NORTHAMPTON BOROUGH COUNCIL

COUNCIL

Monday, 29 September 2008

YOU ARE SUMMONED TO ATTEND A MEETING OF NORTHAMPTON BOROUGH COUNCIL, WHICH WILL BE HELD AT THE GUILDHALL NORTHAMPTON ON MONDAY,29TH SEPTEMBER 2008 AT SIX THIRTY O'CLOCK IN THE EVENING WHEN THE FOLLOWING BUSINESS IS PROPOSED TO BE TRANSACTED:-

1. **MINUTES.**

   To approve the minutes of the proceedings of the Meeting of the Council held on 8th September 2008.

2. **APOLOGIES.**

3. **DECLARATIONS OF INTEREST**

4. **PUBLIC COMMENTS AND PETITIONS**

5. **TREASURY MANAGEMENT OUTTURN 2007-08**

   Report of Director of Finance (copy herewith)

6. **ANNUAL GOVERNANCE STATEMENT**

   Joint Report of Chief Executive, Director of Finance and Borough Solicitor (copy herewith)

7. **2007-08 STATEMENT OF ACCOUNTS**

   Report of Director of Finance (copy herewith)

8. **MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE MAYOR IS OF THE OPINION SHOULD BE CONSIDERED.**

The Guildhall
Northampton
19th Sept 2008

D. Kennedy Chief Executive

Appendices:

Agenda Item 5
Item No.

NORTHAMPTON
BOROUGH COUNCIL

COUNCIL
29 September 2008

Agenda Status: Public **Directorate:** Governance and Improvement

Report Title	TREASURY MANAGEMENT OUTTURN 2007-08

1. Summary

1.1 The purpose of the report is to inform the Council of performance in relation to the borrowing and investment strategy for 2007-08.

2. Recommendations

2.1 That Council note the Council's Treasury Management Performance in 2007-08, reported to Cabinet on 1 September 2008.

3. Report Background

See Cabinet report and annexes attached

4. Implications (including financial implications)
4.1 Resources and Risk

See Cabinet report and annexes attached

4.2 Legal

See Cabinet report and annexes attached

4.3 Other Implications

See Cabinet report and annexes attached

5. Background Papers

See Cabinet report and annexes attached

Report Author and Title:	Bev Dixon, Finance Manager – Capital and Treasury Isabell Procter, Corporate Director
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Appendices
7

Item No.
12E

CABINET REPORT

Report Title	TREASURY MANAGEMENT OUTTURN 2007-08

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	1 September 2008
Key Decision:	YES
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Governance and Improvement
Accountable Cabinet Member:	Malcolm Mildren
Ward(s)	Not Applicable

1. Purpose

1.1 To inform the Cabinet of the Council's performance in relation to its borrowing and investment strategy for 2007-08.

2. Recommendations

2.1 That the Cabinet recommend to Council that they note the Council's Treasury Management Performance in 2007-08.

3. Issues and Choices

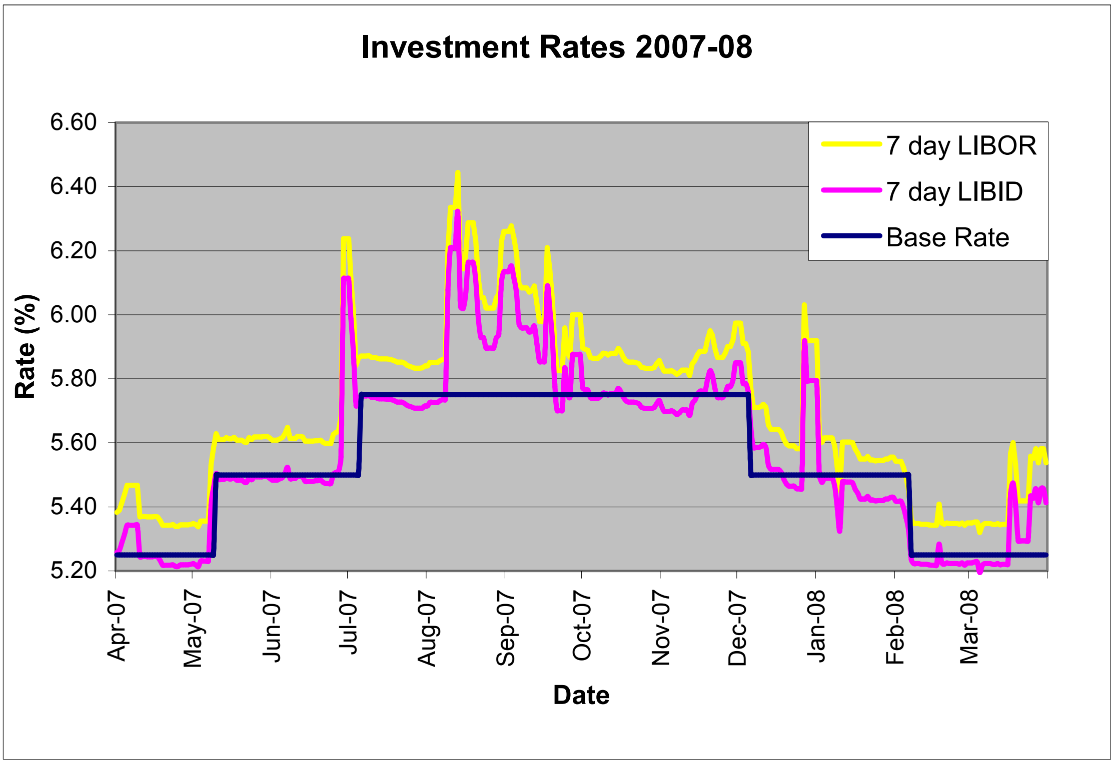
Background

3.1 The Council adopted the CIPFA Code of Practice for Treasury Management in the Public Services ("the Code of Practice") following its publication in 2001. This was formally minuted as a decision at the Council meeting of 21 January 2008.

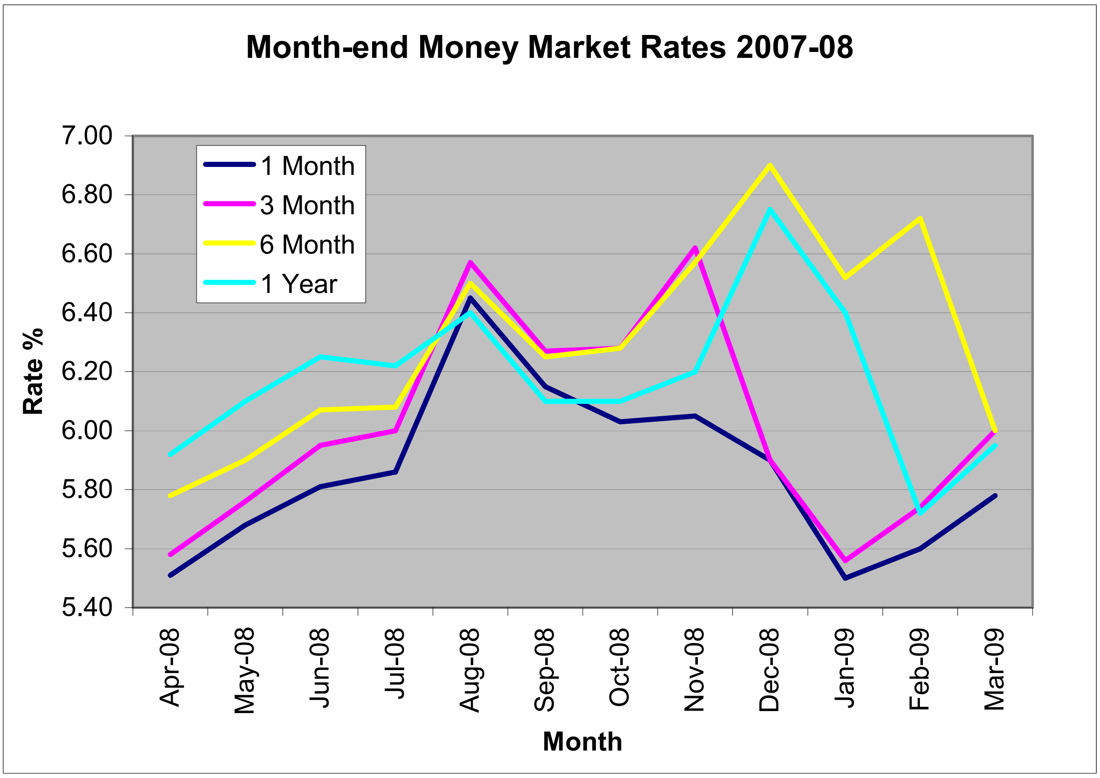
3.2 The Code of Practice recommends that a report covering the relevant activities of the preceding financial year be submitted annually to the Council.

Interest Rates

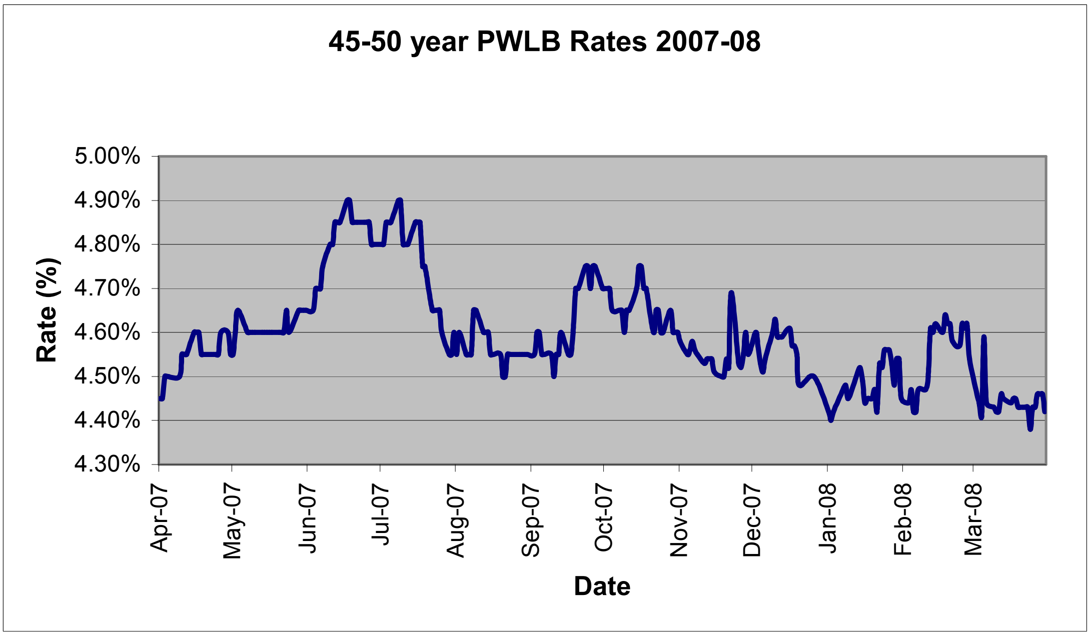
3.3 Interest rates were closely monitored during the course of the year. The bank base rate levels for 2007-08 started at 5.25%, rose during the year to a high of 5.75%, and then dropped back to their starting level by March 08. This trend was matched by the average 7 day London Interbank Bid Rate (LIBID), and the average 7 day London Interbank Offer Rate (LIBOR). This is illustrated in the graph below.



3.4 Investment rates rose in line with the bank base rate in the first half of the financial year, and the one-month and three month rates continued to broadly follow the bank base rates and the LIBID and LIBOR rates through to the year end. However the six-month and one year rates showed an upward trend to December, remaining at artificially high levels right through to February. Officers were able to take advantage of this to set up a number of 364-day investments at very favourable rates in the latter quarter of the year.



3.5 Long-term interest rates applicable to borrowing decisions can be illustrated by the Public Works Loan Board (PWLB) 45-50 year rate. This started the year at 4.45% and rose to a high of 4.90% in July before falling to 4.38% at the end of the year. The rates are set out in the graph below.



Borrowing

3.6 Long Term Borrowing

a) Annex A details the Council's long term debt as at 31 March 2008. The total debt outstanding is £25.9m. Of this amount, 95% (£24.6m) is in the form of money market LOBO loans, and the remaining balance of 5% (£1.3m) in the form of an annuity with English Partnerships.

No new borrowing was undertaken during the financial year.

No loans were repaid during the year other than the repayment of the principal element of the annuity with English Partnerships (£12m) due in 2007-08. The principal amount due to English Partnerships in 2008-09 (£13m) has been transferred to a current creditor, and is not included in the borrowing figures above.

No rescheduling of loans took place during the year.

b) Under Section 3 of the Local Government Act 2003, the Council is required to set an annual affordable borrowing limit. This limit is also set as a prudential indicator – i.e. the authorised borrowing limit. This was set by Cabinet at its meeting on 3 July 2006.

Compliance is demonstrated below:

	Affordable Borrowing Limit as set 3 July 2006	Maximum Actual Amount Outstanding in Year
Overall Borrowing	£47m	£26m

c) Annex B illustrates the Council's long-term debt maturity profile as at 31st March 2008.

d) Annex C details the costs of financing and managing the Council's debt and investment portfolio in 2007-08. A summary is shown below:

Budget Comparison	Approved Budget 2007-08 £000	Outturn 2007-08 £000	Variance 2007-08 £000
Debt Financing & Interest	237	(769)	(1006)
Debt Management	85	109	24
Total	322	(660)	(982)

The most significant factor in the £982k variance reported above was the overachievement of investment interest against budget, due in part to the impact of favourable investment rates and in part to more pro-active management of the Council's investments to achieve optimum returns.

Budgeted income of £337k from NCC for interest on long-term borrowing arising from Local Government Re-organisation was not achieved due to the repayment of these monies by NCC on 31st March 2008. The repaid sums are now included in the Council's investment portfolio.

3.7 Short Term Borrowing

a) The Council has long-standing agreements with three local organisations whereby the organisations deposit amounts with the Council when they have excess funds and recall them when needed. Accounting regulations require that these be treated in the accounts as short-term borrowing.

The Council's arrangement with Orchestras Live ceased on 31 March 2008, leaving just Billing Parish Council and Northampton Volunteering Centre. The interest rate applied to these deposits is linked to the Bank of England lending rate and is below that obtained from external investments. The year-end position on temporary borrowing, and the range of rates applied, is set out at Annex D.

Investments

3.8 Investments Strategy

a) The ODPM (now DCLG) Guidance on Local Government Investments, issued in March 2004, required Councils to set an Investments Strategy covering types of investment, liquidity issues, interest rates and prudential indicators. The Council's Investment Strategy for 2007-08 was included in the Treasury Strategy for 2007-08, approved by Cabinet at its meeting on 3 July 2006.

b) Investments are split into 2 categories:

   (i) Specified investments which are broadly sterling investments, not exceeding 364 days and with a high credit rating; and

   (ii) Non-specified investments that do not satisfy the conditions for specified investments.

   The Council's Investment Strategy for 2007-08 set out the Council's credit rating criteria for specified investments, and the types of unspecified investments that it might enter into, which included the use of building societies which do not have credit ratings, and investments over 364 days.

   Money market investments made during the year, analysed by value, comprised 48% specified investments and 52% unspecified investments,

c) The total value of investments at 31st March 2008 was £52.3m. All investments were placed with reference to a pre-determined lending list, in line with the investment strategy.

d) The Council increased its use of deposit accounts during 2007-08 in order to more pro-actively manage core cash balances to increase returns whilst maintaining liquidity. Balances in deposit accounts at year-end were £5.1m, representing 10% of the overall investment portfolio.

e) The Council holds a debenture of £100k with the Association of District Councils (Properties) Ltd (ADCP). Recent correspondence from ADCP indicates that the property to which the debenture relates was sold on 1st April 2008, and repayment of the debenture is anticipated during 2008-09.

f) The Council does not hold any financial instruments listed or publicly traded on a stock exchange.

g) Most short term investments are held for cashflow purposes. The average period of investments in the year (excluding instant access deposit accounts) was 86 days.

h) Annex E analyses performance by plotting the Council's average monthly investment rate achieved against the average 7 day London Interbank Bid Rate (LIBID), and the average 7 day London Interbank Offer Rate (LIBOR).

i) Outturn information on the Prudential Indicators relating to treasury management is shown in Annex F.

Accounting & Audit Issues

3.9 The 2007 CIPFA Statement of Recommended Practice (2007 SORP) brought in new and extensive requirements for the accounting treatment and reporting framework for financial instruments, including debt and investment. These requirements have been fully complied with in the Council's Statement of Accounts.

3.10 All outturn figures contained in this report are subject to external scrutiny, through the annual audit of the Council's Statement of Accounts.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Treasury Strategy report sets the Council's policy on its debt and investment portfolios over the next and following two financial years. It is revisited annually and reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2007-08 was approved by Cabinet at its meeting on 3 July 2006.

4.2 Resources and Risk

4.2.1 The risk management of the treasury function is considered as an integral part of day-to-day treasury activities, and is also specifically covered in the Council's Treasury Management Practices (TMPs).

4.3 Legal

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

4.4 Equality

4.4.1 An Equalities Impact Assessment (EIA) has been carried out on the Council's Treasury Strategy for 2007-08. This is attached at Annex G. The EIA screening process has indicated that a full EIA is not required. There are no specific equalities issues or implications associated with this report.

4.5 Consultees (Internal and External)

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

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The Comprehensive Performance Assessment (CPA) Use of Resources for the year ended 31 March 2008 requires the Council to "keep its treasury management strategy under review and monitor against it. The strategy [should] reflect the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services"

4.7 Other Implications

4.7.1 No other implications have been identified.

5. Background Papers

Statute, Regulation and Guidance

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes 2001

Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

ODPM Guidance on Local Government Investments 2004

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Second Edition 2006)

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

CIPFA Prudential Code for Capital Finance in Local Authorities 2003

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

Reports to Cabinet & Council

Capital Programme 2006-07 Monitoring – Report to Cabinet 3 July 2006 (Contains the Council's Treasury Strategy for 2007-08)

Prudential indicators for Capital Finance 2007-08 - Position as at 30 November 2007 - Report to Council 21 January 2008 (Contains formal adoption of the CIPFA Code of Practice for Treasury Management)

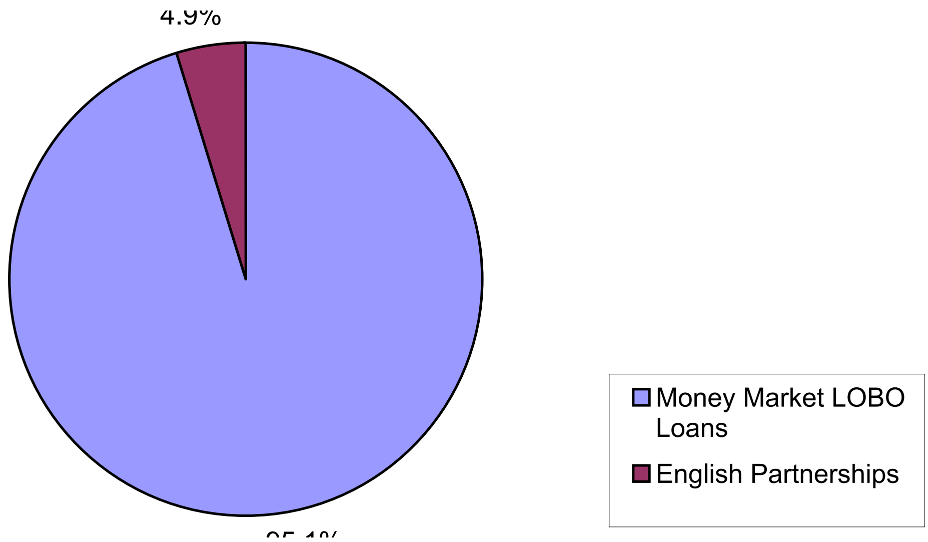
Bev Dixon, Finance Manager – Capital & Treasury, ext 7401

ANNEX A

Analysis of Outstanding Debt as at 31st March 2008

Long Term Borrowing

	Principal	Proportion of Debt	Range of Interest Rates Paid within the Year	
			From	To
	£'000	%	%	
Public Works Loan Board - Maturity - Fixed Rate	0	0		
Money Market LOBO Loans	24,606	95.1	4.85	7.03
English Partnerships	1,256	4.9	9.25	9.25
Total Debt Outstanding at 31st March 2008	**25,862**	**100**		



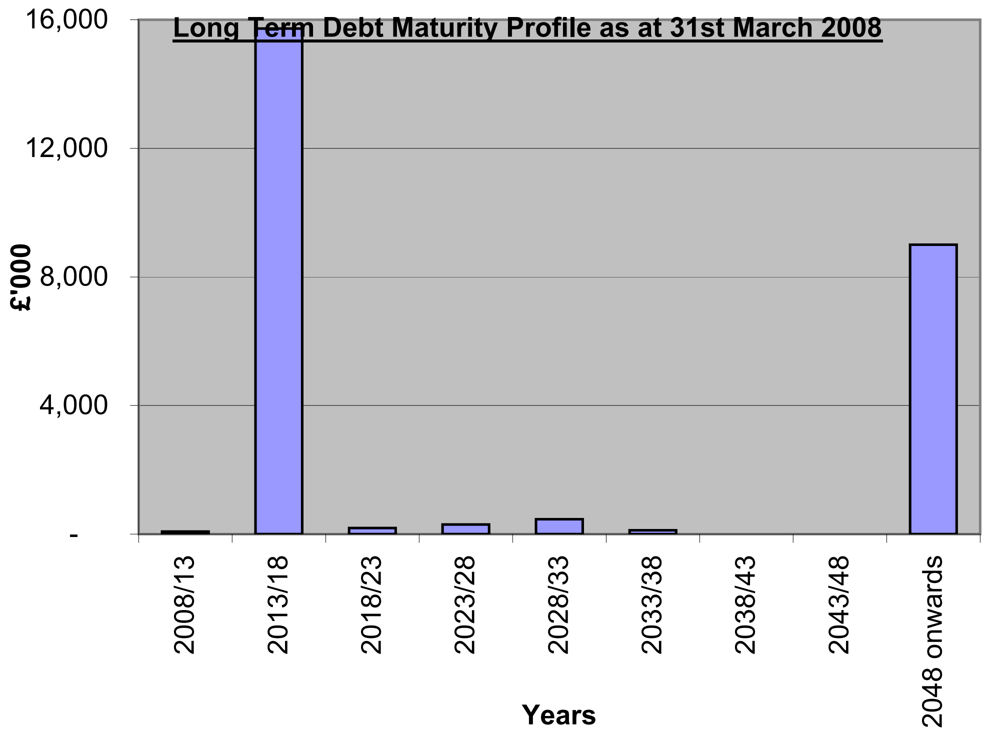
No new long term borrowing was undertaken during 2007/08

ANNEX B

Debt Maturity Profile as at 31st March 2008

	Time Frame	Year	Value of Loans Maturing £'000	Proportion of Long Term Debt %
Within:				
	5 years	2008/13	79	0.3
	10 years	2013/18	15,726	60.8
	15 years	2018/23	191	0.7
	20 years	2023/28	297	1.1
	25 years	2028/33	462	1.8
	30 years	2033/38	119	0.5
	35 years	2038/43	-	0.0
	40 years	2043/48	-	0.0
	Over 40	2048 onwards	9,002	34.8
		Total	**25,875**	**100.0**

The LOBO loans mature in 2014-15 (£15.6m) and in 2065/66 (£9m). The English Partnerships annuity is repaid across the term of the loan, with the final payment due in 2033/34



Annex D

DEBT FINANCING & DEBT MANAGEMENT

	Budget 2007-08	Outturn 2007-08	Variance 2007-08
Debt Financing & Interest			
INTEREST PAYABLE			
Interest on long term debt	1,379,318	1,200,747	(178,570)
Interest on temporary borrowing	25,000	35,470	10,470
Other miscellaneous interest		8,120	8,120
Commission for New Towns - annual annuity	130,500	130,500	0
TOTAL INTEREST PAYABLE	**1,534,818**	**1,374,837**	**(159,981)**
INTEREST RECEIVABLE			
Interest from NCC long term borrowing	(337,356)	0	337,356
Interest on temporary investments	(2,001,178)	(3,417,145)	(1,415,967)
Interest on mortgages	(10,000)	(4,469)	5,531
Other miscellaneous interest	0	(32,585)	(32,585)
TOTAL INTEREST RECEIVABLE	**(2,348,534)**	**(3,454,199)**	**(1,105,666)**
NET INTEREST PAYABLE/RECEIVABLE	**(813,716)**	**(2,079,362)**	**(1,265,647)**
OTHER ADJUSTMENTS			
			0
Recharges to/from HRA	414,320	960,859	546,539
Repayment of Debt	786,000	349,693	(436,307)
Budget virement	(149,605)	0	149,605
TOTAL OTHER ADJUSTMENTS	**1,050,715**	**1,310,552**	**259,837**
Total Debt Financing & Interest	**237,000**	**(768,810)**	**(1,005,810)**
Debt Management			
Professional Services	37,540	11,000	(26,540)
Bank Charges	82,400	96,171	13,771
Other misc expenses/(income)	(34,680)	1,553	36,233
Total Debt Management	**85,260**	**108,725**	**23,465**
TOTAL DEBT FINANCING & DEBT MANAGEMENT	**322,260**	**(660,086)**	**(982,345)**

ANNEX D

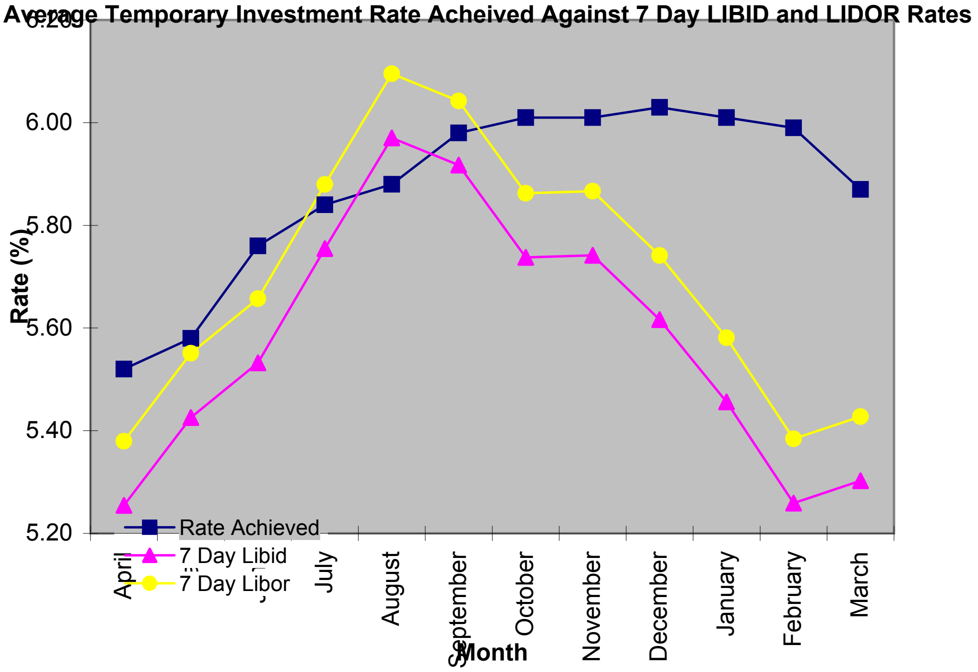
Analysis of Outstanding Debt as at 31st March 2008

Short Term Borrowing

	Principal	Proportion of Debt	Range of Interest Rates Paid within	
			From	To
	£'000	%	%	
Billing Parish council 3 month	50,007	32.5	4.70	5.10
Billing Parish council 7 day	10,000	6.5	4.25	4.25
Northampton Volunteering Centre 7 day	94,000	61.0	4.25	4.25
Total Debt Outstanding at 31st March 2008	**154,007**	**100**		

ANNEX E

Comparative Data



	Rate Achieved Average %	7 Day Libid Average %	7 Day Libor Average %	Variance - Rate achieved to Libid %
April	5.52	5.25	5.38	0.27
May	5.58	5.43	5.55	0.15
June	5.76	5.53	5.66	0.23
July	5.84	5.75	5.88	0.09
August	5.88	5.97	6.10	-0.09
September	5.98	5.92	6.04	0.06
October	6.01	5.74	5.86	0.27
November	6.01	5.74	5.87	0.27
December	6.03	5.62	5.74	0.41
January	6.01	5.46	5.58	0.55
February	5.99	5.26	5.38	0.73
March	5.87	5.30	5.43	0.57
Average	5.87	5.58	5.71	0.29

ANNEX F

PRUDENTIAL INDICATORS RELATING TO BORROWING AND INVESTMENTS

a) The **authorised limit for total external debt** gross of investments together with the actual total maximum figures for 2007-08 are:

Authorised limit for external debt			
	2007-08 £000 Original Limit	2007-08 £000 Final Limit	2007-08 £000 Actual Maximum In Year
Borrowing	47,000	47,000	25,875
Other long term liabilities			
TOTAL	47,000	47,000	25,875

b) The **operational boundary for external debt** together with the actual total maximum figures for 2007-08 are:

Operational boundary for external debt			
	2007-08 £000 Original Limit	2007-08 £000 Final Limit	2007-08 £000 Actual Maximum In Year
Borrowing	40,500	40,500	25,875
Other long term liabilities			
TOTAL	40,500	40,500	25,875

c) The **maturity structure limits on borrowings** for 2007-08 are:

Maturity structure limits on borrowings				
	Lower Limit %	Exceeded Yes/No	Upper Limit %	Exceeded Yes/No
Under 12 months	0	No	25	No
12 months and within 24 months	0	No	25	No
24 months and within 5 years	0	No	50	No
5 years and within 10 years	0	No	100	No
10 years and above	0	No	100	No

d) The **upper limits on variable interest rate exposures** together with the actual total maximum figure for 2007-08 are:

Upper limits on variable interest rate exposures		
2007-08 Original Limit	2007-08 Final Limit	2007-08 Actual Maximum
50%	50%	-74%

The negative figure of -74% for actual percentage of variable interest rate exposure arises because the Council's net variable borrowing (i.e. variable rate borrowing less variable rate investments) is a positive figure, against an overall negative figure for the Council's net borrowing (i.e. the Council's total investments are in excess of total borrowing).

