Putting the Community First

BARNET LONDON BOROUGH

London Borough of Barnet
Statement of Accounts
For the year ended 31ST March 2006

LONDON BOROUGH OF BARNET

STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2006

Contents

SECTION 1 – Introduction & Review of the year 2005/06

Foreword & Statement of responsibilities

This document sets out the Financial Statements for Barnet Council, the Council's Pension Fund Statements and Group Accounts.

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In Barnet that officer is the Chief Finance Officer (CFO), Clive Medlam.

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

- approve the Statement of Accounts.

Internal Financial Control

The Council recognises its responsibilities to ensure proper financial management and control of its affairs. The Council approves an annual revenue and capital budget and publishes annual accounts, which are approved by the Council and subject to external audit.

The Chief Finance Officer, Clive Medlam reports to the Chief Executive Officer, Leo Boland, who has direct management responsibility for the Internal Audit Section, which maintains a regular review of the Council's financial systems and investigates any irregularities that arise. Further information is contained within the Statement on Internal Control.

The Chief Finance Officer's responsibilities

The CFO 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 in Local Authority Accounting in the United Kingdom.

In preparing the Statement of Accounts, the CFO 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 CFO has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

The CFO should sign and date the Statement of Accounts for the year ended 31 March 2006.

The Statement of Accounts

This details out the process in place during 2005/06 for ensuring proper financial management and control. It then reviews the effectiveness and raises any major issues that have arisen in the year.

Statement of Accounting Policies

An explanation of the basis on which the accounts have been prepared and their compliance with the guidance of the relevant regulatory bodies.

Consolidated Revenue Account

This summarises the income and expenditure of all the Council's services. The Account also shows how the Council's services are funded: the four main sources being specific income, council tax, non-domestic rates and government grants.

Housing Revenue Account

This records the Authority's statutory obligation to account separately for the costs of its landlord role. It shows major elements of housing revenue expenditure – maintenance, administration and capital financing costs – and how these are met by rents, housing subsidy and other income.

Collection Fund Statement

The Council is responsible for collecting council tax and non-domestic rates, the latter on behalf of the government. The proceeds of council tax are distributed to two preceptors: the Council itself and the Greater London Authority. The Fund shows the income due from council tax, non-domestic rates and the application of the proceeds.

Consolidated Balance Sheet

This records the Authority's year-end financial position. It shows the balances and reserves at the Authority's disposal, its long-term debt, net current assets or liabilities, and summarised information on the fixed assets held. It excludes the Pension Fund.

Statement of Total Movement in Reserves

This details out all the Council's reserves and how they have moved in the year.

Cashflow Statement

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

Group Accounts

The Authority has only one owned subsidiary company, which is an Arms Length Management Organisation (ALMO), Barnet Homes Ltd, which it has full control and influence over. The primary aim in establishing this company is to remove it from public sector borrowing controls and to allow a greater commercial freedom. These Groups Accounts therefore show the consolidated position for the Council. For statutory purposes Barnet Homes Ltd produce their own statement of accounts.

Pension Fund Account

The Pension Fund Account shows the contributions to the fund during 2005/06 and the benefits paid from it. The Net Assets Statement sets out the financial position for the Fund as at 31 March 2006. The fund is separately managed by the Council acting as trustee and its accounts are separate from the Council's.

Review of the Financial Year

The council have revised their priorities to more closely reflect their manifesto. They are now:

- A bright future for children and young people
- Supporting the vulnerable
- Clean, green and safe
- A successful suburb
- Stronger and healthier

Integral to the achievement of these priorities are closer links with budgets and resource planning.

This review sets out the Council's financial performance in its four principal finance areas:

- The General Fund
- The Housing Revenue Fund
- Capital Investment
- Balance Sheet

This commentary is also supplemented by a review of the Pension Fund and Group Accounts.

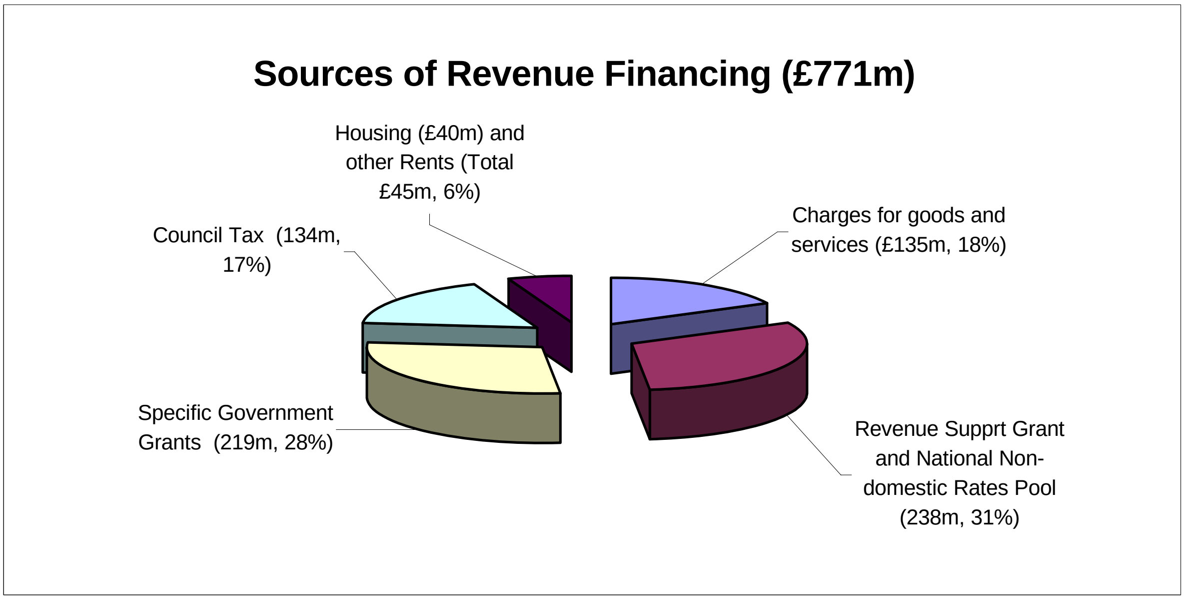
The General Fund

The General Fund contains the income and expenditure relating to the services of the Council, other than Council housing. In 2005/06 the Council planned net expenditure of £371m as set out in the following table.

2005/06	Original Council Spending Plan	Actual Net Spend	Difference (Actual-Original)
	£'000	£'000	£'000
Individual School's Budget	147,253	146,776	(477)
Other Council Services & Levies	228,571	223,537	(5,034)
Contribution to Balances	2,300	5,959	3,659
Contribution from Special Parking Account and Charitable Funds	(6,788)	(4,936)	1,852
Amount to be met by Government Grant and Council Tax	371,336	371,336	0
Revenue Support Grant	(130,374)	(130,374)	0
Non-domestic Rates	(108,093)	(108,093)	0
Collection Fund Transfer	1,303	1,303	0
Council Tax	(134,172)	(134,172)	0
Balanced Budget	0	0	0

Of this schools have under spent by £477k.

The detail of the Council's spending is set out in the Consolidated Revenue Account which shows the majority of spending was on education (£242m), social services (£127m) and housing functions including benefits (£255m). Excluding internal recharges the council spent some £778m on revenue expenditure (i.e. the day to day running cost of services). The following graph shows how this was paid for:



A key aspect is that over 50% of expenditure is funded by government either through general or specific grants. Local funding of the Housing Revenue Account by housing rents and Council Tax funding of General Fund Services accounts for just under 25% of income in total.

Balances

When the 2005/06 budget was approved by the council in March 2005, the estimated 1 April 2005 General Fund balance was £5m (excluding schools). The council also had estimated specific earmarked reserves of £1.04m as at 1 April 2005.

The final position shows a General Fund balance of £10.49m and specific reserves of £5.564m. Whilst this is a significant improvement of the position at the end of 2004/05, the level of balances remains a key consideration when setting the annual budget and the 2006/07 budget was set at a level to continue to restore working balances to a reasonable level over the coming years.

Housing Revenue Account

The Housing Revenue Account is a statement of the income and expenditure on Council housing. The Council is landlord for 11,264 dwellings and the income and expenditure relating to these is ring-fenced, that is the Council is prevented by legislation from subsidising the cost of council housing from its General Fund and vice versa.

In 2005/06, the Council spent £95.7 million on its Council housing and had income of £47.0 million. After financing and appropriation adjustments, there was a deficit of £2.1 million on the account.

Capital Investment

Capital expenditure reflects the spend on tangible fixed assets (buildings and equipment) and intangible assets (software licences) which yields benefit to the authority and the services it provides for a period greater than one year. It includes specific grants given to third parties mainly for housing and regeneration purposes.

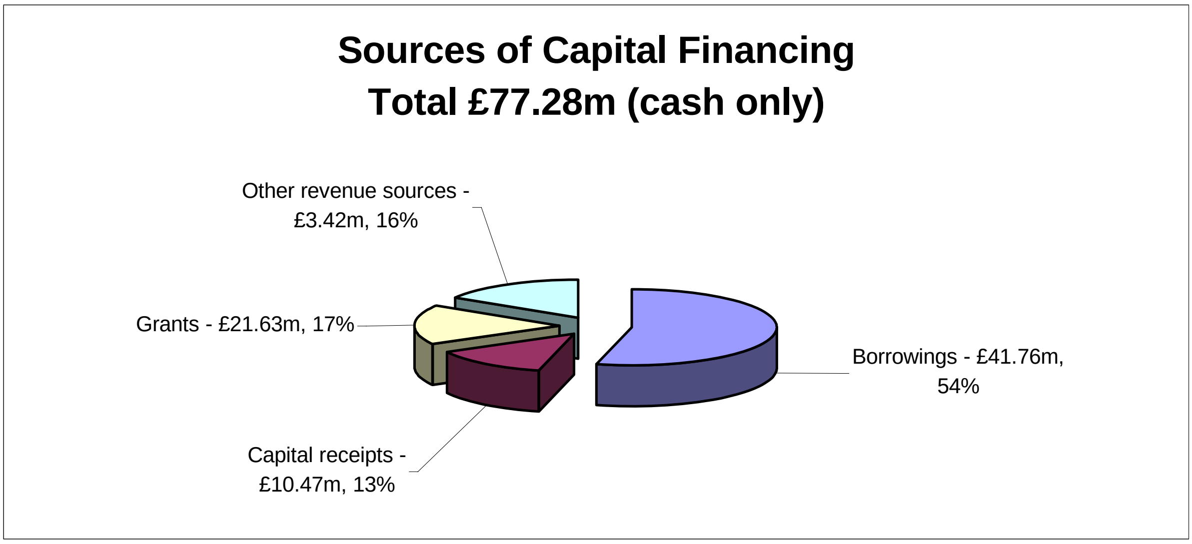
The final revised capital budget for 2005/06 was £86.335m. The total amount spent on Barnet's capital assets in 2005/06 was £78.645m. The total expenditure includes amounts funded by schools from revenue contributions and other resources and Transport for London (TfL) grant allocations.

The difference between budget and outturn is due to slippage on various projects. In addition to the rolling programme of works to roads (£10.3m) and repairs and improvements to Council Dwellings (£25.8m), there have been major investments during the year on improving education infrastructure and repairing existing school facilities (£17.5), modernising the council's technology and staffing structures including a new computer system (£11.7), assistance to Housing Associations (£2.9m), Regeneration including re-acquisition of properties from right to buy purchasers on the Grahame Park and Stonegrove regeneration estates in the event of hardship (£6.1m), adult re-provisioning programme (£2.5m) and £1.5 million on recycling and other Environmental projects.

Capital Financing

The Prudential Code, a system governing local authority capital expenditure was introduced on 1st April 2004. Local authorities are now free to borrow by use of finance capital schemes without prior agreement from Central Government. Before undertaking such borrowing, the council is required to ensure that all external borrowing is within prudent and sustainable levels, that capital expenditure plans are affordable and that treasury management decisions are taken in accordance with professional good practice.

The Council has borrowing facilities with the Public Works Loan Board and the council's bankers. In 2005/06 the council funded its capital expenditure by use of borrowing (54%), capital receipts (13%), grants (17%), and Housing Major Repairs Allowance (MRA) and other revenue sources (16%).



Other than grants and contributions towards specific capital schemes, the main sources of finance continue to be borrowing and capital receipts arising from the sale of fixed assets.

The largest source of capital finance in 2005/06 was borrowing, 55% of which is supported by Central Government. Total borrowing at the 31st March 2006 amounted to £105.5m. The sale of assets together with various other sources of income such as planning gains and partnerships with the private sector will play an important role in supporting the Council's future capital expenditure plans.

Pension Fund

The Pension Fund is part of the Local Government Pension Scheme and funds, from contributions from members of the scheme and the Council, the pensions of council staff, and teachers. In 2005/06, the fund made payments to pensioners of £25.4m and received contributions of £27.5m (£7.2m from members and £20.4 from the employers).

The Fund is worth £499.8m, most of which is invested in the stock market. In 2005/06 the fund increased in value by £92.4m following the overall trend in the UK and global stock markets.

The Statement of the Chief Finance Officer

The required financial statements appear on pages 47-92 and have been prepared in accordance with the accounting policies set out on pages 41-46.

Clive Medlam BSc., CPFA,
Chief Finance Officer

Statement of the Chairman of the Audit Committee.

I confirm these accounts were approved by the Audit Committee on behalf of the London Borough of Barnet at the meeting held on 29 June 2006.

Cllr Jeremy Davies
Chairman of Audit Committee

Independent auditors' report to the Members of London Borough of Barnet

Opinion on the financial statements

We have audited the financial statements and the pension fund accounts of London Borough of Barnet and its Group for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Group Accounts and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to London Borough of Barnet in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority or its Members as a body, or our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements 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 financial statements and the pension fund accounts present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We are not required to consider, nor have we considered, whether the Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority and its Group as at 31 March 2006 and its income and expenditure for the year then ended
- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006 and the amount and disposition of the fund's assets and liabilities as at 31 March 2006 other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a Best Value Performance Plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention, which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's Best Value Performance Plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July/August *2005*, in all significant respects, London Borough of Barnet made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2006.

Best Value Performance Plan

We issued our statutory report on the audit of the Authority's Best Value Performance Plan for the financial year 2005/06 in December 2005. We did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

We have carried out the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements.

Signature... Date...

Name: RSM Robson Rhodes LLP.

Address: Bryanston Court
Seldon Hill
Hemel Hampstead
Herts HP2 4TN

SECTION 2 – Statement of Internal Control and Accounting Policies

2005/06 Statement on Internal Control

INTRODUCTION

In compliance with the Accounts and Audit Regulations 2003 the Authority is required to provide a publication of a Statement on Internal Control (SIC) with the financial statements.

Although it is published with the financial statements the SIC is a broad reflection of the whole governance of the council, and sets out the controls in place that are designed to ensure:-

- the council's policies are put into practice and that values are met.
- laws and regulations are complied with.
- required processes are adhered to.
- financial statements and other published information are accurate and reliable.
- human, financial and other resources are managed efficiently and effectively.
- services are delivered efficiently and effectively.

After its approval by the council and its External Auditors, the SIC is signed by the Leader and Chief Executive, indicating the acceptance of the SIC by the Council.

In considering whether to approve the SIC, each Head of Service or Director has been asked to produce, and sign, a mini SIC covering their area of responsibility focussing on the above criteria. This provides documented, relevant and reliable evidence to support the disclosures made.

Further consideration of the accuracy of the statements made in the SIC have been conducted by key officers within the council, including (but not exclusively) the Chief Financial Officer, and Chief Internal Auditor.

This process is further evidenced by an Internal Control Checklist process which seeks to identify strengths and weaknesses in the processes and procedures that manage governance and control across the Council.

The SIC seeks to explain the nature of control and material changes in control exercised throughout the whole accounting period. It identifies any weaknesses in control and sets out an action plan to address them.

The SIC is divided into five sections, as follows:-

Section 1	Scope of Responsibility.
Section 2	Purpose of the System of Internal Control.
Section 3	Internal Control Environment.
Section 4	Review of Effectiveness.
Section 5	Significant Internal Control Issues.

Guidance on the production of a SIC has been gained from publications by the Chartered Institute of Public Finance and Accountancy and our External Auditors, RSM Robson Rhodes.

Section 1 – 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 efficiently, economically and effectively in providing value for money services to its residents.

The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way that its functions are exercised, having regard to a combination of economy, efficiency and effectiveness and further improving value for money.

In discharging this overall responsibility, the council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of council functions and which includes arrangements for the management of risk.

Section 2 – Purpose of the System of Internal Control

The system of 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 of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Section 3 – Internal Control Environment

The key elements of the internal control environment are set out below.

Objectives

The council's objectives are set out in the Corporate Plan which supports the Sustainable Community Strategy. These are cascaded through Service Plans and targets for service teams and individuals. Monitoring is via the FirstStat process, Finance and Performance Review meetings, Member Scrutiny.

Policy and Decision Making

The Local Government Act 2000 and secondary legislation specify the local authority functions that are the distinct and quite separate responsibility of the council and the executive. Neither body can become involved with taking decisions on the functions of the other, with certain exceptions referred to below. The Act permits no other bodies in the formal decision-making structure other than those described below.

A Council Functions.
B. Executive Functions.
C. Urgent and Emergency Decisions.
D. Overview and Scrutiny Committees.

The responsibilities of the above functions and their authorisations for decision making is clearly identified in the Council's Constitution. The Council's Constitution is reviewed annually by the Special Committee (Constitution Review) and recommendations are submitted to Council for consideration.
A record of the Special Committee (Constitution Review) with recommendations made can be found on the Council's record system COGNITE.

Compliance

Assurance on compliance with policies, procedures, laws and regulations is provided, in part, by Internal Audit, that conducts risk based audits on the highest risk areas. Other sources of assurance on compliance come from external audit, other external inspectors (e.g. OFSTED, CSCI) and from service management's own internal control arrangements.

Risk Management

There has been significant progress in enhancing the arrangements for risk management in the council during 2005-6, with further development of monitoring and reporting of risks across the Council, thereby providing the basis for effective risk management policies procedures.

- Risk Management processes embedded within the Council

- the Internal Audit unit continue to review and report on risk management arrangements in their interim and annual reports.
- the Finance and Performance Review (F&PR) process continues to review high level risks whilst encompassing close monitoring of service delivery performance, performance against budgets

and budget reduction targets thus minimising the chances of unachievable savings being incorporated in the budget (see note below on the enhancements made to the F&PR process).

- all committee reports include a section on risks, which contributes to Members being better informed prior to deciding on policy and making decisions and increases officer understanding and awareness of risk issues. (see note below on enhancements to the reporting of risk to Members).
- Internal Audit continue to provide a statement in all their interim and annual reports on the adequacy of risk management arrangements.
- Internal Audit's focus continues to ensure that identified risks have been adequately and cost-effectively addressed.

