control	7	6	(0)	G	
	PE10	Commercial Services	202	221	19	G	
	PE11	Environmental Protection	1,101	1,089	(13)	G	
	PE16	Head of Public Protection	(20)	1	21	G	
	SS01	Neighbourhood Management	0	0	0	G	
	SS09	Environmental Services Contract	6,882	6,784	(98)	G	Due to deductions made to the monthly core contract payment.
	SS20	Environmental Services	131	15	(117)	B	Additional income due to proposed additional grounds maintenance being charged to the HRA.
Head of Communities and Environment			**9,796**	**9,684**	**(112)**	**B**	
Director of Customers & Communities			**12,415**	**12,389**	**(26)**		
	FA03	Audit	160	160	0	G	
	FA04	Non Distributed Costs	5,142	5,072	(70)	G	Underspend on Carbon Tax budget as NBC no longer falls within the scope of the scheme. Budget to be adjusted for 2016/17.
	FA19	Exchequer Services	0	0	0	G	
	FA20	Corporate Finance	115	115	(0)	G	
	HS01	Benefits	(1,609)	(1,609)	0	G	
	HS03	Revenues	(731)	(731)	0	G	
Corporate			**3,078**	**3,008**	**(70)**	**G**	
	LGSS	Local Government Shared Service	9,412	9,528	116	R	Underachievement of budgeted savings for Revenues and Benefits £231k offset by (£115k) pension auto enrolment not starting in 2015/16.
LGSSX			**9,412**	**9,528**	**116**	**R**	
Total Service Budgets			**30,326**	**30,387**	**61**		
Item 01		Debt Financing	1,780	1,448	(332)	B	Interest on new borrowing (£159k) - New (and replacement) borrowing of £7.5m now assumed to start from 1 Oct rather than 1 April as budgeted. Investment interest (net of HRA recharge) (£147k) - Investment balances higher than budgeted. MRP (£25k) - Lower level of funding by borrowing in 2014-15 due to carry forwards in the capital programme, partially offset by budget adjustments relating to self-funded borrowing.
Item 02		Recharges to the HRA	0	0	0	G	
Item 03		Council Tax and other funding	0	0	0	G	
Item 04		Contribution to GF Balances	0	0	0	G	
Total Corporate Budgets			**1,780**	**1,448**	**(332)**		
Total General Fund			**32,106**	**31,835**	**(271)**		

NB Capital Monitoring

Appendix 2

Capital GF Budget Forecasts 2015/16

July 2015

Head of Service	Scheme Code	Scheme Description	Original Budget £000's	Approved Changes In Year £000's	Latest Approved Budget £000's	YTD Actual Expenditure £000's	Committed Expenditure £000's	Forecast Year End Spend £000's	Expected Carry Forward £000's	Foecast Under/Overspend £000's	Summarised Transaction Description
	BA217	Northampton Leisure Trust Loan	300	0	300	0	0	300	0	0	
Francis Fernandes (FF1)			**300**	**0**	**300**	**0**	**0**	**300**	**0**	**0**	
	BA660	Northampton Town FC Loan	1,500	1,750	3,250	0	0	3,250	0	0	
	BA662	University of Northampton Loan	46,000	0	46,000	0	0	46,000	0	0	
Glen Hammons (GH11)			**47,500**	**1,750**	**49,250**	**0**	**0**	**49,250**	**0**	**0**	
	BA186	Improvement to Parks Infrastructure	0	60	60	135	0	60	0	(0)	Expenditure includes £89k re Mayorhold CP Pay on Foot, mis-coded
	BA220	St Crispins Community Centre	0	750	750	0	9	750	0	0	
	BA221	Vulcan Works	650	210	860	107	0	860	0	0	
	BA673	Parks / Allotments / Cemeteries Enhancements	201	0	201	0	0	201	0	(0)	
Julie Seddon (JS14)			**851**	**1,020**	**1,872**	**242**	**9**	**1,871**	**0**	**(1)**	
	BA145	Cliftonville Move; New ways of working	0	0	0	(10)	0	0	0	0	
	BA165	Corporate EDRMS	0	57	57	0	0	57	0	0	
	BA207	ICT Improvement / Refresh	150	86	236	15	0	236	0	0	
	BA659	Call Care Project (part of prevention programme)	0	9	9	0	0	9	0	0	
	BA893	Microsoft Office 2010 Upgrade	0	70	70	62	0	70	0	0	
Marion Goodman (MG3)			**150**	**222**	**372**	**67**	**0**	**372**	**0**	**0**	
	BK015	DFG's Owner Occupiers	1,875	250	2,125	431	375	2,125	0	0	
Phil Harris (PH8)			**1,875**	**250**	**2,125**	**431**	**375**	**2,125**	**0**	**0**	
	BA132	St Crispin Changing Rooms, Toilet, Car park	0	0	0	0	88	0	0	0	
	BA180	Strategic Property Investment	0	2,675	2,675	50	0	2,675	0	0	
	BA188	Royal and Derngate Roof Replacement Works	0	0	0	8	0	0	0	0	
	BA197	Delapre Abbey Restoration Minor Projects	0	0	0	(15)	0	0	0	0	
	BA211	Extension of Duston Cemetery	0	41	41	36	0	41	0	0	
	BA214	St Johns MSCP Storage Facilities Upgrade & Construction	100	30	130	23	96	130	0	0	
	BA215	Moulton Athletic Track	900	556	1,456	77	597	1,456	0	0	
	BA218	Milverton Crescent Common Pathway	0	64	64	0	61	62	0	(2)	
	BA219	Standens Barn Community Centre Security Improvements	0	10	10	0	0	10	0	0	
	BA368	Upton Park Pedestrian & Cycle Bridge	0	0	0	(3)	0	0	0	0	
	BA645	S106 Contributions to Other Local Authorities	0	55	55	0	0	55	0	0	
	BA649	Skate Park Toilet & Kiosk	55	48	103	0	96	96	0	(7)	
	BA652	Visitor Signage in Town Centre	0	74	74	3	1	74	0	0	
	BA653	Delapre Abbey Restoration	3,877	702	4,580	454	29	4,680	0	100	Transfer from BA698 - Variation submitted
	BA656	Victoria Street Bus Shelters	0	0	0	9	0	0	0	0	
	BA663	Duston Wetlands Development & Implementation	0	217	217	13	1	217	0	0	Inputted wrong forecast
	BA666	Greyfriars Bus Station Demolition	1,050	399	1,449	1,117	11	1,449	0	0	
	BA668	Abington Street - Opening Up to Traffic	0	4	4	(2)	3	4	0	0	
	BA669	Town Centre Realm Improvements	750	44	794	(41)	26	794	0	0	
	BA670	Waterside Improvements (Southbridge)	0	40	40	0	0	40	0	0	
	BA671	Heritage Gateway	250	70	320	56	0	320	0	0	
	BA672	Capital Improvements - Regeneration Areas	250	20	270	17	0	270	0	0	
	BA674	Operational Buildings - Enhancements	400	79	479	164	121	479	0	(0)	
	BA675	Commercial Landlord Responsibilities	270	136	406	10	0	406	0	0	
	BA681	Site 11 Construction	0	0	0	2	0	0	0	0	
	BA682	St Peters Way Improvements	1,400	(1,400)	0	0	0	0	0	0	
	BA683	St James Mill Way - Electricity Substation Upgrade	0	208	208	208	0	208	0	(0)	