The equivalent prudential indicator for 2008-09 has been set as a cash limit, since this is more transparent and understandable.

e) The **upper limits on fixed interest rate exposures** together with the actual total maximum figure for 2007-08 are:

Upper limits on fixed interest rate exposures		
2007-08 Original Limit	2007-08 Final Limit	2007-08 Actual Maximum
100%	100%	174%

The over 100% value of 174% for actual percentage of fixed interest rate exposure arises because the Council's net fixed borrowing (i.e. fixed rate borrowing less fixed rate investments) is a higher negative figure than the overall negative figure for the Council's net borrowing (i.e. the Council's total investments are in excess of total borrowing).

The equivalent prudential indicator for 2008-09 has been set as a cash limit, since this is more transparent and understandable.

f) The **upper limits on investments for periods longer than 364 days** together with the actual total maximum figure for 2007-08 are:

Upper limits on investments for periods longer than 364 days		
2007-08 Original Limit	2007-08 Final Limit	2007-08 Actual Maximum
75%	75%	0%

Annex G

Template for Stage 1

NORTHAMPTON BOROUGH COUNCIL

Equality Impact Assessment – screening.

Name of Strategy/Policy Treasury Strategy Date of Assessment: 11/08/08

Is this a new or updated Policy? New ☐ Updated ☒

How is the Strategy/Policy finalised/adopted: Cabinet/Board ☒ Delegated ☐

Lead Officer conducting the assessment: Rebecca Smith Job Title: Assistant Head of Finance

Service area: Finance – Capital & Treasury Contact details: ext 8046

Others involved in the assessment *(this could include service users, front line officers, people with specialist knowledge or interest)*:
Bev Dixon

Identify what the activity is trying to achieve – why is the Strategy/Policy required *(is there a statutory duty, how was the issue identified, who was the originator of the activity, etc)*.
The Council has adopted the CIPFA Code of Treasury Management and it is a requirement under that Code of Practice

Purpose of the Strategy/ Policy. *(What does the activity involve e.g. In the case of Conservation, Identifies historic character, identifies methods to safeguard character, identifies areas for enhancement but this will not be the enhancement work itself, etc. Consider how the activity relates to the council's equality and diversity duties and priorities).*
The purpose of the Treasury Strategy is to establish the framework for the council's investment portfolio, balancing risk against reward in the best interests of stewardship of the public purse.

Identify the main beneficiaries or people affected by the issue *(who benefits or is affected - local residents and users of area, community at large, visitors to the town, contractors working in the area, people delivering the service etc).*

The main beneficiaries are the council tax and rent payers as a whole.

What information exists already?
CIPFA Treasury Management Code of Practice, CPA use of Resources KLoEs.

Has any consultation been undertaken on this or related issue?
No consultation is required, the format and content is broadly determined by the Code of Practice.

Are any reports or other relevant documents available from our organisation or from partners or other sources?

CIPFA Treasury Management Code of Practice, CPA use of Resources KLoEs

Which parts of the activity have the potential for adverse impact or to discriminate unlawfully? *(Factors or issues that could contribute to inequality, consider risks and opportunities).*

None

Could a particular sector of the community be disadvantaged by the strategy/policy.

Yes ☐ No ☒ *(give details of any evidence you may have)*

If yes, proceed to undertake an Equality Impact Assessment (EIA)

If no, then have this confirmed by the Corporate Equalities Steering Group representative for your area and signed off by your Service Head / Corporate Director/ Board. In the event of any queries, check with a member of the Policy team.

Action points ***(****please make this SMART-state what/who/how/when)*

Review EIA for 2008/09 Treasury Strategy

I agree that this policy/strategy/function/activity should not proceed to a full Impact Assessment (If appropriate, date equality impact assessment will commence)

Confirmed by: Gavin Chambers **Signed by: Gavin Chambers**

Please attach a copy of this screening to the document it relates ✓

Copy to be sent to Policy Team Leader at policy@northampton.gov.uk ✓

Appendices: 1

Item No:

NORTHAMPTON BOROUGH COUNCIL

COUNCIL
29 September 2008

Agenda Status: Public **Directorate:** Governance & Improvement

Report Title	**ANNUAL GOVERNANCE STATEMENT**

1. Summary

To present the 2007/08 Annual Governance Statement to Council post external audit.

2. Recommendations

2.1 That Council consider any comments on the Annual Governance Statement arising from the Audit Committee and Cabinet considerations.

2.2 That Council review the 2007/08 Annual Governance Statement.

2.3 That Council adopt the Annual Governance Statement subject to any comments arising from 2.1 and 2.2 above.

3. Report Background

3.1 The Accounts and Audit Regulations (A&AR) 2003, amended by the A&AR 2006, require the Council to formally approve the Statement of Accounts by 30th June. This includes the adoption of the Annual Governance Statement. The Annual Governance Statement was approved by Council in June 2008. Since then it has been reviewed by KPMG our external auditors and needs re-approving by the 30th September.

3.2 The system on internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance.

3.3 In many organisations the system (and statement) of internal control is often seen as an audit or finance function. The responsibility lies with both officers and members. In summary:

- The Council is responsible for ensuring that its 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.

- The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to value for money.

- In discharging this overall responsibility, the Council (elected Members and officers) is responsible for ensuring there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The Annual Governance Statement is attached at Appendix 1. Other than minor grammatical changes, there are no updates to be made to the version approved by Council in June, following external audit.

4. Implications (including financial implications)

4.1 Resources and Risk

There are no direct implications in relation to the Annual Governance Statement.

The system on internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance.

4.2 Legal

None

4.3 Other Implications

None

5. Background Papers

AGS working file

Report Author and Title: Gavin Chambers, Head of Finance and Assets

Telephone and Email: 01604 837194 gchambers@northampton.gov.uk

Appendix 1

NORTHAMPTON BOROUGH COUNCIL
ANNUAL GOVERNANCE STATEMENT 2007/08

1.0 Scope of responsibility.

The Council is responsible for ensuring that its 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Northampton Borough Council, as part of the Use of Resources improvement plan, aims to approve and adopt a local code of corporate governance by the end of November 2008. This will be consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (CIPFA 2007). The code, when implemented, will be subject to a review by Internal Audit.

This statement explains how the council has complied with the code and also how we meet the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2.0 The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives. It is also designed to evaluate the likelihood of those risks being realised and their impact should they be realised, and to manage them efficiently, effectively and economically.

3.0 The Governance Framework

Until the governance code is introduced at the council, the constitution is the relevant governance document. Our governance framework will derive from the six core principles identified in a 2004 publication entitled The Good Governance Standard for Public Services. This was produced by the Independent Commission on Good Governance in Public Services – a commission set up by the Chartered Institute Of Public Finance and Accountancy (CIPFA), and the Office for Public Management. The commission utilised work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007. The six core principles that this governance framework follows are:

a) Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;

b) Members and officers working together to achieve a common purpose with clearly defined functions and roles;

c) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;

e) Developing the capacity and capability of members and officers to be effective; and

f) Engaging with local people and other stakeholders to ensure robust public accountability.

The key elements of each of these core principles are as follows:

Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

The Council works through a number of strategic partnerships with other service providers in the area. These include the Local Strategic Partnership (LSP), Safer Stronger Northampton Partnership (CDRP) and Children and Young People's Partnership. To be effective and to maximise the use of our shared resources, we develop shared priorities and deliver them in the most effective way for the people of Northampton.

Many activities which deliver shared priorities are agreed through the *Local Area Agreement* (LAA) for Northamptonshire. This focuses on delivering services and improvements to communities against four key themes. The current LAA has been in place for two years and is being renegotiated in line with government's requirements. The proposed targets for the second LAA were sent to the Government Office of the East Midlands on 30 May 2008. The LAA will identify the key priority outcomes for the whole county as well as informing local priorities for Northampton to be delivered by the Council and its partners.

This will focus on seven key areas:

- Stronger communities
- Safer communities
- Tackling exclusion and promoting equalities
- Children and young people
- Adult health and well-being
- Local economy
- Environmental sustainability

The *Local Area Agreement* will be the key delivery plan for the Northamptonshire *Sustainable Community Strategy.* The strategy was subject to consultation that concluded in April 2008 and is currently being redrafted. It is anticipated that the strategy will be approved by October 2008 and once agreed this will set out the vision and key objectives for the county between now and 2031. A Northamptonshire Public Service board has been established as the body responsible for delivering the second LAA and replaces the previous LAA Board. This Board will take a strategic view for the county as expressed in the 'Sustainable Communities Strategy for Northamptonshire'. It brings key strategic partners together to inform, drive and champion the strategic vision for the county in the longer term.

Our partnership vision for Northampton:

We believe Northampton will be a successful and confident town where people feel they belong, feel they have a future, feel they have financial stability and, where appropriate, business opportunities. It will also be a place that has vibrant cultures and lifestyle opportunities and where everyone who chooses to live here, work here or visit the town feels at home.

To deliver this the Northampton Local Strategic Partnership have agreed the *Sustainable Communities Strategy for Northampton*, which incorporates the key themes from the county-wide strategy and focuses on key strategic objectives local to Northampton;

By 2011 Northampton will be:

- Safer
- Cleaner
- Healthier
- Recognised for good quality, environmentally friendly housing
- Well served by modern and efficient public services

As well as planning services for the future growth of the area, we also intend to improve the quality and accessibility of our services to our customers now. By creating a ‘fit for purpose council’, the opportunities and challenges will be tackled effectively. These include managing the growth of the area in a way that enhances the quality of life, revitalises the town centre and local housing estates and puts Northampton on the map, both regionally and nationally. All of this can only be delivered by working hand in hand with our partners.

In order to ensure that this Corporate Plan meets the needs and aspirations of our local communities, and contributes to wider community outcomes, we engaged with local people in a series of consultation events. We used the feedback to inform the selection of our five priorities and underpinning commitments.

These are:

- **We will help our communities become safer, greener and cleaner**

- **We will improve housing and health to enhance the well-being of our communities**

- **We will be a well-managed organisation that puts our customers at the heart of what we do**

- **We will promote economic development and growth in Northampton**

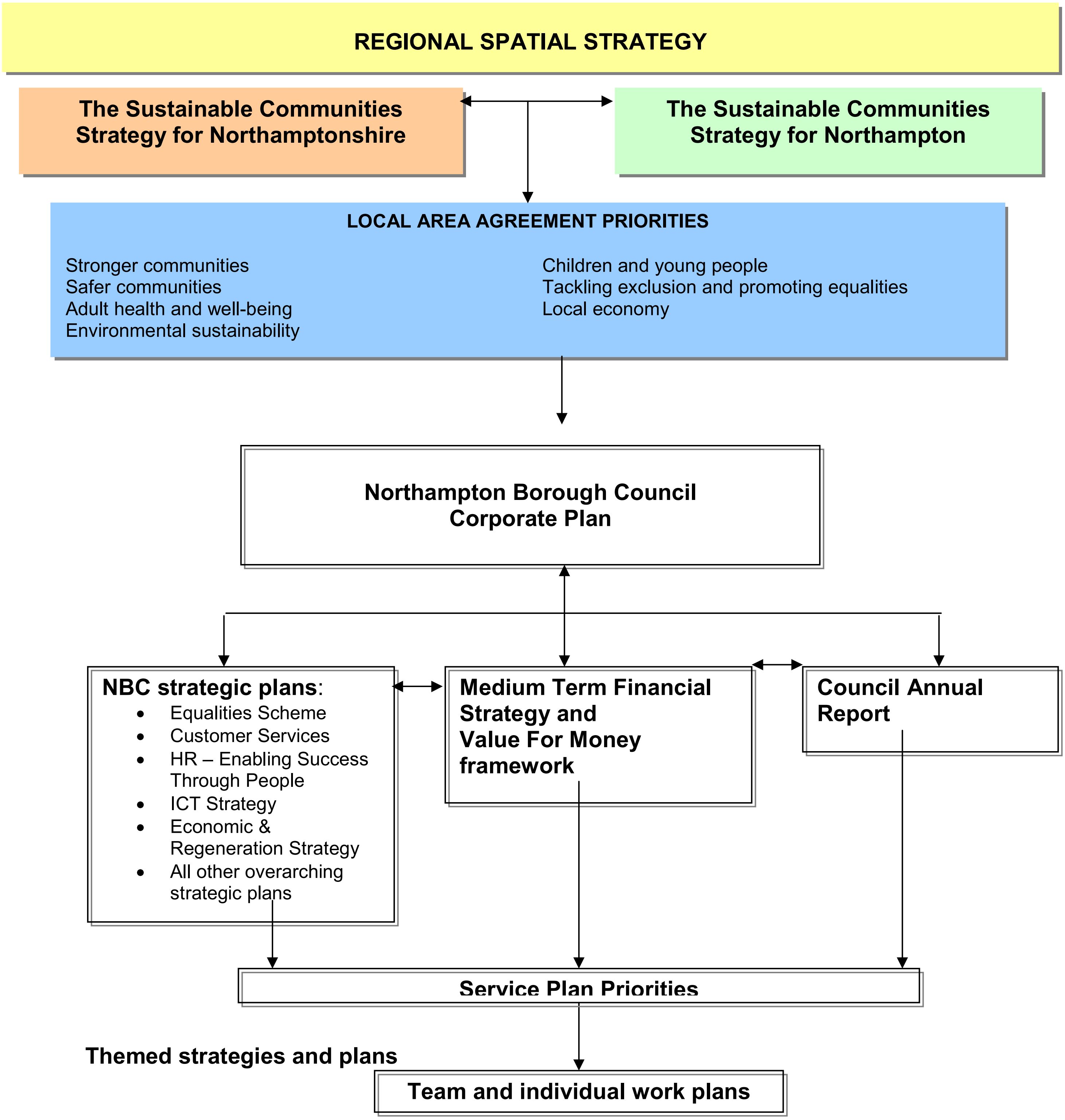
- **We will strengthen our commitment to partnership working and engaging with our communities to deliver better outcomes**

The council uses information from corporate and service consultations, engagement through area partnerships and community forums as well as feedback from customers to ensure that these priorities are important to the community and that service delivery meets their expectations. The council also has a citizens panel, which can be used for structured consultation with a demographically representative sample of the population.

The diagram below shows how the various groups and plans link together.

Appendix 1

How We Deliver Our Key Strategies



The Council has in place a comprehensive and robust performance management framework. The framework is reviewed annually to ensure that learning and improvement is captured and changes made where necessary.

The Council monitors delivery of its priorities and objectives by use of the performance management framework. The objectives set out in the key strategic plans (Sustainable Communities Strategy, Local Area Agreement, Corporate Plan) are reflected in service plans for each service of the council. The service plans represent the key plan for each service and clearly set out targets and actions for each service and how each service area contributes to corporate objectives and targets. The service plans address service-level improvements, including value for money objectives. Service plans also set out how each service will contribute to a range of corporate performance and improvement imperatives, including data quality, Equalities, and Employee Opinion Survey action plans. Local service improvement plans are reflected in the plans.

The performance management framework requires service plan targets and actions to be reviewed each month by the relevant departmental management teams. At strategic management level overall performance of each service is monitored at Corporate Performance Reviews; these reviews, chaired by the Chief Executive, address a range of performance aspects: risk management, financial performance, national and local performance targets, complaints and compliments. In 2008 Service plans will themselves be subject to quarterly review; this will ensure that plan remain current, that targets remain relevant and appropriately challenging and that the service is delivering the actions necessary to achieve the corporate objectives.

Performance information is collated by the Corporate Performance Team who are responsible for ensuring that Data Quality processes and procedures have been completed. Checks on background evidence for indicators are applied each month on a sampling basis, with full background checks quarterly. Information which has no background checks, or which has not been signed off by managers in the service area, is not permitted to go forward into our performance reports. Senior managers and Councillors are then informed of the reason for the missing data. These steps are necessary to ensure that decision makers have confidence in the data presented to them.

Performance information is made widely available. All Councillors are provided with the monthly performance reports. Notice Boards across all council premises are used to display performance information, ensuring that staff who do not use computers can still access up to date information on the performance of each service area. The reports are also placed on the Council’s website so that members of the public can access the information.

At a political level performance is monitored by Portfolio Holders each month in meetings with Directors and Corporate Managers. Monthly performance reports are presented to each meeting of Cabinet by the Portfolio Holder for Performance, advised by officers. These reports focus on performance against priority indicators in addition to an overview of performance against all indicators. The reports set out an analysis of quartile performance so that the Council's performance levels can be compared to the levels of the best performing Councils. Political monitoring also takes place at reviews chaired by the Leader of the Council each quarter. These Portfolio Performance Reviews consider the delivery of each portfolio holder area against the identified corporate objectives. This helps to ensure that senior councillors are holding officers to account for delivery.

The Performance Management Framework sets out the flow of management information across the Council. Operational Performance Reports (OPRs) are produced by managers of discrete service teams for each Corporate Manager. These inform Directorate Management Teams and, in particular, the Performance Clinics each month. These focus on key issues including under or over performance and specifically address performance against service plan actions. These inform the Director's report at each CPR as outlined earlier.

At employee level we have established an Employee Development Scheme so as to jointly agree employee objectives and identify training and development needs. The Scheme provides for an annual appraisal at which past performance is reviewed, and also provides for regular monitoring of performance during the year.

Following the changes to the production of the Best Value Performance Plan as set out by CLG, the Council will no longer produce a BVPP. However, we will continue to produce an Annual Council Report, setting out our performance against our corporate objectives. Through reviews by external auditors, external agencies, Internal Audit, and internal review teams, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. A corporate procurement strategy/toolkit was produced to ensure proper arrangements are in place for procurement of goods and services. This was reviewed by Members and senior officers before being adopted.

The Council reviewed its financial regulations during 2007/08 with the updated financial regulations being approved by Council in November 2007. Revised procurement rules were adopted in March 2008, updating the previous guidance that covered 2004 to 2007. All budget heads are allocated *to named budget officers, who are* responsible for controlling spend against budgets, and who are also responsible for assets used in the provision of their services.

Contracts let during the year, as well as partnerships entered into, include appropriate arrangements for monitoring against agreed targets and indicators. A Procurement Monitoring Group has also been set up, where contracts over £20k are referred to the group, to ensure that the appropriate finance, procurement and legal rules are all adhered to.

The Cabinet in November 2007 adopted the risk management strategy and approved the risk register, with a requirement to maintain this as a dynamic document and submit it to the Audit Committee on an annual basis.

Members and officers working together to achieve a common purpose with clearly defined functions and roles

The council has adopted a constitution which sets out how the council operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable to local people. The constitution reflects the 'Executive/Scrutiny' model following the Local Government Act 2000.

The main decision-making committee is the Cabinet, which is responsible for all executive matters as defined by law and operates within the budget and policy framework approved annually by full Council. Meetings are open to the public except when personal or confidential matters are being discussed. In addition, senior and other officers of the Council can make decisions under delegated authority – again the extent of these delegations is set out in the constitution. The Council publishes a forward plan, which contains details of key decisions to be made by the Cabinet. Each Cabinet member has a specific portfolio of responsibilities requiring him or her to work closely with senior and other employees so as to achieve the Council's ambitions. However the Council has adopted individual decision-making powers for the portfolio holders, which is part of the council's constitutional arrangements.

The Council's Management Board, which consists of the Chief Executive, Directors (including the S151 officer), the Monitoring Officer and Head of Human Resources, meets on a weekly basis to develop policy issues commensurate with the Council's aims, objectives and priorities. Management Board also considers other internal control issues, including strategic risk management, performance management, compliances, efficiency and value for money, and financial management. Management Board meet with Cabinet on a monthly basis to review progress in achieving the Council's ambitions, priorities for action, performance management and forward planning for major issues. It has a corporate responsibility for the messages that the council puts out, both internally and externally.

A new administration came into power in May 2007, and relevant training followed as detailed within this AGS. An interim Chief Executive was employed during 2007, up to and beyond when the new Chief Executive, David Kennedy, commenced at NBC in November 2007.

Below Management Board the management structure is well defined in a hierarchical manner, comprising the following groups:

Corporate Briefing

This group consists of Management Board members and also all Corporate Managers/Heads of Service. The meetings are diarised weekly to meet as required. The agenda and meeting go ahead is agreed each week at Management Board.

The group, which is non-decision making, provides collective responsibility for:

- Providing corporate leadership
- Employee development
- Internal and external communications
- Performance management
- Co-ordinating and delivering corporate objectives and priorities for action
- Reviewing corporate policy
- Reviewing corporate standards
- Considering key operational matters

Directorate Management Team (DMT)

Each Directorate has a DMT where the Director and Heads of Service/Corporate Managers meet to discuss Management Board feedback, council wide and service specific areas. DMT meetings:

- Ensure that directorates contribute to Management Board, Corporate Briefing and other teams/groups
- Ensures feedback from Management Board, Corporate Briefing and other teams/groups is communicated within the Directorate
- Provides a lead within Directorates to meet corporate requirements
- Ensures group corporate contribution
- Ensures communication of corporate requirements within and between teams within the respective directorate

Managers' Workshop

The managers' workshop started in 2007/08 and has a planned roll out of corporate subjects. The workshop attendance covers over 100 managers across the council.

Other specific group meetings:

There are also corporate groups for equalities, comprehensive performance assessment use of resources, ICT Governance, VFM Board to name a few.

Corporate priorities, policies and standards translated through service plans into day-to-day activities

The council has adopted a number of codes and protocols that govern both Member and officer activities. These are:

- Members and Officers Code of Conduct
- Members Code of Conduct
- Protocol for Members and officers regarding probity planning
- Members' declarations of interest
- Member/officer relations
- Gifts and hospitality – Members and officers

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

The council has designated the Borough Solicitor as the Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting the Chief Executive and Director of Finance, he will report to the Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

Training needs are identified through one to one meetings, team meetings, and appraisals and are addressed via the Human Resources service and/or individual services as appropriate.

Report on Governance Arrangements

The People Development Manager, during 2007/08, conducted interviews with the Council Leader, Mayor, all Portfolio Holders, Directors and the Monitoring Officer, with the objective of examining the extent to which the NBC governance arrangements are:

- Understood by senior officers and inform current decision making
- Understood by portfolio holders and inform their decision making

Additionally, to identify whether potential breaches of governance arrangements take place. The review incorporate structured interviews which include the following questions:

- How effective are current governance arrangements?
- What's working well/needs to be improved?
- Do the arrangements support and have an impact on decision-making process?
- Instances of process failing to work or not compiled with?
- General comments

The executive summary of the report which was presented to the Borough Solicitor and the Interim Chief Executive, is below:

“The overall impression is that the governance arrangements are beginning to have a positive impact on the decision making process. Portfolio holders believe that they are better informed and able to professionally represent their portfolio areas in Cabinet and Council meetings.

Since the election of the new administration in May 2007, the portfolio holders have had to gain an understanding of the role and responsibility of a portfolio holder, as the skills in this area have developed their effectiveness in the role has increased.

There are a number of concerns that the internal structure of NBC does not always match the portfolio holder responsibilities.

There was also a concern from portfolio holders that their political “hot topics” which had immediate media and public attention did not receive the same degree of focus on the agenda as items on improvement plans. The council’s communications team have been working to address this.

There we no reported examples of breaches of governance arrangements within NBC”.

The Interim Chief Executive also issued a report to the Borough Solicitor and new Chief Executive on the governance improvements required, which has been incorporated into the improvement plan for the Borough Solicitor.

Finance and Audit Services

The financial management of the Authority is conducted in accordance with the financial rules set out at Article 13 and the Financial Regulations section within the Constitution. The Council has designated the Director of Finance as the Chief Finance Officer in accordance with Section 151 (S151) of the Local Government Act 1972. The Head of Finance and Assets is the deputy S151 officer. The Council has in place a three-year Financial Strategy, updated annually, to support the medium-term aims of the Council Plan.

The Council maintains an Internal Audit service provided through a contract with PriceWaterhouseCoopers, who operate to the standards set out in the ‘Code of Practice for Internal Audit in Local Government in the UK’. Individual services produce annual service plans. These Service Plans are updated each year so as to incorporate the Council Plan requirements into service activities, so that services know what they are required to do to achieve the Council’s priorities and ambitions. These plans also identify any governance impact.

Our external audit services are provided by KPMG, who audit our statement of accounts, data quality, use of resources, whole of government accounts and national fraud initiative.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The Council has several committees, which carry out regulatory or scrutiny functions:

- A Planning Committee to determine planning applications and related matters;

- A Standards Committee that promotes, monitors and enforces probity and high ethical standards amongst the Council's Members, and this extends to having the same responsibility for all town and parish councils within the Borough;

- An Audit Committee to provide assurance about the adequacy of internal controls, financial accounting and reporting arrangements, and that effective risk management is in place. Its work is intended to enhance public trust in the corporate and financial governance of the council;

- A Licensing Committee, which monitors and reviews the effectiveness of the Council's licensing policy and procedures.