- 2005/6 developments to Risk Management

- the establishment of a Corporate Risk Manager post within Resources, which strengthens the development of risk management without removing the primary responsibility for risk management from service managers;.
- increased External Audit focus on the effectiveness of risk management across the Council.
- the creation of risk registers by all Heads of Service, and the establishment of risk management monitoring process within their services.
- the introduction of risk assessment in the creation of Key Priority Plans (KPPs) and Service Plans thereby informing the selection of Corporate Risks and subsequent inclusion of those risks in the Corporate Plan.
- the responsibility of Heads of Service to incorporate risks associated with delivering service priorities in their Service Plans.
- a continuous review of risks that may that may impact on the ability to deliver in line with the commitments made in their Service Plans for 2006/7.
- the Finance and Performance Review (F&PR) process now operates on an exception basis arising out of risks emerging in budget or performance monitoring.
- the Chief Finance Officer (CFO) provides a comprehensive report to Council on the appropriate level of balances and reserves which incorporates an assessment of performance against forecast savings and potential risks.
- the Chief Finance Officer has developed a corporate financial risk register in tandem with work on financial forward planning. This register highlights financial uncertainties and opportunities.
- further improvements in capturing and reporting risk to members with all committee reports now include a section on risks, thereby contributing to Members being better informed prior to deciding on policy and making decisions and increases understanding and awareness of risk issues.
- all committee reports are recorded on the council's electronic reporting system including the section covering risk assessment and mitigation.
- a bi-annual Corporate Risks report is presented to Directors' Group for evaluation and reporting to Cabinet.
- progress on enhancing risk management is monitored by the Audit Committee.
- Risk Management is now included in the Leader and Cabinet Member for Resources portfolio.
- Internal Audit is now working more in the area of providing advice and guidance on construction and design of controls, which is in line with the draft updated code of practice for internal audit which CIPFA are consulting on.
- All projects managed via the Programme Office in Resources include a risk assessment in their project brief and have a dedicated risk log which is reviewed and reported to the Project Board in line with the requirements defined in the Project Initiation Document (PID).

- Improvements in Risk Management as a consequence of MCS.

During 2005/6 the Council implemented a new core finance system based on a SAP solution. The implementation of the SAP solution brought about significant changes in the Councils control environment.

- All financial transactions are now captured in one core system.
- All satellite finance systems outside of SAP (AXIS, Pericles, Swift) interface electronically with the SAP solution.
- All Department Managers now have direct access to real time financial information with drill down capability for variance investigation.
- All transactions in SAP are recorded and captured for scrutiny.
- All transactions can be traced back to user input.
- All user access rights are controlled via user roles which prevent users accessing parts of the system that are not appropriate.
- All user roles are reviewed and audited for possible issues around segregation of duties.
- All purchasing transactions are recorded in SAP. Failure to record the purchase orders and goods receipt within SPA prevents payment to the vendor.
- All claims for expenses are now captured and recorded electronically and payment is made through Payroll thereby reducing the need for petty cash or imprest accounts.

- Active participation with External Audit in Risk Management processes.

In July 2005 RSM Robson Rhodes conducted an audit on Corporate Risk Management arrangements and published their findings and recommendations in September 2005. These recommendations have been assessed and, were appropriate implemented across the Council.

Use of Resources

Effective and efficient use of resources is achieved through a range of review processes linked to the annual service planning cycle. These include:

- In delivering on the 'Use of Resources' aspect of the Comprehensive Performance Assessment, a 'Better Use of Resources' project was established in November 2005 to address identified weaknesses in corporate systems which resulted in the authority being rated at 2 out of 4 in 2005. This project and associated board and delivery teams will continue to run through 2006/7 as an effective mechanism to address the most significant corporate level use of resources requirements.

- FirstStat and Finance and Performance Review (F & PR) - both processes have been developed to monitor business performance (including financial performance). FirstStat and F & PR are led by the Chief Executive and undertaken on an in-year rolling basis as well as in reviewing and setting the forward financial plan.

- Best Value reviews - conducted across a range of council services in accordance with corporate priorities and in meeting legislative requirements. Business and service planning is well established and constantly reviewed by the Budget Board.

- Member challenge - a rolling programme of finance and performance challenge is undertaken by lead members

- Procurement - the Strategic Procurement Team provides advisory and support services on all corporate procurement activity to ensure value for money

- Internal Audit - IA reviews consider the use of resources as part of the scoping exercise for each audit.

Financial Management

Financial management of the authority is organised through a wide range of processes and procedures which have been improved to deliver stronger financial control arrangements. Central to this are the Financial Regulations, which form part of the council's constitution.

Corporate financial control is also exercised through targeted Finance and Performance Review meetings, challenge meetings for Heads of Service led by the Cabinet Members for Resources and Policy & Performance in addition to regular reporting of the forecasted position for both revenue and capital to Cabinet Resources Committee.

Beyond this there are individual schemes of control for specific areas, e.g. Treasury Management Strategy.

There have been a wide range of improvements and areas of progress during 2005/06 including:

- The implementation of the financial modules of SAP which has significantly enhanced the control environment for the core financial systems.
- Improved standardised reports from SAP along with increased on-line enquiries from the integrated modules within the system has greatly increased the information available to budget managers.
- The Statement of Accounts for 2004/05 were approved and the subsequent audit was completed in line with the revised timetable set by central government.
- A full review of the processes, procedures and guidance for both finance and non finance staff following the MCS implementation has been completed.
- All budget managers have been trained on SAP to enable them to take full responsibility for their budgets.
- In addition, targeted financial training was provided to managers within Adult Social Services following the identification of a potential risk by external audit.
- Revenue balances forecast to exceed the £10m identified by external Audit at 31 March 2006 having been £5m at 31 March 2005 and less than £1m at 31 March 2004.
- Introduction and maintenance of the financial risk register to inform the forward planning and budget monitoring processes.
- Development of the officer Budget Board as a mechanism to enhance corporate ownership of the forward planning process and to provide a clear mechanism for robust officer level challenge to service proposals.
- Further development of the role of the officer Capital and Assets Group to co-ordinate the approval of capital projects in line with corporate priorities.

Further planned work to build on the progress and success already achieved includes:

- The embedding of SAP to maximise the benefits and reinforce the new roles and responsibilities for financial management.
- The implementation of Cost Planner module to enable budget managers to accurately forecast and manage employee expenditure.
- The roll out of the Business Warehouse tool to enhance the reporting capability and provide additional flexibility for both finance and non-finance staff.
- The development of a wider corporate financial monitoring framework to incorporate revenue and capital, prudential indicators, cash flow, debt management and financial risks;
- Establishing the revised finance service within the Resources restructure to provide both support to front line services and clear strategic direction.
- Enhancing the Councils financial forward plan in a Medium Term Financial Strategy.

Performance Management

The Corporate Plan is the single improvement document for the authority. It contains all the key priorities and indicators by which achievement against corporate goals are measured. Progress against targets is monitored through a corporate performance management system based on regular meetings (FirstStat, Finance and Performance Review), regular data collection (monthly or quarterly returns from service areas) and Member challenge (Overview and Scrutiny) as well as by the Cabinet Member for Policy and Performance.

Replacement of Performance Management Plans (PMPs) with Key Priority Plans (KPPs) has ensured shared ownership across themed services for the delivery of key objectives. This has embedded a collaborative system based on robust data.

Best Value Performance Indicators (BVPIs)

The Corporate Performance Office will continue to assist services to review and improve the data gathering and reporting processes around BVPIs to ensure that the identified weaknesses are effectively addressed. This year's pre-audit review process has been streamlined and all data trail evidence is being gathered electronically. Current procedures ensure formal sign off actions at the appropriate level (Head of Service) for BVPI data.

The Corporate Plan 2006/7 -2009/10 reviews the performance of Barnet Council over the last twelve months and sets out the priorities and targets for service improvement over the next three years. FirstStat monitors are priority based and monitor our performance against the Corporate Plan. Data is collected quarterly and the deadline is 17th of the month after the end of each quarter. The Business Improvement Team in the Corporate Performance Office (CPO) collect data from services for the Quarterly Performance Monitoring Tables (known as FirstStat monitors) and Best Value Performance Indicators (BVPIs).

The information presented in the monitoring tables is assessed by the Corporate Performance Office and Heads of Service to provide a traffic light rating on performance for each key measure linked to service objectives.

This information is then reported quarterly to Scrutiny Committees, to Finance & Performance Review meetings (F&PR), and placed on the intranet.

Best Value Performance Indicators (BVPIs) are collated annually in mid May. A new electronic audit sheet was introduced this year to aid the effective validation of BVPI performance data. BVPIs are reported in the Corporate Plan technical appendix and published by the 30th of June each year.

Services must ensure that the systems are in place to collect quarterly monitoring tables and BVPI performance data all year round. It is the service's responsibility to ensure.

- the accuracy of the data provided.
- the existence of detailed audit/management trails supporting this data.
- that data is robust.

Robust challenge and scrutiny through strengthened corporate governance (FirstStat, F&PR) has resulted in improving data quality, and performance improvement and a greater awareness, and ownership, of corporate and service priorities. The improvement in the council's data quality has been formally recognised and reported on in the Annual Joint Audit and Inspection Letter 2004/05.

Section 4 – Review of Effectiveness.

The council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of Internal Audit, which reviews the development, maintenance and implementation of internal control across the council.

Key improvements in 2005/6

1. The Modernising Core Systems (MCS) project went live in August 2005. One of the key benefits of implementing MCS was the significant improvements that a SAP based solution will bring to the control environment. The following benefits are now being realised;

   A single Core Accountancy system bringing together all financial transactions into one system including, but not limited to, payroll, procurement, asset values, benefit payments, virements, grants management, accounts payable, income processing, accounts receivable and cash management transactions.

   "Real time" budget status reports to Budget Managers providing them the ability to drill down into the accounts therefore allowing them to analyse variances and take immediate action to mitigate or eliminate overspends.

   Clear authorisation structures and segregation of duties through strict user access built around role profiles which provides total transparency and traceability against any transaction recorded in MCS.

2. At the end of 2005/6 an Internal Control Checklist review was conducted across the Council taking input from Cost Centre Managers. The process required Cost Centre Managers to assess the strengths and weaknesses of their own internal controls covering the following areas;

General Risk Management	Performance Management
Financial & Financial Management	Legislation
Human Resources	Procurement & contracts
Information Technology	Project Management
Partnerships	Business Continuity Plans
Audit Recommendations	

From the data collected, evidence was gathered that supports the effectiveness of the control environment and work plans were implemented that focussed on the actions and responsibilities required to strengthen the control environment.

It is anticipated that the Internal Control Checklist process will become a key Risk Management tool which will be used bi annually to review the strength of the Control Environment.

Internal & External Audit Arrangements

The external auditors rely on the work of Internal Audit on key financial systems and undertake selective reviews of internal control not included within the scope of internal audit. Other inspectorates also examine internal control as part of their work. The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control is set out below.

- **Council**

  The constitution is reviewed annually by the Special Constitution Review Committee, informed by an Officer Constitution Group. Recommendations of the Committee are reported to the Council for ratification.

- **Executive**

  Cabinet bi annually reviews progress on key corporate risks.

  The Cabinet Member for Performance, Partnerships and Value has risk management in their portfolio.

  All committee reports include a section on risk.

  The Audit Committee conducts an annual review of the budget process. In addition it reviews the Internal Audit Annual and Interim Annual Reports and the Annual (External) Audit and Inspection Letter, in addition to other key reports from Internal and External Audit during the year.

  The Cabinet Overview and Scrutiny Committee is able (except where decisions are exempt from call-in) to review all Cabinet decisions, which happens infrequently and only when necessary. These are automatically placed on the Committee's agenda and not implemented until after the Committee has met, and can call-in any decision taken by the Cabinet Committee or a Cabinet Member. This exceeds the statutory requirement to have arrangements for calling-in Key Decisions.

- **Audit Committee**

  The terms of reference of the Audit Committee were as follows:-

  Ensuring that the council's financial reports, annual financial statements, Statement of Internal Control and the action taken by the council to implement fully a risk management system are balanced, fair, conform to accountancy standards and meet prevailing best practice.

  Reassuring the Council that the scope and depth of external audit work and the annual External Audit Plan are sufficient and conducted competently, including communication with the external auditor on audit findings and material weaknesses in accounting and internal control systems, including endorsing the annual External Auditor's Letter. Meeting independently with the external auditor periodically, ensuring the independence and objectivity of the external auditor and in matters relating to the provision of non-audit services.

Satisfying the Council that the internal auditor carries out sufficient systematic reviews of the internal control arrangements, both operational (relating to effectiveness, efficiency and economy) and financial.

Reviewing the major findings of any relevant internal council investigations by the Corporate Anti Fraud Team into control weaknesses, fraud, whistle blowing or misconduct and the management's response.

Reporting as appropriate to the Council and Cabinet.

These were the terms of reference for this committee in 2005-6, however revised terms of reference were adopted by the Audit Committee on 15 February 2006.

- **Internal Audit**

The council's Internal Audit Service is provided predominantly by an in-house team supplemented by two external partners as follows:-

ENPEYZ, who undertake all school audits.

Deloitte and Touche, who provide between 150 and 250 days risk based systems and follow-up audits a year.

All audit work is undertaken to the standards of the Institute of Internal Auditors and the CIPFA Code of Practice.

An annual audit plan is produced by the Chief Internal Auditor, in consultation with key stakeholders, based on a risk analysis of all of the council's auditable systems. In addition, the risks in each system are reviewed by the relevant Head of Service prior to the commencement of every audit review. The audit plan is agreed with our external auditors prior to finalisation to ensure that that plans are co-ordinated to add maximum value and avoid any duplication.

At the conclusion of each audit the audit findings and risks are discussed with the appropriate head of service and an action plan is agreed. There is a follow-up review of every internal audit to ascertain progress being made by the head of service in addressing the agreed action plan. The Chief Internal Auditor publishes an annual report to the Management Board and Audit Committee.

The Chief Internal Auditor is a Chief Officer of the council, with a reporting line to the Chief Executive. The Chief Internal Auditor also reports to the Audit Committee on the following matters:-

- annual audit plan.
- regular progress reports on key findings and progress against the annual audit plan.
- annual report providing a final position on progress against the annual audit plan, a summary of all internal audit reviews completed, and an independent opinion of the Chief Internal Auditor on the adequacy and effectiveness of the overall control environment.

- **Corporate Anti Fraud Team**

The Corporate Anti Fraud Team (CAFT) provides;

- a specialist investigation service to the Authority.
- fully inclusive training programme of Fraud Awareness & Education to staff.
- providing advice and assistance on Fraud matters to assist managers in policy writing and procedure changes.
- intelligence gathering.

- corporate pro-active work, including joint working with other Service areas and Government Agencies where CAFT is now seen as a key player in the prevention and detection of crime.

The CAFT team operate completely independently of internal audit, maintaining a clear balance between process and investigation.

CAFT supports a ZERO tolerance agenda on Fraud and Corruption within Barnet.

CAFT operates within a Counter Fraud Framework which was approved by members in 2004. The framework consists of a set of comprehensive documents which detail the authority's Fraud Response Plan, Fraud reporting tool-kit, Prosecution Policy, and Whistleblowing policy.

CAFT always seeks to maximise confiscation, compensation and costs or, in money laundering cases, provide evidence to help convict those involved in this crime. These aims are supported by the provisions contained within the Proceeds of Crime Act 2002, the Criminal Justice Act 1988, the Social Security & Administration Act 1992, the Fraud Act (2001) and the Theft Act 1968.

CAFT is divided into five separate areas: Investigations, Verification, Intelligence, Compliance and Support functions.

Verification Team - responsible for verifying Housing & Council Tax Benefit claims.

Intelligence Team - is the single point of contact (SPOC) for the London Borough of Barnet and co-ordinates all information and intelligence flow to and from CAFT. and works in accordance with the guidelines set out in the National Intelligence Model.

Investigation Team - deals with both benefit and corporate fraud.

Compliance and Standards - continual facilitation of document verification to all council and schools staff involved in verifying identity documents, continual sample testing of assessed benefit claims to ensure accuracy and compliance, promotion of best practice amongst Benefit staff and external resident Social Landlord partners and considering best practice/performance in Barnet against other authorities, implementing change where necessary.

Support Team - provides full administrative support to the CAFT. Each support officer has a distinct role i.e. Customer Liaison, Evidence & Disclosure Officer, Intelligence Officer, Department of Work & Pensions, Benefits Liaison.

Key areas of achievement:

- The team has received and dealt with 71,437 telephone calls relating to Benefit information, Investigations and Verification visit enquiries.

- All support staff gained a BTEC in Housing and Council Tax Benefit Administration in 2005/6 and can now assess benefit claims.

Section 5 – Significant Internal Control Issues

When preparing the 2005/6 SIC, all significant risks that may impact on the Council's Corporate Objectives have been identified and actions required to mitigate these risks have been addressed.

An assessment of three key areas was conducted to identify the key risks to the authority. The three areas were;

1. Use of Resources Judgement for 2005/6.
2. Risks Identified in the mini SIC process.
3. Risks identified in the Corporate Plan.

1. Use of Resources Judgement for 2005/6 (See Appendix A for details)

The use of resources judgement assess how well LB Barnet manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the council's priorities and improve services.

The key issues where they felt the Council failed to achieve Level 2 performance were:

- *Quality of working papers to support the final accounts: Specifically, significant improvements were required in relation to the Housing Revenue Account and the information received from the ALMO and the information used to support the Fixed Asset register, in particular from the in-house valuations service.*
- *Asset Management: Linked to the above point, significant improvements were required to address the historic completeness and accuracy issues in relation to the Fixed Asset Register and also ensure that appropriate plans are in place around backlog maintenance.*
- *Systems of Internal Control: the Council needed to continue to develop mechanisms to evidence senior officer involvement in the SIC and also ensure through the implementation of the SAP system that not only is there a complete set of procedure notes in place but that these are being followed in relation to all the Council's key systems.*

Further detail can be found in the "Use of Resources Judgements 2005-06" document which is summarised in appendix A.

2. Risks Identified in the mini SIC process (See Appendix B for details)

The mini SIC process has identified key risks for each Service Area which are now monitored and corrective actions embedded within the Service Plans for each area. A separate document titled "Consolidated Key Risks for 2005/6" captures all Service Area risks and is available for scrutiny.

3. Risks Identified in the Corporate Plan (See Appendix C for details)

The Corporate Plan 2005/6 - 2008/9 identified the following areas where key risks to achieving the objectives are contained within them.

Modernising Core Systems.	Human Resources.
Information Systems.	Regeneration.
Parking Control.	Primary School Capital Strategy.

Internal Audit annual report 2005/6

The most recurring areas of control weakness across the council identified in the 2005/6 Internal Audit annual report are:

- *Either no or inadequate policies and procedures (28 instances out of a total 182 reported risks made).*

Findings in this area do not necessarily mean that policies and/or procedures do not exist but that improvements or additions to existing policies and/or procedures may be required.

The generic risks that result from these omissions include potentially: lack of consistency; standards not being set, understood or complied with; loss of knowledge due to staff changes; increased training time for new staff.

- *Inadequate monitoring controls over resources (23/182)*

  The generic risks that result from these omissions include potentially: failure to achieve optimum benefit from resources; management unaware of misuse of resources or potential adverse budget circumstances.