Head of	Scheme Code	Scheme Description	Original Budget	Approved Changes In Year	Latest Approved Budget	YTD Actual Expenditure	Committed Expenditure	Forecast Year End Spend	Expected Carry Forward	Foecast Under/Overspend	Summarised Transaction
	BA684	Superfast Broadband	250	(162)	88	0	0	88	0	0	
	BA685	Northampton Bike Hire Scheme	0	55	55	0	45	55	0	0	
	BA687	St Peters Waterside	1,000	83	1,083	63	0	1,083	0	(0)	
	BA695	East Hunsbury and Wootton Greenspace Capital Works	34	(23)	11	11	0	11	0	0	
	BA696	Pig & Whistle Refurbishment Works	0	0	0	(5)	0	(0)	0	(0)	Accrued in 2014/15 retention payment for capital works
	BA698	Delapre Abbey Restoration	150	24	174	11	7	74	0	(100)	Commitment to be transferred into BA653
	BA883	Planning IT Improvements (HPDG)	25	26	50	4	11	50	0	0	
	BA889	Mayorhold Car Park - Drainage Works	0	77	77	0	0	77	0	0	
	BA891	Bus Interchange	0	22	22	(68)	0	22	0	0	
	BA892	Urgent Lift Renewals	0	0	0	(3)	0	0	0	0	
Richard Lawrence (RL3)			**10,760**	**4,175**	**14,935**	**2,199**	**1,194**	**14,927**	**0**	**(8)**	
Total Scheme Budgets			**61,437**	**7,417**	**68,853**	**2,939**	**1,578**	**68,844**	**0**	**(9)**	

NB Housing Revenue Account

Appendix 3

Revenue Budget Forecasts 2015/16

July 2015

Type	SEADIV	Service Area	Current Budget £000's	Actuals £000's	Forecast Outturn £000's	Forecast Variance £000's	RAG Status	Notes on Forecast Variances
INCOME								
	H1	Dwelling Rents	(51,371)	(17,128)	(51,342)	29	G	
	H2	Non-Dwelling Rents	(1,100)	(407)	(1,211)	(111)	B	
	H3	Other Charges for Services	(2,064)	(646)	(2,082)	(18)	G	
	H4	Contibution To Expenditure	(85)	(6)	(27)	58	A	
Total Income			**(54,620)**	**(18,187)**	**(54,663)**	**(43)**	**G**	
EXPENDITURE								
	H10	Repairs & Maintenance	14,765	4,289	14,765	0	G	
	H8	General Management	6,994	3,617	6,994	0	G	
	H9	Special Services	3,949	421	3,949	0	G	
	H7	Rents, Rates, Taxes	279	16	279	0	G	
	H13	Provision for Bad Debts	750	0	750	0	G	
	H15	Rent Rebate Subsidy Deductions	0	0	0	0	G	
Total Expenditure			**26,737**	**8,342**	**26,737**	**0**	**G**	
Net Cost of Services			**(27,883)**	**(9,845)**	**(27,926)**	**(43)**	**G**	
	Item 01	Net Recharges from the General Fund	6,583	1,671	6,683	100		
	Item 02	Interest & Financing Costs	6,250	1,498	5,990	(260)		
	Item 03	Depreciation/MRA	12,610	3,153	12,610	0		
		Revenue Contributions to Capital	12,540	3,135	12,540	0		
	Item 04	Net Contribution (from) / to Earmarked Reserves	(10,100)	(2,474)	(9,897)	203		
Net Transfer From / (To) Working Balance			**0**	**(2,863)**	**0**	**0**		
		Working Balance b/f	(5,000)	(5,000)	(5,000)	0		
Working Balance Outturn			**(5,000)**	**(7,863)**	**(5,000)**	**0**	**G**	