Since May 2007 the Council has operated with four committees tasked with carrying out the Overview and Scrutiny (O&S) function these are;

- Overview and Scrutiny Management Committee made up of the chairs and vice-chairs of the three Overview and Scrutiny Committees - sets workplan, allocates resources, oversees Member training in O&S area, reviews arrangements for involvement by Councillors and the public.
- Overview and Scrutiny Committee 1 - Partnerships, Regeneration, Community Safety and Engagement
- Overview and Scrutiny Committee 2 - Housing and Environment
- Overview and Scrutiny Committee 3 - Improvement, Performance and Finance

The purpose of Overview and Scrutiny is set out in Modern.gov (Modern.gov is the online system that enables access to committee agendas, reports and minutes, it has been in use since November 2001) as:

"Overview and Scrutiny is a key part of the modernised arrangements for governance in local councils and also an important mechanism for driving forward performances in services. The four key legislative roles are: -

- Holding the Executive to account
- Policy development and review
- Best Value Reviews
- External Scrutiny

Overview and Scrutiny provides the opportunity for non-Executive Councillors (Councillors that are not on Cabinet) to examine various functions of the Council, to question how key decisions have been made and to champion issues of local concern to residents.

Overview and Scrutiny is charged with finding ways of ensuring the issues that matter to the public are the focus of their attention, and with finding new ways of getting citizens involved in the things that affect them. Overview and Scrutiny has considerable powers:

- Holding decision makers to account
- Challenging and improving performance
- Supporting the achievement of value for money
- Challenging the ways things are done
- Influencing decision makers with evidence based recommendations
- Bringing the evidence and views of stakeholders, users and citizens

Overview and Scrutiny is Councillor led. As well as Councillors leading on the review of topics where they research issues and develop recommendations, they are also involved in setting work programmes for the Overview and Scrutiny Committee, bringing forward topics and issues, identifying who they want to hear from to inform their work and what they want to know and how they want it presented to them.

Developing the capacity and capability of members and officers to be effective

The council has a structured councillor development programme which is informed by corporate priorities, legislative changes and individual personal development plans for councillors. The programme is overseen by the councillor liaison group which comprises councillors from all political groups and officers to determine priorities and agree programmes of development on a rolling three-month programme. It also evaluates and monitors outcomes from development sessions.

Extensive Members training was undertaken during 2007/08. The courses included - Welcome to NBC, Code of Conduct, Getting Results, IDEA workshop, Performance Management, Equalities and Diversity, Local Authority Finance, LSP/LAA/WNC, Planning (Probity and Building), CAA/LAA and Modern

Councillor Launch Party. Training has also been provided to the Audit Committee by PWC.

Engaging with local people and other stakeholders to ensure robust public accountability

The council introduced internal and external communications strategies in 2007 which clearly set out the principles and responsibilities for effective management of corporate communications and brand identity. The strategy included media training for all senior councillors and officers who have contact with the media. In addition the council has adopted a community engagement strategy which sets out the principles for wider engagement with residents, forums, community groups, stakeholders and partners and detailed work is being carried out to develop a co-ordinated programme of engagement activities to support the implementation of the strategy.

4.0 Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of its governance framework including the system of internal control. The process adopted during 2007/08 for a review is below; this will be strengthened during 2008/09:

The AGS group was set up to agree the approach and necessary contributors for the production of the draft AGS and its circulation for comments. The process included:

- Contributions and comments from Corporate Managers/Head of Service.
- Internal Audit review for comment
- Review and approval by Management Board
- Review and comment by the Audit Committee
- Review and approval by Cabinet and full Council

The next paragraphs give more detail regarding the actual review process, and actions undertaken during 2007/08.

The review of effectiveness is informed by the work of the managers within the council who have responsibility for the development and maintenance of the governance environment, the Internal Auditor's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

The Borough Solicitor (the 'Monitoring Officer') has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes. A full review of the Constitution was undertaken during the latter part of 2007/08 to ensure it was accurate and reflected current best practice and legal requirements.

The Council has three Overview and Scrutiny (O&S) Committees as set out above. They can establish 'task and finish' groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to the Executive (Cabinet). The O&S Committees can "call-in" a decision that has been made by the Executive but not yet implemented, to enable it to consider whether the decision is appropriate. Call in can be generated by O&S to at least two Councillors.

A good example of the call in process at NBC is detailed in an article by the Centre for Public Scrutiny (CFPS), where the Sixfields plan was called in. The article notes that it was effective use of the call in process.

During 2007/08 examples of task and finish work carried out by O&S include:

- Alcohol related violence/polycarbonate glasses (jointly with NCC)
- Voluntary sector funding/partnerships
- Community engagement
- Historic buildings

The Standards Committee on the 10th July 2007 approved a work plan and has conducted a broad-ranging review of the council's existing policies and procedures for compliance with the Members' Code of Conduct and related ethical conduct requirements. These include the Protocol for Members on Outside Bodies, the Planning Protocol, Register of Members' Interests and a review of the acceptance of gifts and hospitality, the Anti Fraud and Corruption Policy and Whistle Blowing Policy and member/employee relations. It simultaneously reviewed how compliance is monitored and evidenced. The Standards Committee confirmed its endorsement of the compliance procedures and evidence sources used by NBC as representing a satisfactory assessment of Members' standards of conduct to approve various amendments dealt with above.

On the 10th July 2007 the Standards Committee also considered a revised Model Code of Conduct for Members, together with arrangements for training Members. The Council formally adopted the revised Model Code of Conduct for Members and the Planning Protocol on the 23rd July 2007

The Standards Committee has produced periodic newsletters for the benefit of Members, Parish Councillors and relevant officers, to provide updates on the national position, advice on matters in relation to Standards generally and to also remind Members of their obligations under the Code of Conduct, the Register of Interests, Gifts and Hospitality.

Internal Audit, under the terms of engagement, are required to provide those charged with governance with an opinion on the overall adequacy and effectiveness of the council's:

- Risk management
- Control and;
- Governance processes.

Collectively this is referred to as "the system of internal control".

An audit plan is prepared each year and is agreed at the Audit Committee prior to the year commencing. For 2007/08 the audit plan was agreed at the Audit Committee meeting on 27th February 2007. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager and/or chief officer. The report includes recommendations for improvements that are included within an action plan and requires agreement or rejection by service manager and/or chief officers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months. All Internal Audit reports include a report on the quality and effectiveness of internal control within the Council's systems, and an assessment in accordance with quantification and classification of internal control level definitions. These definitions are summarised below:

High Assurance – No control weaknesses were identified or some low impact control weaknesses were found.

Moderate Assurance: There are some weaknesses in the design and/or operation of controls, which could impair the achievement of the objectives of the system, function or process. However, their impact would be less significant or they are unlikely to occur.

Limited Assurance: There are some weaknesses in the design and/or operation of controls, which could have a significant impact, but should not have a significant impact on the achievements of the organisational objectives.

No Assurance: There are some weaknesses in the design and/or operation of controls, which could have a significant impact and may put at risk the achievement of organisational objectives.

Risk ratings, ranging from critical to low, are also included within the audit reports.

The Internal Audit service is subject to a review by the council's external auditors, KPMG, who place reliance on the work carried out by the section. Internal Audit also carries out an annual self-assessment that is reviewed by the Director and Head of Finance and external audit.

Teamcentral was introduced at the end of 2007/08. This software manages audit recommendations and monitors the adherence of implementing them by agreed dates. Teamcentral will send out automatic monthly reminders where the implementation dates of audit recommendations have passed without being closed. The reports from this system will also be used as part of the monthly Corporate Performance Review meetings.

As part of the Comprehensive Performance Assessment (CPA) framework for districts, the Council has been assessed under the 'use of resources' category. The overall score for 2006/07 was a 1, with a 2 scored for both VFM and Financial Standing. An improvement plan has been implemented during 2007/08 and it is hoped that the score announced in autumn 2008 will be at least an overall 2.

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5.0 Significant governance issues

Significant control weaknesses in relation to the following services were identified by Internal Audit and highlighted to the Audit Committee at its meeting of 27th May 2008 in the Annual Audit Report:

Significant Control Weakness areas	Action to address weakness (examples)
Core Financial Systems:	
Debtors	Improvements have been and are being made to the write off authorisation process and the monitoring of aged debt.
Fixed Assets	Work is underway on ensuring that the asset register is up to date.
Bank Reconciliations	Improvements are in train, including regular reconciliations to the ledger, improved transaction access security and prompt follow up of unreconciled items.
Westbridge:	
Electrical Services overtime	Controls and records are now in place to control the levels and authorising of overtime.
Capital Voids	The quote and tendering process is now more robust and will be monitored.

As a result of the above, Internal Audit can only give the authority limited assurance on the design and effectiveness of the system of internal control.

We propose to address the above matters, as set out in the table, to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Internal audit recommendations have not been addressed and implemented as quickly as necessary. In response to this, the audit reports and recommendations have been uploaded to Teamcentral. Teamcentral is an IT software solution that requires officers to update the system with their actions and it tracks the implementation status of audit recommendations. A summary of this is now included with the monthly performance reports as part of the CPR scheme referred to above.

It should also be highlighted that Risk and Business Continuity Manager's post was not filled during 2007/08 and the authority has since failed to recruit during the early months of 2008/09. During 2007/08, risk management was maintained through utilising the services of the previous post holder who moved internally. A Corporate Manager led business Continuity and PWC also provided risk workshops to officers. The Insurance Manager also maintained the completeness of the Risgen, system based, risk management system.

The council is currently rated as "poor" under the Comprehensive Performance Assessment. Certain services during 2007/08 were monitored via the Government Monitoring Board. Improvements have been made to Finance, Culture and Leisure and the Revenue and Benefits services, that have shown the necessary progress to disengage from this process. Housing and Planning Services currently remain part of the GMB monitoring, but the necessary improvements are being undertaken and there should be disengagement during 2008/09.

We are also currently undergoing a senior management restructuring. The initial Director level was agreed at Cabinet in January 2008. The next level or management, Corporate Managers/Head of Service, was agreed at Cabinet and Council in May 2008. This process is currently continuing and it is planned that the new structure is in place for the 1st October 2008.

6.0 Certification by the Leader of the Council, Chief Executive, Director of Finance and the Monitoring Officer.

Signed:

Date:

Councillor Tony Woods
Leader of the Council

Signed:

Date:

David Kennedy
Chief Executive

Signed:

Date:

Isabell Procter
Director of Finance (S151 Officer)

Signed:

Date:

Francis Fernandes
Borough Solicitor/Monitoring Officer

Appendices:3

Agenda Item 7 **Item No:**

NORTHAMPTON
BOROUGH COUNCIL

COUNCIL
29 September 2008

Agenda Status: Public **Directorate:** Finance and Asset Management

Report Title	**2007/08 STATEMENT OF ACCOUNTS**

1. Summary

1.1 The purpose of this report is to:

(a) Present the 2007/08 Statement of Accounts to Council.

(b) Note any Audit Committee or Cabinet comments.

2. Recommendations

2.1 That Council review the 2007/08 statement of accounts**.**

2.2 That Council consider any observations from the Audit Committee and Cabinet.

2.3 That subject to any comments arising at 2.1 and 2.2 above the Council adopt the 2007/08 statement of accounts.

2.4 That the Director of Finance, in consultation with the Portfolio holder for Finance, be authorised to make any non-material adjustments to the accounts prior to publication of the accounts.

3. Report Background

3.1 The Accounts and Audit Regulations 2003 require the Council to formally approve the Statement of Accounts by 30th June. They are then externally audited and represented for approval by the 30th September.

3.2 The detailed format of the statement of accounts follows guidance issued by CIPFA/LASSAC. The format of the statement can change from year to year to reflect new requirements or changes in best practise.

3.3 The attached statement of accounts at Annex A will be published on the Council's website, subject to any changes made following recommendation 2.4.

The Accounts

3.4 The Accounts have been updated for changes required by our Auditors and this is summarised at Annex B, noting what has happened with these changes. There have not been any material adjustments.

3.5 Changes to Prime Financial Statements – There have been a number of balance sheet adjustments. These are primarily concerning the accounting treatment for late cash and netting off debtor and creditor balances for Benefits.

3.6 Changes to Prime Financial Statements – There have been a number of income and expenditure account adjustments. None of these have an effect on overall levels of balances.

3.7 Changes to the Notes / Presentational Adjustments – There are a number of presentational changes which have been agreed. These mainly relate to changes required in notes to reflect some late changes made in the main body of the accounts.

3.8 In summary the changes are non-material, mainly with movements between categorisations in the accounts, for example between debtors and creditors.

Other Areas for Information

3.9 The accounts are currently being updated and checked following the above and if necessary a revised version will be presented to Council on the 29th September, although this will be avoided if possible.

3.10 The external audit report to those charged with governance (called the ISA 260) is attached at Annex C. This report summarises their opinion on the Council's accounts, and also their conclusion on our Use or Resources.

4. Implications (including financial implications)

4.1 Resources and Risk

4.1.1 The statement of accounts summaries the Council's Financial Position as at 31st March 2008.

4.1.2 There are Comprehensive Performance Assessment implications on the timing of the approval of the statement of accounts.

4.2 Legal

4.2.1 The statement of accounts is a statutory document, for which the draft needs to be approved by the Council by 30th June 2008 and the revised by 30th September 2008 in respect of the 2007/08 financial year.

4.3 Other Implications

4.3.1 None

5. Background Papers

Statement of Accounts Working Papers
Audit Committee Report & Minutes
Cabinet Report & Minutes

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NORTHAMPTON
BOROUGH COUNCIL

Revised Statement of Accounts

2007/2008

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A. Auditor’s Report

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Audit Report will be shown here

B. Explanatory Foreword

1. Introduction

The Council has a statutory duty to approve and publish this Statement of Accounts document for the period 1st April 2007 to 31st March 2008.

This document complies with recommended practice from the Chartered Institute of Public Finance and Accountancy and its format is largely prescribed.

To comply with the Accounts and Audit Regulation 2003 (subsequently updated by the Accounts and Audit Regulations 2006), the Council is required to have received and approved the Statement of Accounts by the end of June 2008. The Council met and approved the accounts at its meeting on 26th June 2008.

This foreword outlines the key individual statements that comprise the Statement of Accounts, including a description of the relationship between them. It also highlights the main activities/variations that took place during 2007/08 in each of the main activity areas.

The detailed accounts and related information are shown on pages 27 to 96 and consist of the following: -

Core Financial Statements

Income and Expenditure Account (page 27)
This statement reports the net cost for the year of all the functions for the year which the Authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of the local authority's functions, in three distinct sections (Net Cost of Services, Net Operating Expenditure, and Surplus (-) / Deficit for the Year), each section being separated by a sub-total. This statement does not, however, show the effect of the Council's activities on the Council Tax or the level of reserves available. To understand the full position, the reader must also consider the Statement of Movements on the General Fund Balance.

Statement of Movements on the General Fund Balance (pages 29 to 31)
This statement details the adjustments which must be made to the movement on the Income and Expenditure Account in order to arrive at the year on year changes to the General Fund Balance. As such this statement also reverses out the effect of the Housing Revenue Account transactions which can be viewed separately in the supplementary statements. The balances left on this statement relate entirely to the General Fund.

Statement of Total Recognised Gains & Losses (page 33)
This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in net worth. In addition to the surplus (-) / deficit generated on the Income and Expenditure Account, this statement includes gains and losses relating to fixed assets, the net liability to cover the cost of retirement benefits, and changes in amounts due to the council from the collection fund.

Balance Sheet (page 35)
The Balance Sheet is fundamental to the understanding of an authority's financial position at the year end and shows balances as at 31st March 2008. It shows the council's balances and reserves, summarised information on the fixed assets held, net current assets employed in its operations, its long -term indebtedness, and net assets

held. All reserves and balances (including the levels of General Fund and Housing Revenue Account working balances) are shown in the lower part of the Balance Sheet.

Cash Flow Statement (page 37)
This statement consolidates and summarises the inflows and outflows of cash arising from transactions with third parties for revenue, capital, and investment purposes.

Notes to the Core Financial Statements (pages 39 to 78)
This section comprises the recommended notes to the Income and Expenditure Account, Statement of Movements on the General Fund Balance, the Balance Sheet, and the Cash Flow Statement, plus additional notes deemed useful to aid the understanding of the reader of the accounts.

Supplementary Financial Statements

Housing Revenue Account (HRA) Income and Expenditure Account (page 81)
The transactions on this statement are included in the whole authority Income and Expenditure Account but cannot be individually identified within that statement. This statement shows the income and expenditure on HRA services which relate to the provision and maintenance of Council housing.

Statement of Movements on the Housing Revenue Account Balance (pages 83 to 85)
This statement details the adjustments which must be made to the movement on the HRA Income and Expenditure Account in order to arrive at the year on year changes to the Housing Revenue Account Balance. The balances shown on this statement relate entirely to the Housing Revenue Account.

Notes to the Housing Revenue Account (pages 87 to 92)
This section comprises the recommended notes to the Housing Revenue Account supplementary financial statements.

Collection Fund (page 93)
This statement shows income collected from Council Tax and Non-Domestic Rates and how this is distributed between Northampton Borough Council and the other precepting bodies (i.e. the County Council and the Police Authority). This account reflects the statutory requirement for billing authorities, such as Northampton Borough Council, to maintain a separate Collection Fund. The amount shown for Northampton Borough Council is reflected in the Council's Income and Expenditure Account.

Statement of Responsibilities for the Statement of Accounts (page 97)
This statement outlines the Authority's and the Responsible Finance Officer's responsibilities when preparing the accounts.

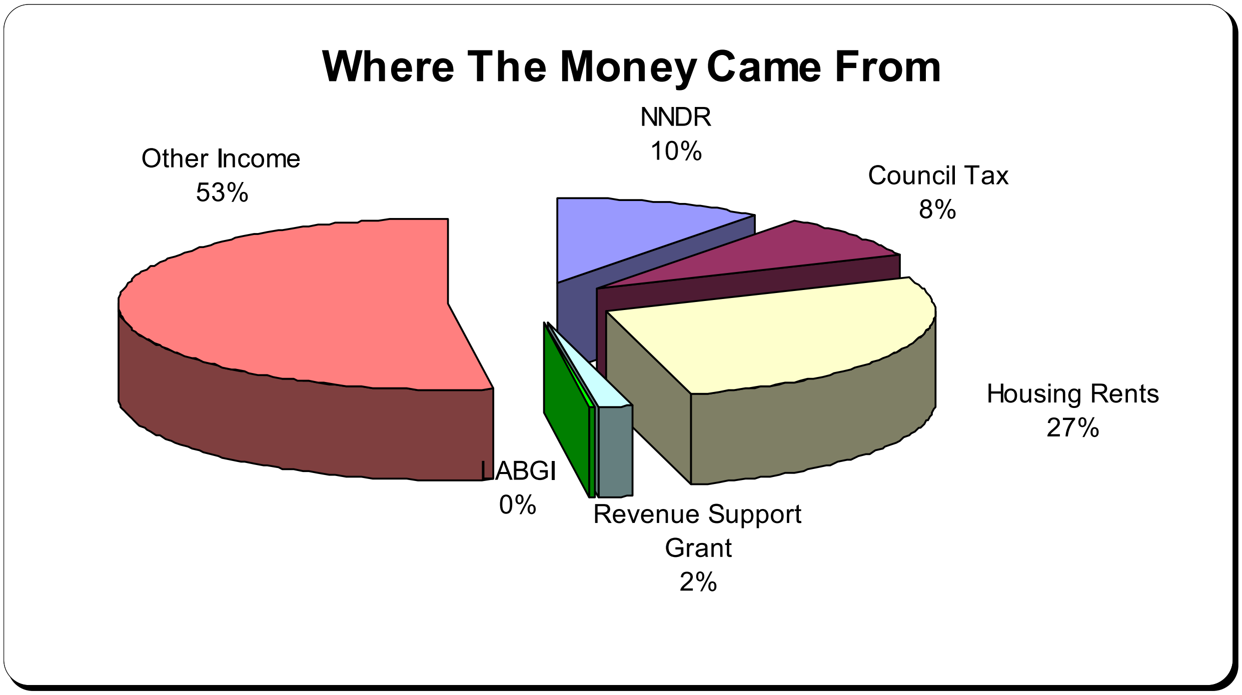
Annual Governance Statement (pages 99 to 119)
This statement outlines the Council's main systems of internal control and governance arrangements and notes any resultant actions arising for next year.

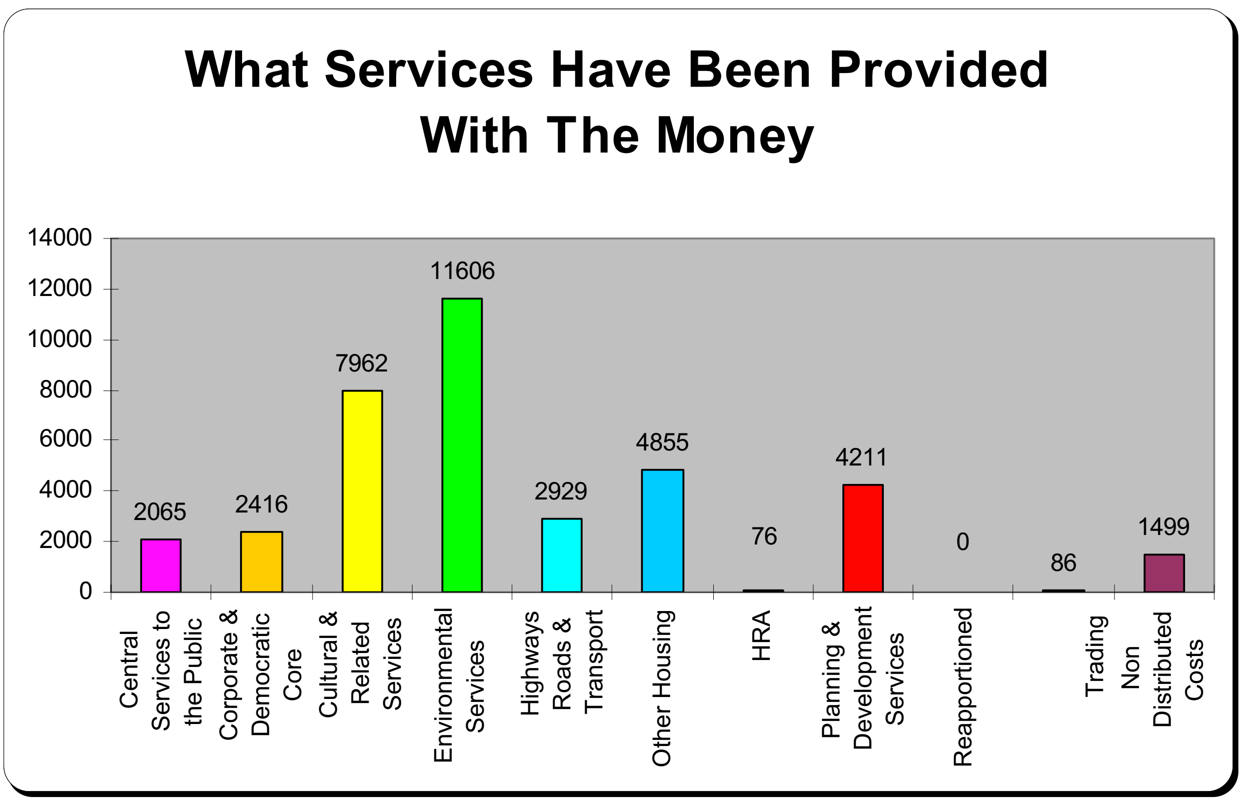
B. Explanatory Foreword

2. Financial Summary 2007/08

a) <u>Revenue Spending and Sources of Income</u>

The following charts outline where the Council's revenue money came from, how it was spent and on which services. The charts show the overall position of the Council's revenue budgets for 2007/08 (i.e. both General Fund and HRA).





B. Explanatory Foreword

b) General Fund Account

The following table summarises the position for the General Fund for 2007/08. Some notes are included following the table to explain the main variations to the budget for the year.

	Budget	Actual	Variance
	£000s	£000s	£000s
Expenditure			
Net Service Expenditure	39,638	39,270	-368
Interest & Capital Financing Adjustments	-8,208	-7,238	970
Total Net Expenditure	31,430	32,032	602
Income			
National Non Domestic Rates	-15,760	-15,760	0
Revenue Support Grant	-2,645	-2,645	0
Local Authority Business Growth Incentive	0	-451	-451
Met by local Council Taxpayers	-13,045	-13,045	0
Collection Fund Deficit	20	10	-10
Total Income	-31,430	-31,891	-461
(Surplus)/Deficit for the year		141	
Balance brought forward		-2,893	
Balance carried forward		-2,752	

Variations to Budget

After taking account of contributions to reserves and balances, the Council's General Fund working balance was reduced by £141k. This is after making a net contribution to General Fund earmarked reserves of £2.3m to mitigate some specific business risks.

There were a number of variances that have contributed to this position, the most significant of which are detailed below.

i) Local Authority Business Growth Incentive (LABGI) Funding

When setting the Council's budget, LABGI funding was treated as 'outside' of the Council's base budget due to its uncertain and unsustainable nature. To comply with recommended practice, the £451k that the Council has been awarded to date for 2007/08 been shown within the accounts as a general government grant.

ii) Other Variations

Under (-) / Over spends	£000s
Concessionary Fares	429
Training and Development	-204
Regeneration	400
Events	222
Asset Management	-187
Parks and Open Spaces	-287
Revenues	-308
Targeted Dwellings	-482
Call Care	-272
ICT	-296
Non Distributed Costs	-158
Insurance and Bad Debt Provision	315
Support Service Recharges	697

c) Housing Revenue Account

The following table outlines the outturn position for the Housing Revenue Account for 2007/08. Some notes are included following the table to explain the main variations to the budget for the year.

	Budget	Actual	Variance
	£000s	£000s	£000s
Expenditure			
Net Service Expenditure	-797	113	910
Interest & Capital Financing Adjustments	-228	59	287
(Surplus)/Deficit for the year	-1,025	172	1,197
Balance brought forward		-5,803	
Balance carried forward		-5,631	

Variations to Budget
After taking account of contributions to reserves and balances, the Council's Housing Revenue Account working balance was decreased by £172k. This is after making a net contribution to HRA earmarked reserves of £3m to equalise capital financing between years and funding sources and to set up a reserve for leaseholder charges.

There were a number of variances that have contributed to this position, the most significant of which are detailed below.

Under (-) / Over spends	£000s
Repairs & Maintenance	1,234
Revenue Contributions to Capital	-2,000
Net Recharges for Support Services	-701
Increase in Bad Debt Provision	1,075

d) Capital Expenditure

Capital expenditure relates to spending on new and improved assets (primarily Council owned) such as land, buildings, infrastructure, equipment, and information technology. In 2007/08 the Council spent £13.1 million on capital projects, compared with a budget of £20.3 million.