- *Inadequate data entry arrangements (22/182)*

  The generic risks that result from these omissions include potentially: ineffective decision making based on inadequate information; adverse external inspection finding on data integrity.

- *Lack of monitoring, budgeting and administrative controls (20/182) The generic risks that result from these omissions include potentially: service objectives not being met efficiently and effectively due to an inadequate control environment.*

Management action has been agreed to address weaknesses recorded in the respective reports, which, if implemented, will improve the overall control environment.

31% of risks were assessed by internal audit as 'Priority 1', signifying that there was a 'significant risk that either objectives will not be met efficiently and effectively or that fraud or irregularity is unlikely to be prevented or detected'.

68% of risks were 'Priority 2', signifying 'only limited assurance that objectives will be met efficiently and effectively and that fraud or irregularity will be prevented or detected'.

All Internal Audit work is followed up as a matter of course. Follow-ups indicate how the level of audit assurance has changed as a result of management implementation of agreed actions. Details of the assurance revisions on the 28 follow-ups conducted in the report period are detailed below. Whilst it is encouraging that 19 of the areas are now at a 'satisfactory' level of assurance, it needs to be noted that 9 remain at 'limited' indicating that further management action is required to fully implement agreed actions or mitigate identified risks.

Analysis of Assurance Levels on Follow-up	**No.**
No assurance still no assurance	**0**
Limited assurance still limited assurance	**8**
Satisfactory assurance to limited assurance	**1**
No assurance to limited assurance	**0**
No or limited assurance to satisfactory	**11**
Satisfactory assurance still satisfactory assurance	**8**
Total	**28**

External Audit Reports 2005/6

External Audit play a significant role in maintaining the control environment within the London Borough of Barnet through continuous assessments of the processes and procedures that contribute towards it.

In 2005-6, external audit issued reports on the following:

1. SAP implementation phase 1 report.
2. SAP implementation phase 2 report.
3. ESCR project management report.
4. MCS - Controls feedback interim assessment 1.
5. MCS - Control feedback interim assessment 2.
6. Valuation Processes for Other Land & Building and Non-Operational Assets.
7. MCS Pre-Implementation.
8. Best Value Performance Indicators Audit 2005/6.
9. Use of Resources.
10. Grants certification.
11. Follow-up of HR and Payroll.
12. The interim report.
13. Risk Management report.

These reports have been agreed by the Council and management action has resulted from any identified weaknesses. The Audit Committee is responsible for receipt of external audit report and ensures that recommendations are followed up and monitored until satisfactory completion.

Whilst each report contained a number of recommendations, it was not viewed that any of these recommendations contained a significant weakness to the Council's Internal Control Environment.

SIC 2005/6

Input from External Audit, presented to a special Management Board meeting on 16th August 2005, has been acted upon and significant improvements in the SIC have been forthcoming.

The process for production of the annual SIC has been significantly improved with the development of the Internal Control Checklist process and the development of mini-SIC reports that all Heads of Service have adhered to and which underpin the reliability of the Corporate SIC.

The Internal Control Checklist process is a comprehensive audit of the control environment across every Service Area and is conducted by those managers responsible for their own areas.

The feedback from this process enables Heads of Service to recognise weaknesses within their area of responsibility and to address those weaknesses through action plans embedded within their service plans and team plans.

This process ensures that all services effectively contribute to continuous improvements to the control environment which will provide further assurance on the effectiveness of the Councils ability to achieve its commitment to ensure;

- laws and regulations are complied with.
- required processes are adhered to.
- financial statements and other published information are accurate and reliable.
- human, financial and other resources are managed efficiently and effectively.
- services are delivered efficiently and effectively.

We are confident that the revised process, implemented during 2005/6, link together work on risk management and assurances obtained from all other sources.

These processes have provided input into the annual statement prepared on behalf of the Chief Executive and Leader for the Annual Accounts, and will provide supporting documentation for internal and external scrutiny.

Leo Boland	Mike Freer
Chief Executive	Leader of the Council

Appendix A - Use of Resources Judgement for 2005/6

The key issues where the CPA Auditors felt the Council failed to achieve Level 2 performance were:

1. *Quality of working papers to support the final accounts:*

The Council was required to provide comprehensive working papers to support the accounts at the start of the final accounts audit and to the standard specified by the auditor.

There are a number of areas where working papers of a suitable quality were not provided at any point during the course of the audit, the most significant of were:

- *Housing Revenue Account (HRA): The Council failed to ensure that all the appropriate information was made available at the start of the audit and much of the required information was received very late in the audit process; and*
- *Valuations: The auditors requested copies of a sample of valuation certificates to support the carrying value of the land and buildings within the fixed asset register and hence within the accounts. The Council failed to respond to the request until the week of the local government final accounts signing deadline, and there were significant weaknesses in the Council's in-house valuations service*

Compliance with the SORP

For level 2 it is also necessary to ensure that the accounting treatments are in accordance with the Local Government Statement of Recommended Practice. There were a number of instances where the Council failed to comply.

Improvements suggested by the inspection

Although awarded a Level 2 for Key Lines of Enquiry (KLOE) 1.1, if the extent of the weaknesses of the valuations processes been known by the auditors it might have been a level 1

The appropriate arrangements needed to be put in place to provide working papers of a suitable quality

Above this, to achieve level 3 the following improvements would be necessary:

- *The extent to which the draft accounts are subject to a robust member challenge.*
- *The need to provide members with appropriate supporting papers to interpret the accounts in a user friendly manner.*
- *Reduction in the number of adjustments required due to SORP non-compliance.*

Achievements

Valuations completion (AMP1) and Improve valuations documentation (AMP2) are done.

Quality of final accounts working papers (FM4) :

- *Quality of working papers has improved quite significantly in 05/06 due to new SAP system but further work is require to bring them up to the standard required.*
- *Standard template for the production of working papers was designed and distributed for all accountancy teams two months before closedown.*

Member scrutiny of the Statement of Accounts (FM5) :

- ➢ *Constitution amended to enable approval by Audit Committee.*
- ➢ *Audit Committee trained to increase their awareness as part of the Member Induction process.*
- ➢ *Statement of Accounts sent to Audit Committee with a covering report providing greater explanation of each statement and highlighting the key issues involved.*

Final accounts statutory compliance (FM3)

- ➢ *Initial review of SORP and BVACOP to ensure compliance with guidance completed. Will continue as part of ongoing closing work.*

2. Asset Management:

The KLOE in relation to the Council's asset base is concerned with the effectiveness of the arrangements that the Council currently has in place to manage its asset portfolio.

The Council only achieved a Level 1, the Level 2 criteria the Council failed to meet were :

- Fixed Asset Register

There were serious concerns over the fixed asset register, although there were improvements planned through the implementation of the SAP system. Significant improvements in both the completeness and accuracy of the fixed asset register were necessary

- Maintenance Plans and Assessment of Backlog Maintenance

The Council failed to meet criteria for annual planned maintenance programmes and formal assessments of backlog maintenance and documents were not produced.

Improvements suggested by the inspection

The Council had introduced a Capital and Assets Group and improved arrangements for the management of its asset base more generally.

It needs to address the specifics above, as well as concentrating on getting the basics right, including systems of record keeping.

Achievements

Resolved issues with current SAP usage (AMP4)

- ➢ *Issues with current SAP usage have been resolved except identification of rental / invoicing arrangements with BT.*

Improve record keeping arrangements (AMP3)

- ➢ *Most of AMP3 is now complete*

3. Systems of Internal Control:

This includes the Statement on Internal Control (the SIC), the effectiveness of the Audit Committee, the quality of the Internal Audit function and the completeness of procedures notes.

The Level 1 may be indicative of the historical weaknesses, which may be addressed in part through the implementation of the SAP system.

Level 2 criteria the Council failed to meet:

Assurances to support the SIC

The production of the SIC was largely led by the Chief Internal Auditor with input from ourselves but there was insufficient documented input from senior officers and members.

This weakness has already been acknowledged by the Council and mechanisms were being put in place to implement a "mini-SIC" framework, led at a Service Area level.

Procedure Notes

The Council did not have a complete set of procedure notes in place for the 2004-05 financial year.

However, the SAP implementation may be seen as a vehicle to demonstrate that this has been addressed for at least part of the 2005-06 financial year (since the go-live date of 1st August 2005).

Partnership Register

The Partnership Register was incomplete, although this was being worked on.

Improvements suggested by the inspection

There were some areas of weaknesses within the Partnership Register. However there were also some areas of best practice identified in relation to the effectiveness of the Audit Committee. These areas of best practice would indicate the Council could satisfy Level 4 criteria in these areas.

In order to capitalise on this area the Council needed to continue to work towards addressing the current barriers and achieving the lower levels

Achievements

Development of the Mini SIC process (RIC2)

- *All mini SICs have been completed. A Draft Corporate SIC has been published and feedback has been given by the External Auditors. The final Statement of Internal Control includes their feedback.*

Development of procedures / manuals for business critical systems (RIC3).

- *Identification of business critical systems and Draft Accountancy manual completed.*
- *Identification of mechanism to ensure annual review of procedures and guidance for all business critical systems to be incorporated into Service Planning.*

Review of partnership agreements for all significant partnership arrangements (RIC5)

- *Partnership log available at S:/New CPO/Partnerships/Partnership Registers.*

Appendix B – Risks Identified in the mini SIC process;

Key risks in 2005/6 that affected quality of service delivery or had an impact on the control environment are detailed below by Service Area.

The resolution to these risks have been captured and incorporated into the Service Area Plans for 2006/7

Service Area - Environment & Transport

The following issues were identified during 2005/6 to have had a significant impact on service delivery provided from Environment & Transport. These issues have been assigned to an identified Senior Officer for monitoring and resolution.

A Parking (See Corporate Risk in appendix 2 of this report)

B Integration of systems (SAP) with local business processes to streamline and keep focus on service delivery.

Service Area – Housing

The following issues were identified during 2005/6 to have had a significant impact on service delivery provided from the Housing Service. These issues have been assigned to an identified Senior Officer for monitoring and resolution.

A. Lack of financial information associated with delays in training budget managers in SAP and poor service from accountancy team.

B. Improvement in SAP rating for council dwellings to meet LPSA targets

C. Homelessness and use of temporary accommodation continuing to rise

D. Joint work with London Fire Brigade (LFB) to reduce accidental dwelling fires and related injuries.

Service Area – Internal Audit

None

Service Area – Law & Probity

Area	Risk to service delivery in 05/06	Assigned
Legal	None	
Committee	None	
O&S	None	
Cabinet Support & Political Assistants	None	
CAFT	None	
Electoral Registration	None	
Emergency Planning (under review)	Lack of preparedness for Civil Contingencies Act requirements	Dorne Kanareck
CCTV	None	
Land Charges	None	
Registrar	None	

Service Area – Adult Social Services

A Data inputting into SWIFT:

SWIFT enables client records to be created and maintained as well as care decisions to be recorded. Incorrect data entry or late data entry had the potential to affect service delivery for service users and could affect payments to providers.

In Older Adults, this was highlighted as an issue and further capacity was brought in to support data entry.

Training was made available to staff, with proficient staff available on a 'floor walking' basis in office locations.

A SWIFT programme was established that addressed a range of issues associated with data errors, SWIFT support, SWIFT training, management reporting and performance guidance.

This has considerably improved the data in SWIFT and this can be seen in the improvement of the PAF performance indicators.

B Project capacity within Younger Adults:

This was identified as a key risk area. A business case was created through which resources for 3 project staff were identified. Recruitment to these posts will start in September.

Much of the partnership development will be supported by these posts and this will not only minimise risks to LB Barnet but also ensure that progress against national priorities is being achieved.

C Ensuring diversity issues are embedded within the Directorate:

Capacity has been brought into to develop an equalities and diversity framework which includes undertaking equal opportunities impact assessments on projects. Work is also being developed with staff from Black, Asian and Ethnic Minorities to ensure that a forum exists.

An Adult Social Services Assistant Director is also now a diversity champion within the Directorate.

D Underperformance in key targets

Where this has been identified within the Directorate, an individual member of the Directorate works to investigate what underpins the performance issue. The output is a remedial action plan which in all cases has resulted in the target having sustained improvement (example the number of carers reviews.

E Issues around the effectiveness of the mental health provision partnership:

These were identified and affirmative action was taken and internal audit were asked to undertake a partnerships audit. A poor rating was given, and while this was not surprising it has given legitimacy to LB Barnet with NHS partners to ensure that an action plan is developed.

Service Area – Planning and Environmental Protection Services

A Unitary Development Plan/Local Development Framework

Concerns that delays in adoption of UDP and progression of LDF would:

1. Impact on the delivery of housing growth and targets, sustainable development objectives and planning decisions (in particular success at appeal) due to out of date policies.

2. Weaken the council's ability to negotiate community benefits and planning obligations (Section 106) contributions and deliver key policy and sustainability objectives.

3. Undermine the robustness of development plan (LDF) and alienate local communities from planning process through the lack of up-to-date Core Strategy and Statement of Community Involvement (SCI).

At this point in time the UDP is at the post direction modification stage and it is programmed for adoption April – June 2006. The Local Development Framework 2005/6 work programme is measured by nine milestones; of these the Statement of Community Involvement (SCI) is currently out to public consultation; the Core Strategy cannot be started until the UDP is adopted; Colindale and Mill Hill Area. Action Plans are to be commissioned March 2006; SPD on planning contributions has been approved; preparation has commenced on SPDs on Lifelong Learning and Affordable Housing; SPD on Sustainable Design and Construction has been commissioned and joint work on the Waste DPD has commenced.

B Local Development Scheme

Concerns that failure of GoL to approve LDS by target deadlines would result in an element of 2005/6 PDG being lost and CPA score adversely affected.

The Local Development Scheme was approved in February 2005 and the full PDG for this element was awarded in phase two 2005/6.

C Action Plans, Development Frameworks

Concerns that failure to produce Area Action Plans, Development Frameworks and other detailed planning and development/design briefs would not achieve sustainable communities, regeneration objectives or proper planning of the area; would make it difficult to achieve appropriate form of development and infrastructure improvements to accommodate growth; and may lead to prolonged delays in planning process and impact on success at appeals.

D Recruitment/Retention

Concerns that to recruit staff and appoint to key posts will affect performance and delay projects.

There have been difficulties in appointing suitable staff in all areas of the service during 2005/06 with posts remaining unfilled despite several advertisements.

During 2005/6 11 members of staff left the planning area of the service; 7 of these posts have been filled. However key posts in planning have now been filled.

Environmental Health Officers posts have been re-evaluated and agreement has recently been obtained to participate in a London region training scheme.

4 agency staff were employed in Building Control during 2005; this has now reduced to 3 and there is an intention permanently appoint to vacant posts during 2006/7

E Regulatory and Enforcement Functions

Concerns that failure to improve regulatory and enforcement functions would not meet stakeholder's expectations and customer service targets would not be delivered. Risk of unauthorised developments going unchecked thus harming the environment and the risk of Council decisions being overturned on appeal.

The planning enforcement service has been reviewed to take account of the recommendations of the Overview and Scrutiny report on enforcement and the Best Value inspection of the Planning Service and new processes and procedures adopted to address the issues; a legal technician has been appointed to administer the enforcement notice procedures. There has been a significant improvement in performance.

The introduction of quality control to planning decision making, appointment of Appeals Officer, Member training and changes to delegated powers have reduced the risk of making poor decisions but the risk continues and is exacerbated by poor decision making of the Planning Inspectorate.

F Performance Targets

Concerns that failure to meet BVPI targets would adversely impact on Planning Delivery Grant (PDG) allocation and customer care. Risk of falling back into 'Standards Authority' designation.

Performance against these indicators has continued to improve and exceeds targets; PDG allocation reflects this performance. Risk of falling back into 'Standards Authority' designation is minimal but there is a significant risk that improvements cannot be sustained without additional investment in this area of the service.

G Licensing

Concerns that failure to achieve income could affect service delivery.

H Out break of Food Poisoning

Concerns that such a major outbreak would put pressure on resources and the service would be unable to deliver within acceptable deadlines.

Service Area – Resources

A HR Data Recording

In 2002/03 concerns relating to working days lost due to sickness absence were inaccurate and awarded a reserved judgement by External Audit.

Since then, sickness data as well as all other data related to HR employee information has been qualified due to queries relating to the accuracy and completeness of employee personal data held on Barnet's electronic and hard files.

These issues are being addressed through 2 projects;

1 The 'Identifying and Resolving BVPI 12 Sickness Monitoring Issues' project
2 The 'Post- SAP go live HR data cleanse' project.

HR data integrity has greatly improved as a result of the improvement work that was completed in 2005-6. Further work is required to maintain and improve the level of data input to ensure it does not compromise the improved data integrity

B Staff Recruitment Processes

Operation Windmill was set up to investigate weaknesses in the recruitment of staff. Its findings were that pre-employment checks were not being carried out sufficiently.

To ensure safe recruitment, a mandatory check list was introduced for all new recruits to ensure that all checks were carried out

C Inaccurate National Insurance details

The National Fraud Initiative investigated inaccurate national insurance details. Further investigation highlighted false documentation of employees as documents were not being verified due to a lack of staff training and equipment.

The staff found to have false documentation were reported to the appropriate authorities.

In response to this failing, documentation verification equipment and staff training has been provided to HR.

D Recruitment check lists

On 30/09/05 a 2 day operation occurred to investigate whether the check list was being adhered to. The results were not all positive.

In response to this the appropriate Heads of Service were notified and they are taking action to tighten up control.

E Taking forward Customer Services.

Improvement in customer service access have been seen in both Fenella and Barnet House with the refurbishment on the two main reception areas.

This was a significant milestone for the Customer Service Strategy and further work is scheduled to focus on improvements to telephony and First.Contact.

The responsibility for Customer Service now falls to the newly formed Organisational Development & Customer Service Division within Resources. This clarifies the reporting lines and provides greater focus on all aspects of Customer Service.

F Staff Appraisals

A target was set to ensure all staff within Resources received a formal appraisal in 2005/6. Resources managed to appraise 70% of all staff during 2005/6. (The corporate achievement was 50%)

Greater emphasis will be applied to all Managers in Resources to ensure ALL staff receive an appraisal and have clear defined objectives for 2006/7.

To further improve the quality of appraisals, Resources will be piloting a Competency Based Appraisal Programme. All Managers in Resources will be trained in delivering Competency based Appraisal to prepare them for appraising staff.

The SAP solution from MCS will also track appraisal progress and provide “real time” management information to Senior Management within Resources giving an accurate indication of the progress to date.

G Property Asset Valuations

An issue was identified during 2005/6 that raised concern over the quality and accuracy of our property asset values.

To recover the situation the Property Services team were tasked with re-valuing all the authority’s property assets and recording the information into the Corporate Finance System (SAP).

Progress on the issue is in line with the agree 5 year rolling plan of which 70% of the total Property Asset Value has been completed.

Further valuations will be completed during 2006/7 in line with the agreed 5 year plan and regular progress reports will be provided from Property Services to the Resources Management Team.

Service Area – Education and Children & Families

During the end of 2005/6 and the start of 2006/7 both Education and Children & Families participated in a comprehensive audit of their areas as part of the Joint Area Review.
Areas of weakness were identified and detailed in the Auditors final report which also covered Auditors recommendations and the Authority's response and action plan.