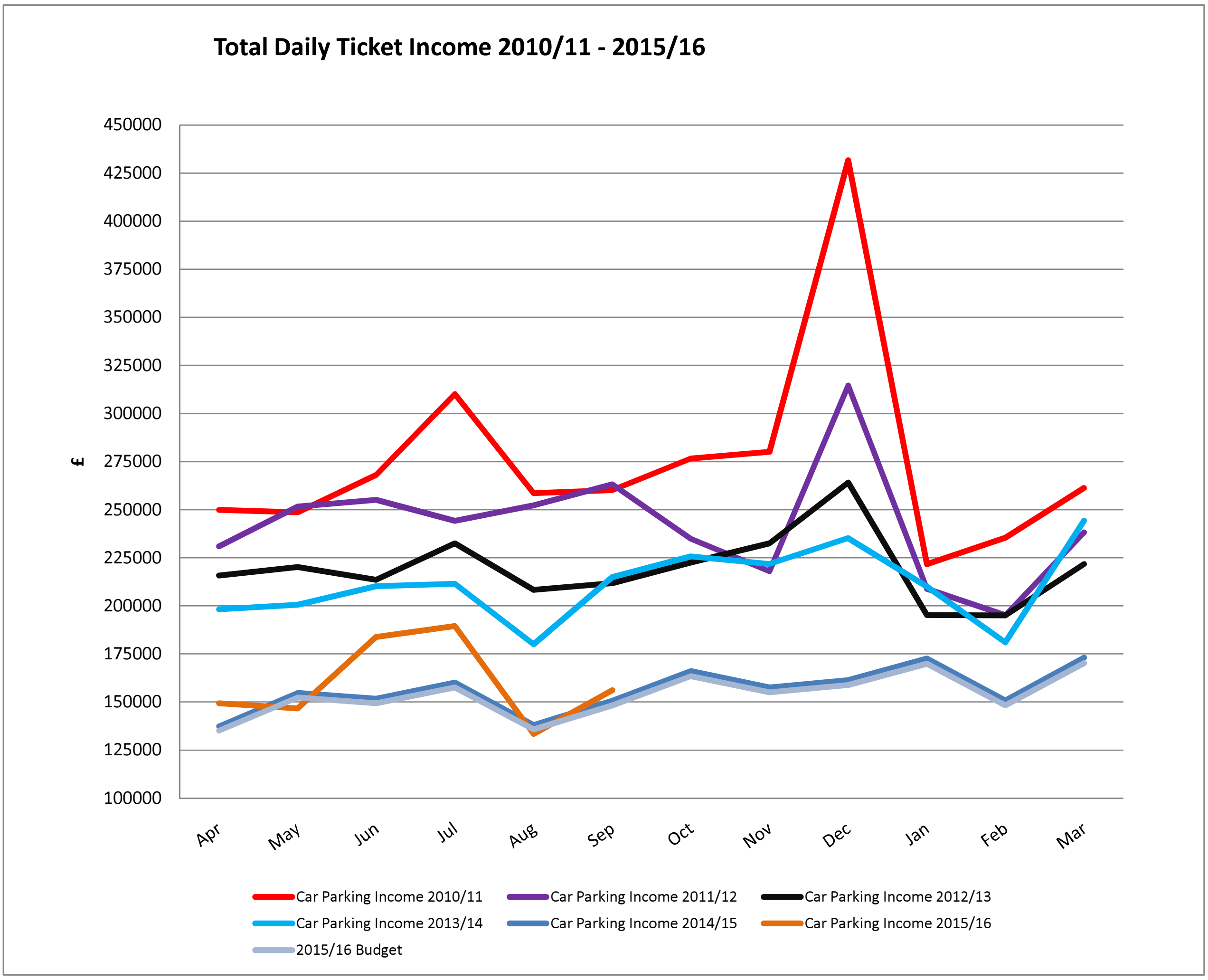
NB Capital Monitoring

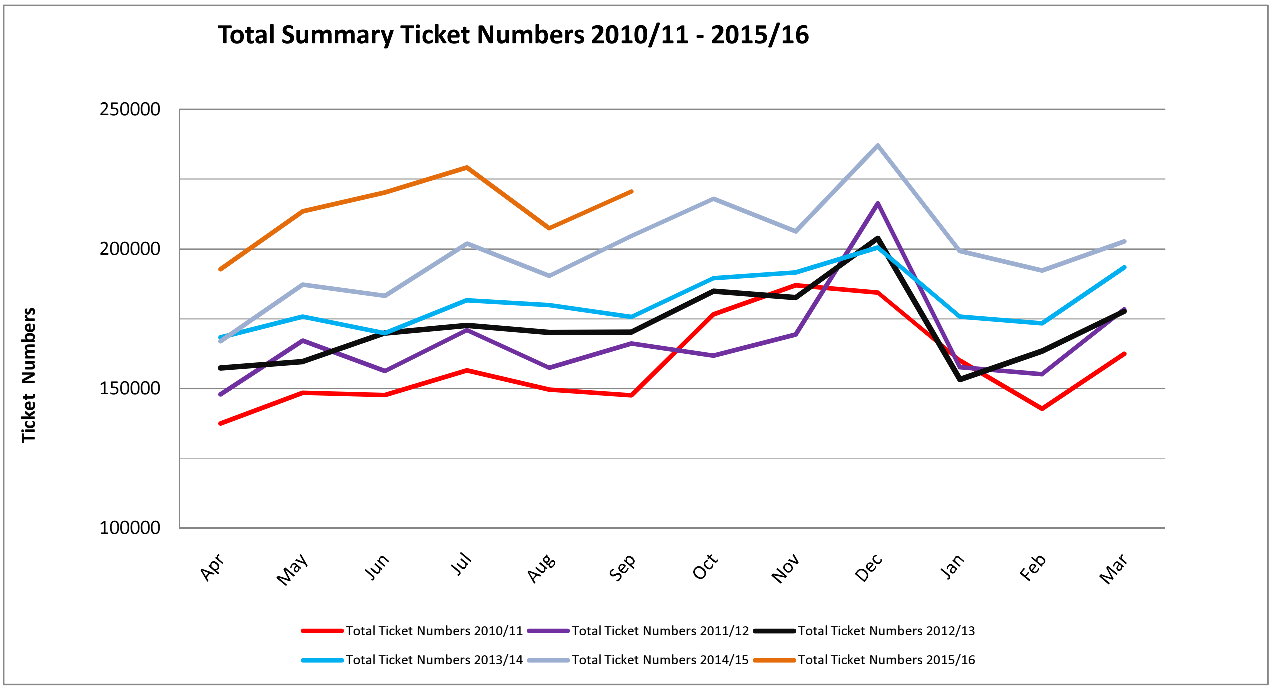
Appendix 4

Capital HRA Budget Forecasts 2015/16

July 2015

Head of Service	Scheme Code	Scheme Description	Original Budget £000's	Approved Changes In Year £000's	Latest Approved Budget £000's	YTD Actual Expenditure £000's	Committed Expenditure £000's	Forecast Year End Spend £000's	Expected Carry Forward £000's	Foecast Under/Overspend £000's	Summarised Transaction Description
	BH003	Garages Roofs & Doors Replacement	0	0	0	12	0	0	0	0	
	BH302	Minor Adaptations for People with Disabilities	0	0	0	4	0	0	0	0	
	BH317	Decent Homes	0	0	0	(5)	0	0	0	0	
	BH325	Gas Appliance Replacement - Responsive	0	0	0	12	0	0	0	0	
	BH351	Door Entry Updates	0	0	0	5	0	0	0	0	
	BH383	Sotheby Rise and Dallington Haven Car Park Improvements	0	62	62	22	0	41	0	(21)	Spend expected.
	BH384	New Build - Dallington	9,306	0	9,306	0	0	600	0	(8,706)	Variation Form awaiting approval
	BH801	NPH Capital - Managed Budget Improvement to Homes	23,778	6,200	29,978	7,906	5,945	29,978	0	(0)	
	BH802	NPH Capital - Managed Budget Improvement to Environment	2,214	335	2,549	838	362	2,549	0	(0)	
	BH803	NPH Capital - ITC	600	446	1,046	447	150	1,046	0	0	
Head of Landlord Services (HOLS)			**35,899**	**7,043**	**42,941**	**9,242**	**6,456**	**34,214**	**0**	**(8,728)**	
	BH370	Repurchase of Former Council Houses	414	730	1,144	200	0	1,144	0	0	
Phil Harris			**414**	**730**	**1,144**	**200**	**0**	**1,144**	**0**	**0**	
Total Scheme Budgets			**36,313**	**7,773**	**44,085**	**9,442**	**6,456**	**35,358**	**0**	**(8,728)**	





Notes:

1) The volume of tickets issued up to and including the end of period 6 was 149k higher than for the same period in 2014/15.

2) Income as at the end of September is on target with the profiled budget, and is looking as if itmay exceed the budgeted level.

Managed Debt Analysis - Rolling Year 2014/15 into 2015/16

	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
ARREARS	14,124,390	13,808,212	15,050,832	14,440,723	14,644,726	15,079,584	17,079,190	20,082,982	19,036,952	19,855,282	18,778,191	19,509,095	22,074,394
Total Awaiting	499,008	472,632	583,173	550,951	474,562	594,959	580,064	447,272	528,392	498,052	634,254	972,351	552,182
Progress	13,625,382	13,335,579	14,467,659	13,889,772	14,170,165	14,484,625	16,499,126	19,635,711	18,508,560	19,357,231	18,143,937	18,536,744	21,522,212
% inactive debt [PI]	3.56%	3.42%	3.87%	3.82%	3.24%	3.95%	3.40%	2.23%	2.78%	2.51%	3.38%	4.98%	2.50%