	Budget	Actual	Variance
	£000s	£000s	£000s
Expenditure			
Housing Revenue Account Schemes	8,975	5,495	-3,480
General Fund Housing Schemes	2,348	774	-1,574
Other General Fund Schemes	8,947	6,837	-2,110
Total Capital Expenditure	20,270	13,106	-7,164
Sources of Financing			
Major Repairs Allowance		4,995	
Revenue Contributions to Capital Expenditure		22	
Grants & Contributions		3,553	
Capital Receipts		1,893	
Supported Borrowing		500	
Prudential Borrowing		2,143	
		13,106	

Capital Variations to Budget

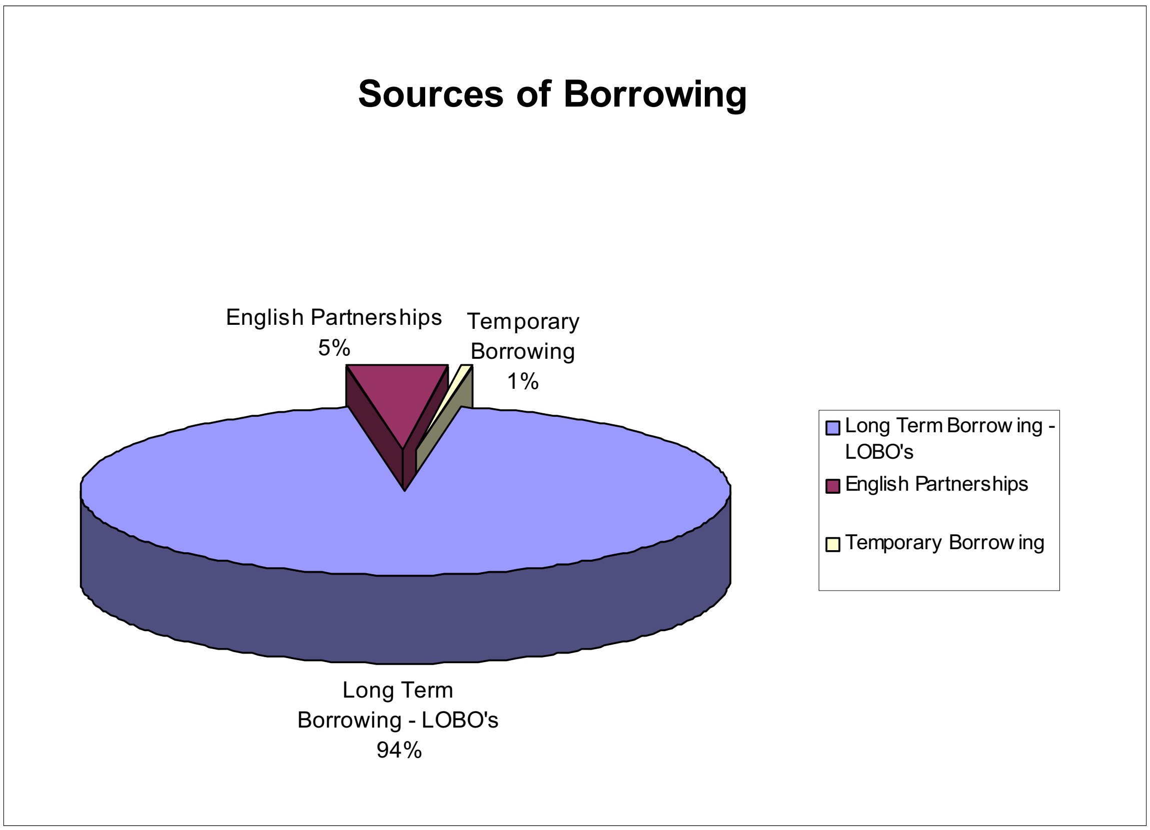
The spend on the capital programme was approximately £7.1 m below budget for the year. Approximately £5.8 of this variance relates to schemes that are currently underway or still planned to take place, but have effectively "slipped " into the next financial year (i.e. 2008/09).

B. Explanatory Foreword

e) <u>Current Borrowing Facilities</u>

Current borrowing facilities are as detailed below: -

Description	£000s
Long Term Borrowing - Bonds	24,606
English Partnerships	1,256
Temporary Borrowing	154
	26,016



B. Explanatory Foreword

3. Major Changes in 2007/08

a) Assets acquired or enhanced

Capital expenditure represents major investment in new and improved assets such as land, buildings, infrastructure, equipment, and information technology assets. Expenditure is incurred in pursuit of the Council's objectives and priorities and the delivery of services, and can be for the acquisition of new assets, enhancement of existing assets or investment in assets owned by third parties.

Capital Expenditure	
	£000s
Housing	
Council Housing	5,141
Other Housing	354
	5,495
General Fund	
Information Technology	966
Corporate Buildings	845
Environmental and Recreational Improvements	844
Private Sector Housing Grants	774
Designing Out Crime	742
Changing Room Improvements	631
Pay on Foot St Johns Car Park	428
Midsummer Meadow and Beckets Park Waterside	392
CCTV Installation	362
Far Cotton Resource Centre	283
Capitalisation Directive	277
Recycling Facilities	244
Leisure and Community Facilities	187
CASPAR 5 Thorplands	159
Ecton Lane improvements	147
Upton Mill Bridleway Bridge	107
Community Safety Schemes	128
Other Capital Works	95
	7,611
	13,106

b) Accounting Policies

A new Statement of Recommended Practice (SoRP) applies for the production of the 2007/08 accounts. This brings accounting treatments closer into line with UK Generally Accepted Accounting Practice (UK GAAP) and entails some changes to accounting treatments and the presentation of the accounts. There are adjustments required relating to historic transactions in respect of the impact of the accounting for Financial Instruments. Details of the changes are included in the section on accounting policies and the note on prior period adjustments.

c) Statutory Functions

The operation for the collection of Trade Waste was sold on 2nd June 2008 for £840k. The Council is responsible for ensuring that a Trade Waste service is available within the town. A service will continue to be available but will be provided by the private sector. The Council will still incur costs in relation to the collection of its own trade waste.

The Gambling Act of 2005 required Local Authorities to issue premises licences for gambling activity. Administration of licensing activity is a statutory responsibility of a District Council and as such this activity falls within the remit of that role. The duty to grant and issue licences for gambling activity has transferred from Licensing Justices and as such represents an acquired operation. Many of the costs in relation to this activity have been absorbed within the existing service. However it is possible to identify specific income and expenditure in relation to employees, printing and income receivable.

There have been no other changes to the statutory functions of the Authority.

d) Unusual charges or credits in the accounts

As indicated earlier, the Council is in receipt of an additional general government grant in 2007/08 called Local Authority Business Growth Incentive (LABGI) (as it was in 2006/07). The future receipt of this grant is uncertain and so the use of this grant is not being built into base budgets.

An adjustment is necessary between the General Fund and Housing Revenue Account to correct a previous miscalculation of premia which dates back to 2002/03 and 2003/04. The impact of this is detailed in the note on prior period adjustments.

4. Conclusion

The Council is committed to continually improving and strengthening its internal governance arrangements. The Council continues to improve its budgetary control, overall financial control, and performance management processes. Clarity of decision-making and accountability, alongside the protection of public money and the legality of operations, is key to any public sector organisation and the Council continues to improve its awareness of its processes and steps that are necessary for compliance with best practice. The Council's budgets and the delivery of services within those budgets are the responsibility of service managers and the Council continues to increase service delivery whilst controlling net expenditure.

The under-spend on the Capital Programme has primarily been the result of a number of schemes not completing within the year. The Council is aware of the need for improved project management and is putting measures in place to deliver this.

The out-turn for the Housing Revenue Account shows an increase in the level of working balances and earmarked reserve, however many challenges must be overcome for the Council to deliver good quality homes at an affordable price to its tenants. A number of reviews are currently underway to enable the Council to deliver to this key priority.

The Council's General Fund Working Balance stood at £2.9m at the end of 2006/07. The working balance was reduced by £0.1m due to transactions in the year. The reasons for this are outlined in section 2b. The Council has adjusted its earmarked reserves to mitigate against emerging risks together with maintaining its level of balances at the level indicated by risk-based analysis. The Council continues to consolidate and strengthen its financial position to enable a sound platform from which to maintain and improve essential services within available resources. The level of working balance and the risk mitigation provided by reserves should enable the Council to concentrate on improving its services in line with priorities.

5. Further Information

Further information about these accounts is available from: -

Bill Lewis Assistant Head of Finance Northampton Borough Council Cliftonville House, Bedford Road Northampton NN4 7NR	Isabell Procter Finance Director Northampton Borough Council Cliftonville House, Bedford Road Northampton NN4 7NR

In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed and the availability of the accounts is advertised in the local press.

C. Statement Of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2007* (the SoRP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Accounts and Audit Regulations 2003 (as amended). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets and certain categories of financial instrument.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. This is in accordance with the SoRP and Financial Reporting Standard 18 (FRS 18). In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure is credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

3. Provisions

The Authority considers making a provision if the following circumstances occur:-

- A present legal or constructive obligation results from a past event;
- A probable transfer of economic benefit is required to settle an obligation;
- The timing of the transfer is uncertain;
- A reliable estimate can be made of the amount of the obligation.

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

Provisions are charged to the appropriate service revenue account in the year that an authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

4. Reserves

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

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

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

The Council's risk-based assessment of the required level of General Fund working balance is £2.75m. This level of general working balance is considered reasonable due to the mitigation of some risks through the holding of earmarked reserves.

Certain reserves are kept to manage the accounting processes for tangible fixed assets, retirement benefits, and financial instruments and these reserves do not represent usable resources for the council – these reserves are explained below.

Insurance Provision / Reserve

Surpluses or deficits required in the insurance provision are charged or credited back to individual services. Any changes required to the Insurance Reserve will be debited or credited to the Statement of Movements to balances. This is in according with the SoRP and proper accounting practice.

5. Specific Accounting Adjustment Reserves

Capital Accounts

To comply with capital accounting rules and legislation, the Council has two "capital" accounts that are incorporated into the Consolidated Balance Sheet. These are: -

- **Revaluation Reserve** (RR) which broadly represents the changes in asset values arising from revaluations from 1st April 2007 onwards.

- **Capital Adjustment Account** (CAA) which reflects the timing difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

The **Revaluation Reserve** commences with a nil balance, and from 1st April 2007 is used for gains on all upward revaluations and, to the extent that they reverse gains on upward valuations already held on the Revaluation Reserve for the asset under consideration, losses due to subsequent impairment or downward valuation. All other impairment losses are dealt with through the Income and Expenditure Account and will not impact on this reserve.

The **Capital Adjustment Account** mainly represents

- all resources used for financing capital expenditure,
- the amount of depreciation and impairment charged to revenue services
- disposal of assets, and
- revaluations and impairments that take the value of an asset below its historic cost (as at 1st April 2007).

The opening balance on this account as at 1st April 2007 is the combined balance of the old Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA), both of which ceased to exist as at that date.

Pensions Reserve

In accordance with Financial Reporting Standard 17 (FRS 17) on pensions, the Council is required to maintain a Pensions Reserve to reflect the net asset or liability of the Council's proportion of the Northamptonshire County Council's Pension Fund.

Financial Instruments Accounts

To comply with Financial Instruments rules and legislation, the Council has two financial instruments accounts that are incorporated into the Consolidated Balance Sheet. These are: -

- **Financial Instruments Adjustment Account** (FIAA)

The Financial Instruments Adjustment Account (FIAA) is used to manage balances relating to the difference between the actual interest payable in cash terms and the interest that would be payable at the effective interest rate. It is also used to manage movements relating to premia adjustments in the Statements of Movement in Balances. Finally it is used to manage some of the transitional arrangements for moving to the Financial Instruments Agenda.

- **Available-for-sale Financial Instruments Reserve** (AFIR)

The Available-for-sale Financial Instruments Reserve (AFIR) is used in accounting for gains and losses arising from a change in value of an available-for-sale financial asset, excluding impairment losses and any foreign exchange losses, which are recognised in the Income and Expenditure Account. These gains and losses are recognised as a separate item within the Statement of Total Recognised Gains and Losses. There are no such adjustments necessary for 2007/08.

6. Collection Fund Balances

The treatment of the collection fund balance (although this does not fully recognise the ring fenced nature of the collection fund) is to split the balance on the collection fund by recording the precepting authorities as debtors or creditors in the top half of the balance sheet and the residual balance attributable to NBC in the bottom half. The movement on the amount attributable to NBC then forms part of the Statement of Recognised Gains and Losses. A note reconciling this treatment to the ring-fenced Collection Fund balance is included in the notes to the Accounts. This treatment is consistent with the requirements of the SoRP.

7. Government Grants and Contributions (Revenue)

Government grants and third party contributions and donations are recognised as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution. This applies whether paid on account, by instalments, or in arrears, as long as there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

8. Retirement Benefits

Employees of the council are members of the Local Government Pensions Scheme, administered by Northamptonshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

The Local Government Pensions Scheme is accounted for as a defined benefits scheme in compliance with the Financial Reporting Standard 17 (FRS 17) (Retirement Benefits) to ensure the financial statements reflect at ″fair value″ the assets and liabilities from an employer’s retirement benefit obligations and any related funding. The liabilities of the Northamptonshire County Council pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, calculating the discount rate as a weighted average of “spot yields” on AA rated corporate bonds. Our actuaries believe that it should therefore be broadly appropriate for Local Government Employers.

The assets of the Northamptonshire County Council Pension Fund attributable to the council are included in the balance sheet at their fair value:

- quoted securities – mid-market value
- unquoted securities – professional estimate
- unitised securities – average of the bid and offer rates
- property – market value.

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

- current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account

- expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- contributions paid to the Northamptonshire County Council pension fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

9. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them. Where VAT costs are incurred that arise from a transaction in a foreign country and those VAT costs are not reclaimable, the costs are charged to the service incurring them.

10. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice (BVACOP) 2007*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early, deferred charges relating to capitalisation directives, and depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

11. Capital Expenditure

All expenditure on the acquisition, creation or enhancement of capital assets is capitalised on an accruals basis. The Council has a general de-minimus limit of £6,000 for capital projects for capital expenditure purposes, which results in the capitalisation of expenditure that complies with the definition of capital expenditure, above that limit, as an asset in the balance sheet.

All expenditure counted as capital complies with the definition of expenditure for capital purposes as set out in Local Government Act 2003, and the appropriate accounting practices. Capital expenditure is therefore applied to the asset as an addition. Any subsequent revaluation will be undertaken as part of the Council's ongoing programme of revaluations.

12. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised, subject to the general de-minimus limit of £6,000 for capital projects, when it will bring benefits to the council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits. Intangible Assets are amortised to revenue over between three and ten years depending on the scale and perceived benefit arising from the asset to reflect the pattern of consumption of benefits. Where appropriate, intangible fixed assets will be revalued, disposed of, and impaired in line with the accounting policies on tangible fixed assets.

13. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement: Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the basis recommended by CIPFA and in accordance with the Royal Institute of Chartered Surveyors Valuation Standards 6th Edition. The basis of valuation for assets is shown in note 23 to the core statements. Assets not valued at historic or depreciated historic cost are revalued as part of a 5 year rolling programme. A schedule of properties valued at more than £0.45m is revalued annually. In order to properly reflect the profit or loss on disposal of an asset, assets which are being disposed of will be revalued at an unencumbered market value at the date of disposal. This revaluation will be outside the 5 year rolling programme adopted by the Council. The Council's freehold and leasehold properties are valued by the Council's internal valuer, Richard Lewis FRICS.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise directly from the reversal of an impairment loss previously charged to a service revenue account. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, which is the date of its formal inception. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment: the values of each category of asset and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account;
- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure account, but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account. This will then offset the transfer from the Statement of Movements to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government, subject to the use of capital allowance in respect of non Right-to-Buy receipts. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the Statements of Movement on the General Fund Balance and the Statement of Movement on the Housing Revenue Account Balance.

The revalued assets are compared to the sale value to reflect the profit or loss to be shown in revenue. This will then enable transparency over the effects of any covenants or restrictive deeds which are placed on assets at the time of sale and therefore will show the financial effect of that policy decision. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance and the Statement of Movement on the Housing Revenue Account Balance so that there is no impact on the General Fund or Housing Revenue Account balances.

Depreciation: is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Depreciation is calculated using the Straight-Line method over the determined life of the asset. The Council does not depreciate assets in the year of acquisition. This is not in accordance with FRS15, however this does not materially affect the pattern of consumption. Where an asset has major components with different estimated useful lives, these are depreciated separately.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to service revenue accounts, where specific services can be identified, in line with the SoRP, according to the depreciation policy applied to the assets. This will partially offset depreciation charges made for the related assets in the relevant service revenue account, in order that the net impact is charged to services over the useful life of the assets. An adjustment will then be made in the Statements of Movement on balances so that there is no impact on levels of Council Tax or Housing Rents.

Previously Northampton Borough Council wrote Government Grants back over the anticipated life of the asset starting in the year the grant was used for financing. This was not in line with the way that other capital charges are reflected in the accounts and so is being corrected for future years. In order to realign the amortisation with depreciation, there were no amortisations in 2006/07. The amortisations re-commence in 2007/08.

14. Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- amortisation of intangible fixed assets attributable to the service
- Government Grants and other contributions used for the financing of capital expenditure amortised to the service.

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations, or reduce council tax on the basis of grants and contributions used to finance capital expenditure. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision to the Statement of Movement on the General Fund Balance from the Capital Adjustment Account.

15. Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. These include private sector renewal grants and advances to other parties to finance capital investment. Where the council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Financing Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

16. Leases

Leases have been assessed under the requirements of SSAP21 and treated as Finance Leases or Operating Leases accordingly.

Finance Leases

The council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable) and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, including the general de-minimus of £6,000 for capital expenditure, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

17. Financial Instruments

Assessment of Fair Value of Assets or Liabilities

Financial liabilities and financial assets are carried in the balance sheet at the appropriate level for their classification as a financial instrument. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rates at 31 March 2008 have been used where applicable based on the rate most appropriate to each type of investment. These have been based on rates for that date including Bank of England base rate (5.25%), PWLB rates and LOBO rates for example;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate fair value;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowing that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account on an amortised cost basis in the year of repurchase / settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments with substantially the same overall effect when viewed as a whole, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and written down to the Income and Expenditure Account on a straight-line basis over the term of the replacement loan by an adjustment to the effective interest rate. Where premiums and discounts are to be charged to the General Fund or housing Revenue Account Balance, regulations allow the impact on the Balances to be spread over future years. The Council has a policy of spreading the gain / loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid (or ten years whichever is the lesser in the case of the HRA). The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statements of Movement on Balances. Where there is not a direct replacement of loans, the gains and losses must be derecognised from the balance sheet. Where there is a legal requirement to charge these to revenue over a different period, an adjusting transaction is made to the Statement of Movements on Balances.

Financial Assets

Financial assets are classified into three types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets– assets that have a quoted market price and/or do not have fixed or determinable payments
- financial assets at fair value through income and expenditure

a) **Loans and receivables** are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. If the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss is made to the Income and Expenditure Account if it is unlikely to be a temporary fall. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans at less than market rates (for example repayable training fees). These are termed ‘soft loans’. When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited / debited to the Income and Expenditure Account.

b) **Available-for-sale assets** are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g., dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-sale Financial Instruments Reserve and the gain / loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain / loss for the asset accumulated in the Reserve. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

c) Financial assets at fair value through income and expenditure – Derivatives

The Council does not generally deal in derivatives but may take out forward loans from time to time as part of its overall treasury management strategy.

18. Interest Receivable

The figure quoted in the Income and Expenditure Account is the total interest that would be receivable from third parties based on the effective interest rate, principally due to the investment of capital receipts and revenue balances. Interest due on revenue balances relating to the Housing Revenue Account is credited to the Housing Revenue Account based on the level of balances and using average rates of interest.

19. Stocks and Work in Progress

The stocks held at the Council's main stores at Westbridge Depot are valued at current prices due to the method of calculation employed by the Council's stores computer system. This accounting policy does not comply with SSAP 9 (Statement of Standard Accounting Practice 9) which requires that stock is carried at the lower of cost and net realisable value. This does not have a material effect on the accounts. Other stocks and stores are included in the balance sheet at the lower of cost and net realisable value in line with the SoRP and SSAP9.

Work in progress on uncompleted jobs is valued at cost.

20. Developers' Contributions

The Council has received a number of contributions from developers, mostly in settlement of their planning (section 106) obligations. Where the contribution is repayable to the developer within a specific time period if, by the end of that time period, certain works have not been completed, the contribution is treated as a creditor. The contributions will remain in creditors until such a point that the money is not repayable (i.e. the works have been completed) or until the contribution is repaid.

Where the contribution is not repayable to the developer within a specific time, there is a different treatment depending on whether the agreement relates to capital or revenue works. Any revenue contribution is treated as a receipt in advance and is held in the balance sheet until there is related expenditure in revenue. At this point the contribution is credited to the service accounts to support the revenue expenditure. Any capital contribution is treated as a Contribution Unapplied and is written down when the contribution is used to finance a relevant capital project. This treatment is in compliance with the SoRP.

21. Interests in Companies and Other Entities

The council has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and so there is no requirement to prepare group accounts.

22. Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. The Council currently has no PFI agreements in operation.

23. Cash flow

The cash flow statement has been compiled using the indirect method, as recommended by FRS1, which works back from the final accounts making the appropriate adjustments. The Council has used the Cash flow model developed by Cipfa for this purpose.

24. Changes in Accounting Treatment

Financial Instruments

In the 2007/08 Statement of Accounts, the Council has adopted a number of significant new accounting policies relating to Financial Instruments. This will not require a restatement of 2006/07 comparative figures, however an adjustment is made in 2007/08 to the Statement of Movement on the General Fund Balance. This is detailed in the note on prior period adjustments.

The accounting requirements dealing with the treatment of Financial Instruments require the establishment of two new reserve accounts. These are: the Financial Instruments Adjustment Account and the Available-for-sale Financial Instruments Reserve. The operation of these is summarised in the Accounting Policies above.

Capital Accounting Reserves

The 2007 SORP has introduced new capital accounting requirements. As at the 31st March 2007, the Fixed Assets Restatement Account (FARA) and the Capital Financing Account (CFA) cease to exist and as from the 1st April 2007, two new accounts are operated: - the Revaluation Reserve (RR) and the Capital Adjustment Account (CAA). The total balances held on the FARA and CFA as at 31st March 2007 are transferred to the CAA at its inception on 1st April 2007 and the CAA begins with a nil balance. The operation of these accounts is summarised in the Accounting Policies above.

D. Core Financial Statements

D1 Income & Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2006/07 Net Expenditure		2007/08 Gross Expenditure	2007/08 Gross Income	2007/08 Net Expenditure	Note
£000s	**EXPENDITURE ON SERVICES**	£000s	£000s	£000s	
494	**Central services to the public**	14,885	-12,821	2,064	
	Cultural, environmental & planning				
9,630	Cultural & related services	12,009	-4,047	7,962	
9,705	Environmental services	16,742	-5,136	11,606	
3,023	Planning & development services	6,994	-2,783	4,211	2
1,226	**Highways, roads & transport**	9,062	-6,133	2,929	3
	Housing				
-3,384	Housing Revenue Account	35,566	-35,490	76	
5,952	General Fund Housing	55,953	-51,098	4,855	
3,160	**Corporate & democratic core**	2,486	-70	2,416	4, 5
	Other Services		-325	-325	
199	**Non distributed costs**	1,499	0	1,499	
30,005	**Net Cost of Services**	155,196	-117,903	37,293	6-10
209	Loss on the Disposal of Fixed Assets			-47	
617	Parish Council precepts			825	
-102	Parish grants			-59	
-1,180	Surpluses (-) / Deficits on trading undertakings not included in Net Cost of Services			86	11
1,545	Interest payable and similar charges			1,363	
186	Premia			-799	
5,299	Contributions to housing pooled capital receipts			3,876	35d
-2,608	Interest & investment income			-3,263	
1,840	Pensions interest cost & expected return on pensions assets			1,655	12
35,811	**Net Operating Expenditure**			40,930	
-12,143	Demand on the Collection Fund			-13,045	
147	Distributed Surplus (-) / Deficit on Collection Fund			10	
-2,828	General Government Grants (Revenue Support Grant)			-2,645	
-15,062	Non-domestic rates redistribution			-15,760	
-861	Local Authority Business Growth Incentive			-451	
5,064	**Surplus (-) / Deficit for the Year**			9,039	

D. Core Financial Statements

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D2 Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance shows whether the Council has over or under-spent against the council tax that it raised for the year, taking into account the use or reserves built up in the past and contributions to reserves earmarked for future expenditure.

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

2006/07		2007/08	Note
£000s		£000s	
5,064	Surplus (-) / Deficit for the year on the Income and Expenditure Account	9,039	
-4,853	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	-8,897	13
211	**Increase (-) / Decrease in the General Fund Balance for the Year**	142	
-3,104	General Fund Balance brought forward	-2,893	
-2,893	**General Fund Balance carried forward**	-2,751	

D. Core Financial Statements

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D. Core Financial Statements

Reconciling Items for the Statement of Movement on the General Fund Balance

2006/07		2007/08	Note
£000s		£000s	
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
-544	Amortisation of intangible fixed assets	-503	
-4,140	Depreciation and Impairment of fixed assets	-8,731	
0	Government Grants Deferred amortisation	2,373	
-764	Write down of deferred charges to be financed from capital resources	-667	
-94	Net loss on sale of fixed assets	-211	
	Differences between amounts debited / credited to the Income and Expenditure Account and amounts payable / receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt	-187	
-6,187	Net charges made for retirement benefits in accordance with FRS 17	-5,959	12
-11,729		-13,885	
	Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year		
307	Minimum Revenue Provision for capital financing	350	
0	Capital expenditure charged in-year to the General Fund Balance	23	
-5,299	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	-3,876	
6,183	Employer's contributions payable to the Northamptonshire County Council Pension Fund and retirement benefits payable direct to pensioners	5,523	12
1,191		2,020	
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
3,290	Housing Revenue Account Balance	319	
0	Voluntary Revenue Provision for capital financing		
2,395	Net transfers to / from (-) earmarked reserves	2,649	
	Adjustments to opening Financial Instrument Balances	1,900	
	Adjustments to opening Financial Instrument Balances Reversed to the Financial Instruments Adjustment Account	-1,900	
5,685		2,968	
-4,853	**Net additional amount required to be credited to the General Fund balance for the year**	-8,897	

D. Core Financial Statements

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D. Core Financial Statements

D3 Statement of Total Recognised Gains & Losses (STRGL)

This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income & Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2006/07		2007/08	Note
£000s		**£000s**	
5,064	Surplus (-) / Deficit for the year on the Income and Expenditure Account	9,039	I&E
-46,071	Surplus (-) / Deficit arising on revaluation of fixed assets	-52,071	
-9,040	Actuarial gains (-) / losses on pension fund assets and liabilities	36,515	12
	Gains (-) / Losses on Available for Sale Financial Assets		
	Any other gains and losses required to be included in the STRGL		
-158	Surplus (-) / Deficit for the year on Collection Fund balance due to Northampton Borough Council	149	14
	Financial Instruments Restatement Adjustment (2007/08 Only)	1,710	
-50,205	**Total recognised gains (-) / losses for the year**	-4,658	

D. Core Financial Statements

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D. Core Financial Statements

D4 Balance Sheet

The Balance Sheet summarises the financial position of the Council. It shows the value of the Council's assets and liabilities at 31 March.