Both Education and Children & Families also comprehensively participated in the Internal Control Checklist (ICC) process. All Budget Managers within these Service Areas were asked to complete a full assessment of the control environment, in line with the ICC process conducted across the rest of the Authority.

The process asks them to identify those areas of the control environment where improvements can be made and to identify the course of action required to strength the control environment.

These actions were then incorporated into the Service Plans and Department Plans for implementation during 2006/7.

The Internal Control Checklist process will be repeated during 2006/7.

Appendix C - Risks Identified in the Corporate Plan;

Modernising Core Systems

At the start of the project it was anticipated that there would be multiple risks and issues that could affect the successful implementation of the MCS solution in terms of both its functionality and impact on the Business.

The major risks identified were

<u>Key Risk 1</u> - Business Engagement with the implementation of MCS.

Action taken -
Funding was made available in the project costs to provide back fill funding allowing Services to release key people to the project and backfill with temporary arrangements.

<u>Key Risk 2</u> - Preparing the Authority for working with MCS

Action taken -
To help them make the change from old ways of working to the new MCS processes a Change Management Team was included in the project team structure whose responsibility was to prepare the Authority for the migration to new business processes and procedures.

A Change Manager and Change Management Team was appointed to the project from within the Authority to lead on and own engagement issues and who were responsible for preparing the Authority for the migration to new business processes and procedures.

A Change Management network and structure was established which incorporated Senior Managers (as Service Champions) and other LBB staff as Change Agents from all of the Service Areas who were responsible for communicating within their own Service Areas and feeding information back into the Project Management Team via the Change Manager

<u>Key Risk 3</u> - Supporting the Authority post go live

Action taken -
To ensure employees of the Authority had a period of time to come to terms with the revised processes and to move towards a continuous improvement program based on best practice using SAP, the Competency Centre was established to provide support to the user community on the technical process of a SAP solution, to develop strong effective and efficient business processes and to lead on process improvements.

The Competency Centre (now known as the Resources - Shared Service Centre) is now embarking on a further engagement program across the Authority looking to embed SAP based processes where they are deemed necessary.

Human Resources

The Strengthening HR Project identified three key areas of risk. The major risks identified were:

Key Risk 1 - Resolve HR and Payroll data integrity issues

Action taken -
Operation Windmill was established as a joint project with HR and the Corporate Anti-Fraud Team (CAFT), with CAFT taking the project lead.

The project focused on tackling systemic weaknesses relating to recruitment and potential fraudulent employee activity.

This has involved 'locking the door' in terms of recruitment processes, introducing an interim corporate checklist to ensure consistency of documentation required of new employees, chasing personal information data cleanse forms from all employees and following up on suspect National Fraud Initiative cases.

Actions from Operation Windmill include:

- The introduction of the corporate checklist
- Personal data cleanse activity
- Investigations into employees with temporary national insurance numbers
- Investigations into employees identified as suspect by the National Fraud Initiative report
- Initiation of safer recruitment pilots in 3 schools in the borough

Key Risk 2 - Resolution of systemic issues within Human Resources

Action taken -
Action plan developed to address the priority service performance and policy issues covering the following key objectives;

- Continuation HR data integrity, building on the work of Operation Windmill.
- Tackling the skills issues across HR.
- Development of a corporate HR strategy.
- Creation of HR policies and procedures to be applied consistently across the authority.

Progress to date against the action plan include:-

- Completion of two phases of Operation Windmill (see above).
- Establishment of project team to deliver cleansed HR files across the Authority in 2006.
- Plans in place to tackle other weaknesses in HR data.
- Review of HR model of devolution.
- MCS training delivered.
- HR strategy development underway in conjunction with Resources Overview and Scrutiny Committee.

ITP (now called Modernising Our Infrastructure)

Modernising Our Infrastructure Programme is managed under a structured Prince 2 protocol. A full risk management process is in place managed by the Programme Manager.

Key Risk 1 - IT infrastructure is not aligned with business, with the resultant risk of failure to meet corporate IS objectives, failure to satisfy business needs, misplacement of resources, poor integration with other initiatives and duplication or misapplication of resources

Action taken -
A comprehensive evaluation has been undertaken of all current IS systems and an interface approach between all interrelated systems is under development. This recovery project sits under governance of IS programme board who are overseeing numerous IS developments to ensure they are aligned with the strategy

Key Risk 2 - Conflict with the organisation's financial strategy; leading to

- inability to afford the acquisition,.
- inability to cope with possible unforeseen additional costs.
- inability to afford additional business requirements identified in business case adding to overall project costs and the need for additional funding.

Action taken -
The budget for ITP was approved in Capital Programme 2005/2006. Professional Services costs will be fixed after design phase, but capped at 10% above submission at BAFO. Hardware costs will be procured under an open book pricing framework.

The Programme Manager meets with the Project Sponsor weekly to review the budgets and a report passed to the Project Board.

Any projected overspends are discussed with the Project Sponsor and action taken to reduce or seek authorisation for the forecast overspend.

This project is managed using VFM principles therefore some areas of budgeted spend may need to be addressed to accept greater cost which will deliver enhanced value.

Key Risk 3 - Lack of engagement across the Authority and active participation in relevant discussions at relevant forums could have an impact on the solution chosen

Action taken -
The project plan has clear milestones which are updated regularly and presented to the Programme Board / Project Board as necessary. A highlight report is issued via IS programme office.

Key Risk 4 - Incumbent supplier's performance falls to unacceptable levels towards expiry date

Action taken –
Relevant notice has been given to Xpert Systems for the termination of the support contract. Service Delivery Manager from Prime have been appointed and are now based on-site full time to manage transition.

Regeneration

An independent review of one of the largest schemes within the Regeneration programme was undertaken in June 2005 by 4P's and followed the Gateway review methodology. The results of this review were translated into risks and incorporated within the Council's risk register

Key Risk 1 - Failure to have in place a robust strategy plan to reflect clear deliverables and objectives for the Brent Cross Cricklewood Regeneration Programme.

Action taken -
Strategy plan and associated project management techniques now in place al.

Key Risk 2 - Failure to ensure that a business case has been established and approved which contains key aspects such as Business Objectives, Costs and Benefits and Performance Measures. This not a risk

Action taken -
Development of the business case is in progress. Developers business plans still to be tested. Delayed as a result of finalising the business plans by the developers. Key priority for Strategic Development Unit in 2006/07

Key Risk 3 - Failure to establish an organisational structure with appropriately trained and experienced staff to manage and oversee the overall success of the project. This not a risk

Action taken -
Organisational structure established with the Head of Strategic Development in post.
Full Strategic Development Unit structure agreed by General Functions Committee on January 19th 2006

Key Risk 4 - Failure to establish a Management Board Structure which has clear lines of responsibility and terms of reference.

Action taken -
The Project Steering Group will be reconstituted at an appropriate time into the Project Management Board. The composition of the Project Management Board has been agreed and the terms of reference will be adopted at its meeting in June 2006.

Parking Control

The significant corporate risk for the parking service is a financial one. The councils parking controls are not implemented for the purpose of generating revenue (in line with legislative requirements) they are in place to put into practice the councils traffic and parking policies. The funds generated are ringfenced for use for transport improvements, street lighting etc. The generation of an annual surplus which must be budgeted for, and the Section must ensure that it manages this surplus in the best interests of the Council and should take steps to maximise the recovery of the revenue due.

Key Risk 1 - Failure to ensure Parking Control manages the annual parking surplus in the best interests of the Council and take steps to maximise the recovery of the revenue due.

Action taken -
Review each parking service element to identify opportunities for service improvement covering;

- Parking enforcement deployment has been reviewed, benchmarks have been established, and performance of individuals is measured against the benchmarks.
- Performance reports and monitoring of individual Parking Officers have been constructed
- Parking Penalties Processing team procedures are being rolled out to enable adequate scrutiny to take place at an early stage of the representation process.

Adjustments to the 2006/07 base budget have been made to reflect a more realistic level of surplus in line with 2005/06 outturn projections

Key Risk 2 - Failure to maximise the ability of parking attendants to identify and penalise vehicles contravening restrictions in order to achieve effective management of traffic and parking.

Action taken -
Quality loops have been set up to improve the “enforceability” of the streetscape by implementation of good quality signage and markings, and maintaining it to current legal standards.

Primary School Capital Strategy

Key Risk 1 - Failure to address investment need

Action taken -
The financial model including sensitivity analyses are being run, taking account of the latest estimates on land valuations and construction prices.

Key Risk 2 - Achievability of land valuations and receiving these amounts in line with the projected programme spend profile.

Action taken -
Land valuations have been reviewed. An independent assessment of land values was conducted and a significant gap between LBB Property Service figures and the independent assessor was identified.

A procurement model has been explored with external legal advisors which would test how land is handled in the programme and how the council can be more confident that it is getting value for money. This proposed model will form part of the report going to Cabinet Resources Committee on 28 June.

The proposed tendering process will require all bidder to submit two tender returns, one including land and the other excluding land, thus allowing LBB to make an accurate assessment using value for money principles.

Under this model the final contract let would include an overidge clause which will allow LBB to receive a share of any realised values which are above the forecast levels.

Key Risk 3 - Failure to address construction capacity and pricing issues.

Action taken -
There are several medium sized construction companies which continue to express interest and capacity to undertake the programme. These contractors would not normally be engaged on major schemes such as the Olympics or the large secondary school projects under the Building Schools for the Future programme.
A review of construction costs has been undertaken and fed into the financial model.

Key risk 4 - Failure to achieve the roll projections

Action taken -
Roll projections have been reviewed by an external advisor using GLA information.

Key risk 5 - Failure to engage actively with stakeholder and manage their expectations and perception of the project.

Action taken
The Chief Education Officer held separate meetings at each Wave 1 school with parents, governors and staff. There was also an open meeting in NLBP. A consultative group of head teachers is being set up to consider aspects of the programme in more detail.

Key risk 6 - Failure to appreciate the market appetite for this project.

Action taken
Soft market testing has been undertaken to assess the appetite for the programme. This has indicated strong on-going interest.

Key risk 7 - Failure to gain the appropriate approvals from the various governing bodies. (planning, school organisation, DfES)

Action taken: Planning advisors have been engaged to produce an over-arching planning strategy for the programme and to examine issues at each site. This work is designed to build information for S77 DfES and Sport England approval processes. An analysis of the School Organisation process for amalgamations is being undertaken.

Key Risk 8 - Failure to provide proactive support to stakeholder throughout the project life cycle

Action taken
The consultation exercise (Key risk 5) demonstrated a high level of support for the programme in most schools. There was concern where amalgamations were proposed.

It should be stressed that these are just risks at this point; i.e. they have been properly identified as part of management's risk management arrangements. The appropriate officers seek to ensure that the mitigating controls, described in the appendices to this report, operate effectively to ensure the risks do not materialise.

Qualification of BVPIs in Adult Social Services

Adult Social Services currently has six best value performance indicators (BVPIs) as part of its set of 31 PAF indicators set by the Department of Health. The Council's External Auditors (RSM Robson Rhodes) raised concerns with regards to the accuracy and quality of BVPI data and reserved all seven BVPIs in 2003-04 and all eight for 2004-05. They further commented that reservations were due to a combination of historical weaknesses dating back to the operations of CRISSP and more recently due to implementation issues with regards to the SWIFT system.

A BVPI audit action plan was created in July 2005 to act on the recommendations of the external audit and ensure un-reservation of all BVPIs in 2005/06. A subsequent audit was carried out by LBB internal audit in December 2005 and the plan was revised in the light of those findings.

As part of Adult Social Services' e-enablement strategy, the implementation of the Electronic Social Care Record in Barnet in 06/07 has meant that the method of matching paper files to relevant databases (as per the audit tests) to validate information on Swift can no longer be considered satisfactory. The dynamic nature of a client's care package, and the increased autonomy available to the client, means that paper records are no longer effective mechanisms for holding definitive client data.

With this in mind, Adult Social Services started the implementation of new data validation processes in early 2005, which have since led to substantial improvements in data quality. At the time of the audit, these systems had completed their first phase of cross-validation in the purchasing teams, but were not yet being routinely cross-checked against care management information.

The new systems of cross-validation highlights our approach to managing the completeness, accuracy, reliability and timeliness of data on Swift in comparison with legacy approaches which look to paper files.

It is recognised that the work already undertaken, including all-team training, process documentation and substantial cross-system validation has resulted in us fulfilling the audit recommendations.

Further consolidation of the last year's activity, and the introduction of sustainable processes will help to engage staff at all levels in the pursuit of data quality and Internal Audit are reviewing arrangements for producing BVPIs within Adult Social Services.

Statement of Accounting Policies

The accounting policies set out below apply to the Financial Statements of the Council and The Pension Fund.

General

This Statement of Accounts has been prepared according to the Accounts and Audit Regulations 2003 under section 27 of the Audit Commission Act 1998. The general principles adopted in compiling the accounts are those recommended by the Code of Practice on Local Authority Accounting in Great Britain and the Statement of Recommended Practice (SORP) that are issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). These meet all requirements of proper accounting practice for local authorities.

Best Value Accounting Code of Practice (BVACOP)

The service expenditure analysis within the Consolidated Revenue Account follows the CIPFA Best Value Accounting Code of Practice.

Associated and Subsidiary Companies (FRS2)

The 2005 SORP requires Authorities to produce group accounts where group relationships occur with associated and subsidiary companies. Last year the SORP allowed these statements to be prepared using interim arrangements. In 2005/06 Barnet Council will be preparing fully consolidated accounts with like comparators from 2004/05.

Accounting for Retiring Benefits (FRS17) within Housing Revenue Account (HRA)

Following the creation of Barnet Homes, there is no FRS17 charge to the HRA as there are no substantive staff.

Accruals of Income and Expenditure

The accounts of the council are prepared on an accruals basis in accordance with the Code of Accounting Practice. This means that sums due to and from the council during the year are included in the accounts whether or not the cash has actually been paid or received in the year. This approach includes customer and client receipts, employee costs, interest and supplies and services.

Bad Debt

The carrying amount of debtors that is adjusted for doubtful debts , which are provided for and known uncollectable debts should be written off.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability

A contingent liability is either:

i. a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control, or

ii. a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Fixed Assets

- **Recognition**

All expenditure where the authority will benefit for more than one year, buying or improving fixed assets is capitalised in the accounts and accrued. By definition this excludes routine repairs and maintenance which are charged directly to service revenue accounts.

- **Measurement**

Valuation of land and buildings accords with the statements of asset valuation principles and guidance notes issued by the Royal Institute of Chartered Surveyors (RICS), as recommended by CIPFA.

The current asset values are based on certificates issued by the Council's Valuation Officer. All assets are valued on a rolling programme over five years, with the exception of housing stock which is re-valued annually.

- **Depreciation**

All fixed assets, including infrastructure, are depreciated using the straight-line method with no residual value, over their useful life. The useful life of each of the authority's buildings is determined by the Valuation Officer while vehicles, plant and equipment can vary. Exceptions to these are land and investment properties, in accordance with current regulations these are not depreciated.

- **Impairment**

Our Valuation Officer reviews our assets annually for impairment. Impairment is provided for assets where there is a material reduction in value at the year end. It is accounted for in the year in which it arises.

Charges to revenue in respect of capital

Service revenue accounts, including the Housing Revenue Account (HRA) are charged with a capital charge for all capital assets used in the provision of services These comprise an annual depreciation amount and capital financing charge determined by applying a notional interest rate specified by the CIPFA/LASAAC Joint Committee each year for all local authorities. For 2005/06 these rates were 3.5% for assets carried at current value and 4.95% for assets carried at historic cost. Services are also charged with impairment loss in respect of economic consumption should this arise.

Capital charges to the HRA are calculated in a manner determined by the Secretary of State.

Capital charges have a neutral impact on the amounts to be raised from local taxation (Council Tax), as they are reversed in the Asset Management Revenue Account (AMRA) and replaced by external interest payable and the statutory minimum revenue provision for debt repayment.

Intangible Assets

Intangible assets are created when the council incurs capital expenditure without a tangible fixed asset being created, such as the payment of capital grants and spending on computer software. Intangible assets are written off to revenue either in the year they arise, where there is no long term benefit or over a specified period as in the case of the capitalised lease for accommodation at North London Business Park which will be written off to revenue over the life of the lease.

Intra Group Transactions

FRS2 requires intra group transactions to be eliminated in full.

Impairment

A reduction in the value of a fixed asset below its carrying value.

Capital Receipts

A capital receipt is income received on the disposal of a fixed asset. It is held in the capital receipts unapplied account until either used to fund capital spend or repay debt. Legislation requires a percentage of HRA capital receipts to be transferred to a central pool for redistribution by the government.

Government Grants and Contributions

Government grants and other contributions are accounted for on an accruals basis. They are shown in the accounting statements when the conditions for their receipts have been complied with and there is reasonable assurance that the grant or contribution is to be received.

Grants and contributions relating to fixed assets are credited to the Government Grants Deferred Account and released (amortised) to the Asset Management Revenue Account in line with depreciation.

Leasing

The Council has no finance leases. Operating lease rentals are charged to revenue over the life of the agreement.

Redemption of debt

In accordance with the requirements of the Local Government Act 2003, the Council has set aside a minimum revenue provision of 4% for the General Fund. There is no longer a statutory requirement for a minimum revenue provision for the Housing Revenue Account and the Council has not set aside a voluntary amount.

Reserves

Expenditure is charged to revenue and not directly to any reserve. For each reserve established, the purpose, usage and basis of transactions are identified in the notes to the Council's Financial Statements. The net effect of revenue sums set aside appears as an adjustment in the Consolidated Revenue Account. The movements are reflected in the Statement of Total Movement in Reserves.

Provisions

The Council has made a number of provisions for liabilities that are certain to occur, but the timing and amounts are uncertain.

- **Insurance Provision**

Apart from bad debts, the most significant provision is for insurance. The level of the provision should reflect the value of outstanding liabilities. Internal insurance premiums charged to services are credited to insurance and in most years this sum, together with commission earned, more than covers the claims paid out. The accumulated funds therefore would meet any individual year's shortfall. The adequacy of the level of insurance provision will be subject to a further Actuarial evaluation as at 31 March 2007.

The Council has recently completed a comprehensive review of the Insurance Service and the provisions required reflected in an actuarial valuation of the outstanding liability being £6.8m.

The forward plan (long-term budget) included a commitment to contribute additional sums to the Insurance provision to reach the required level by 2006/07 which has now been achieved.

In year payments on insurance claims are funded principally from premiums recharged to services to cover payments up to the excess level. Where there is a shortfall from premiums, then payment is drawn from the insurance provision. Where there is excess after payment, then the balance is added to the provision.

Estimations

The only significant estimations in the accounts is in respect of certain community care services where revenue accruals have been made based on invoices assumed to relate to the year of account but not received until after the end of the financial year and Special Parking Account predicted income recovery from unpaid penalty charge notices issued in 2005-06.

Investments

Investments are shown on the balance sheet at cost.

Pension Costs

Under Financial Reporting Standard 17 (FRS 17) the Council is required to account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. In line with the requirements of the SORP the Council is now using the AA Corporate Bond rate to calculate its future liabilities.