CTAX	7,664,327	7,250,531	6,972,411	6,851,511	6,522,015	4,942,578	6,053,552	9,287,298	8,955,238	8,739,169	8,257,344	8,030,662	7,857,713
Inactive	81,410	78,261	107,575	89,457	52,642	85,331	63,263	84,246	108,172	81,903	100,483	114,602	43,391
In progress	7,582,917	7,172,269	6,864,836	6,762,054	6,469,373	4,857,247	5,990,289	9,203,051	8,847,066	8,657,265	8,156,861	7,916,060	7,814,322
Inactive debt	1.06%	1.08%	1.54%	1.31%	0.81%	1.73%	1.05%	0.91%	1.21%	0.94%	1.22%	1.43%	0.55%
NNDR	407,858	731,350	849,273	721,649	774,634	1,047,581	568,644	1,293,525	906,635	991,831	1,165,951	1,104,323	830,958
Inactive	0	0	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00
In progress	407,858	731,350	849,273	721,649	774,634	1,047,581	568,644	1,293,525	906,635	991,831	1,165,951	1,104,323	830,958
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%	0.00%
FTA	557,708	551,422	477,453	429,510	407,920	334,727	328,049	734,540	689,855	635,801	630,916	625,536	573,762
Inactive	16,431	18,164	44,671	40,378	11,755	6,896	17,761	4,757	11,404	24,097	22,356	39,267	4,015
In progress	541,277	533,258	432,782	389,132	396,164	327,831	310,288	729,782	678,451	611,704	608,560	586,269	569,747
Inactive debt	2.95%	3.29%	9.36%	9.40%	2.88%	2.06%	5.41%	0.65%	1.65%	3.79%	3.54%	6.28%	0.70%
HBOP	4,555,039	4,652,897	4,819,186	4,960,760	5,108,120	5,208,681	5,243,926	5,341,081	5,324,474	5,356,015	5,400,878	5,563,545	5,645,801
Inactive	355,323	348,271	395,902	366,800	352,444	445,013	386,239	313,673	338,524	302,154	371,648	651,923	340,936
In progress	4,199,716	4,304,627	4,423,285	4,593,960	4,755,676	4,763,668	4,857,687	5,027,408	4,985,951	5,053,861	5,029,230	4,911,622	5,304,865
Inactive debt	7.80%	7.49%	8.22%	7.39%	6.90%	8.54%	7.37%	5.87%	6.36%	5.64%	6.88%	11.72%	6.04%
SD	939,457	622,011	1,932,508	1,477,293	1,832,038	3,546,018	4,885,020	3,426,540	3,160,750	4,132,467	3,323,102	4,185,029	7,166,160
Inactive	45,844	27,936	35,025	54,316	57,719	57,719	112,802	44,595	70,293	89,897	139,767	166,559	163,839
In progress	893,613	594,075	1,897,484	1,422,977	1,774,318	3,488,299	4,772,218	3,381,945	3,090,457	4,042,570	3,183,335	4,018,470	7,002,321
Inactive debt	4.88%	4.49%	1.81%	3.68%	3.15%	1.63%	2.31%	1.30%	2.22%	2.18%	4.21%	3.98%	2.29%

- Overall debt levels as at 30th September2015
  Compared to the same period last year, unmanaged debt is £53,173.96 more than the same period last year and the overall total arrears are £7,950,004 more. This figure doesn't give a true reflection as £3,435,000 are sundry debt invoices raised against large organisations during August and September, which are now no longer outstanding.