2006/07		2007/08		Note
£000s	**Fixed Assets**	£000s	£000s	15,16
3,663	**Intangible Fixed Assets**		3,541	17
	Tangible Fixed Assets			18 - 24
	Operational Assets			
565,857	Council dwellings	597,268		
83,293	Other land and buildings	89,955		
3,938	Vehicles, plant, furniture & equipment	381		
335	Infrastructure Assets	1,412		
4,484	Community Assets	5,597		
	Non-operational Assets			
41,706	Investment Properties	43,523		
3,179	Assets Under Construction	3,049		
865	Surplus Assets Held for Disposal	796		
703,657			741,981	
707,320			745,522	
4,399	Long-term Debtors		109	
1,119	Deferred premia on the early repayment of debt		0	
712,838	**Total Long-term Assets**		745,631	
342	Stocks & work in progress	379		26
25,840	Debtors	22,732		27
39,520	Investments	52,503		25
29	Cash and bank	29		28
65,731	**Total Current Assets**		75,643	
778,569	Total Assets		821,274	
-432	Short-term Borrowing	-154		29
-34,568	Creditors	-35,181		30,31
-1,333	Bank Overdraft	-1,236		28
-36,333	**Total Current Liabilities**		-36,571	
742,236	**Total Assets less Current Liabilities**		784,703	
-25,869	Long-term borrowing	-25,862		32
-1,110	Provisions	-1,218		33
-7,630	Grants & contributions – deferred	-8,145		
-988	Grants & contributions – unapplied	-1,110		31
-64,144	Liability relating to defined benefit pension scheme	-101,215		12
-99,741	**Total Long-term Liabilities**		-137,550	
642,495	**Total Assets less Liabilities**		647,153	34
	Financed by			
0	Revaluation Reserve	49,928		
689,000	Capital Adjustment Account	674,464		
0	Financial Instruments Adjustment Account	-1,582		
0	Capital Receipts Reserve	131		
71	Deferred capital receipts	54		
-64,144	Pension reserve	-101,215		12
2,893	General fund balance	2,751		
1	Collection fund balance	-148		14b
5,803	Housing Revenue Account balance	5,631		
0	Major Repairs Reserve	2,617		
8,871	Earmarked reserves	14,522		
642,495	**Total Net Worth**		647,153	34,35

D. Core Financial Statements

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D. Core Financial Statements

D5 Cash Flow Statement

This statement summarises the inflows and outflows of revenue and capital cash arising from transactions with third parties.

2006/07		2007/08		Note
£000s		£000s	£000s	
10,903	**Revenue Activities Net Cash Flow**		10,674	36
	Return on Investments & Servicing of Finance			
-1,545	**Cash Outflows** - Interest paid	-558		
2,608	**Cash Inflows** - Interest received	2,847		
1,063	**Net Interest**		2,289	36
	Capital Activities			
	Cash Outflows			
-14,634	Purchase of fixed assets	-12,819		
0	Purchase of long-term investments	0		
-1,052	Other capital cash payments	-667		
-15,686		-13,486		
	Cash Inflows			
11,435	Sale of fixed assets	5,899		
2,834	Capital grants received	2,916		
5,533	Other capital cash receipts	39		
19,802		8,854		
4,116			-4,632	
16,082	**Net Cash (Inflow)/Outflow before financing**		8,331	
	Management of Liquid Resources			36
-17,443	Net increase / decrease in short term deposits	-7,943		
0	Net increase / decrease in other liquid resources	0		
-17,443			-7,943	
	Financing			36
-1,557	**Cash Outflows -** Repayments of amounts borrowed	537		
1,585	**Cash Inflows** - New loans raised	-828		
28	**Financing Net Cash Flow**		-291	
-1,333	**Net Increase / Decrease (-) in cash**		97	36

D. Core Financial Statements

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E. Notes To The Core Financial Statements

1. Prior Period Adjustments

There are no prior year adjustments which have an effect on the overall position of the Council. There is, however, an adjustment relating to previous and future years which affects the incidence of costs between the Housing Revenue Account and General Fund and a consequent effect on the available balances for the two accounts; this is shown at note 1a below. The major changes are detailed below.

a) Premia

Sometimes when the borrowing of the Authority has been amended with the lenders, an additional charge (or discount) is made to the Authority. This transaction is then allocated between Housing Revenue Account and General Fund, based on the notional borrowing on each account. Some of the historic transactions have been incorrectly allocated between the HRA and General Fund in the past and a correction is necessary in order to comply with HRA 'Ring-fencing' legislation. To correct this requires transactions to be enacted relating to previous years. The transactions are summarised below.

	HRA Premia Share - Original	HRA Premia Share - Actual	Additional Charge due to HRA
	£000s	£000s	£000s
Rescheduling 2002/03	1,656	2,017	361
Rescheduling 2003/04	202	1,120	918
Total Increase to Deferred Premia Account	1,858	3,137	1,279
Deferred Premia Balance B/f 01/04/2007			1,119
Revised Deferred Premia Account as at 01/04/2007			2,398
Backdated Charge in 2007/08			-480
Unattached Premia as at 01/04/2007			1,918
Annual Write Off to HRA 2007/08			-315
Deferred Premia Balance c/f 31/03/2008			1,603

	Revenue Effects £000s
General Fund - Income and Expenditure Account	-1,119
Housing Revenue Account - Income and Expenditure Account	480
Effect on Consolidated Income and Expenditure Account	-639
Charge to HRA Statement of Movements	315
Total Effect on Revenue	-324

E. Notes To The Core Financial Statements

With the inception of financial instruments, the premia must no longer be recognised in the balance sheet. The balance on the deferred premia account has therefore had to be written off as at 1st April 2007. This will then be written off to the HRA over the relevant period through the Statement of Movements.

b) Financial Instruments

The accounting treatment for Financial Instruments has changed with effect from the 2007/08 financial year. In accordance with the SoRP, the adjustment relating to previous periods is made on 1st April 2007. The 2006/07 accounts have not therefore been restated to accommodate this change, however since the transactions do not relate to 2007/08, they have not been posted to the income and expenditure account but are reflected in two balancing transactions within the Statement of Movements on the General Fund Balance. Because the gains and losses for 2006/07 and previous years are not recognised in the Income and Expenditure Account, a separate line within the Statement of Total Recognised Gains and Losses for 2007/08 is required which will agree to the figures below. These transactions are made up as follows:

	Financial Liabilities	**Financial Assets**		**Total**
	Liabilities measured at amortised cost	**Loans and Receivables**	**Available for sale assets**	
	£000s	**£000s**	**£000s**	**£000s**
Gains on Revaluation	0	-208	0	-208
Losses on Revaluation	0	0	0	0
Unattached Premia	1,918	0	0	1,918
Amounts recycled to the I+E Account after impairment	0	0	0	0
Surplus (-) / Deficit arising on revaluation of financial assets	1,918	-208	0	1,710

c) Capital Balance Sheet Accounts

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve (see accounting policy 5). The Revaluation Reserve and Capital Adjustment Account replace the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA). The credit balances of £454,688k and £234,312k on the FARA and CFA respectively at 31 March 2007 have been written off to the Capital Adjustment Account with a resulting credit balance of £689,000k. The Revaluation Reserve has been included in the Balance Sheet with a zero balance. The closing balance on the Revaluation Reserve at 31 March 2008 only shows revaluation gains accumulated since 1 April 2007.

E. Notes To The Core Financial Statements

31st March 2007	Prior Year Adjustments and Accounting Changes - Revaluation Reserve and Capital Adjustment Account	1st April 2007
£000s		£000s
454,687	Fixed Asset Restatement Account	0
234,312	Capital Financing Account	0
0	Revaluation Reserve	0
0	Capital Adjustment Account	688,999
688,999	Total	688,999

2. Building Control Trading Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control Unit divided between the chargeable and non-chargeable activities.

The Building Control chargeable services has, for the three-year period to 31st March 2008, made an operating deficit of £25k on a turnover of £1,681k. In the previous three-year period to 31st March 2007, there was a deficit of £339k against a turnover of £1,681k.

	2007/08		
	Chargeable	**Non-Chargeable**	**Total**
	£000s	£000s	£000s
Expenditure			
Employees	253	136	389
Premises	0	0	0
Transport	7	4	11
Supplies and services	18	72	90
Support service charges	145	78	223
Capital Charges	1	0	1
Total Expenditure	424	290	714
Income			
Building Regulation fees	-310	0	-310
Other Income	-15	0	-15
Total Income	-325	0	-325
Surplus (-) / Deficit for Year	99	290	389

	2006/07		
Comparatives for 2006/07	**Chargeable**	**Non-Chargeable**	**Total**
	£000s	£000s	£000s
Expenditure	556	135	691
Income	-486	0	-486
Surplus (-) / Deficit for Year	70	135	205

E. Notes To The Core Financial Statements

3. Agency Services

An Agency agreement with the County Council commenced on 1 July 2003 which allows the Council to undertake a much smaller range of functions than under the previous Highways Agency Agreement. The costs for 2007/08 include residual enquiries from the public, plus grass cutting on highways land and inspection and maintenance of highways trees.

2006/07		2007/08
£000s		£000s
423	Administration costs and ancillary services	446
-223	Income including transfer fees from NCC	-239
200		207

4. Members' Allowances

The total amount of members' allowances paid in the year ending 2007/08 was £364k. Detailed allowances are listed below:-

2006/07		2007/08
£000s		£000s
	Expenditure	
27	Mayor/Deputy Mayor Allowance	27
356	Members' Allowances	330
4	Expenses	7
387	**Total**	364

5. Audit Fees

Fees payable for external audit services are detailed below. The Authority's auditor is KPMG LLP and the amounts paid to the auditor for the various functions are: -

2006/07		2007/08
£000s		**£000s**
211	Fees payable with regard to external audit services carried out by the appointed auditor (Section 5 Audit Commission Act 1998)	269
14	Fees payable in respect of statutory inspection (Section 10 Local Government Act 1999)	21
49	Fees payable for the certification of Grant Claims and Returns (Section 28 Audit Commission Act 1998)	50
0	Fees payable in respect of other services provided by the appointed auditor	32
274		372

6. Discretionary Expenditure

Under the Local Government Act 2000, the maximum amounts in respect of discretionary expenditure were repealed. Councils now have powers under that Act to promote wellbeing in their area. There is still a requirement to disclose any expenditure made under section 137(3), e.g. donations to charities, not-for profit bodies and mayoral appeals. Expenditure made under this section was £219k in 2007/08 (£0 in 2006/07). The spend was mainly on grants to the voluntary sector and community groups working in the Northampton.

7. Publicity Expenditure

In accordance with the Local Government Act 1986 (Section 5(1)), the Council's spending on publicity was: -

2006/07		2007/08
£000s		£000s
	Expenditure	
294	Recruitment Advertising	152
-	Other Advertising	0
-	Information relating to regional government	0
-	Public Relations	0
423	Publicity Unit	426
104	Other Publicity	118
821	**Total**	696

E. Notes To The Core Financial Statements

8. Officers' Remuneration

The Council is required, under the Accounts and Audit Regulations 2003 (regulation 7(2)) to disclose the number of employees whose remuneration (excluding pension payments) was £50,000 or more. This is shown in bands of £10,000 in the table below:

2006/07 No. of Employees	Remuneration Band	2007/08 No. of Employees
2	£50,000 - £59,999	5
10	£60,000 - £69,999	13
0	£70,000 - £79,999	1
1	£80,000 - £89,999	0
2	£90,000 - £99,999	3
0	£100,000 - £109,999	0
0	£110,000 - £119,999	0
0	£120,000 - £129,999	0
0	£130,000 - £139,999	0
0	£140,000 - £149,999	0
0	£150,000 - £159,999	0
0	£160,000 - £169,999	0
0	£170,000 - £179,999	0
0	£180,000 - £189,999	0
0	£190,000 - £199,999	0
1	£200,000 - £209,999	0

9. Related Party Transactions

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

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out in a note to the Cash Flow Statement.

Members of the Council have direct control over the Council's financial and operating policies. During 2007/08 expenditure to the value of £1.343m (£2.326m in 2006/07) was paid to parties where Members had an interest or where they serve as a nominated representative on outside bodies and income to the value of £39k (£35k in 2006/07) was receivable from those bodies. Contracts were entered into in full compliance with the Council's Standing Orders. All transactions are recorded in the Register of Members' Interest, open to public inspection at The Guildhall, Northampton.

Officers of the Council – no material disclosures.

Other Public Bodies – no disclosures.

Pension Fund – in 2007/08 the contributions paid to Northamptonshire County Council in respect of employers' contributions, added years' contributions and lump sum payments were £6.974m (£7.697m in 2006/07)

Assisted Organisations – no material disclosures.

Management Contracts – no disclosures.

Companies and Joint Ventures – no disclosures.

10. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. The Authority provides a variety of services to other local authorities, the income from this is outlined below: -

2006/07			**2007/08**	
Exp	**Income**		**Exp**	**Income**
£000s	£000s		£000s	£000s
34	-56	Highways	2	-9
346	-128	Call Care	315	-155
21	-21	Print Services Unit	32	-32
401	-205		349	-196

11. Trading Undertakings

The Council operates the following trading undertakings: -

2006/07		**2007/08**		
Net		**Income**	**Exp.**	**Net**
£000s		£000s	£000s	£000s
-1,008	Property Management	-1,529	1,467	-62
-172	Highways	-1,905	2,053	148
-1,180	**(Surplus)/Deficit to I & E**	-3,434	3,520	86

The financial statements include income of £0.488m (£2.360m in 2006/07) and expenditure of £0.541m (£1.539m in 2006/07) in respect of the provision of highways related work undertaken by the Council for W S Atkins plc.

Concerns were raised about the legality of these payments. The Council obtained and has accepted counsel's opinion that this income and expenditure is beyond its powers and is therefore unlawful.

The Council also considered the implications of withdrawing from the arrangement and determined it could rely on its well-being powers to follow a phased withdrawal until June 2007 after which point no further work was undertaken.

The following services are also deemed to be trading services but are allocated to main service areas within the accounts: -

2006/07		2007/08		
Net		Income	Exp.	Net
£000s		£000s	£000s	£000s
-34	Trade Refuse	-1,176	1,204	28
-155	Markets	-604	498	-106
-189	**(Surplus)/Deficit to I & E**	-1,780	1,702	-78

The operation for the collection of Trade Waste was sold on 2nd June 2008 for £840k as explained in the explanatory foreword.

12 Accounting for Pensions

The Authority's pension scheme is a defined benefit scheme operated by Northamptonshire County Council. The date of the last actuarial valuation was 31st March 2007.

a) Cost of Pensions

The following table outlines the cost for 2006/07 and 2007/08: -

2006/07		2007/08
£000s		£000s
	Net Cost of Service	
5,079	Current Service Cost	4,065
0	Past Service Cost	1,460
781	Gains and losses on settlements or curtailments	370
	Net Operating Expenditure	
11,117	Interest Costs	12,178
-9,277	Expected Return on Assets	-10,523
	Amount to be met from Government Grants and Local Taxation	
-3	Contribution From Pension Reserve	-556
-	Adjusting item for Pension Contributions	-20
	Amount Charged to Council Tax for Pensions	
7,697	Employer's Contributions	6,974

The expected return on assets was £10.5k but the actual return on assets was £30k less at (£19.5k), a loss of 20.2%. Employer's contributions were £6,974k for 2007/08 (£7,697k for 2006/07).

E. Notes To The Core Financial Statements

b) Main Assumptions

The main financial assumptions adopted as at 31 March 2008 were:-

31/03/2007		31/03/2008
% pa		% pa
3.1	The inflation assumption	3.6
4.6	The rate of increase in salaries	5.1
3.1	The rate of increase for pensions	3.6
5.4	The rate used to discount scheme liabilities	6.1

Changes to the Local Government Pension Scheme (LGPS) permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuary we have assumed a number of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuary has advised that they have estimated that 50% of members would take up the option to increase their lump sum to the maximum available and that this assumption is built into the figures provided.

c) Fund Assets and Expected Rate of Return (for the fund as a whole)

31/03/2007			Asset	31/03/2008		
Market Value	Expected Rate of Return (%)	Proportion Of Assets (%)		Market Value	Expected Rate of Return (%)	Proportion Of Assets (%)
114,413	7.5	70.3	Equities	98,470	7.5	69.3
20,506	4.7	12.6	Gilts	12,504	4.6	8.8
11,555	5.4	7.1	Other bonds	11,652	6.1	8.2
11,555	6.5	7.1	Property	10,515	6.5	7.4
4,720	5.3	2.9	Cash	1,705	5.3	1.2
			Other	7,247	7.5	5.1
162,749		100.0	Total	142,093		100.0

E. Notes To The Core Financial Statements

d) Reconciliation to the Balance Sheet

31/03/2007		31/03/2008
£000s		£000s
-226,893	Funded benefits under the LGPS regulations	-243,308
162,749	Market Value of Fund Assets	142,093
-64,144	Surplus/deficit(-) in the Fund	-101,215

The deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

e) Components of Defined Benefit Cost

	31/03/2008
	£000s
Analysis of amounts recognised in the Statement of Recognised Gains & Losses (STRGL)	
Gain and Losses(-) on Assets	-19,512
Experienced gain(-)/loss on liabilities	-5,886
Gain(-)/loss on change of assumptions (financial and demographic)	-11,117
Total gain/loss(-) recognised in STRGL before adjustment for tax	-36,515
Contribution to Revenue Account	-556
Movement on Pension Reserve	-37,071

f) History of Experienced Gains and Losses

31st March	2004	2005	2006	2007	2008
	£000s	£000s	£000s	£000s	£000s
Gain/Loss(-) on Fund assets	16,687	6,822	21,709	-1,871	-19,512
% of fund assets at end of period	14.80%	5.50%	14.00%	1.10%	13.70%
Experienced gain(-)/loss on scheme liabilities	0	-3,031	-4,102	0	-5,886
% of fund liabilities at end of period	0.00%	1.50%	1.80%	0.00%	2.40%
Gains(-)/loss on scheme liabilities from changes in demographic and financial assumptions	0	-30,689	-17,198	10,912	-11,117
% of fund liabilities at end of period	0.00%	15.40%	7.50%	4.80%	4.60%

The information included for all of the pension disclosures is provided by Mercers, the Actuary for the Pension Fund. Further information can be found in the County Council's Pension Fund's Annual Report which is available on request from the Pensions Section, Resources Directorate, PO Box 136, County Hall, Guildhall Road, Northampton, NN1 1AT.

13. Minimum Revenue Provision

The Council is required by Statutory Instrument 2003 No. 3146 to set aside a minimum revenue provision (MRP) for the repayment of debt, and by Statutory Instrument 2008 No.414 to determine an amount of minimum revenue provision which it considers to be prudent. In doing so the Council is required to have regard to guidance issued under Section 21A of the Local Government Act 2003.

The Council approved the Council's Annual MRP statement for 2007/08, which is required by the guidance issued by CLG, on 28th Feb 2008.

The CLG guidance allows local authorities, as a transitional measure, to calculate MRP for all capital expenditure prior to 1 April 2008 as if the previous regulations were still in force. The Council's Minimum Revenue Provision for 2007/08, calculated under the transitional arrangements (Statutory Instrument 2007 No. 573), was £350k. This compares to £307k in 2006/07.

14 Collection Fund

The Collection Fund is used to account for the collection of Council Tax and National Non-Domestic Rate (NNDR) and then pays amounts to precepting authorities on the basis of their precept requests.

a) Precept Split

The split of these precepts is shown below:

Precept 2006/07	Percentage of Total Precepts		Precept 2007/08	Percentage of Total Precepts
£000s		**Precepting Authorities**	£000s	
56,662	72%	Northamptonshire County Council	59,497	71%
10,406	13%	Northamptonshire Police Authority	11,037	13%
12,143	15%	Northampton Borough Council	13,045	16%
79,211	100%	**Total Precepts for the year**	83,579	100%

b) Allocation of surplus / deficit

For the purposes of the accounts, the balance on the Collection Fund is assigned to the precepting authorities as shown below: -

Collection Fund Balance 2006/07	Treatment	Collection Fund Balance 2007/08
£000s		£000s
	Creditors / Debtors	
-3	Northamptonshire County Council	673
-1	Northamptonshire Police Authority	125
	Reserve	
-1	Northampton Borough Council	148
-5	**Collection Fund Balance**	946

15 Capital Expenditure and Financing

Total 2006/07		Total 2007/08
£000s		£000s
	Capital Investment	
641	Intangible Assets	497
	Tangible Assets	
12,761	Operational Assets	10,894
1,304	Non-operational Assets	384
1,053	Deferred Charges	1,331
15,759		13,106
	Sources of Finance	
500	Supported Borrowing	500
875	Prudential Borrowing	2,143
3,325	Capital Receipts	1,893
7,982	Government Grants	7,940
1,144	Revenue Contributions	23
1,933	Other Contributions	607
15,759		13,106
9,698	Opening Capital Financing Requirement	10,766
500	Supported Borrowing	500
875	Prudential Borrowing	2,143
-307	Minimum Revenue Provision	-350
0	Voluntary set-aside	0
10,766	Closing Capital Financing Requirement	13,059

E. Notes To The Core Financial Statements

16 Commitments Under Capital Contracts

Contract	Contractor	2008/09	2009/10	2010/11	2011/12
		£000s	£000s	£000s	£000s
Kitchen Replacement Backlog	Mears & A Ainge & Sons	706	0	0	0
Housing Management System	IBS	359	0	0	0
Archangel Square	Richardsons	72	0	0	0
Spring Lane Victorian School Annexe	Chris Smith Developments	48	0	0	0
Far Cotton Resource Centre	Watson & Cox	39	0	0	0
Spring Borough Café Disabled Access	Mears	33	0	0	0
Disabled Access (General)	Mears	5	0	0	0
Improvements to Corporate Buildings - Walls and Security Fences	Mears	5	0	0	0
Total		1,267	0	0	0

17 Movement in Intangible Assets

	Purchased Software Licenses	Licenses, Trademarks and Artistic Originals	Patents	Total
	£000s	£000s	£000s	£000s
Original Cost	4,999	0	0	4,999
Amortisations to 1 April 2007	-1,336	0	0	-1,336
Net book value 31st March 2007	3,663	0	0	3,663
Expenditure in Year	500	0	0	500
Written Off to Revenue in Year	-622	0	0	-622
Net book value of assets 31st March 2008	3,541	0	0	3,541

E. Notes To The Core Financial Statements

18 Movement in Tangible Fixed Assets

a) Operational Assets

	Council Dwellings	Other Housing Property	Other land & buildings	Vehicles plant, etc.	Infra-structure	Com-munity Assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Certified Valuation 31st March 2007	574,147	15,661	70,673	10,345	514	4,539	675,879
Accumulated dep'n & impairment	-8,290	-272	-2,769	-6,407	-179	-55	-17,972
Net book value 31st March 2007	565,857	15,389	67,904	3,938	335	4,484	657,907
Movement in 2007/08							
Additions	5,141	0	2,535	1,074	1,093	1,123	10,966
Disposal	-5,315	-265	-38	-1,156	0	0	-6,774
Revaluations	33,367	2,096	5,504	0	0	0	40,967
Depreciation	-9,077	-268	-1,944	-1,872	-16	-11	-13,188
Depreciation Written Back	8,290	106	541	2,100	0	0	11,037
Impairments	-922	-359	-1,671	-3,445	0	0	-6,397
Adjustments/Transfers	-73	154	276	0	0	0	357
Depreciation Adj/Transfers	0	-3	0	-259	0	0	-262
Net book value 31st March 2008	597,268	16,850	73,107	380	1,412	5,596	694,613
Gross Valuation at 31st March 2008	607,267	17,646	78,950	10,263	1,607	5,662	721,395
Impairments at 31st March 2008	-922	-359	-1,671	-3,445	0	0	-6,397
Depreciation at 31st March 2008	-9,077	-437	-4,172	-6,438	-195	-66	-20,385
Net Book Value 31st March 2008	597,268	16,850	73,107	380	1,412	5,596	694,613

E. Notes To The Core Financial Statements

b) Non-Operational Assets

	Works In Progress	Investment & Commercial	Surplus Assets	Total
	£000s	£000s	£000s	£000s
Certified Valuation 31st March 2007	3,179	41,728	865	45,772
Accumulated depreciation & impairment	0	-22	0	-22
Net book value 31st March 2007	3,179	41,706	865	45,750
Movement in 2006/07				
Additions	351	312	181	844
Disposal	0	0	-250	-250
Revaluations	0	1,917	0	1,917
Depreciation	0	-29	0	-29
Depreciation Written Back	0	0	0	0
Impairments	0	-580	0	-580
Adjustments/Transfers	-480	197	0	-283
Depreciation Adjustments/Transfers	0	-1	0	-1
Net book value of assets 31st March 2008	3,050	43,522	796	47,368
Gross Valuation at 31st March 2008	3,050	44,154	796	48,000
Impairments at 31st March 2008	0	-580	0	-580
Depreciation at 31st March 2008	0	-52	0	-52
Net Book Value 31st March 2008	3,050	43,522	796	47,368

E. Notes To The Core Financial Statements

19 Information on Assets Held

31/03/2007		31/03/2008
Number	**Operational Assets**	**Number**
12,334	**Council Dwellings**	12,262
	Other Land and Buildings	
26	Council Houses not used as dwellings	27
98	Shared Ownership Properties	95
3,024	Council Garages	3,005
21	Other Housing Properties	20
69	Operational Shops	67
194	Other Garages	194
1	Guildhall	1
4	Sports & Leisure Centres	4
26	Community Centres	27
2	Museums, Art Galleries	2
1	Open Markets	1
26	Public Conveniences	15
5	Multi-Storey Pay & Display Car Parks	5
4	Local Area Offices	4
5	Central Administrative Offices	4
1	Theatres	1
1	Gypsy Site	1
1	Bus Station	1
17	Surface Pay & Display Car Parks	17
1	Depots	1
15	Sub-Depots	15
275	Commercial Property (Units)	284
1	Golf Course	1
74	**Infrastructure**	74
162	**Vehicles, Plant, Furniture and Equipment**	164
	Community Assets	
62.88ha	Allotments	62.88ha
887.45ha	Parks and Open Spaces	887.45ha
65.97ha	Agricultural Land	65.97ha
4	Historical Buildings	4
33	Monuments/Memorials/Exhibitions	33
6	Pavilions	6
6	Cemeteries	6
1	Civic/Mayoral Regalia	1
	Non-operational Assets	
1	Indoor Market/Arts Venue	1
70	**Intangible Assets**	78

20 Assets Held Under Leases

The Council uses equipment financed under the terms of an operating lease. The amount charged to revenue under these arrangements in 2007/08 was £2.5m (£2.3m for 2006/07). The Council has a financing lease of £3k which is de-minimus for capital purposes.

a) Cost

2006/07		2007/08
£000s		£000s
0	Finance Lease Rentals	0
252	Operating Lease Charges	314
0	IT Operating Lease Charges	0
2,014	Vehicle Operating Lease Charges (including Maintenance)	2,162
2,266		2,476

b) Periods & Commitment

	31/03/2008
	£000s
Plant and Equipment	
Leases Expiring within 1 year	0
2 – 5 years	185
Exceeding 5 years	128
	313

21 Assets Held For Leases

The Council received £2.435m (£2.653m in 2006/07) in the year from the lease of property valued at £38.125m to third parties under operating leases for which £1.227m accumulated depreciation has been charged to revenue.

22 Valuation Information

Assets are carried in the Council's balance sheet at current value in accordance with the proper practices as set out in the CIPFA 2007 SoRP (Statement of Recommended Practice).

The valuation methods used for different types of assets are set out at table 23 below.

Valuations of the Council's freehold and leasehold properties are carried out by the Council's internal valuer, Richard Lewis FRICS.

Further information on the way that intangible and fixed assets are accounted for is set out in sections 12 and 13 of the Accounting Policies.