- **Pension Reserve**

The Pension Reserve is the financial accounting mechanism to ensure that FRS17 has no impact on council tax.

The cost of providing pensions for employees is funded in accordance with the statutory requirements governing each scheme.

Where the payments made for the year do not match the change in the authority's recognised asset or liability for the same period, the recognised cost of pensions will not match the amount required to be raised in taxation. This difference is removed by an appropriation to or from the pension's reserve, which equals the net change in the pension's liability recognised in the Consolidated Revenue Account.

- **Classification of Schemes**

The council participates in two different pension schemes, one for teachers, an unfunded scheme administered by the Department for Education and Skills (DfES) and the Local Government Pension Scheme for our other staff. The schemes provide members with a defined benefit pension related to pay and service. The teachers' scheme is, as said, unfunded, but the other is a funded scheme.

For the purposes of FRS17 pension schemes are classified into two categories, Defined Benefit or Defined Contribution. The Barnet scheme is classified as Defined Benefit. The teachers' schemes of the DfES, although a Defined Benefit scheme, is treated as Defined Contribution scheme because it does not allow the allocation of its liabilities and assets consistently and reliably to participant authorities

- **Defined Benefit Schemes**

The attributable assets of the scheme is measured at fair value and include current assets and investments. The attributable liabilities are measured on an actuarial basis using the projected unit method. Scheme liabilities are discounted at the AA Corporate Bond Rate. The surplus or deficit in the scheme is the excess or shortfall of the value of the assets in the scheme over or below the present value of the scheme liabilities. The change in the defined benefit asset or liability is shown in the Consolidated Revenue Account and analysed into the following components, current service costs, interest cost, expected return on assets and actuarial gains and losses, and past service costs and gains and losses on settlements and curtailments.

- **Defined Contribution Schemes**

The Teachers scheme, whilst being a defined benefit scheme is treated as a defined contribution scheme as explained above. This means that the pension costs reported for any year is equal to the contributions payable for the scheme for the same period. The costs are recognised within Net Cost of Services.

- **Cash**

As at 31st March 2006 the London Borough of Barnet pension fund had £116m cash in hand which was managed with the council's cash as part of the council's temporary investment strategy.

- **Pensions**

Further information on pension costs and the Pension Fund appear in the individual statements within the accounts.

Stocks and work in progress

Stocks and stores are in the accounts at the lower of latest price paid or net realisable value, according to a period stock list. Work in progress on uncompleted jobs is valued at cost, including overhead allocations.

Support service allocations

The cost of central departments has been allocated to direct services on a variety of bases, reflecting the work provided by these support services.

Exceptional Items, Extraordinary Items and Prior Period Adjustments

Where applicable and relevant exceptional items and extraordinary items are disclosed in the Consolidated Revenue Account with full supporting notes.

The majority of prior period adjustments arise from corrections and adjustments and are accounted for in the year they are identified. Material adjustments applicable to prior years arising from changes in accounting policy or correction of fundamental errors are accounted for by restating comparative figures for the preceding year in the statement of account and notes and adjusting the opening balance of reserves for the cumulative effect. More details and fuller explanations are given in the individual relevant financial statements.

Post Balance Sheet Events

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements were authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the balance sheet date (adjusting events after the balance sheet date); and
- those that are indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date)

The Euro

The position regarding the possible replacement of sterling by the euro continues to be monitored and the council is ready to take prompt action should the need arise. As yet, no assessment, and thus no provision, has been made in the accounts for any cost implications associated with the possible change.

Clive Medlam BSc., CPFA,
Chief Finance Officer

SECTION 3 – Statements of Accounts

Consolidated Revenue Account

This shows expenditure on and income from the council's day-to-day activities.

	Note	2005/06 Expenditure £'000	2005/06 Income £'000	2005/06 Net Expenditure £'000	2004/05 Net Expenditure £'000
On its services the Council spent:-					
Central services to the public		6,359	(4,497)	1,862	2,327
Cultural, environmental & planning services		70,909	(19,034)	51,875	51,337
Education services		242,027	(44,095)	197,932	183,792
Highways, roads & transport services		31,472	(15,304)	16,168	18,658
Housing services		255,085	(199,227)	55,858	39,033
Social services		126,531	(23,030)	103,501	101,793
Corporate & democratic core		4,595	(104)	4,491	4,442
Non distributed costs		40,794	(27,569)	13,225	16,845
NET COST OF SERVICES		**777,772**	**(332,860)**	**444,912**	**418,227**
Levies	2			1,231	1,896
Trading undertakings				816	897
Asset management revenue account	3			(67,561)	(49,948)
Contribution to Housing Pooled Capital Receipts	**			2,063	3,218
Interest receivable				(2,709)	(1,488)
Pension interest cost & expected return on Pension Assets	9			10,290	8,200
NET OPERATING EXPENDITURE				389,042	381,002
HRA contribution to/(from) balances				(2,093)	(1,222)
Contribution from earmarked reserves				4,528	(109)
Transfer from Capital Receipts for Housing Pool	**			(2,063)	(3,218)
Redistribution of LRB balances				(36)	(6)
Contribution (from) / to capital financing reserves for					
- Deferred Grant				7,279	1,820
- adjustment for MRP	4			(12,557)	(8,948)
- Early retirements				0	(2,490)
HRA Major Repairs Reserve				(7,523)	(4,109)
Contribution from the pension reserve	9			(11,200)	(9,110)
AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXES				365,377	353,610
Revenue support grant				(130,374)	(135,070)
Contribution from non-domestic rate pool				(108,094)	(89,499)
Demand on collection fund				(134,172)	(131,273)
Transfer of collection fund deficit				1,303	947
(SURPLUS)/DEFICIT FOR THE YEAR				**(5,960)**	**(1,285)**

** refer to Note 7 Housing Revenue Account

GENERAL FUND BALANCES

	2005/06	2004/05
	£'000	£'000
Balance at beginning of year	16,035	11,750
Planned contribution to balances	0	3,000
Repayment of schools advances	(983)	0
Surplus / (Deficit) for the year	5,960	1,285
	21,012	**16,035**
of which:-		
General Fund	**10,487**	**5,005**
School Balances	**10,525**	**11,030**
	21,012	**16,035**

Consolidated Revenue Account Notes

1. Building Control

Local authorities are required to prepare a Building Control Statement under the Building (Local Authority Charges) Regulations 1998. The results of trading were:-

	2005/06 £'000	2004/05 £'000
Employee Expenses	683	742
Transport	27	31
Supplies & Services	222	412
Central & Support Services	174	95
Capital Finance	10	0
Total Expenditure	**1,116**	**1,280**
Building Regulation Charges	(1,217)	(1,316)
Total Income	**(1,217)**	**(1,316)**
Deficit / (Surplus) on activities for year	**(101)**	**(36)**

These figures form part of the Consolidated Revenue Accounts.

2. Analysis of Levies

The authority helps defray the costs of other organisations. It does this either as a statutory duty or voluntarily, where it benefits the council. Some contributions are made to London wide organisations.

	2005/06 £'000	2004/05 £'000
Miscellaneous levies:-		
Magistrates' service	0	712
Coroners' service	223	222
Environment Agency (land drainage)	250	232
Lee Valley Regional Park Authority	394	375
London Pensions Fund Authority	364	355
	1,231	**1,896**
Levies and contributions included in service net expenditure:-		
London boroughs' grant scheme	1,163	1,151
Concessionary fares scheme	9,502	8,669
North London Waste Authority	9,802	8,984
	20,467	**18,804**
	21,698	**20,700**

3. Asset Management Revenue Account

This account brings together depreciation (see note 4) and interest charged to the authority with asset rentals/capital charges to service accounts. The account and its transactions are needed for services to show their true operating costs, including their use of assets. As the overall surplus is netted off to the general fund there is no effect upon council tax.

		2005/06 £'000	2004/05 £'000
Income			
General Fund	(14,584)		(21,902)
Notional Interest	(17,784)	(32,368)	
Amortisation of intangible fixed assets		(5,379)	(7,935)
Housing revenue account		(39,156)	(28,666)
Housing revenue account depreciation		(15,636)	(12,447)
		(92,539)	(70,950)
Deferred government grants		(7,279)	(1,820)
		(99,818)	(72,770)
Expenditure			
External interest		2,037	448
Provision for depreciation - HRA	15,636		12,447
Non-HRA	14,584	30,220	9,927
Surplus transferred to the consolidated revenue account		**(67,561)**	**(49,948)**

There was no impairment identified by the Council's Valuation Officer in 2005/06.

4. Minimum revenue provision

The Government requires the authority to set money aside each year for the repayment of loans originally taken out to finance capital expenditure. This is called the minimum revenue provision (MRP). Under capital accounting arrangements, the council's services are charged depreciation to reflect the benefit received in the year from the use of capital assets. The depreciation charge is treated as the council's revenue provision and any variation from the statutory minimum is transferred between the capital financing account and the consolidated revenue account. Barnet council's practice is to not exceed the minimum required.

The figures were:-

	2005/06 £'000	2004/05 £'000
General Fund Minimum revenue provision	2,130	1,448
Less – depreciation charges	(14,687)	(10,396)
Balance transferred from capital financing reserve	(12,557)	(8,948)

5. Asset Rentals

Service revenue accounts are charged asset rentals for fixed assets used in service delivery. Capital financing costs are shown separately and are not reflected in the cost of services.

6. Local Government Act 1972 – Section 137

Almost all the provisions of this section of the Local Government Act 1972 have been superseded through the granting of general enabling powers to local authorities in the Local Government Act 2000. (Chapter 22 part1). Barnet has reviewed its activities in the light of this and concluded that no expenditure was incurred under any residual Section 137 powers for the past year.

7. Expenditure on publicity

Section 5 of the Local Government Act 1986 requires a separate account of expenditure on publicity.

	2005/06	2004/05
	£'000	£'000
Information service – staff	395	318
Information service – other costs	144	338
Staff recruitment and advertising	638	690
	1,177	1,346

8. Local Government Goods and Services Act 1970

This Act empowers the council to provide goods and services to others. Income from providing printing and training services to others in 2005/06 produced £148,000 (£214,000 in 2004/05).

9. Pension costs

The authority has its own local government pension scheme. The costs of contributing to pensions earned by employees in the year of account are included in the net cost of services. The net of pension interest cost less expected return on assets counts against net operating expenditure. Pension interest cost is the amount, under the projected unit method used by the council's actuary, by which current service cost increases as the members of the scheme approach retirement. These are all notional costs calculated to show the authority's true liability change for the year. They are produced by the council's actuary in line with accounting regulations. To ensure the net figure left in the account is the amount actually paid to the pension fund, that is real rather than notional, an adjustment to the pension reserve is made to reverse out the difference:

	2005/06		2004/05	
	£000	£000	£000	£000
Net Cost of Services				
Current Service Cost	12,020		13,960	
Curtailment & Settlements	2,760		3,480	
Past Service cost	460		420	
		15,240		17,860
Net Operating Expenditure				
Interest Cost	30,940		27,110	
Expected Return on Assets in the Scheme	(20,650)		(18,910)	
		10,290		8,200
Amounts to be met from Government Grants and Local Taxation				
Movement on Pensions Reserve		(11,200)		(9,110)
Amount charged for pensions in the year		**14,330**		**16,950**

Note 15 to the Consolidated Balance Sheet contains the assumptions made in estimating the figures included in this note. Note 5 to the Statement of Total Movements in Reserves details the costs that have arisen through the year.

The authority also contributes to the Teacher's Pension Fund administered by the Department for Education and Skills at a rate of 13.5% of pensionable pay. The amount paid in the year, £16.4m is included in the education service costs.

10. Senior staff remuneration

The number of staff who received taxable remuneration in excess of £50,000 for the year was:

	2005/06	2004/05
£50,000 to £59,999	140	89
£60,000 to £69,999	37	23
£70,000 to £79,999	9	8
£80,000 to £89,999	8	10
£90,000 to £99,999	4	4
£100,000 to £109,999	4	1
£110,000 to £119,999	2	4
£120,000 to £129,999	2	1
£130,000 to £139,999	1	0
£140,000 to £149,999	0	0
£150,000 to £159,999	0	1
£160,000 to £169,999	1	0
£170,000 to £179,999	0	0
Total	208	141

11. Leasing

The Council does not own all of the property, vehicles, computers and other equipment it uses and the authority acquires these items using operating leases.

The authority is committed to making payments of £7.949m in 2006/7 in respect of operating leases and has agreements promising income of £1.84m.The future outstanding lease commitments are:-

Years	Vehicles, Plant & Equipment £'000	Property Leased In £'000	Property Leased Out £'000
2005/06	2,846	2,072	(1,788)
2006/07	2,062	2,020	(1,839)
2007 to 11	3,063	3,159	(4,585)
Beyond 2011	14	12,435	(70,786)

12. Members Allowances

The total amount of members' allowances payable in 2005/06 was £988,219 (£909,235 in 2004/05).

13. Related Party Transactions

This disclosure has been produced using specific declarations obtained from Members and Chief Officers and other information held in council registers. The disclosure is based upon the council's interpretation and understanding of financial reporting standard number 8 (FRS8) and its applicability to the public sector using current advice and guidance.

Some charitable bodies, including the Mayor's Benevolent Fund, with which members are involved have made investments with the council. These are not significant to the council but may be so for individuals. As at 31 March 2006, the total sum of these loans is £116,591, including £79,491 in respect of the Mayor's Benevolent Fund.

A number of members have also been appointed by the council to serve as trustees or representatives to various local organisations that receive grant funding from the council. These commitments are recorded in the register of Members' interests.

References within the Consolidated Revenue Account and Cash Flow statements detail transactions between the Government (grants), Pension Fund (contributions) and the council.

14. Pooled Budgets

Section 31 of the Health Act 1999 and the Local Authorities Partnership Arrangement Regulations 2000 provide for partnership arrangements between National Health Service (NHS) bodies, local authorities and other agencies to improve health services by pooling resources and integrating services to client groups. The council and Barnet Primary Care Trust (BPCT) Health and Social Care Partnership operate various partnership boards, however budgets are not pooled but are managed by jointly appointed officers, each partner remaining responsible for their respective costs. The only exception is the pooled budget for community equipment.

The actual expenditure on the pooled budget for community equipment was –

	2005/06			2004/05		
	Total	LBB	[1]	Total	LBB	PCT [1]
	£'000	£'000	£'000	£'000	£'000	£'000
Purchasing of equipment	1,436	1,005	431	880	618	262
Contract Management	468	309	159	458	302	156
Stock adjustment [2]	(255)	(255)	0	99	99	0
	1,649	1,059	590	1,437	1,019	418
Contributions	(1,320)	(730)	(590)	(1,277)	(859)	(418)
	329	329	0	160	160	0

[1] in the Council's revenue accounts

[2] stock adjustment reflects re-valued stock. The Council's accounts only shows its share of the stock and is included in the figures shown note 8 of the consolidated balance sheet.

15. Audit Fees

The costs to the authority for external audit and inspection fees are:-

	2005/06	2004/05
	£'000	£'000
Fees payable to RSM Robson Rhodes LLP, who are auditors of the council appointed by the Audit Commission, with regard to external audit services carried out	516	370
Fees payable to the Audit Commission, in respect of statutory inspection	35	91
Fees payable to RSM Robson Rhodes LLP, who are auditors of the council appointed by the Audit Commission, for the certification of grant claims and returns	119	211

Housing Revenue Account

This account records the transactions relating to the council's housing stock. The Local Government and Housing Act 1989 requires its separation. This gives a clear picture of the cost of providing homes for council tenants. Housing Revenue Account income and expenditure does not affect the amount of council tax levied.

	Notes	2005/06		2004/05	
		£'000	£'000	£'000	£'000
Income					
Rents (gross) – dwellings		(38,489)		(37,970)	
- garages		(709)		(653)	
- other		(815)	(40,013)	(660)	(39,283)
Charges for services and facilities			(6,983)		(5,653)
Reduction in Provision for Bad Debt			0		(144)
Total Income			(46,996)		(45,080)
Expenditure					
Repairs and maintenance			8,667		8,279
Supervision and management			20,185		20,535
Rents, rates, taxes etc.			1,276		154
Rent rebates			540		564
Cost of Capital Charge			39,156		29,391
Depreciation	10		15,636		12,447
Amortisation of Deferred Charges			715		0
Debt Management Expenses			63		48
Provision for bad debts			330		0
HRA Subsidy payable	5		9,153		7,489
Total Expenditure			95,721		78,907
Net Cost of Services			48,725		33,827
Asset Management Revenue account Balance			(39,179)		(28,861)
Amortisation of premium on early repayment of debt			378		
Interest on mortgages		(96)		(108)	
Interest on balances		(312)	(408)	(204)	(312)
Net Operating (Income)/Expenditure			9,516		4,654
Capital expenditure financed from Revenue	6		100		718
Transfer to/(from) Major Repairs Reserve			(7,523)		(4,150)
(Surplus)/deficit for the year			2,093		1,222

	Notes	2,005	2,004
		£'000	£'000
Revenue Balances			
Balances at the beginning of the year		(5,797)	(7,019)
(Surplus)/deficit for the year		2,093	1,222
Balance at the year end		(3,704)	(5,797)
Major Repairs Reserve			
Balance at beginning of year	4	(235)	(1,317)
(Surplus)/deficit for the year		(4,795)	1,082
Balance at the year end		(5,030)	(235)

Housing Revenue Account Notes

1. Dwelling Stock

The authority's dwelling stock comprised, at 31st March	2006	2005 restated
Houses/Bungalows	3,767	3,872
Flats/Maisonettes	7,413	7,516
Hostels/Bed sits	84	80
	11,264	11,468

2. Arrears

Arrears owed to the HRA at the year end:	2005/06		2004/05	
	£'000	£'000	£'000	£'000
Leaseholder service charges	2,275		1,911	
less bad debt provision	(739)	1,536	(668)	1,243
Housing rents	3,153		2,821	
less bad debt provision	(1,447)	1,706	(1,226)	1,595
Commercial rents	140		53	
less bad debt provision	(45)	95	(6)	47
Net arrears position at 31st March		3,337		2,885

3. Balance Sheet Value of HRA Assets

	Dwellings	Land and Buildings	Totals
	£'000	£'000	£'000
Balance Sheet Value at 1st April 2005	791,192	21,225	812,417
Balance Sheet Value at 31st March 2006	1,093,000	16,657	1,109,657

The vacant possession value of dwellings within the HRA at 31st March 2006 is £1,735m. The difference between this value and the balance sheet value represents the economic cost of providing council housing.

4. Major Repairs Reserve

The major repairs allowance was introduced in 2001/02. It represents the estimated long-term average amount of capital spending required to maintain the housing stock in its current condition.

Direction 7(5) of the HRA (Accounting Practices) Directions 2000 requires authorities to disclose in the HRA accounts a note setting out an analysis of movements in the Major Repairs Reserve.