- Council Tax as at 30th September 2015
  Unmanaged debt is £38,018.48 less than the same period last year and the overall outstanding arrears are £193,385.95 more. Arrears collection is up on last year.

- Business Rates as at 30th September 20145
  Unmanaged debt remains unchanged. The overall outstanding arrears are £423,100.03 more than the same period last year.

- Former Tenant Arrears as at 30th September 2015
  Unmanaged debt is £12,325.46 less than the same period last year and the overall outstanding arrears are £16,054 more.

- Housing Benefit Overpayments Payments as at 30th September 2015
  Unmanaged debt is £14,337.49 less than the same period last year and the overall outstanding arrears are £1,090,761.8 more. This is a national issue, caused by the financial climate, improved data matching process and DWP/HMRC initiatives to drive error out of the benefits system.

- Sundry Debts as at 30th September 2015
  Unmanaged debt is £117,995.4 more than the same period last year but the overall outstanding balance is £6,108,707 more. However this figure doesn't give a true reflection as £3,435,000 are invoices raised against large organisations during August and September, which are now no longer outstanding. A further £2m has been raised against large organisations and is due for payment.

- Priority Debts as at 30th September 2015
  As a result of priority debt as defined by the Corporate Debt Policy we now have debt on hold awaiting clearance of priority debts. This is broadly broken down as FTA £22,851[no change since last report], OPHB has reduced by £48,448 to £203,147 primarily owing to one large Fraud account going back in to pay. Sundry Debt is now £650 being a reduction as one account has been moved on.

cutting through complexity

External Audit Plan 2014/15

Northampton Borough Council

March 2015

Contents

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

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

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

Introduction

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

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Scope of this report

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

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

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

Statutory responsibilities

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

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

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

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

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

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

Structure of this report

This report is structured as follows:

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

Acknowledgements

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

Headlines

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

Our audit approach

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

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

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

Jan Feb Mar Apr May Jun Jul Aug Sep

1 Planning

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

2 Control evaluation

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

3 Substantive procedures

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

4 Completion

- Declare our independence and objectivity.
- Obtain management representations.
- Report matters of governance interest.
- Form our audit opinion.

Our audit approach – planning (continued)

We will complete our planning work during February 2015.

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

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

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

Planning

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

Business understanding and risk assessment

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

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

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

Organisational control environment

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

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

Audit strategy and approach to materiality

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

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

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

Our audit approach –planning (continued)

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

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

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

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Materiality

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

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

Materiality for planning purposes has been set at £4.5million, which equates to 2 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

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

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

ISA 450 (UK&I), *'Evaluation of misstatements identified during the audit',* requires us to request that uncorrected misstatements are corrected.

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

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

Our audit approach – control evaluation

During March 2015 we will complete our interim audit work.

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

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

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

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

Control Evaluation

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

Controls over key financial systems

We update our understanding of the Authority’s key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Review of internal audit

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

Critical accounting matters

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

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

Our audit approach – substantive procedures

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

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

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

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

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

Substantive Procedures

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

Substantive audit procedures

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

Critical accounting matters

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

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

Audit adjustments

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

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

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

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

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

Our audit approach – other matters

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

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

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

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Whole of government accounts (WGA)

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

Elector challenge

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

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

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

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

Reporting and communication

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

Independence and objectivity confirmation

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

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

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

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

Confirmation statement

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

Key financial statements audit risks

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

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

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

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

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

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

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

Section five

VFM audit approach

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

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Background to approach to VFM work

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

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

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

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

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

VFM audit approach (continued)

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

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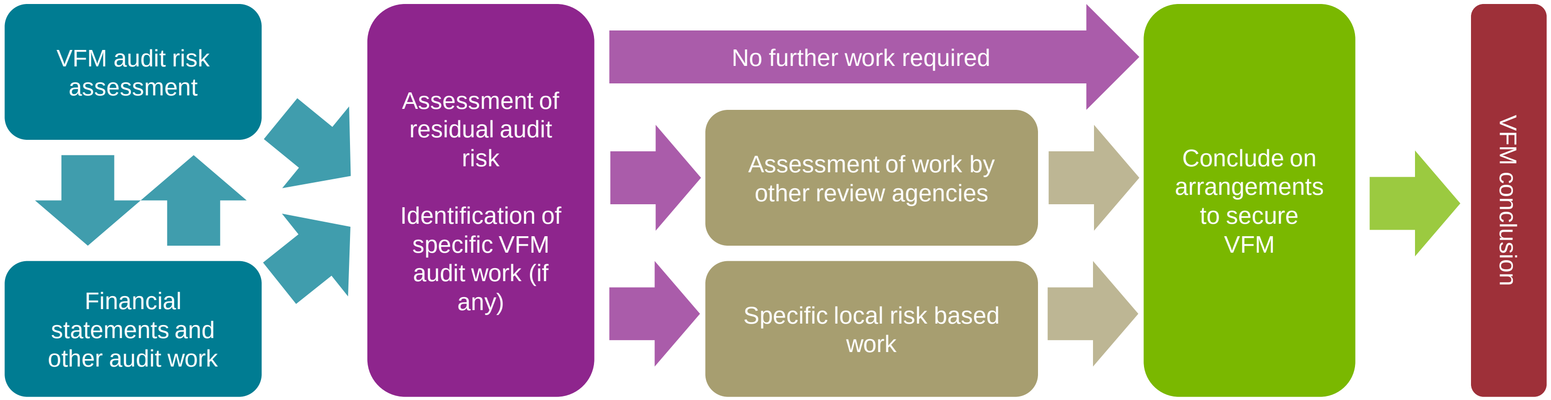
Overview of the VFM audit approach

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



Each of these stages are summarised further below.