E. Notes To The Core Financial Statements

a) Tangible Operational

	Council Dwellings	Other Land & Build.	Vehicles Plant & Equip.	Infra-Structure Assets	Comm. Assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Valued at Historic Cost	0	10	0	278	3,779	4,067
Valued at Current Value in: -						
2007/08	597,268	6,663	0	1,077	1,112	606,120
2006/07	0	72,060	381	0	0	72,441
2005/06	0	1,494	0	0	0	1,494
2004/05	0	3,611	0	0	169	3,780
2003/04	0	2,299	0	57	368	2,724
Previous Years	0	3,820	0	0	168	3,988
Total	597,268	89,957	381	1,412	5,596	694,614

b) Tangible Non-Operational

	Non-Operational Assets			Total
	Works in Progress	Investment Property	Surplus Property	
	£000s	£000s	£000s	£000s
Valued at Historic Cost	2,497	100	0	2,597
Valued at Current Value in: -				
2007/08	350	1,795	181	2,326
2006/07	0	32,050	0	32,050
2005/06	0	4,031	276	4,307
2004/05	202	3,142	50	3,394
2003/04	0	860	174	1,034
Previous Years	0	1,545	115	1,660
Total	3,049	43,523	796	47,368

E. Notes To The Core Financial Statements

23 Valuation Methodologies

Intangible Assets	Historic Cost
Operational Assets	
Council Housing	Existing Use Value - Social Housing
Other Land & Buildings	Existing Use Value Depreciated Replacement Cost
Vehicles, Plant & Equipment	Assets <£6k - Depreciated Historic Cost Assets at or > £6k at lower of Net Realisable Value and Current Replacement Cost
Infrastructure Assets	Historic Cost applied where possible but where unable to determine the historical cost, the asset is valued at £1
Community Assets	Historic Cost applied where possible but where unable to determine the historical cost, the asset is valued at £1
Non-Operational Assets	
Investment Properties	Market Value
Surplus Properties	Market Value
Assets Under Construction	Historic Cost

24 Changes in Valuation Methodologies Used

As explained in the statement of accounting policies, the Council now revalues all assets at the point of sale for the purpose of achieving a true surplus or deficit on sales.

25 Investments

31/03/2007	Investment Type	31/03/2008
£000s		£000s
	Short Term - Under 1 Year	
0	Gilts	0
0	UK Equities	100
21,020	Building Societies	47,303
0	Cash On Deposit	0
18,500	Banks	5,100
39,520		52,503
	Long Term - Over 1 Year	
0	Gilts	0
0	UK Equities	0
0	Building Societies	0
0	Cash On Deposit	0
0	Banks	0
0	Total	0

The investment with banks includes £100,000 for debentures.

26 Stocks & Work In Progress

Stocks held at the main stores at Westbridge Depot and the sub-stores are valued at current prices. Each time a commodity is purchased, the entirety of the stock holdings are revalued at that delivery price. Stocks held at the Council's other stores are valued at cost price.

31/03/2007		31/03/2008
£000s		£000s
182	Westbridge Depot Main Stores	183
37	Sub Stores	68
123	Other Stores	128
342	Total	379

27 Current Assets – Debtors

31/03/2007		31/03/2008
£000s		£000s
6,038	Sundry Debtors	4,588
9,834	Government Departments	9,968
1,827	Other Local and Public Authorities	1,949
10,910	Local Taxpayers	10,554
3,516	Housing Tenants	4,291
36	Loans to Employees	15
0	Collection Fund Balance owed	798
32,161		32,163
	Provisions for Bad Debts	
-3,595	Local Taxpayers	-3,809
-1,504	Housing Tenants	-2,376
-1,222	Other	-3,246
-6,321	Total Provision for Bad Debts	-9,431
25,840	Net Debtors	22,732

E. Notes To The Core Financial Statements

28 Current Assets – Cash & Bank

31/03/2007		31/03/2008
£000s		£000s
0	Co-operative Bank	0
13	Imprests	5
8	Floats	16
8	Girobank	8
29	Cash & Bank	29
-1,333	Overdraft	-1,236

29 Current Liabilities – Short Term Borrowing

31/03/2007	Funded by	Period Invested	31/03/2008
£000			£000
270	Eastern Orchestral Board	7 day	0
18	Billing Parish Council	7 day	10
50	Billing Parish Council	3 Month	50
94	Northampton Volunteer Bureau	7 day	94
432			154

30 Current Liabilities – Creditors

31/03/2007		31/03/2008
£000s		£000s
9,411	Sundry Creditors	10,402
4,827	Government Departments	6,969
6,890	Other Local and Public Authorities	4,136
3,730	Local Taxpayers	4,204
862	Tenants	890
8,301	Developer's Contributions	8,005
543	Deposits	575
4	Collection Fund Balance owed	0
34,568		35,181

E. Notes To The Core Financial Statements

31 Government Grants and Developers' Contributions

Contributions received from developers have been classified depending on whether the contribution is repayable and whether the contribution is for a revenue or capital purpose, in line with the treatment described in the Statement of Accounting Policies.

2006/07		2007/08
£000s		£000s
5,913	Creditors	6,598
2,388	Receipts in advance	1,407
409	Grants & Contributions - Unapplied (Government Grants)	948
292	Grants & Contributions - Unapplied (Non-Government Grants)	21
287	Grants & Contributions - Unapplied (Developers)	141
9,289		9,115

32 Long Term Borrowing

31/03/2007	Source of Loan	Range of Interest Rates (%)	31/03/2008
£000			£000
	Analysis of loans by type		
0	Public Works Loans Board	-	0
24,600	Money Markets	4.85 - 7.03	24,606
1,269	English Partnerships	9.25	1,256
25,869			25,862
	Analysis of loans by maturity		
13	Maturing in 1-2 years		14
47	Maturing in 2-5 years		51
15,712	Maturing in 5-10 years		15,726
10,097	Maturing in over 10 years		10,071
25,869			25,862

33 Provisions

a) Insurance Provision

The provision covers the following risks :-

- Liability claims under the policy excess arising from 1992/93 onwards.
- Claims under the policy excess on the Council's own dwellings.
- Claims over the "paid locally" figure but under the excess on the Council's motor vehicles.
- Death in service cover for employees who have council loans for the purchase of cars required for essential purposes.

- Other small miscellaneous items arising from time to time.

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

The estimated cost of outstanding claims on the Insurance provision as at 31st March 2008 is shown below. These sums represent the balance on the Insurance Provision, with any surplus being transferred to the Insurance Reserve.

2006/07		2007/08
£000s		£000s
-942	Ongoing Liability Claims under the policy excess	-982
-5	Motor Vehicle Claims over the "paid locally" figure, but under the policy excess	-7
-947		-989

b) Overall Provisions

Provisions	Balance 01/04/2007	Costs	Income	Balance 31/03/2008
	£000s	£000s	£000s	£000s
Insurance	-947	515	-557	-989
DWP Grants	-160	0	0	-160
Other	-3	0	-66	-69
	-1,110	515	-623	-1,218

Department for Work and Pensions (DWP) Grants
The amount processed in the benefits system for emergency accommodation payments has been processed gross of VAT. The information being fed into the subsidy claims has therefore been overstated and too much subsidy claimed. The estimate of overstated claims for the 6 financial years from 1998/99 to 2003/04 is £160,000.

Other
The balance represents small provisions of £3k in respect of the Rent Assistance and Rent Guarantee Schemes and a provision of £66k relating to electricity payments due on leisure centres.

E. Notes To The Core Financial Statements

34 Analysis of Net Assets Employed

	31 March 2007	31 March 2008
	£000s	£000s
General Fund	16,358	-11,241
Housing Revenue Account	587,647	617,853
Trading Operations	38,490	40,216
Total	642,495	646,828

E. Notes To The Core Financial Statements

35 Reserve Movement

a) Overall Summary

Reserve	Balance 01/04/2007	Net Movement in Year	Balance 31/03/2008	Purpose of Reserve	Further Details of Movements
	£000s	£000s	£000s		
Revaluation Reserve	0	49,928	49,928	Store of gains on revaluation of fixed assets	Note 35 b below
Capital Financing Account	689,000	-14,536	674,464	Store of capital resources set aside to meet past expenditure	Note 35 c below
Financial Instruments Adjustment Account	0	-1,582	-1,582	Adjustments for Financial Instruments transactions to properly reflect the impact on revenue balances in the correct year	Note 35 f below
Capital Receipts Reserve	0	131	131	Proceeds of fixed asset sales available to meet future capital investment	Note 35 d below
Deferred capital receipts	71	-17	54	Future Capital Receipts from mortgaged property	
Pension Reserve	-64,144	-37,071	-101,215	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 12 to the Core Financial Statements
General Fund Balance	2,893	-142	2,751	Resources available to meet future running costs for non-housing services	Statement of Movement on the General Fund Balance (D2)
Collection Fund Balance	1	-149	-148	Resources available to be paid to the Council in the future from the collection fund	Collection Fund Statements and Note 14 to the Core Financial Statements
Housing Revenue Account Balance	5,803	-172	5,631	Resources available to meet future running costs for council houses	HRA Statements
Major Repairs Reserve	0	2,617	2,617	Resources available to meet capital investment in council housing	HRA Statements
Earmarked Reserves	8,871	5,651	14,522	Reserves set aside for specific purposes	Note 35 e below
Total	642,495	4,658	647,153		

E. Notes To The Core Financial Statements

b) Revaluation Reserve

	General Fund	Housing Revenue Account	Total
	£000s	£000s	£000s
Balance at 01/04/2007	0	0	0
Revaluation adjustments	8,038	41,917	49,955
Revaluations on Disposal	12	2,104	2,116
	8,050	44,021	52,071
Clear Disposal Revaluations to CAA	0	-2,143	-2,143
Balance at 31/03/08	8,050	41,878	49,928

E. Notes To The Core Financial Statements

c) Capital Adjustment Account

	General Fund	Housing Revenue Account	Total
	£000s	£000s	£000s
Balance at 01/04/2007	97,536	591,464	689,000
Capital Financing			
MRR	0	4,995	4,995
Capital Receipts	1,893	0	1,893
Revenue Contributions	23	0	23
	1,916	4,995	6,911
MRP	350	0	350
Depreciation - General	-3,715	-9,492	-13,207
Impairment Reversal	-2,670	-960	-3,630
Impairment Market Forces Reversal	-2,347	-70	-2,417
Deferred Charges Reversal	-667	0	-667
Amortisation - Intangibles	-503	-53	-556
Amortisation 3rd Party Contributions	1,932	0	1,932
Amortisation Grants Deferred	441	0	441
	-7,529	-10,575	-18,104
Revaluations			
Clear Disposal Revaluation	-281	-5,555	-5,836
Clear Disposal Revaluation from RR	0	2,143	2,143
	-281	-3,412	-3,693
Balance at 31/03/2008	91,992	582,472	674,464

E. Notes To The Core Financial Statements

d) Capital Receipts Reserve

2006/07		2007/08
£000s		£000s
378	Balance as at 1 April	0
9,235	Effects of Disposals	5,900
-5,299	Housing Capital Receipts Pooling	-3,987
-3,324	Capital Programme Financing	-1,893
-990	Other	111
0	Balance as at 31 March	131

e) Earmarked Reserves

Reserve	Balance 01/04/2007	Additions to Reserve	Use Of Reserve	Balance 31/03/2008
	£000s	£000s	£000s	£000s
Insurance	1,222	1,028	-14	2,236
Benefits Clawback	1,300	0	0	1,300
Subsidy Equalisation	550	250	-250	550
Core Business Systems	500	0	0	500
Building Maintenance	676	0	0	676
Corporate Initiatives	860	451	-425	886
Service Improvements	500	0	-285	215
General	235	3,100	-1,199	2,136
Arts	28	0	-5	23
HRA	3,000	3,000	0	6,000
	8,871	7,829	-2,178	14,522

i) Insurance Reserve
The Insurance Reserve has been set aside using surplus money from the insurance provision which is used to meet known insurance claims. This reserve is to be used for future insurance or risk management requirements including initiatives to mitigate and manage significant risks.

ii) Benefits Clawback Reserve
Housing benefits claims from prior years are still open and there is risk of clawback from the Department for Work and Pensions. This reserve mitigates this risk.

iii) Subsidy Equalisation Reserve
Subsidy claims are very much reliant upon regulations issued by the grant paying bodies. These can change in-year and so the net cost of benefit payments and subsidy claims from the Government can be extremely volatile. This reserve has been constituted to help smooth the effects of this between years.

iv) Core Business Systems Reserve
The Core Business Systems Reserve will be used to improve the main financial and subsidiary financial systems of the Council to streamline administrative processes and improve the quality of information and controls.

v) Building Maintenance Reserve
The base budgets for revenue and capital include an allowance for ongoing building maintenance / enhancement. This reserve consists of balances set aside from revenue to finance any major unanticipated maintenance projects.

vi) Corporate Initiatives Reserve
In 2007/08, £471k of general government grant was received relating to the Local Authority Business Growth Incentive Scheme. Due to the volatile nature of this grant and the unknowns around how much will eventually become due to the Council, it was not included within base budgets. This income has been moved added into an earmarked reserve to be used on corporate initiatives.

vii) Service Improvements Reserve
This reserve has been created to provide funding for improving services and to improve the performance of the Council.

viii) General Reserve
The General Reserve allows the Council to commit funding to individual projects which may spread across more than one year. This reserve is also used for any contingency sums set aside during budget setting to mitigate risks within the budget. For 2007/08, an amount of £1.279m of prior years premia has been set aside to this reserve pending the agreement of auditors regarding its treatment.

ix) Arts Reserve
This is used to finance the purchase of exhibits for the Museum and Art Gallery.

x) HRA Earmarked Reserve
This reserve contains amounts specifically set aside to finance HRA projects. The money in this reserve must be used on the Housing Revenue Account.

f) Financial Instruments Adjustment Account

2006/07		**2007/08**
£000s		£000s
0	Balance as at 1 April	0
0	Transitional Arrangements - Unattached Premia	1,603
0	Transitional Arrangements - Recognition of Financial Instruments	-18
0	Effective Interest Rate Adjustments	-3
0	Balance as at 31 March	1,582

E. Notes To The Core Financial Statements

36 Cash Flow Notes

a) Revenue Activities Net Cash Flow to Income & Expenditure Accounts

2006/07		2007/08	
£000		£000	£000
	Surplus/deficit (-) for the year		
-4,021	Income & Expenditure		-10,124
	Non-Cash Transactions		
13,466	Depreciation / Impairment	19,809	
-289	Deferred Grants Amortised	-442	
0	Grants Funding Deferred Charges	-1,932	
5	Pension Fund Adjustments	555	
	Reductions in fair value of soft loans	-46	
	Other non-cash Adjustments	256	
0	Increase / Decrease in Provisions re loans & advances	70	
190	Transfers to Reserves	433	
13,372			18,703
	Items classified elsewhere in the Cash Flow Statement		
-2,608	Interest received	-3,453	
1,731	Interest paid	563	
1,053	Deferred Charges	667	
209	Fixed Assets Gain / Loss	-47	
385			-2,270
	Items accrued		
51	Increase (-) /decrease of stock & work in progress	-37	
935	Increase (-) /decrease in debtors	2,030	
181	Increase/decrease (-) in creditors	2,372	
1,167			4,365
10,903	**Revenue Activities Net Cash In-Flow**		10,674

E. Notes To The Core Financial Statements

b) Analysis of Net Debt

	Cash	Temporary Investments & Short Term Deposits	Total	Loans Due within one year	Loans due after more than one year	Deferred Liabilities	Net Debt
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1st April 2007	-1,305	39,520	38,215	-431	-25,869	0	11,915
Cashflow / changes in year	98	12,983	13,081	277	13	0	13,371
Other Non Cash changes	0	0	0	0	-6	0	-6
Balance at 31 March 2008	-1,207	52,503	51,296	-154	-25,862	0	25,280

c) Reconciliation of Changes in Cash to Movement in Net Debt

2006/07		**2007/08**
£000s		£000s
-1,333	Increase / Decrease (-) in Cash in Year	98
17,443	Cash Inflow / Outflow (-) from Management of Liquid Resources	12,983
-1,585	Cash Inflow from Loans Raised	828
1,556	Cash Outflow from Loans Repaid	-537
-186	Net Adjustment s for differences between EIR and actual interest	-6
-2,862	Net Debt B/f	11,914
13,033		25,280

d) Analysis of Changes in Cash and Liquid resources

	2006/07	**2007/08**	**Change in Year**
	£000s	£000s	
Temporary Investments	39,520	52,503	12,983
Short Term Deposits	0	0	0
Cash	29	29	0
Bank Overdraft	-1,333	-1,235	98
Net Cash Inflow / Outflow (-)	38,216	51,297	13,081

E. Notes To The Core Financial Statements

e) Analysis of Changes in Cash and Liquid resources

2006/07		2007/08
£000s		£000s
616	Planning	627
351	Regeneration	0
651	Administration Grant	1,168
146	Recycling	143
181	Crime Reduction	0
67	Customer Services	0
0	Training and Capacity Development	115
37,462	DWP Grants	37,344
39,474	**Net Cash (In)/outflow**	39,397

f) Analysis of Other Government Grants

2006/07		2007/08
£000s		£000s
616	Planning	627
351	Regeneration	0
651	Administration Grant	1,168
146	Recycling	143
181	Crime Reduction	0
67	Customer Services	0
0	Training and Capacity Development	115
37,462	DWP Grants	37,344
39,474	**Net Cash (In)/outflow**	39,397

37 Contingent Assets and Liabilities

Assets

The Council is currently monitoring one contingent asset. These are: -

- Historic Costs associated with the redevelopment of Grosvenor / Greyfriars may be reimbursed by the developer depending on agreement of contract terms and the timing of that agreement.

Liabilities

The Council is potentially liable for the following payments: -

The Council has received Deposits under Section 106 agreements, which may be repayable if the conditions for each agreement are not met. No provision has been made in the Accounts for any interest that may become repayable under the terms of the individual agreements. In the event that every one of these deposits becomes repayable with interest, the Council's maximum liability for interest payable as at 31st March 2008 was estimated to be £1.439m (£1.112m as at 31st March 2007).

A capital grant was received from East Midlands Development Agency (EMDA) for site clearance of the Blueberry Diner. The grant was awarded on condition of scheme completion within a fixed time period and, due to that time period not having been complied with, up to the full amount of the grant of £2m may be clawed back by EMDA. The Council is in negotiation with EMDA regarded the reasonableness of the original condition.

The freehold owner of St Peter's Way Car Park is currently litigating against the Council regarding the lease conditions of the land and compliance with those conditions. If the Council loses the litigation there is likely to be a payment due to the freeholder relating to car park income received on the site.

The Council is currently in negotiations about potential equal pay claims. If there are cases where the Council is found not to have paid employees on an equal basis, the Council may be liable to pay back pay.

38 The Euro

The Council recognises that there may be costs associated with the introduction of the Euro if this is required by UK law. The purchase of new computer systems must take account of Euro issues and compliance. No other preparations have been made nor has any money been earmarked for the introduction of the Euro. There has been no direct expenditure to date on Euro conversion and it is anticipated that prior to possible introduction of the Euro, all systems will be Euro compliant.

39 Trust Funds

The Council acts as sole trustee in respect of two Trust Funds for the Northamptonshire Regiment (balances of £78k) and the Northamptonshire Yeomanry Museum Collections (balances of £1k). The Trust funds are used to finance expenditure on the museum collections, which are housed at Abington Museum. Surplus funds are invested and accounted for separately to the Council's funds and no money is expended unless there are funds to do so.

40 Financial Instruments Disclosures

a) Financial Instruments Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31 March 2007	31 March 2008	31 March 2007	31 March 2008
	£000s	£000s	£000s	£000s
Financial Liabilities at amortised cost	-25,881	-25,862	-36,339	-36,798
Financial liabilities at fair value through income and expenditure	0	0	0	0
Total borrowings	-25,881	-25,862	-36,339	-36,798
Loans and Receivables	112	119	69,892	69,654
Available-for-sale financial assets	0	0	0	0
Unquoted equity investment at cost	0	0	0	5,040
Total Investments	112	119	69,892	74,694

b) Financial Instruments Gains and Losses

The accounting treatment for Financial Instruments has changed with effect from 2007/08. Revaluation adjustments relating to 2006/07 and prior years have been made as at 1st April 2007 in accordance with the SoRP. These adjustments will not affect the entries in the I & E account and are detailed within the prior period adjustments note. The gains and losses recognised in the Income and Expenditure Account and Statement of Recognised Gains and Losses in relation to Financial Instruments are made up as follows:

2006/07				
	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and Receivables	Available for sale assets	Total
	£000s	£000s	£000s	£000s
Interest expenditure	-1,545	0	0	-1,545
Gains / Losses on derecognition	0	0	0	0
Impairment losses	0	-6,391	0	-6,391
Interest Payable and similar charges	-1,545	-6,391	0	-7,936
Interest income	0	2,608	0	2,608
Gains / Losses on derecognition	0	0	0	0
Interest and Investment Income	0	2,608	0	2,608
Net gain/(loss) for the year	-1,545	-3,783	0	-5,328

2007/08				
	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and Receivables	Available for sale assets	Total
	£000s	£000s	£000s	£000s
Interest expenditure	-1,363	0	0	-1,363
Gains / Losses on derecognition	0	0	0	0
Impairment losses	0	-4,351	0	-4,351
Interest Payable and similar charges	-1,363	-4,351	0	-5,714
Interest income	0	3,454	0	3,454
Gains / Losses on derecognition				0
Interest and Investment Income	0	3,454	0	3,454
Gains on Revaluation			0	
Losses on Revaluation			0	
Amounts recycled to the I+E Account after impairment			0	
Surplus arising on revaluation of financial assets			0	
Net gain/(loss) for the year	-1,363	-897	0	

c) Fair Value of Assets and Liabilities Carried at Amortised Cost

Fair value has been calculated using the assumptions detailed in the Statement of Accounting Policies and are as follows: -

	31 March 2007		31 March 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000s	£000s	£000s	£000s
Financial Liabilities at amortised cost	-61,131	-65,710	-60,886	-65,445
Loans and Receivables	68,234	68,225	68,711	68,790

The fair value of Financial Liabilities at amortised cost is less than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest payable is lower than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest below current market rates reduces the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans.

The fair value of Loans and Receivables at 31 March 2007 is less than the carrying amount because the authority's portfolio of investments includes a number of fixed rate loans where the interest receivable is lower than the rates available for similar loans at the Balance Sheet date. This commitment to receive interest below current market rates decreases the amount that the authority would receive if it agreed to early repayment of the loans.

The fair value Loans and Receivables at 31 March 2008 is higher than the carrying amount because the authority's portfolio of investments includes a number of fixed rate loans where the interest receivable is higher than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above current market rates increases the amount that the authority would receive if it agreed to early repayment of the loans.

d) The Nature and Extent of Risks Arising from Financial Instruments

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

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

The Authority's risk management processes consider the unpredictability of financial markets and seek to minimise potential adverse effects on the resources available to fund services. Risk management is undertaken by the Capital and Treasury team under policies approved by the Council in the annual Treasury Management Strategy. The strategy and related policies contain overall principles for risk management, as well as covering specific risks, which include liquidity risk, interest rate risk, credit risk, and market risk.

Credit Risk
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures from the Authority's customers. Deposits are made with banks and financial institutions supported by an assessment of risk. The limits put on investments vary according to the particular institution or group depending on the risk level determined for that specific body.

Due to the nature of its business the authority does not assess operational customers for credit worthiness and does not set credit limits on customers. In relation to mortgages, the Authority holds an equity stake in each relevant property as collateral against the mortgage outstanding. There are also certain exceptional circumstances under which the Authority has placed a charge on a property as collateral against a specific debt. Business customers are not given individual credit limits, however, business customers are assessed, taking into account their financial position, past experience, and other factors, in line with parameters set by the council, when contracts are entered into. This forms part of the council's procurement procedures.

The following analysis summarises the authority's potential maximum exposure to credit risk based on experience of default and uncollectability over the last four financial years adjusted to reflect current market conditions.

E. Notes To The Core Financial Statements

	Amount at 31 March 2008	Historical Experience of Default	Historical Experience Adjusted for Market Conditions at 31 March 2008	Estimated Maximum Exposure to Default and Uncollectability
	£000s	%	%	£000s
Deposits with Banks and Financial Institutions	47,463	0.00	0.00	0
Bonds	0	0.00	0.00	0
Customers: Council Tax	10,031	4.34	4.34	435
Customers: NNDR	523	0.62	0.62	3
Customers: Rent	3,998	3.96	3.96	158
Customers: Sundry *	4,577	28.50	28.50	1,304
	66,592			1,900

** Based on last 2 years' experience of default.*

No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits. The authority held no bonds in 2007/08.

The council does not generally allow credit for its customers (with the exception of mortgagees) such that £18.4m of the £66.6m is past its due date for payment. The past due amount can be analysed by age as follows:

	Amount at 31 March 2008
	£000s
Less than three months	3,020
Three to six months	2,074
Six months to one year	3,496
More than one year	9,829
	18,419

Impairment on the debtors financial asset has been identified, standing at a total of £9.4m at the end of 2007/08.

Collateral

The authority holds collateral against a number of mortgages. The balance sheet value of these is currently £54.8k.

The terms and conditions relating to the pledge are standard in all the mortgages held and are summarised as follows:

- The property is to be kept in good and substantial repair;
- No structural alterations, demolitions, additions are to be carried out to the property or any part of it without written consent of the Council;
- To comply in all respects with the Planning Acts;
- Not to do or permit on the property anything which may prejudice the insurance of the property;
- Limitations on the usage of the property;
- The right of the Council to inspect the property;
- That the borrower is required to observe and perform any covenants and provisions relating to the property;
- The Council's power of sale;
- Events on which the whole mortgage becomes repayable;
- Remedies available to the Council;
- The Council's power to transfer the benefit of the charge;
- The power of the Council to make written concessions in favour of the borrower.

Liquidity Risk

As the authority has ready access to borrowings from the Public Works Loan Board (PWLB), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to manage loans that are due to mature within any rolling three-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows: -

	Amount at 31 March 2008
	£000s
Less than one year	35,269
One to two years	0
two to five years	0
More than five years	25,862
	61,131

All trade and other payables are due to be paid in less than one year.

Market Risk

Market risk falls into three categories, Interest Rate Risk, Price Risk, and Foreign Exchange Risk.

Interest Rate Risk

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

- Borrowing at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- Borrowing at fixed rates – the fair value of the liabilities will fall;
- Investment at variable rates – the interest income credited to the Income and Expenditure Account will rise;
- Investments at fixed rates – the fair value of the assets will fall.

Borrowing is not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments will be reflected in the STRGL.

The authority has a number of strategies for managing interest rate risk. For example, during periods of falling interest rates and where economic circumstances make it favourable, fixed rate loans may be repaid early to limit exposure to losses.