	2005/06	2004/05
	£'000	£'000
Opening Balance as at 1st April	(235)	(1,317)
Capital expenditure charged to reserve (dwellings)	3,421	9,483
Depreciation		
- dwellings (MRA)	(15,205)	(11,978)
- non-dwellings	(431)	(469)
Transfer to Housing Revenue Account		
- dwellings (MRA)	7,093	3,681
- non-dwellings	431	469
Interest on Balances	(104)	(104)
Closing Balance as at 31st March	(5,030)	(235)

5. HRA Subsidy

The HRA subsidy relating to the authority was as follows:

	2005/06	2004/05
	£'000	£'000
Management and maintenance	18,363	17,792
Major repairs allowance	8,112	8,297
ALMO Allowance	0	169
Admissable Allowance	100	150
ASB Allowance	0	1
Charges for capital	2,652	2,513
Other items of reckonable expenditure	57	57
Interest on receipts	(83)	(210)
Rent	(37,792)	(36,531)
Total for year	**(8,591)**	**(7,762)**
Prior year adjustments	(562)	273
Total Receivable/(Payable)	**(9,153)**	**(7,489)**

6. HRA Capital Expenditure

The analysis of HRA capital expenditure and financing was as follows:-

	2005/06	2004/05
Expenditure	£'000	£'000
Houses	25,924	19,483
Other property	0	314
Total	**25,924**	**19,797**

	2005/06	2004/05
Financing	£'000	£'000
Credit approvals	17,977	6,678
Useable capital receipts	4,127	2,918
Revenue contributions	100	718
Major repairs reserve	3,421	9,483
Other contributions	299	0
Total	**25,924**	**19,797**

7. Capital Receipts from Disposals

Capital receipts from disposals within the authority's HRA were as follows:-

	2005/06	2004/05
	£'000	£'000
Land	0	296
Houses	6,258	18,249
Paid over to pool	(2,063)	(3,218)
Total	**4,195**	**15,327**

8. Cost of Capital Charges

The cost of capital charge represents a notional interest charged to the HRA for the use of its operational assets. This is calculated as 3.5% of the value of HRA operational assets for the use of those assets.

9. Capital Asset Charges Accounting Adjustment

The capital asset charges accounting adjustment represents the difference between the cost of capital charge and the HRA interest costs as calculated in accordance with the Item 8 Debit (General) Determination.

10. Depreciation Charge

The total charge for depreciation within the HRA is:-	2005/06	2004/05
	£'000	£'000
Houses	15,205	11,978
Other property	431	469
Total depreciation charged	**15,636**	**12,447**

All fixed assets are depreciated using the straight line method over their useful life. The useful life of each of the authority's buildings, including social housing, is determined by the Council's Chief Valuation Officer.

11. ALMO – Barnet Homes Ltd

With effect from 1 April 2004, the management of all the housing stock of the council was transferred to Barnet Homes Ltd, an Arms Length Management Organisation (ALMO) wholly owned by the authority.

Payments made to the ALMO for the year included £8.6m for repairs and maintenance and £17.4m for supervision and management.

Collection Fund

The collection fund is a statutory fund, separate from all other council funds. It accounts for council tax and non-domestic rates to Barnet and the Greater London Authority, the two bodies for whom the income has been raised.

Income and Disbursement Account 2005/06

	Note	2005/06		2004/05	
		£'000	£'000	£'000	£'000
Income					
Council Tax	1		147,208		143,203
Council Tax Benefits			22,570		21,241
Collectable business rates	2		79,117		73,556
			248,895		238,000
Disbursement					
Precepts:					
- London Borough of Barnet		134,172		131,273	
- Greater London Authority		34,463	168,635	32,578	163,851
Estimated deficit on collection fund:	3				
- London Borough of Barnet		(1,303)		(947)	
- Greater London Authority		(323)	(1,626)	(233)	(1,180)
Non-Domestic Rates					
- Payment to national pool		78,682		73,121	
- Cost of collection allowance		435	79,117	435	73,556
Total disbursed			246,126		236,227
Council Tax					
Increase in bad debt provision	4	2,536			893
Written off		854	3,390		
Fund surplus / (deficit) for year			(621)		880
			248,895		238,000
Fund balance brought forward			(984)		(1,864)
Fund surplus / (deficit) for year			(621)		880
Fund balance carried forward			(1,605)		(984)

Notes to Collection Fund

1. Council Tax

Council tax is charged according to the Government's valuation of residential properties as at 1st April 1991. The spread of valuations is classified into eight bands on which individual charges are calculated. The standard charge is found by taking the total amount of income required by the collection fund's two preceptors and dividing this by the council tax base. The tax base is the total number of chargeable properties in all valuation bands converted to an equivalent number of band D dwellings, with an allowance made for discounts and exemptions. The amount of council tax required from a property in any tax band is the band D charge (£1,245.90 for 2005/06) multiplied by the ratio specified for that band. The figures at the time of tax base calculation for the bands A to H were:

Band	Ratio	No. of Band D Equivalents
A	0.67	872
B	0.78	5,371
C	0.89	18,736
D	1.00	24,620
E	1.22	31,381
F	1.44	24,145
G	1.67	23,279
H	2.00	6,676
MOD contribution		273
Tax Base		135,353

2. National non-domestic rates

Barnet collects non-domestic rates (NDR) from local businesses and organisations and pays them into the Government's central NDR pool. The Government's national uniform rate, 42.2p in 2005/06 (45.6p in 2004/05) multiplied by the property's rateable value determine the amount charged. The aggregate business valuation for the borough at 31st March 2006 was £234.7m (£190.0m at 31/3/2005, **NB** a revaluation came into effect 1st April 2005).

The amount paid to the central NDR pool is redistributed to local authorities, including Barnet, in line with their population. Barnet's share equalled a standard amount per head of population for Outer London (£333.24) multiplied by 324,370 (Barnet's population) which gave £108.1m. This was paid directly into the general fund.

3. Collection fund surplus and deficit

The preceptors share council tax surpluses and deficits.

4. Council Tax Written Off

Where persons have absconded owing Council tax and, over several years, the money has proved irrecoverable, the arrears are prudently written out of the accounts to give a true picture of income it is reasonable to expect to receive. The arrears are still pursued.

Consolidated Balance Sheet

This statement summarises the council's assets and liabilities as at 31st March 2006.

	Notes	31st March 2006 £'000	31st March 2006 £'000	31st March 2005 £'000	31st March 2005 £'000
Fixed assets					
Operational assets					
Council dwellings		1,093,000		791,192	
Other land and buildings		449,104		379,590	
Community Assets		6,452		274	
Vehicles, plant, furniture and equipment		6,437		8,517	
Infrastructure assets		55,311	1,610,304	46,094	1,225,667
Non-operational assets					
Investment Properties		18,570		17,317	
Surplus Assets Awaiting Disposal		12,525		2,462	
Assets Under Construction		25,368	56,463	2,731	22,510
	1		1,666,767		1,248,177
Intangible Assets	3		16,924		16,016
Long term debtors	4		3,941		11,086
Long term investments			11		11
Total long term assets			**1,687,643**		**1,275,290**
Current assets					
Stocks and works in progress	8	1,446		1,222	
Temporary investments		191,050		39,395	
Debtors	9	47,313		52,934	
Payments in advance		2,890		1,951	
Imprest accounts and school balances		19,151		10,273	
		261,850		105,775	
Current liabilities					
Creditors	9	(176,128)		(81,655)	
Borrowing repayable within 12 months		(139)		(130)	
Bank overdraft		(14,993)		(13,086)	
Provisions	10	(9,373)		(6,882)	
		(200,633)		(101,753)	
Net current assets			61,217		4,022
Long-term liabilities					
Long term borrowing	11		(105,500)		(28,500)
Deferred capital receipts	16		(1,552)		(1,800)
Liability related to defined benefit pension scheme	15		(266,040)		(268,610)
Total assets less liabilities			**1,375,768**		**980,402**
Financed by					
Fixed asset restatement account	**		1,155,496		778,952
Capital financing account	**		364,026		370,543
Government grants - deferred	17		57,526		48,616
Usable capital receipts			30,851		28,782
Pension reserve	15		(266,040)		(268,610)
Major Repairs Reserve			5,030		235
Specific reserves	**		5,768		1,036
Balances – general fund	12		21,012		16,035
Balances – collection fund	14		(1,605)		(984)
Balances – housing revenue account			3,704		5,797
Total equity			**1,375,768**		**980,402**

** Refer to Statement of Total Movement in Reserves 3,4 & 6

Notes to the Consolidated Balance Sheet

1. Movement of fixed assets 2005/06

	Council Dwellings	Other Land & Buildings	Community Assets	Vehicles, Plant & Equipment	Infra-structure	Investment Property	Surplus Assets	Assets Under Construction	Totals
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Book Value 1 April 2005	791,192	393,722	282	13,898	61,823	17,317	2,462	2,731	1,283,427
Accumulated Depreciation b/f	0	(14,133)	(8)	(5,381)	(15,729)	0	0	0	(35,251)
Net Value b/f	791,192	379,589	274	8,517	46,094	17,317	2,462	2,731	1,248,176
Revaluations & adjustments to Restatement Account	300,220	59,921	6,184	0	0	1,253	10,513	(2,731)	375,360
Reclassifications	0		0	0	0	0	0	0	0
2005/06 Expenditure	25,832	9,604	0	284	11,270	0	0	25,368	72,358
Disposals	(9,039)	0	0	0	0	0	(450)	0	(9,489)
Depreciation write back & prior year adjustments	0	10,581	1	0	0	0	0	0	10,582
Depreciation for year	(15,205)	(10,591)	(7)	(2,364)	(2,053)				(30,220)
Net book value 31 March 2006	1,093,000	449,104	6,452	**6,437**	**55,311**	**18,570**	**12,525**	**25,368**	**1,666,767**
Accumulated Depreciation c/f	(15,205)	(14,143)	(15)	(7,745)	(17,782)	0	0	0	(54,890)

2. Financing of capital expenditure

Below is the financing of the year's capital expenditure on fixed assets and deferred charges:

	£'000	£'000
Capital receipts	10,471	
MRA	3,421	
Contributions including Section 106 receipts	20,535	
Revenue contributions	1,091	
Borrowing	41,755	77,273
Less:- 2004/05 Expenditure financed in 2005/06		(285)
Plus:- 2005/06 Expenditure financed in 2006/07		1,657
		78,645
The money was spent on:		
Barnet's fixed assets		72,358
Intangible assets (note 3)		6,287
		78,645

3. Intangibles Assets

Intangibles assets are assets that have no physical form but produce benefit to the council for more than just the year they are acquired.

	Balance at 1/4/05	Expenditure in year	Written off to revenue in year	Balance at 31/3/06
	£'000	£'000	£'000	£'000
Software	5,201	0	(578)	4,623
Other	10,815	6,287	(4,801)	12,301
	16,016	6,287	(5,379)	16,924

Included within Other Intangible Assets are:

- The advanced rental payment for the North London Business Park site which is being written down over the life of the rental agreement.
- The capitalised cost of redundancy payments and pension enhancements for staff granted early retirements on the basis of identified efficiency savings in line with government guidelines. This is amortised over five years.
- HRA capitalised debt redemption premium which is amortised over ten years.
- The capital spend on voluntary aided schools where the council does not actually own the buildings but uses them to provide education amortised over ten years.

All intangible assets are amortised using the straight line method.

4. Long term debtors

There was an decrease in the investment position during the year from an opening balance of £11.086m to a closing position of £3.941m.

5. Assets Held

Below is a guide to the number of assets owned by the authority: -

Assets	31st March 2,006	31st March 2,005
Schools – nursery and primary *	49	57
Schools – secondary and special *	18	12
Schools – referral units	1	1
Youth service facilities	7	8
Other educational establishments	2	2
Libraries	16	16
Museums	2	2
Children's homes and hostels	2	2
Homes for people with learning disabilities	3	3
Adolescent Resource Centre	1	1
Children and family centres	5	5
Day centres for the physically disabled	1	1
Day centres for the mentally ill	2	2
Council dwellings	11,264	11,468
Garages	2,892	2,651
Borough roads and footpaths (length in km)	696	696
Car parks	24	24
Memorials, etc	23	23
Parks and open spaces	174	174
Sports grounds	28	28
Golf courses	3	3
All weather playing areas	2	2
Athletics tracks	1	1
Swimming pools	3	3
Allotments (area in hectares)	91	95
Public offices	8	9
Other Buildings	5	4
Vacant awaiting disposal	26	0
School Land not attached to schools	14	0

* Excludes 41 voluntary aided schools, as the council does not own these.

6. Capital commitments

At 31st March 2006, the council was contractually committed to expenditure amounting to some £22.15m. The schemes are summarised across services as follows:-

	£'000
Educational services	2,389
Housing	14,837
Highways	3,807
Resources	1,114
	22,147

7. Fixed asset valuation

The Council's chief valuer, Brian Smart (MRICS) values the authority's freehold property portfolio following the statements of asset valuation practice and the guidance notes of the

Royal Institution of Chartered Surveyors. The values are updated as part of a rolling five-year programme.
Operational properties are at either open market value, for existing use, or the depreciated replacement cost where no market for the asset exists. Houses in the balance sheet are at a discounted value to take account of the properties being social housing. Non-operational assets and investment properties are priced on an open market basis. Valuations do not include equipment and infrastructure (e.g. roads) that are included at historic cost.

8. Stocks and works in progress

		2005/06 £'000	2004/05 £'000
Works in progress	- rechargeable works	0	64
	- works in default	27	51
Stores	- housing stores	208	260
	- transport stores	73	46
	- road signs and equipment	138	80
	- social services aids for the disabled	770	515
	- on-site engineering and catering stocks	136	115
	- other	94	91
		1,446	1,222

Under a pooled budget agreement with Barnet PCT, ownership of the stock relating to community equipment stores passed to the council on 1July 2003, but will be split and apportioned between the PCT and the council pro rata to their respective contributions in the event that this agreement be terminated.

9. Debtors and Creditors

The analysis of debtors and creditors at the year end is as follows:-

	2005/06 £'000	2004/05 £'000
Debtors		
Other local authorities	1,577	1,786
Government departments	11,419	19,633
Ratepayers and taxpayers	20,661	21,293
Tenants (including temporary accommodation)	9,904	7,152
Other public bodies	364	4,836
Utilities	(90)	301
Sundry debtors	33,565	22,810
	77,400	77,811
Less: Provision for bad debts	(30,087)	(24,877)
	47,313	52,934
Creditors		
Other local authorities	6,442	6,427
Government departments	3,091	8,568
Ratepayers and taxpayers	6,119	5,963
Other public bodies	671	1,432
Utilities	429	65
Sundry creditors	33,750	21,320
* Pension Fund	116,449	31,871
Receipts in advance	9,177	6,009
	176,128	81,655

* The majority of this closing creditor position belonged to the Pension Fund, a balance of £116m. This balance is primarily due to the funds held at the bank. The General Fund share of

this balance was £94.56m. The increase in the General Fund share is primarily down to the new borrowing of £77m undertaken last year for the capital programme.

The pension fund position is due to a change of fund managers and the sale by the old fund manager of stocks not required by the new fund manager, these transactions took place in late March and resulted in a cash receipt of between £75 to £80m.

10. Provisions

Provisions are amounts set aside to meet future liabilities where the amount or timing is uncertain.

	Balance 01/04/2005 £'000	Contributions £'000	Expenditure/ Reductions £'000	Balance 31/03/2006 £'000
Planning Costs	(26)	(21)	26	(21)
Grants to Voluntary Sector	(60)	(75)	45	(90)
Insurance	(5,394)	(1,683)	326	(6,751)
Pension provision	0	(1,486)	0	(1,486)
Legal	(742)	0	280	(462)
Other provisions	(660)	(318)	415	(563)
	(6,882)	(3,583)	1,092	(9,373)

i. The planning provision is for e-planning and corporate IT integration initiatives and various smaller projects.

ii. The grants provision is for delayed draw down of approved grants to the voluntary sector.

iii. The insurance provision is for liabilities that have occurred but the timing of the payment is dependent upon the claim settlement process. This is to meet in the year insurance claim payments which fall within the excess and aggregate limits of external insurance cover. The provision reflects 100% of its ultimate projected liabilities. Further information on this provision and its future requirements are set out in the Statement of Accounting Policies.

iv. The legal provision is for the investigative and insurance costs relating to a case referred to the Ombudsman and the inquiry into the sale of the Underhill football ground.

v. Included in other are various smaller provisions for community groups and projects.

11. Long term borrowing

	2005/06 £'000	2004/05 £'000
Lenders		
Public Works Loan Board	81,000	19,000
Other	24,500	9,500
	105,500	28,500
Maturing within more than 1 and up to 2 years	5,000	0
Maturing within more than 2 and up to 5 years	11,500	8,500
Maturing within more than 5 and up to 10 years	2,000	4,000
Maturing with more than 15 and upto 20 years	2,000	16,000
Maturing with more than 20 and upto 25 years	28,000	0
Maturing with more than 25 and upto 30 years	22,000	0
Maturing over 30 years	35,000	0
	105,500	28,500

12. Revenue balances

		2005/06 £'000	2004/05 £'000
General fund	- general surplus (i)	10,487	5,005
	- earmarked school balances (ii)	10,525	11,030
		21,012	16,035

i. The general surplus is the authority's buffer against unpredictable events that are too large to be met from reductions in current budgeted expenditure.

ii. In the general fund are locally managed schools' balances. Schools may carry balances, surplus or deficit, forward to subsequent years.

13. Trust funds

The authority is trustee of two charitable trusts. Only one is significant, the Avenue House bequest. This is managed and administered by the Avenue House Estate Management Charity (AHEM). AHEM are a charity in their own right totally independent of Barnet as such no balances or transactions of the trust appear in Barnet's accounts.

The council does hold small sums for two children in the authority's guardianship and for the New College of Speech and Drama charity.

14. Collection fund balances

The council has to record transactions for council tax, business rates and residual community charge in the collection fund account. The balance will be paid to or recovered from the council and its preceptor in future years.

	2005/06 £'000	2004/05 £'000
Barnet	1,284	783
Greater London Authority	321	201
	1,605	984

15. Pension Fund

Note 10 to the Consolidated Revenue Account contains details of the authority's participation in pension schemes. The Pension Fund accounts also provide further information.

The underlying assets and liabilities for retirement benefits attributable to the authority were: -

Movements in the net pensions asset/liability

	2005/06	2004/05
	£'000	£'000
	LBB	LBB
Estimated present value of liabilities in scheme	(640,480)	(573,970)
Estimated assets in scheme	374,440	305,360
Net asset/(liability)	(266,040)	(268,610)

	2005/06	2004/05
	%	%
Rate of inflation	3.10	2.90
Salary increases (**NB** based on 1.5% real)	4.60	4.40
Pension increases	3.10	2.90
Rate for discouting scheme liabilities (**NB** based on 2.4% real)	4.90	5.40

The liabilities show the underlying commitments that the authority has, in the long-run, to pay retirement benefits. The total liability of £266.040m has a substantial impact on the net worth of the authority as recorded in the balance sheet. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme.