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

VFM audit approach (continued)

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

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

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

VFM audit approach (continued)

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

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

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

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

Audit deliverables

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

Audit timeline

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

Key formal interactions with the Audit Committee are:

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

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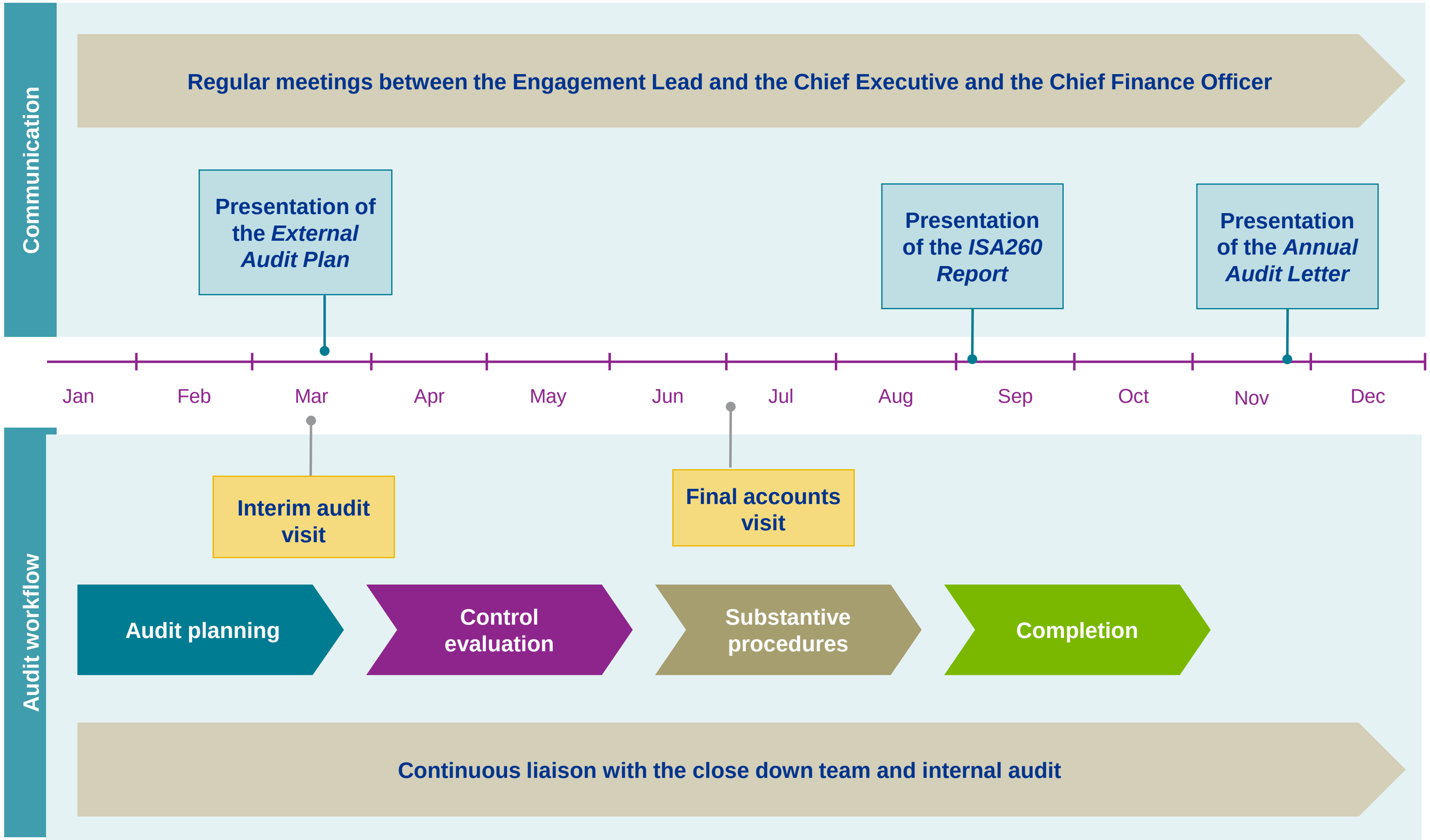
We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

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



Key: ● Audit Committee meetings.

Audit fee

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

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

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

Audit fee

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

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

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

Audit fee assumptions

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

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

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

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

Changes to the audit plan

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

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

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

Audit team

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

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

Contact details are shown on page 1.

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

Andrew Cardoza - **Director**

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

Daniel Hayward - **Manager**

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

Laura Bedford – **Assistant Manager**

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

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

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Independence and objectivity

Auditors are required by the Code to:

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

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

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

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

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

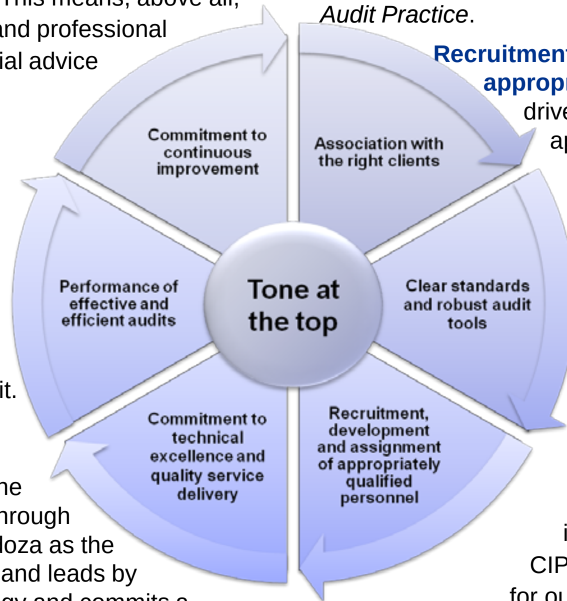
This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

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

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

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

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



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

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

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

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

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

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

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

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

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

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

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

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

Our quality review results

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

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

Appendix 3 : Assessment of fraud risk

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

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

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Members /Officers responsibilities

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

KPMG's identification of fraud risk factors

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

KPMG's response to identified fraud risk factors

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

KPMG's identified fraud risk factors

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

Appendix 4: Transfer of Audit Commissions' functions

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

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

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

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

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Annual Audit Letter 2014/15

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Northampton Borough Council

October 2015

Agenda Item 8a

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines

This report summarises the key findings from our 2014/15 audit of Northampton Borough Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2014/15 financial statements and the 2014/15 VFM conclusion.

VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 18 September 2015. This means we are satisfied that that Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness. To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.
VFM risk areas	We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 18 September 2015. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Authority's Group, which consists of the Authority itself and Northampton Partnership Homes.
Financial statements audit	Our audit identified a total of two audit adjustments, one of which the Authority reflected in its financial statements. There was one unadjusted audit difference which the Authority will correct in 2015/16. The audit adjustment made was in relation to the under accrual of expenditure within the Group Accounts. The original error was identified in the audit of the Northampton Partnership Homes (NPH) Accounts and occurred as a result of NPH accounting for creditor accrual balances in the incorrect financial year. The total value of the error was £557k (£540k relating to capital transactions and £17k relating to revenue transactions). The adjustment made to the Accounts of NPH feeds directly into the Group Accounts and as such the Authority made a corresponding adjustment in their Group Accounts. There was no net impact from this adjustment on the main financial statements. The adjusted error identified also impacted upon the Authority's single entity accounts however due to the complexity of the amendments required, the Authority did not adjust their single entity financial statements in 2014/15 for this omission. The total value of the omission is £557k. The impact of the unadjusted error on the financial statements is set out in our ISA 260 report. We received a complete set of draft accounts on 25 June 2015 and were able to provide our audit opinion on 18 September 2015, ahead of the statutory deadline. We noted that the Authority has good processes in place for the production of the accounts and good quality supporting working papers. The Authority effectively dealt with the challenge of producing Group Accounts for the first time and the additional work required to complete the audit of these accounts. We identified that officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

Headlines (continued)

All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

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Annual Governance Statement	We reviewed your *Annual Governance Statement* and concluded that it was consistent with our understanding.
Whole of Government Accounts	The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.
High priority recommendations	We raised no high priority recommendations as a result of the 2014/15 audit work. Our lower priority recommendations are set out in the reports we have listed at appendix 1.
Certificate	We issued our certificate on 18 September 2015. The certificate confirms that we have concluded the audit for 2014/15 in accordance with the requirements of the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.
Audit fee	Our fee for 2014/15 was £107,700, excluding VAT. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

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2015

January

February

March

April

May

June

July

August

September

October

November

Certification of Grants and Returns (January 2015)

This report summarised the outcome of our certification work on the Authority's 2013/14 grants and returns.

External Audit Plan (March 2015)

The *External Audit Plan* set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2015)

The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2015/16 financial year.

Interim Audit Letter (June 2015)

The *Interim Audit Letter* summarised the results from the preliminary stages of our audit, including testing of financial and other controls.

Auditor's Report (September 2015)

The *Auditor's Report* included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Report to Those Charged with Governance (September 2015)

The *Report to Those Charged with Governance* summarised the results of our audit work for 2014/15 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2015)

This *Annual Audit Letter* provides a summary of the results of our audit for 2014/15.

Appendix 2: Audit fees

This appendix provides information on our final fees for the 2014/15 audit.

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To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2014/15 planned audit fee.

External audit

Our final fee for the 2014/15 audit of Northampton Borough Council was £107,700 which is in line with the planned fee.

In addition to the above, we have charged an additional fee of £22,056 for the work relating to the objection to the accounts. This fee has been subjected to final determination by the Public Section Audit Appointments.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2016.

Other services

We have undertaken additional audit-related services in relation to the certification of the pooling of capital receipts grant return which is outside of Public Sector Audit Appointments' certification regime. The final fee will be confirmed through our reporting on the outcome of that work in January 2016.

Disclosure of action concerning tax engagement

In January 2012 the Authority engaged KPMG to provide services to assist supporting you in preparing and submitting to HMRC a retrospective four year claim for overpaid output VAT on sports and leisure services provided by the Authority. This included submitting a notice of appeal to the VAT and Duties Tribunal to be stood behind another case pending litigation on this issue.

We originally agreed to perform this work for the Authority on a contingent fee basis, i.e. our fee would not have become due until the VAT repayment was received from HMRC by the Authority. Subsequently, KPMG LLP was appointed as auditor of the Authority for the 2012/13 year of account and subsequent financial years.

APB Ethical Standard Number 5 now provides that an audit firm cannot provide services on a wholly or partly contingent basis where the outcome of those services is dependent upon the proposed application of tax law which is uncertain or has not been established. Action was therefore required to ensure compliance with the ethical standards. We have therefore proposed that a revised fixed fee of £20,000 is charged and the success fee element of our remuneration is removed. PSAA is fully aware of this position and in line with its usual rules on the acceptance of non-audit work we will be seeking its approval for this fee.

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Internal Audit Progress Report

November 2015

Northampton Borough Council

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

Plan outturn

2015/16 Audit Plan

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

A statement tracking assignments undertaken and planned activity is shown in Appendix One. At the time of writing this report we have completed 40 days (20%) of the planned audit days. Work will increase in the next few months and we will continue to keep members informed of progress.

Activity and Progress

Reports

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

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

Fieldwork

Work is progressing in the following areas:

Governance and risk

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

In January 2016 we will facilitate a Risk and Assurance workshop with the Senior Management Team to identify risks and existing sources of assurance and/or gaps. The next stage of this process is for the Senior Management Team to determine its appetite to risk, in order to ensure that the Council can deliver its services in a cost effective and efficient manner. The risk appetite is intended to create an approach to risk management which is aligned to the Council's strategic vision and objectives, recognising that risks are constantly changing.

This will inform an updated strategic risk register and support the development of a revised risk management approach going forward. Further areas for internal audit review may be identified as a result of this exercise, and the Audit Committee will be informed accordingly.

LGSS Contract

One of the primary reasons for entering into the outsourcing arrangement with the LGSS was to deliver increased value for money for the Council by delivering cost savings whilst ensuring that service levels were maintained. This review is focusing on whether the Council is receiving the expected services and benefits from this arrangement and that processes are in place to monitor and validate contract performance.

We have commenced fieldwork on phase one of the review which includes reviewing contract and performance information held by the Council to assess the following areas:

- Regular financial reporting is undertaken by LGSS to NBC on the costs which have been incurred and the savings realised
- Sufficient, appropriate information is provided by LGSS to support the costs charged and savings realised
- Payments made are in line with the contract requirements and service received.