The Capital and Treasury Team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at March 2008, if interest rates had been 1% higher with all other variables held constant, the financial effect would be: -

	Amount at 31 March 2008
	£000s
Increase in interest payable on variable rate borrowing	250
Increase in interest receivable on variable rate investments	-43
Impact on I & E Account	207
Share of overall impact credited to the HRA	-79
Impact remaining on General Fund	286
Impact on GF I & E Account	207
Increase in fair value of fixed rate investment assets	-102
Impact on STRGL	-102
Decrease in fair value of fixed rate borrowing liabilities (no impact on I & E Account or STRGL)	7

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

Price Risk

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

Foreign Exchange Risk

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

E. Notes To The Core Financial Statements

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F. Housing Revenue Account

F1 Income & Expenditure Account

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

2006/07		2007/08		Notes
£000s		£000s	£000s	
	Income			
-37,480	Dwelling Rents	-40,461		HRA2-4
-1,150	Non Dwelling Rents	-1,126		
-1,395	Charges for services & facilities	-1,527		
-551	Contributions Towards Expenditure	-160		
0	Housing Revenue Account subsidy receivable	0		
0	Sums Directed by the Secretary of State that are income in accordance with UK GAAP	0		
-40,576	**Total Income**		-43,274	
	Expenditure			
9,792	Repairs & Maintenance	12,227		HRA5
	Supervision & Management			
4,364	General Management	5,760		
4,515	Special Services	3,653		
82	Rent, Rates, Taxes & other charges	53		
7,218	Negative Housing Revenue Account subsidy payable	8,483		HRA6
8,780	Depreciation and Impairment of Fixed Assets	10,545		HRA7
0	Debt Management Costs	0		
438	Increased in provision for bad/doubtful debts	1,275		
0	Sums Directed by the Secretary of State that are expenditure in accordance with UK GAAP	0		
1,976	Rent Rebates transfer to General Fund	1,354		HRA8
37,165	**Total Expenditure**		43,350	
-3,411	**Net Cost of Services**		76	
26	HRA Services share of Corporate and Democratic Core		0	
0	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services		0	
-3,385	**Net Cost of HRA Services**		76	
115	Gain (-) or Loss on sale of HRA Fixed Assets		-257	
	Interest Payable and other similar charges			
186	Amortisation of Premiums & Discounts		480	
-569	Interest and Investment Income		-961	
362	Pensions interest cost and expected return on pensions assets		344	
-3,291	**Surplus (-) or Deficit for the year on HRA services**		-318	

F. Housing Revenue Account

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F. Housing Revenue Account

F2 Statement of Movement on the Housing Revenue Account Balance

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

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

2006/07		2007/08	Note
£000s		**£000s**	
-3,291	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Account	-318	
2,125	Net additional amount required by statute to be debited or credited to the HRA Balance for the year	490	
-1,166	**Increase (-) / Decrease in the HRA Balance for the Year**	172	
-4,637	HRA Balance brought forward	-5,803	
-5,803	**HRA Balance carried forward**	-5,631	

F. Housing Revenue Account

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F. Housing Revenue Account

Reconciling Items for the Statement of Movement on the HRA Balance

2006/07		2007/08	Note
£000s		£000s	
	Amounts included in the HRA Income and Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the year		
0	Difference between amounts charged to Income and Expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute	0	
0	Difference between any other item of income and expenditure determined in accordance with the SoRP and determined in accordance with statutory HRA requirements (if any)	0	
	Impairment of Fixed Assets	-1,029	
	Amortisation of intangible fixed assets	-53	
-115	Gain or Loss on sale of HRA fixed assets	257	
-1,515	Net charges made for retirement benefits in accordance with FRS 17	-1,571	
0	Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP	0	
-1,630		-2,396	
	Amounts not included in the HRA Income and Expenditure Account but required by statute to be included when determining the Movement on the HRA Balance for the year		
-1,292	Transfer to / from (-) Major Repairs Reserve	-1,880	HRA9
0	Transfers to / from (-) Housing Repairs Account	0	HRA5
1,514	Employer's contributions payable to the Northamptonshire County Council Pension Fund and retirement benefits payable direct to pensioners	1,451	
	Financial Instruments Adjustments	315	
0	Voluntary set aside for debt repayment	0	
1,144	Capital expenditure charged in-year to the HRA Balance	0	
2,389	Net transfers to / from (-) earmarked reserves	3,000	
3,755		2,886	
2,125	**Net additional amount required to be credited or debited to the HRA balance for the year**	490	

F. Housing Revenue Account

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G. Notes To The Housing Revenue Account

1 Prior Year Adjustments

There is a premia adjustment relating to a historic debt rescheduling which is being corrected in 2007/08. There is therefore a prior year adjustment to correct the balances and an ongoing effect on the level of premia amortised annually. For more details see note 1 to the Core Financial Statements.

2 HRA Assets and Capital Transactions

a) At 31 March 2008 the Council was responsible for managing 12,247 units of accommodation: -

Type of Property	Number of Bedrooms				Total
	One	Two	Three	Four+	
Flats-Low Rise	1,468	389	2	1	1,860
Flats-Medium Rise	1,841	879	121	4	2,845
Flats-High Rise	398	83	22	0	503
Houses & Bungalows	879	2,583	3,236	341	7,039
Totals	4,586	3,934	3,381	346	12,247

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

Type of Property	Stock at 01/04/2007	Stock Movements			Stock at 01/04/2008
		Sales	Transfers	Additions	
Flats	5,239	-22	-9	0	5,208
Houses & Bungalows	7,095	-50	-6	0	7,039
Dwellings (excl. Shared)	12,334	-72	-15	0	12,247
Shared Ownership	98	-3	0	0	95
Totals	12,432	-75	-15	0	12,342

G. Notes To The Housing Revenue Account

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

2006/07	Gross Balance Sheet Value	2007/08
£000s		£000s
	Operational Assets	
177,915	Land	184,307
393,613	Dwellings	418,087
10,519	Other Capital Assets	12,768
582,047	Total Operational Assets	615,162
1,242	Non Operational Assets	1,129
583,289	**TOTAL**	616,291
1,146,860	Vacant Possession Value as at 1st April	1,206,554

d) Capital Receipts

2006/07	Housing Capital Receipts	2007/08
£000		£000
985	Land Sales	365
7,667	Dwelling Sales	5,465
49	Other Property Sales	0
8,701	**Total**	5,830
-5,299	Payable to the Secretary of State	-3,986
	Adjustment to amounts payable	110
	Net cost of Payments to CLG	-3,876
3,402	Useable Capital Receipts	1,954

The adjustment to amounts payable of £110k in the above note relates to the balance of an amount that was being held to pay the Secretary of State for prior years' pooling payments. The settlement amount was £110k less than anticipated.

G. Notes To The Housing Revenue Account

e) Capital Expenditure & Financing

2006/07	HRA Capital Expenditure and Financing	2007/08
£000s		£000s
	Expenditure	
0	Land Purchase	0
7,392	Dwellings	5,141
1,042	Other Property	354
8,434	**Total Expenditure**	5,495
	Financing	
	Dwellings	
0	Borrowing	500
0	Useable Capital Receipts	0
0	Revenue Contributions	0
7,392	Major Repairs Reserve	4,641
7,392		5,141
	Other Property	
0	Borrowing	0
-198	Useable Capital Receipts	0
1,144	Revenue Contributions	0
96	Major Repairs Reserve	354
1,042		354
8,434	**Total Financing**	5,495

3 Arrears

During 2007/08, arrears as a proportion of gross income was 9.9%. This represents an increase of 2.8% since 2006/07 when the proportion was 7.1%. The figures for rent arrears are detailed below: -

2006/07	Arrears	2007/08
£000s		£000s
2,860	Gross Arrears at 31 March	4,291
-621	Prepayments	-889
2,239	Net Arrears at 31 March	3,402
1,504	Provision for bad debts at 31 March	2,293

During 2007/08, the process for analysing outstanding debt and establishing a bad debt provision was reviewed and the bad debt provision is now based on age of debt. The size of the provision reflects the probability of the arrears being collected.

G. Notes To The Housing Revenue Account

4 Vacant Possession Value

The Vacant Possession value of dwellings within the HRA as at 1 April was £1,207m (£1,147m in 2006/07). For the balance sheet, the figure has been reduced to 50% of this value, i.e. £604m (£574m in 2006/07). This shows the economic cost of providing Council housing at less than open market rents.

5 Housing Repairs Account

The transactions on the Housing Repairs Account for 2007/08 balanced to nil for the year, although this may not always be the case.

2006/07	Housing Repairs Account	2007/08
£000s		£000s
0	Balance B/f	0
9,792	Expenditure in the Year	12,227
-9,792	Contributions to the Housing Repairs Account	-12,227
0	Increase (-) / Decrease in the Housing Repairs Account Balance for the year	0
0	**Balance c/f**	0

6 Housing Subsidy

The Government operates a ″subsidy system″ in relation to the Housing Revenue Account. It is based upon a notional account representing the Government’s assessment of what the Council should be collecting and spending. A breakdown of the elements in the subsidy calculations is shown below: -

2006/07	Housing Subsidy	2007/08
£000s		£000s
6	Prior Year Adjustment	-161
-18,818	Management and Maintenance Allowance	-19,241
-7,488	Major Repairs Allowance	-7,611
-960	Charges for Capital	-1,126
-30	Other Allowances	0
34,501	Notional Rent	36,617
7	Interest on Receipts	5
7,218	**Total Amount to be paid to Government**	8,483

G. Notes To The Housing Revenue Account

7 Depreciation and Impairment

a) Depreciation

2006/07	Depreciation	2007/08
£000s		£000s
	Operational Assets	
8,290	Dwellings	9,077
49	Intangible Assets	53
264	Other Property	269
177	Vehicles, Plant & Equipment	146
8,780	Total Operational Assets	9,545
0	Non Operational Assets	0
8,780	**TOTAL**	9,545

b) Impairment

2006/07	Impairment	2007/08
£000s		£000s
	Operational Assets	
0	Dwellings	578
0	Intangible Assets	0
0	Other Property	382
0	Vehicles, Plant & Equipment	70
0	Total Operational Assets	1,030
0	Non Operational Assets	0
0	**TOTAL**	1,030

The Council's Valuation Officer, a member of FRICS, advised that there were no impairments in 2006/07.

8 Secretary of State Determinations

When councils raise rents by more than an amount determined by the Government, the Government limits the subsidy payable to those councils. Now that the responsibility for paying rent rebates has transferred to the General Fund, any authorities that had rent rebate subsidy limited have to transfer an amount from the HRA to the General Fund to recompense the General Fund in order that the General Fund does not carry additional costs.

2006/07	Secretary of State Determinations	2007/08
£000s		£000s
1,976	Rent Rebate Subsidy Limitation	1,354
0	Rent Rebate Transitional Measures	0
1,976	Total Effect of Special Directions	1,354

9 Major Repairs Reserve

Authorities are required to maintain a Major Repairs Reserve (MRR). The MRR has two functions; the first is to act as a credit entry for the cost of depreciation on Council dwellings. The second is to hold unused balances of Major Repairs Allowance (MRA), which can be used in future years. The MRA is a grant paid through the Housing Subsidy mechanism which can only be used to finance capital expenditure and represents the estimated annual cost of maintaining an Authority's stock at its existing level.

HRA depreciation is not the same as the MRA, therefore an adjustment is required to ensure there is no bottom line impact on the HRA. The transactions on the MRR are detailed below: -

Major Repairs Reserve	£000s
Balance at 1 April 2006	0
HRA Depreciation	-9,492
Depreciation adjustment to agree to MRA	1,880
	-7,612
Amount used to finance Capital Expenditure	
Dwellings	4,641
Other Property	354
	4,995
Balance at 31 March 2008	-2,617

H. The Collection Fund

Income and Expenditure Account

The Collection Fund account reflects the statutory requirement for billing Authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non Domestic Rates (NNDR).

2006/07		2007/08	Note
£000s		£000s	
	INCOME		
-69,903	Council Tax (net of benefits, discounts & transitional relief)	-72,884	CF2
	Transfers from General Fund		
-10,369	Council Tax benefits	-10,858	
-91,727	Income collectable from business ratepayers	-91,922	
	Contributions		
-974	Towards previous years' Collection Fund deficit	-120	CF3
-172,973		-175,784	
	EXPENDITURE		
	Precepts & demands:-		
56,662	Northamptonshire County Council	59,497	14
10,406	Northamptonshire Police Authority	11,037	14
12,143	Northampton Borough Council	13,045	14
	National Non-Domestic Rates		
91,413	Payments to national pool	91,610	
315	Cost of collection	312	
	Bad & Doubtful Debts / Appeals		CF4
89	Write-offs	1,101	
901	Provisions	133	
	Contributions		
0	Towards previous years' Collection Fund surplus	0	
171,929		176,735	
-1,044	**(Surplus)/deficit for the year**	951	
1,039	Fund balance b/fwd	-5	
-5	**Fund Balance c/fwd**	946	

2006/07		2007/08	Note
£000s		£000s	
	INCOME		

H. The Collection Fund

-69,903	Council Tax (net of benefits, discounts & transitional relief)	-72,884	CF2
	Transfers from General Fund		
-10,369	Council Tax benefits	-10,858	
-91,727	Income collectable from business ratepayers	-91,956	
	Contributions		
-974	Towards previous years' Collection Fund deficit	-120	CF3
-172,973		-175,818	
	EXPENDITURE		
	Precepts & demands:-		
56,662	Northamptonshire County Council	59,497	14
10,406	Northamptonshire Police Authority	11,037	14
12,143	Northampton Borough Council	13,045	14
	National Non-Domestic Rates		
91,413	Payments to national pool	91,644	
315	Cost of collection	312	
	Bad & Doubtful Debts / Appeals		CF4
89	Write-offs	1,101	
901	Provisions	133	
	Contributions		
0	Towards previous years' Collection Fund surplus	0	
171,929		176,769	
-1,044	**(Surplus)/deficit for the year**	951	
1,039	Fund balance b/fwd	-5	
-5	**Fund Balance c/fwd**	946	

H. The Collection Fund

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I. Notes To The Collection Fund

1. National Non Domestic Rates (NNDR)

The Council collects non-domestic rates for its area that are based on local rateable values multiplied by a uniform rate in the pound. The total amount, less certain reliefs and other deductions, is paid into a central pool (the NNDR pool) managed by Central Government, which in turn pays back to councils a standard amount per head of the local adult population.

The total non-domestic rateable value as at 31 March 2008 was £243.7m and the equivalent figure for 2006/07 was £246.4m. The National Non-Domestic Rate multiplier for 2007/08 was 44.4p and the equivalent figure for 2006/07 was 43.3p. The small business non-domestic rating multiplier for 2007/08 was 44.1p and the equivalent figure for 2006/07 was 42.6p.

2. Council Tax

The Council's tax base, i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings for 2007/08 calculated as follows: -

2006/07 Band D Equivalents	Band	Estimated number of taxable properties 2007/08 after discounts	Ratio	2007/08 Band D Equivalents
18.2	A(-)	34.3	5/9	19.0
16,059.7	A	24,155.8	6/9	16,103.9
13,580.1	B	17,495.0	7/9	13,607.2
16,175.6	C	18,486.3	8/9	16,432.2
8,619.9	D	8,794.9	9/9	8,794.9
5,927.3	E	4,890.8	11/9	5,977.6
2,967.7	F	2,091.0	13/9	3,020.3
1,728.2	G	1,065.4	15/9	1,775.6
94.0	H	50.4	18/9	100.9
65,170.7	Gross Council Tax Base			65,831.6
977.6	Non-collection provision			987.5
64,193	**Council Tax Base Used for setting the Precept**			**64,844**

The provision for non-collection was set at 1.5% for 2007/08 (1.5% for 2006/07).

I. Notes To The Collection Fund

3. Analysis of In-year Contributions to Fund Deficits

The in-year contributions to Collection Fund deficits from the precepting authorities are detailed below: -

2006/07	Allocation Of Collection Fund Deficits	2007/08
£000s		£000s
147	Northampton Borough Council	-10
701	Northamptonshire County Council	-93
126	Northamptonshire Police Authority	-17
974	**Total Deficit Recovered**	-120

4. Bad and Doubtful Debts

2006/07	Bad and Doubtful Debts	2007/08
£000s		£000s
2,339	Bad Debt Provision B/f	3,240
901	Provision Made in Year	133
3,240	**Bad Debt Provision c/f**	3,373

J. Statement Of Responsibilities For The Statement Of Accounts

The Authority's Responsibilities

The Authority is required to:-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is Isabell Procter (Director of Finance);

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets

- approve the Statement of Accounts

The Section 151 Officer

The Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with the Code of Practice.

The Section 151 Officer has also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities

I certify that this Statement of Accounts presents fairly the position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

Isabell Procter Section 151 Officer	Councillor Anthony Woods Leader of Northampton Borough Council
Date	Date

J. Statement Of Responsibilities For The Statement Of Accounts

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Northampton Borough Council: Audit adjustments 2007/08 **Annex B**

KPMG Comments									NBC Comments		
No.	Entries			Balance sheet		I&E		Description of adjustment			
	Dr	Cr	Account	Dr /£000	Cr /£000	Dr /£000	Cr /£000		Management Response	Management Action	Statement Areas Affected
1	Dr		CF Bad debt expense			34		Collection Fund bad debt provision for NNDR arrears is understated by £34k. Provision for 2007/08 arrears not included in client calculations.	This arose from a simple formula error. Any transaction relating to NNDR must be reflected in the NNDR3 return. The full transactions are: DR Collection Fund CR Bad debt Provision DR Government Debtors CR Collection Fund This has no impact on the Council or the Collection Fund balance	NBC to seek an audit amendment to the NNDR3 return; Amendments made to the Statement of Accounts to reflect all transactions	Collection Fund Balance Sheet (Debtors and bad debt provision - nil net affect) Note 27: Current Assets - Debtors (Government Departments and Provisions for Bad Debts - Local taxpayers)
		Cr	NNDR bad debt provision		34						
2	Dr		Creditors (K161 93192)	81				These Accounts have been incorrectly left on the balance sheet at year end.	Agreed. There is no net effect on the balance sheet, however both debtors and creditors need to be reduced.	Amendments made to the Statement of Accounts to reflect all transactions	Balance Sheet (Debtors and Creditors - nil net affect) Note 27: Current Assets - Debtors (Government Departments) Note 30: Current Liabilities - Creditors (Government Departments)
		Cr	Debtors (K162 93192)		81						
3	Dr		HRA I & E	65				Rent rebate subsidy limitation calculated incorrectly on old percentages	The necessity for this change was identified by NBC to the auditor. The full transactions required are: DR HRA I&E CR GF I&E DR GF I&E CR Government Creditors Any change to the RRSL percentage must be reflected in the Housing Benefit claim	Pending NBC to seek an audit amendment to the Housing Benefit return; Amendments to be made in 2008/09 when changes to reflect all audit changes to the Housing Benefit claim are made	None - when the adjustment is made there will be an additional cost to the HRA
		Cr	Govt Creditors		65						
4	Dr		Accumulated Depreciation			30		Depn. has been charged against non-operational investment assets. This goes against NBC's accounting policies.	Additional changes to depreciation and impairment are anticipated; all depreciation changes will be made together	To be updated later	
		Cr	Depreciation Expense				30				

No.	Dr	Cr	Account	Balance sheet Dr /£000	Balance sheet Cr /£000	I&E Dr /£000	I&E Cr /£000	Description of adjustment	Management Response	Management Action	Statement Areas Affected
5	Dr		Creditors (H102 91919)	196				Citygrove Deposit of £196 dating back to 1982. Confirmed by legal services as no longer expected to be paid, remove from Creditors balanc.	The Council is currently considering its approach to this matter. In any case, the amount is a contribution and is not a capital receipt and so it is not appropriate to transfer this into the Capital Receipts Reserve.	Amount to be left as a creditor while the Council decides whether it has repay this to anyone other than Citygrove; transactions to reflect this decision will be enacted in 2008/09.	None
		Cr	Usable Capital Receipts		196						
6	Dr		Insurance Provision	60				To decrease the provision according to developments after the Y/E	This adjustment is related to changes in the status of claims following the year end. This change is not considered material and it is not proposed to implement it.	None	N/a
		Cr	Insurance Reserve		60						
7	Dr		Insurance Provision	330				Shift of the excess in the insurance provision to the insurance reserve	This adjustment relates to the representation of the potential insurance liability as a provision or reserve; the difference between the two hinges around the adjudjed probability of the transfer of economic benefit occurring. The full transactions required are: DR Insurance Provision CR GF I&E DR GF SoM CR Insurance Reserve	Amendments made to the Statement of Accounts to reflect all transactions	I&E Account Statement of Movements Note 33a: Insurance Provision Note 33b: Provisions Note 35a: Overall Summary Note 35e: Earmarked Reserves Balance Sheet STRGL
		Cr	I & E		330						
8	Dr		I&E: interest payable	181				To accrue foir interest on loans	Disagree. The Financial Instruments requirements expect amortised costs to be held on the balance sheet. The accounting arrangements for Financial Instruments do not include any requirement to accrue.	None	N/a
		Cr	Creditors		181						

Northampton Borough Council: Audit adjustments 2007/08

No.	Entries			Balance sheet		I&E		Description of adjustment			
	Dr	Cr	Account	Dr /£000	Cr /£000	Dr /£000	Cr /£000		Management Response	Management Action	Statement Areas Affected
9			Pooling					The authority has agreed to repay housing capital receipts that were under dispute with DCLG	This is an adjustment notified to NBC late in the closedown process. The full transactions are: DR I&E CR Government Creditors DR Useable Capital Receipts CR Statement of Movements This has no direct impact on the level of balances, however this does reduce the level of available capital resources	Pending: Amendments made to the Statement of Accounts to reflect all transactions	Pending: I & E Account Statement of Movements Note 30: Current Liabilities - Creditors Note 35a: Overall Summary Note 35c: Capital Adjustment Account Note 35d: Capital Receipts Reserve Explanatory Foreword 2d: Capital Expenditure Note 15: Capital Expenditure and Financing Balance Sheet

Northampton Borough Council: Audit adjustments 2007/08 **Annex B**

KPMG Comments				NBC Comments		
No.	**Statement/section**	**Caption/para**	**Description of issue**	**Management Response**	**Management Action**	**Statement Areas Affected**
1	HRA		5760 per HRA should be 5761	This is a trifling amendment. If a change in the rounding is made here, an opposite entry would need to be made elswhere for the HRA to result in the correct level of balances.	None	None
2	E.Note 10	Call Care	329,000 per accounts should be 315,000	Agreed - a late change should have been reflected in the note; there is no change necessary to the core statements	Note to be changed	Note 10: Local Authorities (Goods and Services) Act 1970
3	Note 7 - publicity exepnditure	Publicity unit expenditure	Expenditure of £236000 should be £426000	Agreed - a late change should have been reflected in the note; there is no change necessary to the core statements	Note to be changed	Note 7: Publicity Expenditure
4	Accounting for Pensions	12 Accounting for Pensions	Narrative states that last actuarial valuation was 31 March 2004. This is incorrect. Per the Actuarial reports the last actuarial valuation was on 31 March 2007.	Agreed - the narrative had not been updated	Narrative to be updated	Note 12: Accounting for Pensions
5	Accounting for Pensions	12a) Cost of pensions	2006/07 comparative for Adjusting item for Pension Contributions should be "0" not "-" so that the figures in the note are consistent (e.g. Past service cost).	There was no need for an adjustment relating to 2006/07; the entry should be null not nil	None	None
6	Accounting for Pensions	12c) Fund Assets and Expected Rate of Return	Narrative below table relates to note 12a. Paragraph to be moved to note 12a.	Agreed - the narrative should be moved for clarity	Narrative to be updated	Note 12: Accounting for Pensions
7	Accounting for Pensions	12f) History of Experienced Gains and Losses	Consistent approach required for presentation of numbers in the table, e.g. 1,234 not 1234.	Agreed - formatting should be changed to include commas	Note to be changed	Note 12: Accounting for Pensions

Northampton Borough Council: Audit adjustments 2007/08

No.	Statement/section	Caption/para	Description of issue	Management Response	Management Action	Statement Areas Affected
8	Accounting for Pensions	12e) Components of Defined Benefit Cost	"Contribution to CRA" to be amended to "Contribution to I&E".	Partially Disagree - CRA was retained because the line in question is the net effect	To be changed to "Revenue Account"	Note 12: Accounting for Pensions
9	Collection Fund	Note 3	"The in-year end contributions…". Wording does not make sense.	Agreed - wording to be amended	The word "end" is to be removed	Collection Fund Note 3
10	Contingent assets	Note 37	Please remove these as we do not believe there is sufficient likelihood of these arising to warrant disclosure as contingent asset	Partly agree; the likelihood of income relating to VAT is too low for inclusion, however NBC believe that the Grosvenor Greyfriars fees should remain, having only been downgraded from a debtor in the 2007/08 financial year	Note to be changed for the VAT income	Note 37: Contingent Assets and Liabilities

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Report to those charged with governance

Northampton Borough Council

September 2008

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Content

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1. Proposed audit report
2. Audit differences
3. Action plan
4. Prior year recommendations
5. Declaration of independence and objectivity
6. Draft management representations letter

This report is addressed to the Council and has been prepared for the sole use of the Council. 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.

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 Michael McDonagh who is the engagement lead to the Council, telephone 0121 335 2440 email michael.a.mcdonagh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, email trevor.rees@kpmg.co.uk. After this, if you 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 Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section 1

Executive summary

Purpose of this report

To comply with the requirements of International Standard on Auditing (UK and Ireland) 260 ("ISA 260") *Communication of Audit Matters to Those Charged with Governance* and the Audit Commission's *Code of Audit Practice* ("the *Code*"), we are required to provide a summary of our work to "those charged with governance" – in other words, the Audit Committee.

We are required by the *Code* to issue an opinion on the Authority's accounts. Alongside this, we also issue a conclusion on the Authority's use of resources, certifying whether adequate arrangements are in place for each area specified by the Audit Commission. This report summarises our findings and conclusions in these two areas for the year ended 31 March 2008.

Our opinions and conclusions

Accounts and Annual Governance Statement

The Authority is responsible for putting in place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Governance Statement with its financial statements.

We have not yet fully completed the audit of the accounts. This report, therefore, provides an update on progress to date and the main areas of ongoing work. At the present time, the most significant areas of ongoing audit work are fixed assets, benefits expenditure and the provision for doubtful debts. We are also continuing work on the Housing Revenue Account (HRA), debtors, creditors, and the cash flow statement.

Whilst the audit has exceeded its original schedule, we continue to work with officers to complete the work as soon as possible and issue our opinion by 30 September when the Authority is required to publish its accounts. This an improvement over 2007, when we were not able to issue our opinion until 18 October. The 2006/07 audit took longer than planned because, as our work progressed, there was a large number of queries which proved time-consuming to resolve; the clarity of the working papers provided to us was a factor in this. Therefore, to help improve the audit process, we held five discussions with officers from January 2008 onwards to discuss emerging accounting issues and our working paper requirements. This included a workshop for finance staff on working papers and the accounts closedown process. We also visited the Authority in June, in advance of our main visit, to review working papers and to select samples for our detailed audit testing. Our main visit commenced on 28 July.

The progress of the 2007/08 audit has been delayed because we did not receive a complete set of working papers at the start of our visit. One contributory factor was that officers had identified errors in transactions generated by the fixed asset system and needed to correct these, with the result that we received the corrected working papers on the Authority's fixed assets in the fifth week of the audit. Working papers on the HRA and benefits expenditure were also not all received until late August and early September.

The Authority has taken a range of actions to strengthen its accounting processes during the year. This has included recruitment of additional qualified and part-qualified staff. This has enabled improvements to be introduced to significant areas of financial management – for instance, in-year budget reporting has become established for both capital and revenue expenditure. In terms of financial reporting processes, officers have introduced a quality assurance process to improve the quality of working papers. This has resulted in some improvements, though, as noted above, it has, in some cases, delayed the finalisation of a significant number of working papers. Where queries arise in the course of our work, we have agreed a protocol with officers whereby the query is documented and resolved within three working days, with revised deadlines agreed where annual leave, or the complexity of the query, makes the three-day target difficult to achieve. In some instances, the three day target has been significantly exceeded; this has been a factor in the delays to some areas of the audit.

More detail is provided in section 2 and our proposed opinion on the accounts is presented in Appendix 2.

Use of Resources conclusion

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness. Our responsibility is to review whether adequate arrangements are in place. Our findings are summarised in our Use of Resources conclusion.