An actuarial review was carried out in order to calculate the figures required under FRS 17. In calculating the Authority's assets and liabilities, the fund's actuaries had to make a number of assumptions about events and circumstances in the future, meaning that the result of actuarial calculations are subject to uncertainties and assumptions within a range of possible values. Changes to the Local Government Pension Scheme permit employees retiring on or after 6th 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 actuaries we have taken the view that there is insufficiently reliable evidence to assume a level of take-up of the change in pension scheme. Consequently the valuation of the council's retirement benefit liabilities as at 31st March 2006 does not include any allowance for this change to the pension scheme.

The following actuarial assumptions were made: -

Assets in the funds are valued at fair value, principally market value for investments and consist of the following categories, by percentage of the total assets held by the fund: -

	Long-term return	2005/06	2004/05
	%	%	%
Equities	7.40	72.87	67.50
Bonds	4.60	9.29	17.10
Property	5.50	11.90	9.90
Cash	4.60	5.95	5.50

16. Deferred Capital Receipts

Deferred capital receipts reflect mortgage loans given to council tenants to purchase council dwellings. The amounts are written down by the annual repayments which are then transferred to usable capital receipts.

17. Government Grants Deferred

Government grants deferred includes capital grants and any other external capital contributions (including Section 106 planning gain monies, gifts, bequests etc) that are credited to the balance sheet and amortised to revenue over the life of the relevant asset to offset charges for depreciation.

18. Post Balance Sheet Events

Following the submission of the Outline Business Case, the Council obtained government approval to procure jointly with Enfield a PFI street lighting contract worth (for Barnet) £132m, over 25 years. The contract commenced in April 2006. This will involve 6,000 items of street furniture and increasing the number of public lighting columns to around 30,000.

19. Contingent Liabilities

The combined total of claims against the council that have been received by the council's insurance team could, in extremis, expose the authority to liability greater than is shown in the balance sheet. The likelihood of the liability fully materialising in any one year is remote.

Statement of Total Movement in Reserves

This statement brings together all the recognised gains and losses of the authority during 2005/06 and shows those which have not otherwise been identified in the Consolidated Revenue Account. The statement separates revenue and capital.

	Notes	2005/06 £'000	2004/05 £'000
Surplus / (deficit) for year			
- General Fund		4,977	4,285
- Housing Revenue Account		(2,093)	(1,222)
- Collection Fund		(621)	880
Add back movements on earmarked revenue reserves	6	4,732	(109)
Deduct appropriations from pension reserve		(11,200)	(9,110)
Actuarial gains and losses relating to pensions		13,770	(67,290)
Total increase / (decrease) in revenue resources	1	**9,565**	**(72,566)**
Increase / (decrease) in useable capital receipts		(6,190)	9,683
Increase / (decrease) in unapplied capital grants & contributions		7,763	1,598
Total increase / (decrease) in realised capital resources	2	**1,573**	**11,281**
Gains / (losses) on revaluation of fixed assets		386,033	873
Total increase / (decrease) in unrealised value of fixed assets	3a	**386,033**	**873**
Value of assets sold, disposed of or decommissioned	3b	**(9,489)**	**(23,870)**
Revenue resources set aside	4a	(6,517)	(4)
Movement relating to Government Grants Deferred	4b	8,910	12,218
Movement on Major Repairs Reserve		4,795	(1,082)
Total increase / (decrease) in amounts set aside to finance capital investment		**7,188**	**11,132**
Total recognised gains and losses		**394,870**	**(73,150)**

The notes give further detail on the movements summarised above.

Notes to Statement of Total Movement in Reserves

1. Movements in revenue resources

This shows the movements on all the council's revenue accounts. See also note 5 below.

	General Fund	HRA	Revenue Reserves	Collection Fund	Pension Reserve
	£'000	£'000	£'000	£'000	£'000
Surplus / (Deficit) for 2005/06	4,977	(2,093)	0	(621)	0
Appropriations to / (from) revenue	0	0	4,732	0	(11,200)
Actuarial gain and losses relating to pensions	0	0	0	0	13,770
1) Movement on Revenue Resources	**4,977**	**(2,093)**	**4,732**	**(621)**	**2,570**
Balance b/fd at 1 April 2005	16,035	5,797	1,036	(984)	(268,610)
Balance c/fd at 31 March 2006	21,012	3,704	5,768	(1,605)	(266,040)

2. Movements in realised capital resources

This identifies capital receipts and grants received in the year.

Useable capital receipts represent the proportion of income from the sale of fixed assets that can, under government legislation, be used to fund capital expenditure.

Unapplied capital grants and contributions arise from receipts of government grants and contributions by individuals to fund capital projects.

	Useable capital receipts	Unapplied capital grants & Contributions	Total
	£'000	£'000	£'000
Amounts receivable in 2005/06	6,344	28,298	34,642
Less amounts payable to housing capital receipts pool	(2,063)	0	(2,063)
Amounts applied to finance new capital investment in 2005/06	(10,471)	(20,535)	(31,006)
2) Total increase / (decrease) in realised capital resources in 2005/06	**(6,190)**	**7,763**	**1,573**
Balance brought forward at 1 April 2005	21,156	7,626	28,782
Balance carried forward at 31 March 2006	14,966	15,389	30,355

3. Fixed Asset Restatement Account - movement in unrealised value of fixed assets (3a) and value of assets disposed or decommissioned (3b)

The account represents the difference between the cost of fixed assets and their latest valuation. The account is constantly updated for disposals, new valuations and that expenditure which, although capitalised under current legislation, does not affect fixed asset values but increases their useful lives.

	£'000
Movement in unrealised value of fixed assets :-	
Gains / (losses) on revaluation of fixed assets in 2005/06	375,360
Write back of depreciation	10,582
Adjustments	91
Impairment losses on fixed assets due to general changes in prices in 2005/06	0
3a) Total Increase /(decrease) in unrealised capital resources 2005/06	**386,033**
3b) Amounts written off fixed asset balance sheet for disposals or decommissioning in 2005/06	**(9,489)**
Total movement on account in 2005/06	376,544
Balance brought forward at 1 April 2005	778,952
Balance carried forward at 31 March 2006	1,155,496

Further information on the valuation of fixed assets is shown in note 1 of the Consolidated Balance Sheet.

4. Movements in amounts set aside to finance capital investment (Notes 4a and 4b)

The Capital Financing Account shows resources both capital and revenue that have been used to finance capital expenditure. Also included are appropriations to the revenue account where the minimum revenue provision (MRP) for debt repayment is exceeded by the asset charges to the service revenue accounts.

The Government Grants Deferred Account represents grants and contributions received to fund capital expenditure. These are released to revenue to offset depreciation in respect of the fixed assets to which they relate. The account also includes planning agreement monies (S106).

	Capital Financing Account £'000	Government Grants Deferred £'000	Total £'000
Net contribution from revenue			
- Intangible Assets	(5,379)	0	(5,379)
- MRP adjustment including	12,557	0	12,557
HRA MRP	0	0	0
Other Adjustments	(1,480)	0	(1,480)
Major Repairs Reserve Applied	(7,523)	0	(7,523)
HRA MRA / depreciation	(8,113)	0	(8,113)
HRA MRA - capital expenditure charged to reserve	3,421	0	3,421
4a) Total revenue resources set aside in 2005/06	**(6,517)**	**0**	**(6,517)**
Grants applied to capital investment in 2005/06	0	16,189	16,189
Adjustments	0	0	0
Amounts credited to Asset Management Account in 2005/06	0	(7,279)	(7,279)
4b) Movements on government grants deferred account	**0**	**8,910**	**8,910**
Total increase / (decrease) in amounts set aside to finance capital investment	(6,517)	8,910	2,393
Balance brought forward at 1 April 2005	370,543	48,616	419,159
Balance carried Forward at 31 March 2006	364,026	57,526	421,552

5. Pension Fund Reserves

The actuarial gains identified as movements on the pensions reserve in 2005/06 may be analysed into the following categories, measured as an absolute amount and as a percentage of the assets or liabilities as at 31 March 2005.

	2005/06		2004/05	
	£000	%	£000	%
Differences between the expected and actual return on assets	51,400	14	6,070	2
Differences between actuarial assumptions about liabilities and actual experience	32,420	5	9,520	2
Changes in the demographic and financial assumptions used to estimate liabilities	(70,050)		(82,880)	
	13,770	2	(67,290)	(12)

6. Specific Reserves

The movements in revenue reserves in the year were:

	Balance 1/4/05 £'000	To Reserves £'000	From Reserves £'000	Balance 31/3/06 £'000
Reserves for capital projects	(153)	(1,204)	153	(1,204)
Donations	(205)	0	204	(1)
Lottery fund	(130)	0	13	(117)
Parking account	(12)	(4,910)	4,852	(70)
Restructure Reserve	0	(3,000)	0	(3,000)
Utilities reserve	0	(500)	0	(500)
IS Licence reserve	0	(500)	0	(500)
Section 106	(185)	(105)	102	(188)
Other	(351)	(14)	177	(188)
	(1,036)	(10,233)	5,501	(5,768)

Apart from the housing revenue account, which is solely for housing, the Local Government Act 1988 only allows the authority one revenue account, its general fund. For good financial management however, it is desirable to earmark specific reserves within the fund:

i. The general fund (GF) reserve for capital projects is available for any expenditure of a capital nature. Under regulations only revenue contributions and repayments of advances may be made to this reserve.

ii. Donations comprise money given to the council for specific schemes for the benefit of the community.

iii. Remaining undistributed balances of the lottery that the council used to run. The Cabinet Resources Committee of the council controls distribution.

iv. By law the authority must maintain a ring fenced parking account. This holds income from street parking charges. The money must initially be spent to improve parking facilities but money in excess of those requirements may be used for certain highways projects.

v. The general reserve for future projects has now been fully utilised.

vi. Section 106 is the revenue element of money received from planning gains. The capital element is held within capital receipts.

vii. Other reserves include amounts held to meet uncommitted potential future costs.

Cashflow Statement

This consolidated statement summarises the movement between the authority and third parties, both for capital and revenue purposes.

	2005/06		2004/05	
	£'000	£'000	£'000	£'000
REVENUE ACTIVITIES				
Cash Outflows				
Cash paid to and for employees	301,450		264,373	
Other operating costs	327,607		345,929	
Housing benefits	129,605		110,037	
Non-domestic rate pool	78,682		63,604	
Collection fund precept payments	34,463	871,807	32,578	816,521
Cash Inflows				
Council tax etc. receipts	(169,535)		(160,872)	
NDR receipt from national pool	(108,094)		(89,499)	
Non-domestic rate receipts	(83,351)		(70,981)	
Revenue support grant	(130,374)		(135,069)	
Rents	(43,031)		(39,330)	
DSS Rebate grants	(149,372)		(114,478)	
Other Government grants	(77,668)		(73,998)	
Cash received for goods and services	(144,705)	(906,130)	(143,863)	(828,090)
(see note 1)		(34,323)		(11,569)
SERVICING OF FINANCE				
Cash Outflows				
Interest paid	1,250		238	
Cash Inflows				
Interest received	(2,146)	(896)	(416)	(178)
CAPITAL ACTIVITIES				
Cash Outflows				
Purchase of fixed assets	70,986		52,436	
Deferred charges and long term debtors	6,287		8,839	
Payments to housing capital receipts pool	2,063		0	
	79,336		61,275	
Cash Inflows				
Sale of fixed assets	(6,592)		(24,610)	
Capital grants received	(28,298)		(8,841)	
Other cash income	(6,266)		(15,415)	
	(41,156)	38,180	(48,866)	12,409
Net cash inflow before financing		2,961		662
MANAGEMENT OF LIQUID RESOURCES				
Net (increase)/decrease in short term deposits		(84,578)		3,295
FINANCING				
Cash Outflows				
Repayment of short term loans	0		27,079	
New long term investment	151,655	151,655	0	27,079
Cash Inflows				
New short term loans	(9)		0	
New long term loans	(77,000)	(77,009)	(28,500)	(28,500)
(INCREASE) / DECREASE IN CASH ANDCASH EQUIVALENTS (SEE NOTE 5)		(6,971)		2,536

Notes to Cashflow Statement

1. Revenue Reconciliation

	2005/06		2004/05	
	£'000	£'000	£'000	£'000
(Surplus) / deficit for the year:				
- General fund	(4,976)		(4,285)	
- Housing revenue account	2,093		1,222	
	(2,883)		(3,063)	
- Collection fund	621	(2,262)	(880)	(3,943)
Minimum revenue provision and capital expenditure funded by revenue activities	(5,474)		(3,854)	
Contributions to / (from) reserves and provisions	(14,502)		(3,883)	
Capital creditors	1,372	(18,604)	(741)	(8,478)
Interest paid	(1,250)		(238)	
Interest received	2,146	896	416	178
(Increase) / decrease in creditors	(94,473)		(2,903)	
Increase / (decrease) in payments in advance	939		(217)	
Increase in stock and works in progress	224		(216)	
Increase / (decrease) in debtors	(5,621)	(98,931)	4,010	674
Pension Fund cash		84,578		
		(34,323)		(11,569)

2. Movements in other current assets

	Balance Sheet 31/3/06 £'000	2005/06 Movement £'000	Balance Sheet 31/3/05 £'000	2004/05 Movement £'000
Debtors	47,313	(5,621)	52,934	12,680
Long term Debtors	0	0	0	(1,266)
Creditors	(176,128)	(94,473)	(81,655)	(16,922)
Stocks and works in progress	1,446	224	1,222	449
Payments in advance	2,890	939	1,951	(171)
	(124,479)	(98,931)	(25,548)	(5,230)

3. Movements in liquid resources

	Balance Sheet 31/3/06 £'000	2005/06 Movement £'000	Balance Sheet 31/3/05 £'000	2004/05 Movement £'000
Temporary investments	191,050	151,655	39,395	3,295
Pension Fund Creditor	(116,449)	(84,578)	(31,871)	0
	74,601	67,077	7,524	3,295

There has been no change in the council's policy on temporary investments that are managed in-house.

4. Movements in long term borrowing

	Balance Sheet 31/3/06 £'000	2005/06 Movement £'000	Balance Sheet 31/3/05 £'000	2004/05 Movement £'000
Long term borrowing	105,500	77,000	28,500	0

5. Movements in cash and cash equivalents

	Balance Sheet 31/3/06 £'000	2005/06 Movement £'000	Balance Sheet 31/3/05 £'000	2004/05 Movement £'000
Imprest accounts	19,151	8,878	10,273	140
Cash overdrawn	(14,993)	(1,907)	(13,086)	(2,676)
Total	4,158	6,971	(2,813)	(2,536)

6. Reconciliation of net cashflow to movement in net debt

Movement in net debt	2005/06 £'000	2004/05 £'000
Movement of cash in year	6,971	(2,536)
Cash outflow from long term borrowing	(77,000)	(28,500)
Short term borrowing cashflow	(9)	27,079
Movement in net debt in year	(70,038)	(3,957)
Opening net debt	(31,443)	(27,486)
	(101,481)	(31,443)

Analysis of net debt	Balance Sheet 2005/06 £'000	Balance Sheet 2004/05 £'000
Temporary borrowing	(139)	(130)
Long term borrowing	(105,500)	(28,500)
Imprests	19,151	10,273
Cash	(14,993)	(13,086)
	(101,481)	(31,443)

7. Other Government Grants

	2005/06 £'000	2004/05 £'000
Mandatory student awards	0	89
Education	46,618	43,376
Community care and other social services	23,206	23,473
Asylum Seekers	1,512	2,997
Council tax benefits administration	2,175	2,442
Housing subsidy (excluding MRA)	2,591	0
Other	1,566	1,621
	77,668	73,998

8. Capital expenditure and income

Capital expenditure appears higher in the cashflow than in the notes to the balance sheet as gross expenditure on and grants to long term debtors are shown here whereas in the balance sheet notes they are netted off.

SECTION 4 – Group Accounts

Group Revenue Account

This shows the consolidated income and expenditure for the council and its subsidiary company on its day-to-day activities.

	2005/06	2004/05
On its services the Council spent:-	Consolidated Net Expenditure £'000	Net Expenditure (Restated) £'000
Central services to the public	1,747	1,003
Cultural, environmental & planning services	44,771	48,837
Education services	180,523	171,509
Highways, roads & transport services	12,010	18,657
Housing services	15,914	7,180
Social services	102,851	101,151
Corporate & democratic core	4,419	4,442
Non distributed costs	5,458	16,684
NET COST OF SERVICES	**367,693**	**369,463**
Levies	1,231	1,896
Trading undertakings	816	897
Interest payable	2,037	448
Contribution of housing capital receipts to Government Pool	2,063	3,218
Interest receivable	(3,048)	(1,615)
Pension interest cost & expected return on Pension Assets	10,290	8,200
NET OPERATING EXPENDITURE	381,082	382,507
HRA contribution to/(from) balances	(2,093)	(1,222)
Contribution from earmarked reserves	4,528	(109)
Transfer from Capital Receipts from Housing Pool	(2,063)	(3,218)
Redistribution of LRB balances	(36)	(6)
Contribution (from) / to capital financing reserves for		
- adjustment for MRP	2,130	(8,948)
- Early retirements	0	(2,490)
HRA Major Repairs Reserve	(7,523)	(4,109)
Minimum revenue provision HRA	0	0
Contribution from the pension reserve	(11,200)	(9,110)
AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXES	364,825	353,295
Revenue support grant	(130,374)	(135,070)
Contribution from non-domestic rate pool	(108,094)	(89,499)
Demand on collection fund	(134,172)	(131,273)
Transfer of collection fund deficit	1,303	947
SURPLUS FOR THE YEAR	**(6,512)**	**(1,600)**

Group Balances

GENERAL FUND BALANCES	2005/06	2004/05
		(Restated)
	£'000	£'000
Balance at beginning of year	16,079	11,794
Planned contribution to balances	0	3,000
Repayment of schools advances	(983)	0
Prior year adjustments	(1,342)	0
Actuarial surplus/(deficit) on pension scheme	(810)	0
Movement in deferred tax on pension scheme	0	0
Surplus / (Deficit) for the year	6,512	1,285
	19,456	**16,079**
of which:-		
General Fund	**8,931**	**5,049**
School Balances	**10,525**	**11,030**
	19,456	**16,079**

Group Balance Sheet

This statement summarises the groups assets and liabilities as at 31st March 2006.

