



AUDIT COMMITTEE REPORT

Report Title	Review of Northampton Football Club Loan and Development at Sixfields
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AGENDA STATUS: PUBLIC

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

1. Purpose

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

2. Recommendations

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

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

3. Issues and Choices

3.1 Report Background

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

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

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

This Council resolves to,

- 1. Do whatever we can to help Northampton Town Football Club and the Supporters' Trust.*
- 2. Retrieve the £10.25 million of public money.*
- 3. Ask Audit committee to review our policies and procedures and make recommendations necessary for implementation in business arrangements of this nature. The Audit Committee would then present any recommendations to Full Council."*

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

Overview of Loan to NTFC and Development of Land at Sixfields

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

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

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

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

the Stadium recommenced but later stopped when CDNL failed to pay Buckingham.

- 3.1.7 Since May, officers have been working with NTFC and CDNL seeking to find a way forward by which NTFC could meet its obligations to the Council. The Council has made proposals to NTFC to seek to resolve the matter but received no firm proposals from NTFC or any other party to do so over the summer.
- 3.1.8 In September 2015 NTFC failed to pay due payments on the loans and indicated that it was uncertain when it would be able to pay. Discussions between NTFC and potential purchasers of a controlling interest in NTFC did not progress with any urgency. An examination of NTFC finances at the time indicated that the club was unlikely to be able to meet its outgoings in the near future. In addition it became known that Buckingham had petitioned for liquidation of CDNL.
- 3.1.9 In order to protect the public purse, the Council exercised its rights under the loan agreements to give notice that it may, after the notice period, require the repayment of the loans. Despite assurances that the proposed sale of NTFC would probably meet this requirement, this was not delivered and the planned purchasers withdrew. The Council then took action to formally cancel the loan agreements.
- 3.1.10 Following difficulties in being paid monies due by NTFC, Her Majesty's Revenue and Customs (HMRC) issued a Winding Up petition against NTFC on the 15th October 2015.
- 3.1.11 On the 21st October, the Council cancelled its conditional land transfer agreement with CDNL due to CDNL's impending liquidation. On the 22nd October the petition was granted and CDNL placed in liquidation.
- 3.1.12 Since mid-October, officers were in discussion with possible purchasers of the controlling interest in NTFC introduced by the then Chairman led by Mr. Kelvin Thomas. The Council has also engaged experienced professional advisors, including financial and legal insolvency experts, to guide officers through this very complicated situation.
- 3.1.13 On the 2nd November the Council met and passed a resolution that is set out in paragraph 3.1.1.
- 3.1.14 Cabinet was provided with a progress update at its meeting on 11th November.
- 3.1.15 During November the Council have met with a number of parties introduced by the previous majority shareholders of NTFC as potential purchaser of their holding. The talks and negotiations with these parties have been lengthy and subject to appropriate due diligence having been undertaken by the Council. During this period the Council also made a formal complaint to the Police regarding the monies.

- 3.1.16 Cabinet met on 24th November to approve a Memorandum of Understanding (MoU) with the potential new majority shareholders of NTFC. The MoU at this stage was not legally binding and required further work to make it legally enforceable.
- 3.1.17 NTFC was sold to a new majority shareholder (the consortium led by Kelvin Thomas) on 26th November. Following this HMRC withdrew their winding up petition against NTFC when outstanding monies were paid. However, the administration petition against NTFC from the Council was extended whilst the MoU was turned into a legally binding document. Once it was legally binding the Council removed the administration petition.
- 3.1.18 The Council will and is doing all that is necessary to recover the loan monies, including working with the police and the liquidators of First Land.
- 3.1.19 A summary chronology of events is shown at Appendix 1.

3.2 Issues

Scope of Review by Audit Committee

- 3.2.1 The Audit Committee has been asked by Council to “review our policies and procedures and make recommendations necessary for implementation in business arrangements of this nature”. The Council’s internal auditors, PwC, have developed the scope for the Audit committee. This is included at Appendix 2.
- 3.2.2 The internal auditor will undertake this work and report back to the Audit Committee.

Review by External Auditor

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

Police Investigations

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

4. Implications (including financial implications)

4.1 Policy

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

4.2 Resources and Risk

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

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

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

4.3 Legal

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

4.4 Equality

4.4.1 The report does not have any equality implications.

4.5 Consultees (Internal and External)

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

5. Background Papers

5.1 Report to Cabinet on 24th November 2015

Glenn Hammons, Chief Finance Officer, 01604 236512