Section 1

Executive summary

For each of 12 criteria specified by the Audit Commission, we review whether the criterion has been met. Where all criteria have been met, we issue an unqualified conclusion; where a small number of criteria are not met, we issue a conclusion which states in which criteria the deficiencies lie.

In 2007, we concluded that eight criteria were not met. We are currently completing our work on the current year's assessment and will update the Audit Committee verbally on our intended conclusion.

Exercise of other powers

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether to report in the public interest on any matter that comes to our attention to bring it to the public's attention. In addition we have a range of other responsibilities under the 1998 Act, including investigating questions or objections on the accounts received from electors of the Borough. We did not receive any questions or objections, or issue a report in the public interest, in 2007/08.

Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the *Code of Audit Practice*. If there are any circumstances under which we cannot issue a certificate, such as when there is a question or objection outstanding on the accounts, we are required to report them to the Authority and to issue a draft opinion on the financial statements. We will, therefore, be able to issue the certificate as part of our audit report, once the remaining work for the accounts opinion and Use of Resources conclusion has been completed.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Northampton Borough Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and Northampton Borough Council , its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 7 in accordance with ISA 260.

Section 2

Accounts and Annual Governance Statement

Introduction

The main stages in the audit of the Authority's accounts is summarised in the table below. The current status of each stage is indicated.

Work Performed	Current status
Task 1 – Risk analysis: Review the Authority's operations.	✓
Task 2 – Controls: Assess the control framework.	✓
Task 3 – Agree working paper requirements: Issue our Accounts Audit Protocol.	✓
Task 4 – Accounting standards: Establish the impact of any new accounting standards.	In progress
Task 5 – Accounts production: Review the accounts production process.	✓
Task 6 – Testing: Test and confirm relevant transactions, balances and disclosures.	In progress
Task 7 – Opinions and representations: Seek and provide representations before issuing our opinion and conclusion.	In progress

We have commented on these steps below where there are issues which we wish to bring to members' and officers' attention.

Task 1: Risk analysis

In our 2007/08 Annual Audit and Inspection Plan, we noted that the key issue for the 2007/08 accounts is the need to comply with changes to the Local Government Statement of Recommended Practice ("SORP") which take effect this year.

The quality of working papers supporting the accounts is an area which we have identified for further development in previous years. We have commented on the actions we have taken to assist the Authority and on the working papers produced to support the 2007/08 accounts below.

Another issue we identified is the effect the implementation of Single Status has on the accounts. The Authority has decided that since it is not at a stage where it can make a reasonable estimate of the costs of implementation so therefore has not made a provision in its accounts.

The Authority replaced its rents system during the financial year. Our work has therefore needed to cover the processes and controls operated while the old system was in place, the new processes introduced and also the migration of data from the old to the new system.

Task 2: Assessment of the control framework

We undertook the majority of our controls work during our visit in April. This included reviewing internal audit's work and where appropriate relying on their findings. Owing to the availability of staff during April, we completed the remainder of this work during our main visit over the summer.

In previous years, we have identified a larger number of control weaknesses than at comparable authorities; our 2006/07 *Report to those charged with governance* contained 16 recommendations, of which several related to opportunities to improve financial control.

Section 2

Accounts and Annual Governance Statement

The Authority has made progress in addressing our past recommendations. For example, the recruitment of additional qualified and part-qualified staff. This has enabled improvements to be introduced to significant areas of financial management – for instance, in-year budget reporting has become established for both capital and revenue expenditure.

For example, the arrangements around capital expenditure have been significantly strengthened, with a new team of officers in place to support and monitor capital expenditure. This has allowed capital expenditure monitoring at member level to become established during 2007/08. However, some of our recommendations have not been fully addressed. Where they continue to be relevant, we have reiterated them in the text below.

Tasks 3 and 5: Working papers and the accounts production process

The working papers supporting the accounts have been an area for improvement in previous audit years. In the 2006/07, to a significant degree there have been cases where some working papers were not available by the agreed time, were unclear or did not adequately serve their intended purpose. This creates additional work for officers during our main audit visits and leads to additional audit time and cost.

During 2008, we sought to help the Authority address this issue by:

- discussing with officers any areas which were unclear in our working paper request in previous years;
- issuing our working paper request in March and discussing it with officers; and
- giving a presentation to the wider finance team in February to help them to understand what information we need and why.

We visited the Authority at the end of June, in advance of our main visit, to review working papers and to pick samples for our detailed testing, as agreed in advance with officers. Working papers made available to us at this point were limited and we were unable to pick samples as we had not been provided with transaction breakdowns at that stage.

The progress of the audit has been delayed because we did not receive a complete set of finalised working papers at the start of our visit. One contributory factor was that officers had identified errors in transactions generated by the fixed asset system and needed to correct these, with the result that we received the final versions of working papers on the Authority's fixed assets in the fifth week of the audit. Final versions of working papers on the HRA and benefits expenditure were also not received until late August and early September.

Officers have introduced a quality assurance process to improve the standard of working papers. This has resulted in some improvements, though it has contributed to delays in finalising a significant number of working papers.

Where queries arise in the course of our work, we have agreed a protocol with officers whereby the query is documented and resolved within three working days or a revised deadline agreed where annual leave, or the complexity of the query, makes the three-day target difficult. In some instances, the three day target has been significantly exceeded, and this has also been a factor in the delays to some areas of the audit.

We provided officers in advance of our visit with an indicative timetable of when we would be auditing each section of the accounts. However we experienced problems in access to key members of staff during the course of the audit.

We also experienced delays due to working papers provided in support of debtor and creditor balances. We had discussed in advance with officers that we required transaction level breakdowns for these balances and detailed as such in our working paper requirements list. However we were not provided with this and consequently spent additional time working through the records provided.

We made a recommendation in our report last year that working papers should be available at the beginning of the audit and reiterate the importance of this.

Recommendation 1: Working papers and the accounts closedown process

The Authority should review its accounts closedown timetable and consider whether sufficient time is built into the timetable to produce working papers.

Accounts and Annual Governance Statement

Task 6: Testing

As outlined above, our testing is not yet complete. At the present time, the most significant areas of ongoing audit work are fixed assets, benefits expenditure and the provision for doubtful debts. We are also continuing work on the HRA, debtors, creditors, and the cash flow statement.

We have commented on the main issues arising from the audit below.

Prior period adjustment

The Authority has included a prior period adjustment in its accounts. The adjustment relates to the premium paid on early redemption of two loans, in 2002/03 and 2003/04.

The Authority is required to split the premia between the HRA and the General Fund on the basis of the opening credit ceiling – a measure of the indebtedness of these two areas of the Authority's activities – for the year in question. It has been identified that the credit ceilings used at the time to apportion the premia were incorrect and, as a result, the costs were split incorrectly between the General Fund and HRA. The Authority has concluded that an adjustment is required between the General Fund and HRA to correct this.

To verify the adjustment, it is necessary to check the revised opening credit ceiling calculations for 2002/03 and 2003/04. Officers have identified that the records for the original calculations have not been retained. We are currently reviewing the available evidence for the revised calculations. We may require a representation from management to confirm their understanding of the adjustment and the supporting figures.

HRA and General Fund arrears

Our review of the Authority's provisions for doubtful debts showed that they have been determined using guidance from CIPFA which has since been withdrawn, by using percentages specified in this guidance applied to debtor balances according to their age. We recommended in our *Report to those charged with governance* relating to the 2006/07 that the Authority follow current guidance and perform an exercise assessing the recoverability of its debtor balances and provide for doubtful debts on the basis of this. We re-iterate this recommendation.

Recommendation 2: Provision for doubtful debts

The Authority should assess the recoverability of its debtor balance and should use this information to determine its provision for doubtful debts.

Total HRA rent arrears (including former tenant arrears) as at the 31 March 2008 stood at £4,291,000, which represented 9.7% of the gross debit for 2007/08. This compares with 7.6% of the previous year's debit as at 31 March 2007. Both of these figures represent a high level of arrears compared to the Authority's peers and, given the significant sums involved, this is a key issue for the financial management of the HRA.

The Best Value Performance Indicators (BVPIs) relating to rent collection and arrears are regularly reported through to senior management and Cabinet. These provide information at a summary level only. However, we understand that arrears monitoring is not routinely included within HRA financial monitoring reports.

Given the high level of arrears and the costs to the Authority which arise from delayed collection or non-collection of rents, we recommend that the Authority ensures that full details of rent arrears are regularly reported to senior management and members.

Recommendation 3: HRA rent collection reporting

The Authority's HRA financial monitoring should systematically include details on rent collection and arrears. The reports should include details of arrears for both current and former tenants.

Accounts and Annual Governance Statement

Bank reconciliation

The Authority has worked extensively during 2007/08 and since year end to improve its bank reconciliation process. Because of the way that details of transactions on the bank account were held on the Agresso ledger, it was difficult to complete a full reconciliation of each bank account per Agresso through to bank statements. In particular, historic differences existed which officers had extensively investigated but had not been able to reconcile fully.

To allow for a fully reconciled position in future, officers have created the "true" year-end Agresso position starting from the bank statement, and have adjusted the difference as an expense to the I&E Account – an amount of approximately £200,000. We understand that this adjustment was authorised by the Director of Finance.

We understand that regular bank reconciliations have been performed since the end of the year since the year-end reconciliation was completed; we will test the new reconciliation process as part of our 2008/09 audit.

Debtor and creditor records

Significant amounts of debtor and creditor balances are recorded using manual records which are journalled onto the ledger at year end. This has resulted in the audit of these areas taking longer than expected and consequently used more audit resource than expected. We experienced difficulties in testing debtor and creditor balances in our 2006/07 and made a recommendation in our report. Recording balances on the ledger would both reduce audit resource spent on this area and facilitate access to information for both audit and management.

Recommendation 4: Records of debtor and creditor balances

The Authority should review its year-end accounting processes for debtor and creditor balances to ensure that there is a clear trail to supporting evidence.

Building control account

The Authority has a statutory obligation to maintain an account for building control services and must set charges which enable the chargeable areas of the service to break even over a three-year period. The Authority's building control account has a cumulative deficit over the three years ending March 2008 of £962,000.

In 2006/07, we recommended that the Authority review its charges for work operated through the account to ensure that they reflect actual costs. We reiterate this recommendation.

Recommendation 5: Building control account charges

The Authority should undertake a review of charges for work operated through its building control account so that regulations are complied with and the account breaks even over a three year period.

Capitalisation of expenditure on void properties

The Authority capitalised significant amounts of expenditure on void properties in 2006/07 but was unable to provide information on the exact nature of the expenditure or which properties it related to. We therefore obtained management representation that this expenditure was capital in nature and made a recommendation that a policy be written on what expenditure on voids would be capitalised.

The Authority has provided us with a policy and also provided a breakdown of works capitalised this year. The policy states that expenditure which maintains, rather than enhances, properties, such as redecoration and gas servicing, is not capitalised. Our testing identified that some expenditure of this nature that has been capitalised, though we do not believe that the total amount would be material.

Recommendation 6: Capitalisation of voids expenditure

The Authority should consistently apply its accounting policy for capitalisation of expenditure on void property, ensuring that expenditure which only maintains, and does not enhance, properties is excluded.

Accounts and Annual Governance Statement

Disclosures

The SORP requires authorities to make various disclosures in its accounts. The Authority's statement of accounts is long in comparison with other authorities'. Whilst our main task is to assess accounts for compliance with accounting standards and the requirements of the SORP, we also assess whether the accounts provide useful and accessible information to the reader. Given the length of the Authority's financial statements, it would be beneficial to consider where simplifications can be made.

Recommendation 7: Accounts disclosure

The Authority should review disclosures in accounts and determine whether any information included is not needed or could be presented in a more user-friendly way.

Task 7: Opinions and Representations

As part of the finalisation process we are required to provide the Authority with representations concerning our independence and ability to act as its auditors. We have provided this at Appendix 7.

The responsible financial officer, duly authorised by the Audit Committee, is required to provide us with representations on specific matters such as the Authority's financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We provided a draft of this representation letter in Appendix 8. Once we have received this we will issue our audit opinion.

Section 3

Use of resources

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness. Our responsibility is to review whether adequate arrangements are in place. Our findings are summarised in our Use of Resources conclusion.

For each of 12 criteria specified by the Audit Commission, we review whether the criterion has been met. Where all criteria have been met, we issue an unqualified conclusion; where a small number of criteria are not met, we issue a conclusion which states in which criteria the deficiencies lie. Where only a small number of criteria are not met, we conclude that the Authority does have adequate arrangements overall, except for certain specified criteria (an “except for” conclusion); where a greater number of criteria are not achieved, we conclude that arrangements are not adequate (an “adverse” conclusion).

In 2007, we concluded that eight criteria were not met and issued an adverse conclusion. The Authority has implemented a range of measures which should help improve in the areas of deficiency, so we will need to assess whether these were sufficiently embedded to enable the Authority to pass more criteria this year. This work is still in progress at present, so have not yet determined what conclusion we will be give. Our intention is to issue the conclusion alongside the accounts opinion prior to the end of September 2008. We will update officers and the Audit Committee orally as work progresses.

Appendix 1: Proposed audit report

Independent auditor's report to the members of Northampton Borough Council

Opinion on the statement of accounts

We have audited the authority statement of accounts and related notes of Northampton Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority's statement of accounts comprises the Explanatory Foreword, Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. The statement of accounts has been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Northampton Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Northampton Borough Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than [name of Council], as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the statement of accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority statement of accounts presents fairly the financial position of Northampton Borough Council and its income and expenditure for the year in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

We review whether the governance statement reflects compliance with "Delivering Good Governance in Local Government: A Framework" published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. we are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the *Code of Audit Practice* issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority's statement of accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the authority statement of accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Authority's statement of accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority's statement of accounts and related notes.

Opinion

In our opinion:

The Authority's statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

KPMG LLP

Chartered Accountants

Appendix 2: Audit differences

We are required by ISA (UK and Ireland) 260 *Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences identified by our audit of Northampton Borough Council for the year ended 31 March 2008.

Adjustments to the accounts

Adjustments arising from the audit are detailed below. Officers have agreed to adjust the accounts in each case; there are no unadjusted differences at this stage.

Impact		Basis of audit difference
Income and expenditure	Balance sheet	
Dr Collection Fund – Bad debt expense £35k	Cr Collection fund debtors – NNDR bad debt provision £35k	Arrears arising in 2007/08 have been omitted from the calculation of the NNDR bad debt provision
	Dr Creditors £81k Cr Debtors £81k	Construction Industry Tax has incorrectly been credited to debtors accounts.
Dr HRA I&E – rent rebates transfer to GF £65k	Cr Creditors – government departments £65k	Rent rebate subsidy limitation has been calculated on incorrect basis.
	Dr Useable capital receipts £390k Cr Creditors – government departments £390k	The Authority has agreed to repay housing capital receipts that were under dispute with DCLG.
	Dr Creditors – deposits £196k Cr Useable capital receipts £196k	The Authority has a deposit in its creditor balances from a contractor dating back to 1982. The contractor has since gone bust and it is very unlikely that these liability will be realised.

Appendix 3: Action plan

This appendix summarises our recommendations. We have given each one a risk rating (as explained below) and agreed with management what action they will take.

Priority rating		
Priority one: issues that are fundamental and material to the Authority's system of internal control.	***Priority two***: issues that have an important effect on internal controls.	***Priority three***: issues that would, if corrected, improve internal control in general but are not vital to the overall system.

	Risk	Issue and recommendation	Management response	Officer and due date
1	● (two)	**Working papers and the accounts closedown process** The Authority should review its accounts closedown timetable and consider whether sufficient time is built into the timetable to produce working papers.	The accounts closedown timetable is reviewed every year to adjust for known issues. The closedown timetable for 2007/08 was affected by the changes to fixed asset accounting which had a knock-on effect on the revenue account because of capital charges. This resulted from errors in the software employed by the Council and the resultant delays affected most areas of the timetable. This issue could not have been foreseen when the timetable was produced. A review will be undertaken as normal.	Bill Lewis February 2009
2	● (two)	**Provision for doubtful debts** The Authority should assess the recoverability of its debtor balance and should use this information to determine its provision for doubtful debts.	Where possible, the Authority will perform an assessment of the debtor balance and this will inform the provision for doubtful debts.	Phil Morrison March 2009
3	● (one)	**HRA rent collection reporting** The Authority's HRA financial monitoring should systematically include details on rent collection and arrears. The reports should include details of arrears for both current and former tenants.	Reporting to members on the collection of rent is already being developed and will be incorporated into regular budget monitoring reports alongside the reporting on garage rents which has already been introduced as a pilot.	Phil Morrison November 2008
4	● (two)	**Records of debtor and creditor balances** The Authority should review its year-end accounting processes for debtor and creditor balances to ensure that there is a clear trail to supporting evidence.	The Authority recognises that more improvements are necessary in this area. These improvements are to be built in during the review of the financial system and the in-year reconciliations of balance sheet accounts which are being introduced.	Bill Lewis January 2009

Appendix 3: Action plan

This appendix summarises our recommendations. We have given each one a risk rating (as explained below) and agreed with management what action they will take.

Priority rating		
Priority one: issues that are fundamental and material to the Authority's system of internal control.	***Priority two***: issues that have an important effect on internal controls.	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system.

	Risk	Issue and recommendation	Management response	Officer and due date
5	● (two)	**Building control account charges** The Authority should undertake a review of charges for work operated through its building control account so that regulations are complied with and the account breaks even over a three year period.	The charges will be reviewed during the 2009/10 budget setting process. Charges will be revised if the Authority is able commercially to do so.	Ann Davies February 2009
6	● (two)	**Capitalisation of voids expenditure** The Authority should consistently apply its accounting policy for capitalisation of expenditure on void property, ensuring that expenditure which only maintains, and does not enhance, properties is excluded.	Guidelines have been drafted for Housing Capital expenditure which are subject to consultation. The council already consistently applies this policy by ensuring that only expenditure of a capital nature are capitalised. This expenditure will include ancillary works such as redecoration which are necessary as part of the project; where the work cannot be demonstrated to be part of a capital project it will remain in revenue.	N/A
7	● (two)	**Accounts disclosure** The Authority should review disclosures in accounts and determine whether any information included is not needed or could be presented in a more user-friendly way.	The Authority believes that the disclosures it makes are in compliance with SORP and any additional information includes aids the reader of the accounts. Any suggestions for removing disclosure will be considered.	Bill Lewis

Appendix 4: Prior year recommendations

This appendix summarises the progress made to implement the recommendations we identified in our previous reports. We have given each one a risk rating as explained in Appendix 4.

	Risk	Issue and recommendation	Management response	Status at Sept 2008
1	(two)	Working Papers We issued a "Prepared by Client" (PBC) request that set out a list of supporting documentation required for our final accounts audit. A number of working papers were not available at the start of the audit and those that were available did not provide sufficient detail as required by our PBC. The Council should ensure the financial statements are supported by documentation at the start of the audit.	The working papers were improved for the 2006/07 final accounts production. It is recognised that there are still some areas for improvement and the quality of year end working papers will continue to be a focus of the year end process for 2007/08.	Whilst the quality control procedure has contributed to some improvement in working paper quality, significant delays to the audit have been caused by final versions of working papers being provided significantly after the audit start date. **Partially implemented.**
2	(one)	Our review of the fixed asset register revealed a number of differences between the register and balances stated in the ledger, which were accounted for as 'balancing adjustments'. The Authority should seek to resolve this query and consider the impact on financial planning.	A review of the fixed asset register and the accounting for capital assets will be undertaken by the new capital accountant to incorporate the changes required in the SORP for the 2007/08 accounts.	The Authority has successfully reconciled the fixed asset register to the general ledger and in the process established the reasons for previously unexplained reconciling items. **Implemented.**
3.	(two)	The payroll is now run through a module of the general ledger, Agresso. However there is still a need for reconciliation of the payroll module to the general ledger as not all pay related transactions are performed in the payroll ledger. No such reconciliation is currently performed. The Council should ensure that reconciliations between modules within IT packages are carried out.	A small reconciliation team has been formed as part of the new finance structure. A reconciliation process is being drawn up and reconciliations will be undertaken on a monthly basis.	The payroll has been satisfactorily reconciled to the general ledger. **Implemented.**
4	(two)	A significant number (over 50%) of Internal Audit's recommendation raised in 2005/06 on the fundamental financial systems have not been implemented to date. Consequently, there is a risk that weaknesses in systems are not being controlled appropriately so that information included in the accounts may be inaccurate. The Council should ensure that actions agreed in response to recommendations raised by Internal Audit are implemented on a timely basis.	A monitoring system to track the progress of internal audit recommendations has been implemented in conjunction with internal audit. Actions are now being proactively tracked.	The Team Central system for tracking recommendations is now in place and will facilitate review by senior officers and the Audit Committee to ensure that recommendations are promptly implemented. Once robust information is available from Team Central, we will need to follow up whether the Authority has been able to improve the proportion of recommendations. **Implemented.**

Appendix 4: Prior year recommendations

No.	Risk	Issue and recommendation	Management response	Status at Sept 2008
5	● (two)	The bad debt provision is calculated using percentages set out in guidance which is several years out of date. Current CIPFA guidance says that the provision for bad debts should be set on the basis of a local assessment of the recoverability of debts. An assessment of the recoverability of different classes of a debt should be performed to allow a more accurate provision for bad debts to be set (or to confirm the Authority is content with the current approach).	The calculation of and accounting for the bad debt provision and write offs was reviewed during the 2006/07 financial year and was implemented for the 2006/07 closedown. A further review will be carried out when the Sundry Income system is upgraded to identify improved management information.	The Authority has not reviewed its methodology for providing for bad debts. **Not implemented.**
6	● (two)	The Authority introduced a new computer system (Northgate) in January 2006 to process Council Tax and Benefits. It is currently possible for a new property to be created on the system without linking to a liable individual. There is therefore a risk that new properties are input on the system without a bill being produced. Reconciliation should be performed of the number of properties to liable individuals. This will ensure that all properties are billed for.	Reconciliations and controls to mitigate any risks discovered will be implemented.	We are satisfied that there are adequate compensating controls in place. **Implemented**
7	● (two)	HRA rent arrears as at 31st March 2007 represented 7.6% of the year's gross debit. Current tenant arrears have increased by 11% since the year end. A review should be undertaken of the arrears recovery process to ascertain what steps could be taken to reduce the level of arrears.	A new Housing Management System is currently being implemented. This system will allow for the improved management of rent arrears.	The arrears position at 31 March 2008 is worse than the corresponding position a year ago. This is subject to a recommendation. **Not implemented.**
8	● (two)	We identified a number of debtor and creditor balances requiring amendment. 'Contra' accounts are used in the general ledger to track reallocation between codes. However, this current system does not provide a clear audit trail as to the final debtor and creditor balances. The system for reallocation should be reviewed to reduce the number of debtor and creditor accounts and to ensure accounts record the correct balance.	Reconciliations and the presentation of information will be reviewed for 2007/08.	We have again experienced difficulties in testing debtor and creditor balances, though not directly related to this point. **Not implemented.**
9	● (two)	The Cash flow statement was compiled using a complicated model. Efficiencies could be realised by simplifying the compilation of the cash flow. The method for compiling the Cash flow statement should be reviewed with a view to simplifying it.	This Cash flow Statement model was first implemented for 2006/07 final accounts and will be reviewed before using the model for the 2007/08 final accounts.	We are yet to review the cash flow statement.

Appendix 4: Prior year recommendations

No.	Risk	Issue and recommendation	Management response	Status at Sept 2008
10	● (two)	There is an ongoing (since 2004/05) query with DCLG regarding the pooling of HRA capital receipts. The Authority should seek to resolve this query and consider the impact on financial planning.	The Authority has retained a level of capital receipts to enable repayment of the disputed amount and there will therefore be no detrimental impact on financial planning. The Authority is currently in discussion with its advisors to seek resolution of this matter.	The Authority has agreed to repay those receipts under dispute. **Implemented.**
11	● (one)	Capital expenditure is not monitored by Cabinet during the year. An outturn report had not been presented to Council as at 19th September 2007. Performance reporting to Members should be enhance to include key financial information including capital expenditure against the capital programme and collection rates of Council Tax and NNDR.	A capital outturn report will be produced for the November Cabinet meeting and capital monitoring reports will be produced for Cabinet on a monthly basis. The introduction of performance reporting to include key financial information will be considered.	Capital expenditure is now monitored and reported to Cabinet through the year. **Implemented.**
12	● (one)	In pursuing rental arrears, some cases are referred to court. Current practice is that cheques payable to HMCS are written in bulk, stored in a drawer and sent to HMCS when required. Cheques should only be produced when required.	The system has been reviewed and cheques are now requested when required.	We understand this practice has now ceased. **Implemented.**
13	● (one)	Our review of the bank reconciliation revealed a number of errors and issues. Reconciling items were incorrectly recorded, BACS transfers were shown as unpresented and several cancelled cheques were shown as unpresented. The Authority should review its quality control process over the bank reconciliation and ensure an effective review of the completed reconciliation is performed.	Bank reconciliations were improved for 2006/07 and the review process is still underway. Quality control procedures and management review are being introduced.	The Authority has performed one bank reconciliation covering the whole year. Whilst we are happy that reconciliation has been performed satisfactorily, we would expect this control to be performed each month. This is subject to a recommendation. **Partially implemented.**
14	● (two)	We identified a number of leases which were not disclosed in the accounts. The SORP contains requirements on disclosing all leases and their classification as either operating or finance leases. A central register of all leases should be maintained. This will facilitate the accounts production process and enable effective monitoring of leases.	A central register of leases will be implemented.	The Authority maintains a central register of leases. We have not identified any leases not disclosed in the accounts. **Implemented.**

Appendix 4: Prior year recommendations

No.	Risk	Issue and recommendation	Management response	Status at Sept 2008
15	● (one)	The Authority operates a Building Control Account. Government regulations state that authorities must ensure income matches expenditure over a three year period on chargeable work. The chargeable account has operated at a deficit for the past three years with a cumulative deficit of £211,000. The Authority should review income and expenditure making up charges for the chargeable work operated through the Building Control account in the context of Government regulations.	Building Control charges and related expenditure will be reviewed during the 2008/09 budget setting process.	The Authority has not reviewed charges and consequently has operated the function at a deficit again in 2007/08. **Not implemented.**
16	● (one)	In 2006/7 major works were carried out on void properties within the HRA amounting to approximately £2m which was capitalised. The Authority does not have a policy for determining what works should be capitalised nor is there a schedule, by property, showing the works undertaken and the related costs. We obtained management representation that the expenditure was capital in nature. The Authority should determine what its policy is for capitalising such works and maintain schedules by property of what has been capitalised.	The Authority has retained a level of capital receipts to enable repayment of the disputed amount and there will therefore be no detrimental impact on financial planning. The Authority is currently in discussion with its advisors to seek resolution of this matter.	The Authority has written a policy and provided us with a breakdown of capitalised expenditure. However our testing identified that items of expenditure are being capitalised which are not within the scope of its policy, though the amount is not likely to be significant. **Partially implemented.**

Appendix 5: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2007/08

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* ("the *Code*") which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired"

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the *Code*, the detailed provisions of the Statement of Independence included within the Audit Commission's *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The *Code* states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

Appendix 5: Declaration of independence and objectivity

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Northampton Borough Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission’s requirements in relation to independence and objectivity.

Appendix 6: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Council, the following representations given to you in connection with your audit of the financial statements for Northampton Borough Council for the year ended 31 March 2008.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Northampton Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2008.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Appendix 6: Draft management representation letter

- Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 25 September 2008.

Yours faithfully

[Name of Executive Director signing letter on behalf of Council]

On behalf of the Council