The second phase of work involves detailed review of services provided by LGSS under the contract in respect of Human Resources and Legal Services. Much of this work will be conducted at LGSS using information held by them. Our LGSS work is due to start 11 November 2015 and will address the following areas:

- LGSS and the Council have a thorough understanding of the contract requirements in terms of service delivery
- Payments made are in line with the current needs of the Council and savings realised meet the initial expectations included in the Business Case
- Changes in the structure of the Council are reflected in the delivery model for the ‘Agreed Services’ by the LGSS
- LGSS is structured in a manner which enables it to ensure that services are delivered in line with the requirements of the contract
- Costs and savings are monitored and reported by LGSS to NBC in accordance with the contract

Review of Section 151 Officer role

Interviews have been conducted with the following officers and we have started preparing the draft report. Meetings are planned with both the current and former Audit Committee Chair.

- David Kennedy, Chief Executive
- Francis Fernandes, Borough Secretary & Monitoring Officer
- Julie Seddon, Director of Customers and Communities
- Steven Boyes, Director of Regeneration, Enterprise and Planning
- Glenn Hammons, Section 151 Officer (LGSS)
- Phil Morrison, Finance Manager (LGSS)
- Kelly Watson, Finance Manager (LGSS)

Other activity

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

Appendix 1 - Internal audit detailed progress tracker

Ref	***Auditable unit***	***Indicative number of days****	***Actual audit days to date***	***Scoping meeting date***	***Proposed fieldwork dates***	***Proposed draft report date***	***Proposed management response date***	***Proposed final report date***	***Audit Committee reporting date***
A1	Governance and risk	75	2	June 2015	Q3	December 2015	December 2015	December 2015	January 2016
A2	LGSS contract	75	16	September 2016	Q2 & Q3	December 2015	December 2015	December 2015	January 2016
A3	Directorate governance: Borough Secretary	10	0	January 2016	Q4	February 2016	February 2016	February 2016	March 2016
A4	Review of Section 151 Officer role	10	8	During 2014/15	Q1 & Q2	November 2015	November 2015	December 2015	January 2016
M1	Audit Management	30	14	n/a	n/a	n/a	n/a	n/a	n/a
	Total days	**200**	**40**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

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

Appendix 2 – Thought leadership publications

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

All publications can be read in full at ***www.psrc.pwc.com/*** . You can also read our blogs on Public Sector Matters Globally ***http://pwc.blogs.com/psm_globally/***.

To own or not to own: realising the value of public sector assets – September 2015

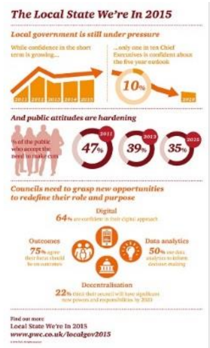
The drivers of fiscal austerity will continue to frame decisions, and the ongoing reform of public services, for the rest of this Parliament.

Setting out the Spending Review, the Chancellor emphasised the importance of casting the net of efficiency widely, challenging government departments to "examine their assets and consider how they can be managed more effectively, including considering the role of privatisation and contracting out where assets do not need to be held in the public sector."

Government has an asset base of £1,300 billion to support £700 billion of public spending. While recognising some obvious differences in objectives and function, most private sector organisations, even the most capital intensive such as oil companies, have ratios of assets to revenues of less than 1:1.

Our Talking Points considers how the government and public sector can best realise the value of its assets looking towards the 2015 Spending Review – and beyond.

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



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

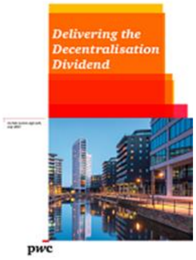
Five years on from our original Local State We're In survey, Chief Executives and Leaders have recognised the need to do things differently, looking beyond their organisational boundaries and taking a place-based, whole systems approach.

"Over the next five years we need to fundamentally redesign the shape of the organisation to respond to the challenges of reducing resources and increasing demands." Chief Executive

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

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

Delivering the decentralisation dividend – July 2015



With decentralisation high on the agenda in the UK our report, Delivering the Decentralisation Dividend, sets out the potential prize of decentralisation - good growth, public service reform and public engagement - and the barriers to be overcome if local places are truly to deliver the decentralisation dividend.

Our local government polling has found growing confidence behind decentralisation following the 2015 General Election, with a third of council chief executives and leaders now agreeing their council will have significantly more powers and responsibilities by 2020, up from 22% in March 2015.

Key barriers to decentralisation identified by local authorities include the sustained and growing financial pressures on councils, difficulty in establishing effective collaborative relationships with local government partners, and the requirement for a directly elected mayor. To deliver on decentralisation, localities need to take a whole system approach and keep a keen focus on the outcomes that collaborative working can achieve, embracing 'decentralisation by design' to rethink public services and investment for growth across a place.

Key local institutions - local authorities, combined authorities and LEPs - need to ensure they have the leadership, capability, capacity and accountability in place to make their case to central government and to then deliver on their plans.

Beyond Letting Go: The role of central government in a decentralised world– October 2015

Embedded in the UK Spending Review is a commitment to further decentralise functions and budgets in order to maximise efficiency, drive local economic growth and productivity, and support the integration of public services. Decentralisation has implications not only for the local and combined authorities seeking deals but also for how central government operates.

Central government has a significant role to play as an enabler for decentralisation, playing its part in moving to more collaborative relationships between central and local and ensuring that the momentum behind devolution continues, while maintaining sufficient oversight to manage risk and network issues. This will be a challenging balance to strike, particularly given the asymmetrical nature of decentralisation, with different places bestowed additional powers and responsibilities in relation to their appetite, capacity and capability.

Our 'Beyond letting go' Talking Points explores a number of areas where central government has a critical role to play in creating and operating in a successful devolved environment. Together these add up to a fundamentally new role for Whitehall. In each case, central government needs to strike a balance between genuinely empowering local areas where the costs, benefits and solutions are localised, and maintaining appropriate national oversight.