	31st March 2006		31st March 2005 (Restated)	
	£'000	£'000	£'000	£'000
Fixed assets				
Operational assets				
Council dwellings	1,093,000		791,192	
Other land and buildings	449,104		379,590	
Community Assets	6,452		274	
Vehicles, plant, furniture and equipment	6,882		8,763	
Infrastructure assets	55,311	1,610,749	46,094	1,225,913
Non-operational assets				
Investment property	18,570		17,317	
Surplus Assets Awaiting Disposal	12,525		2,462	
Assets Under Construction	25,368	56,463	2,731	22,510
		1,667,212		1,248,423
Intangible Assets		16,924		16,016
Long term debtors		3,941		11,086
Long term investments		11		11
Total long term assets		**1,688,088**		**1,275,536**
Current assets				
Stocks and works in progress	1,471		1,222	
Temporary investments	190,550		38,895	
Debtors	44,827		50,723	
Payments in advance	2,890		1,951	
Imprest accounts and school balances	19,151		10,273	
	258,889		103,064	
Current liabilities				
Creditors	(176,273)		(80,693)	
Borrowing repayable within 12 months	(139)		(130)	
Bank overdraft	(11,830)		(11,520)	
Provisions	(9,373)		(6,882)	
	(197,615)		(99,225)	
Net current assets		61,274		3,839
Long-term liabilities				
Long term borrowing		(105,500)		(28,500)
Long-term Provisions		(12)		(19)
Deferred capital receipts		(1,552)		(1,800)
Liability related to defined benefit pension scheme		(268,086)		(268,610)
Total assets less liabilities		**1,374,212**		**980,446**
Financed by				
Fixed asset restatement account		1,155,496		778,952
Capital financing account		364,026		370,543
Government grants - deferred		57,525		48,616
Usable capital receipts		30,851		28,782
Pension reserve		(266,040)		(268,610)
Major Repairs Reserve		5,030		235
Specific reserves		5,768		1,036
Balances – general fund		19,456		16,079
Balances – collection fund		(1,604)		(984)
Balances – housing revenue account		3,704		5,797
Total equity		**1,374,212**		**980,446**

Group Statement of Total Movement in Reserves

	2005/06 £'000	2004/05 (Restated) £'000
Surplus / (deficit) for year		
- General Fund	5,529	2,311
- Housing Revenue Account	(2,093)	(1,222)
- Collection Fund	(621)	880
Add back movements on earmarked revenue reserves	4,732	(109)
Deduct appropriations from pension reserve	(11,200)	(9,110)
Actuarial gains and losses relating to pensions	12,960	(66,614)
Total increase / (decrease) in revenue resources	**9,307**	**(73,864)**
Increase / (decrease) in useable capital receipts	(6,190)	9,683
Increase / (decrease) in unapplied capital grants & contributions	7,763	1,598
Total increase / (decrease) in realised capital resources	**1,573**	**11,281**
Gains / (losses) on revaluation of fixed assets	386,033	873
Total increase / (decrease) in unrealised value of fixed assets	**386,033**	**873**
Value of assets sold, disposed of or decommissioned	**(9,489)**	**(23,870)**
Revenue resources set aside	(6,517)	(4)
Movement relating to Government Grants Deferred	8,910	12,218
Movement on Major Repairs Reserve	4,795	(1,082)
Total increase / (decrease) in amounts set aside to finance capital investment	**7,188**	**11,132**
Total recognised gains and losses	**394,612**	**(74,448)**

Group Cashflow

This consolidated statement summarises the movement between the group both for capital and revenue purposes.

	2005/06		31st March 2005	
	£'000	£'000	£'000	£'000
REVENUE ACTIVITIES				
Cash Outflows				
Cash paid to and for employees	301,450		264,373	
Other operating costs	327,607		345,929	
Housing benefits	129,605		110,037	
Non-domestic rate pool	78,682		63,604	
Collection fund precept payments	34,463	871,807	32,578	816,521
Cash Inflows				
Council tax etc. receipts	(169,535)		(160,872)	
NNDR receipt from national pool	(108,094)		(89,499)	
Non-domestic rate receipts	(83,351)		(70,981)	
Revenue support grant	(130,374)		(135,069)	
Rents	(43,031)		(39,330)	
DSS Rebate grants	(149,372)		(114,478)	
Other Government grants	(77,668)		(73,998)	
Cash received for goods and services	(146,088)	(907,513)	(144,981)	(829,208)
		(35,706)		(12,687)
SERVICING OF FINANCE				
Cash Outflows				
Interest paid	1,250		238	
Cash Inflows				
Interest received	(2,431)	(1,181)	(610)	(372)
CAPITAL ACTIVITIES				
Cash Outflows				
Purchase of fixed assets	71,033		52,682	
Deferred charges and long term debtors	6,287		8,839	
Payments to housing capital receipts pool	2,063			
	79,383		61,521	
Cash Inflows				
Sale of fixed assets	(6,597)		(24,610)	
Capital grants received	(28,298)		(8,841)	
Other cash income	(6,266)		(15,415)	
	(41,161)	38,222	(48,866)	12,655
Net cash inflow before financing		1,335		(404)
MANAGEMENT OF LIQUID RESOURCES				
Net (increase)/decrease in short term deposits		(84,578)		3,295
FINANCING				
Cash Outflows				
New Long term investment	151,655		0	
Repayment of short term loans	30	151,685	27,079	27,079
Cash Inflows				
New short term loans	(9)		0	
New long term loans	(77,000)	(77,009)	(28,500)	(28,500)
(INCREASE) / DECREASE IN CASH ANDCASH EQUIVALENTS		**(8,567)**		**1,470**

Notes to Group Accounts

1. Introduction

The Authority has only one subsidiary company which it has full control and influence over. The primary aim in establishing this company is to remove it from public sector borrowing controls to allow greater commercial freedom.

The Accounting Code of Practice requires that where an authority has material interests in one or more subsidiary and associated company, it should prepare a group revenue account and balance sheet. The aim of consolidation is to give an overall picture of the Authority's financial activities and resources employed in carrying out those activities. Following the establishment of Barnet Homes Ltd in April 2004, the Authority now has an interest in it as a subsidiary of the Council which is considered material, and thus group accounts have been prepared.

2. Basis of consolidation

The group revenue account and balance sheet have been prepared by consolidating the accounts of the subsidiary on a line-by-line basis. It should be noted that the accounts of the group company has been prepared under similar accounting policies to the Authority. However, some accounting policies of Barnet Homes Ltd may differ in some respects from the Authority's due to legislative requirements. Any material differences are noted in the Notes to the Consolidated Accounts.

3. Arms Length Management Organisation for Housing – Barnet Homes Ltd (Companies House Registration: 4948659)

i) Nature of the business:

Barnet Homes Ltd was created by Barnet Council to manage and improve its council homes and estates. It is a non-profit making company.

Barnet Homes Ltd took over responsibility for managing approximately 11,000 council homes in Barnet from the 1st April 2004. It also took responsibility for almost 400 staff from the Council's Housing Services Department.

Barnet Homes Ltd is managed by a board of 15 members made up of five council nominees, four tenants, one lease holder and five independent with professional skills and experience to help run the services. Board members are volunteers and only receive out of pocket expenses.

ii) Relationship with the Authority:

Under the SORP it is a wholly owned subsidiary of Barnet Council and is therefore required to consolidate the financial statements into the group financial statements on a 100% basis. As the Council holds all the share capital it is required to contribute £2 if the company is wound up.

iii) Financial Performance:

In 2005/6 the Company made an operating surplus of £552,000 (restated deficit of £1,974,000 – 2004/05 due to prior year adjustments).

iv) Transactions and services with the company:

The Authority paid the Company £26.257m (£14.523m – 2004/05) for the provision of Housing and Environmental support.

The Authority provides the following services for the Company:–

The premises at Barnet House is subject to lease from the Authority and is charged as part of the management charge to Barnet Homes Ltd.
The Authority also provides various support services to Barnet Homes Ltd for which charges are made under service level agreements.

4. Group Cash Flow Statement

The group cash flow statement is prepared in accordance with the SORP 2004 rules and form part of the group statements. The group cash flow statement shows the movement of cash in and out of the group. However, cash flows relating internally to the group are eliminated as any intra-group gains and losses are eliminated. Only cash receipts and payments that flow to and from the group as a whole are included.

5. Elimination of the Asset Management Revenue Account (AMRA)

The SORP 2004 requires notional interest charges, used to mark the full costs of tying up capital in fixed assets, and the government grants deferred to be reversed out and allocated to the services using the fixed assets for whose acquisition or enhancement the grants were given. This is because the capital accounting provisions of the SORP require services to show the full cost of holding fixed assets, irrespective of the method by which their acquisition was financed. This is also in line with UK Generally Accepted Accounting Principles (UK GAAP). Hence, the group CRA eliminates the AMRA line out completely, leaving only the external interest element payable.

6. Accounts

Last year's profit & loss and balance sheet statements for Barnet Homes Ltd have been restated to account for prior year adjustments relating to actuarial surpluses and movements in deferred tax on the pension scheme. These relate to FRS 17 Retirement Benefits.

The financial accounts of Barnet Homes Ltd can be obtained from the Head of Financial Services of Barnet Homes Ltd, 9th Floor, Barnet House, 1255 High Street, Whetstone, London N20 0EJ.

SECTION 5 – Pension Fund

Pension Fund Financial Statements

Administered under the Local Government Superannuation and Pension Fund Acts

Pension Fund Account

	Notes	2005/06 £'000	2005/06 £'000	2004/05 £'000	2004/05 £'000
Contributions and Similar Payments					
Contributions receivable					
– from employees	5, 2	7,147		8,029	
– from employers	5, 2	20,360		22,122	
Transfers in	2	6,578	34,085	7,999	38,150
Benefits and Similar Payments					
Pensions payable	2	(20,261)		(18,452)	
Lump sum benefits payable	2	(5,142)		(5,013)	
Death benefits	2	(438)		(425)	
Refund of contributions	2	(105)		(245)	
Transfers out	2	(5,593)		(3,947)	
Administration & other scheme expenses	6	(703)	(32,242)	(1,082)	(29,164)
Net Additions from dealings with Members of the Fund			1,843		8,986
Returns on Investments					
Investment Income: -	2				
Income from fixed interest securities		4,092		3,592	
Dividends from equities		7,984		6,649	
Income from index linked securities		380		417	
Interest on cash deposits		1,485		1,143	
Other income		80	14,021	(6)	11,795
Change in market value of: -					
- realised investments	7	26,858		852	
- unrealised investments	7	50,851		27,250	
Investment management expenses	6	(1,188)		(1,097)	
Tax payable / receivable		(14)	76,507	73	27,078
Net returns on investments			90,528		38,873
Net fund increase/(decrease) during the			92,371		47,859
Opening net assets of the scheme			407,459		359,600
Closing net assets of the scheme			499,830		407,459

NET ASSETS STATEMENT AS AT 31st MARCH 2006

		Notes	2005/06 £'000	2005/06 £'000	2004/05 £'000	2004/05 £'000
Investment Assets						
Government securities	- fixed interest	2, 6, 7	45,944		37,970	
	- index linked	2, 6, 7	13,334	59,278	18,717	56,687
Non Government	- fixed interest	2, 6, 7	2,241		4,565	
	- index linked	2, 6, 7	597	2,838	571	5,136
Property unit trusts		2, 6, 7	45,579		39,307	
UK equities		2, 6, 7	185,092		161,758	
Overseas equities / funds		2, 6, 7	86,311		104,916	
Overseas bonds		2, 6, 7	2,243	319,225	5,680	311,661
				381,341		373,484
Net Current Assets & Liabilities						
- sundry debtors		4	3,510		6,257	
- sundry creditors		4	(1,470)	2,040	(4,153)	2,104
Cash in hand		6		116,449		31,871
Total net assets				499,830		407,459

Notes to Pension Fund Statement

1. Fund operation and membership
The Pension Fund is a defined benefit scheme for employees administered by the London Borough of Barnet (the Council) under the provisions of the Local Government Superannuation and Pension Fund Acts. It provides retirement and death grants besides retirement and widow's pensions. Contributions from the council, three scheduled bodies, (Middlesex University and two colleges), three admitted bodies (the Friends of Moat Mount Campsite, the North London Colleges European Network and the Fremantle Trust), employees and returns on investments balance the fund. Employees' basic contributions are 6% of pay except for manual workers employed prior to 1st April 1998 for whom it is 5%.

At 31st March 2006 there were 6,755 employees contributing to the fund with 5,525 in receipt of benefit and 4,556 entitled to deferred benefits. A Government scheme supplies teacher's pensions; they are not provided for under these arrangements.

The funding policy is to ensure that the assets held by the scheme in the future are adequate to meet accrued liabilities allowing for future increases in pay and pensions.

2. Accounting policies
These accounts are drawn up on the basis of the accruals concept and comply with the recommendations of CIPFA and the Statement of Recommended Practice (SORP), as applicable to local authorities.

<u>Contributions</u>
The Council adheres to the provisions of the Local Government Pension Scheme. Contributions receivable are included in the accounts on an accruals basis. Under the provisions of this Scheme, the rate of contributions requested from employees is set at 6% (5% for manual workers who entered the scheme before 1st April 1998), and the employer's contribution rate is adjusted to bring the Fund to 100% funded level. Further details of employer contributions policy is set out in Note 5 to these accounts.

<u>Benefits</u>
Benefits are provided in accordance with the provisions of the Local Government Pension Scheme, which states that retiring employees are entitled to a pension equal to 1/80 of their final salary for each full year of their employment, calculated on a daily basis and restricted to a maximum of 40/80ths of the employee's final salary. They are accounted for in the period in which they fall due. Full details of the other benefits payable can be seen on the Borough's Intranet page at www.barnetpensions.org.

<u>Investment Expenses</u>
Investment management expenses are accounted for on an accruals basis.

<u>Administration Expenses</u>
These are a percentage of the London Borough of Barnet's expenses plus the direct costs of the Pension's section within the Human Resources department.

<u>Interest</u>
Interest is calculated on the cash held on behalf of the Pension Fund at a rate equivalent to 7 day LIBOR and added to the account of cash due to the Pension Fund on a monthly basis. Interest income from investments is accounted for on an accruals basis, if not received by year end.

<u>Dividends</u>
Dividends are accounted for on an accruals basis, but are included in the accounts only when dividends are declared on or before 31 March and the amount to be paid is reasonably known.

Purchase and Sale of Investments
The purchase and sale of investments is delegated to the fund managers and all settlements are accrued on the day of trading. Investments in the managed funds are valued at the average mid price quoted by the fund managers, while investments in Property Unit Trusts are valued at mid market price. See note 6 for further details. The two fund managers, Schroders and Henderson, are required to produce a return on investments within benchmarks set by the London Borough of Barnet, and must limit the amounts invested in each class of asset to ranges set by the Borough. These restrictions and the fund managers' analysis of the assets and issuing bodies, dictates the timing of sales and purchases of investments. Approximately 10.6% of the Fund is held in property unit trusts and cash arising from these unit trusts, is administered by the staff of the London Borough of Barnet acting on advice received from the Borough's independent investment advisor.

Transfers into and out of the Fund
Transfers into the Fund are accounted for when received and undertaken at the request of staff joining the Borough or one of its admitted or scheduled bodies with pension rights accrued elsewhere. Transfers out are accounted for on the payment basis and performed upon request from staff leaving the employment of the Borough or one of its admitted or scheduled bodies who wish to transfer their accrued pension contributions to their new employer. Transfers are undertaken in accordance with the provisions of the Local Government Pension Scheme.

Foreign Currency Translation
Foreign currency receipts and payments are translated into sterling at the rate ruling on the date of the transaction. Investments held in foreign currencies as at year-end have been translated at the rates prevailing on 31 March 2006.

Pension Costs
The pension costs included in the accounts accord with current Government regulations.

3. Statement of Investment Principles
The Council approved the Statement of Investment Principles for the fund in May 2000. The Statement can be viewed on the pension's website www.barnetpensions.org. Copies are also available from the Directorate of Resources.

4. Current net assets
Net current assets at 31st March 2006 totalled £2.04m and comprised:

	Debtors	Creditors	Net
	£'000	£'000	£'000
Settlements on purchases/sales	110	(95)	15
Contributions & Pension strain etc	782	0	782
Investment income	2,314	(92)	2,222
Fund manager's fees	0	(225)	(225)
Tax	304	(63)	241
Non-education staff gross pay	0	(52)	(52)
Severance payments	0	(761)	(761)
Lump sum death and retirement benefits	0	(182)	(182)
Total	**3,510**	**(1,470)**	**2,040**

The Fund's financial statements do not take account of liabilities to pay pensions and other liabilities arising after the year end.

The figure for contributions debtors included in the net assets statement includes amounts totalling £307.10m (£373.58m) due from Middlesex University, representing one month's outstanding contributions. These were paid to the Borough in April 2006 (April 2005). The figures in parentheses are for 2004/05.

The independent Fund Advisor who also monitors the fund managers on behalf of the council was paid a fee of £8,500 for this service during the financial year under review.

5. Actuarial position

The Local Government Superannuation Regulations 1986 set out legal requirements for actuarial valuations. Their main purpose is to assess the amount the Council must pay towards the fund's liabilities. Hymans Robertson, the independent actuary to the fund, reviews the accounts every 3 years. The latest informal valuation as at 31st March 2006 as per the requirements of FRS17, used the roll – forward approach together with the following assumptions (the figures in brackets relate to the formal valuation as at 31st March 2004, and are given for comparison):

Assumed price inflation	3.10% (2.9%)
Rate of return on investments	
Equities	4.06% (5.24%) per annum
Bonds	1.01% (0.74%) per annum
Property	0.51% (0.64%) per annum
Cash	1.05% (0.30%) per annum
Overall	6.70% (6.92%) per annum
Future pay increases	4.60% (4.70%) per annum
Future pension increases	3.10% (2.90%) per annum
Discount rate	4.90% (6.50%) per annum

The market valuation of assets for past service appraisal was £497.8m (£405.4m). This valuation indicates that assets held at 31st March 2006 were sufficient to cover 77% of the accrued liabilities assessed on an ongoing basis. The financial statements do not take account of liabilities to pay pensions and other benefits after the year-end.

The fund should receive input sufficient to meet 100% of its overall liabilities (Local Government Superannuation (Amendment) Regulations 1993). The Government has allowed local authorities to decide themselves how long to phase in this requirement. Barnet has chosen a period of twenty years, which commenced 1st April 2004. The actual employer's contribution for 2005/06 was £19.99m. Without the phasing, employers' contribution would have needed to be £24.05m equalling 21.3% of pensionable pay. The cash received both from employers and employees is also shown.

	Employees' Contributions 2005/06 £'000	Employers' Contributions 2005/06 £'000	Equal to % of pensionable pay	Benefits Payable 2005/06 £'000
Administering authority	4,404	12,652	18	22,423
Scheduled bodies:				
Middlesex University	1,442	4,019	18	2,631
Colleges	502	1,280	18	111
Barnet Homes	439	1,103	17	63
Admitted bodies:				
NLCEN	2	5	9	0
Fremantle Trust	182	553	18	141
Friends of Moat Mount Campsite	0	1	16	0
Open Learning Partnership	17	23	12	0
Housing 21	98	232	15	33
Greenwich Leisure	36	78	13	1
Others	25	43		
Additional Contributions for Early Retirement	0	371		
Totals	**7,147**	**20,360**		**25,403**

6. Management of the Fund

The Superannuation Fund Management Advisory Panel comprises three elected Members (one from each political party) appointed by the Council. This panel counsels the Deputy Director of Resources and Chief Finance Officer about investment of the fund. The W.M. Company also provides an independent performance measurement service.

Apart from internally managed holdings in property unit trusts, the fund is split equally between two balanced-fund managers, Henderson Global Investors and Schroders Investment Management. The fund managers report transaction details at quarterly meetings with the Advisory Panel. An independent fund advisor monitors the two fund managers for the Council.

Cash in hand and the market value of funds as at 31st March 2006 held by the managers totalled £448.7m. Henderson held 47.7% of this and Schroders 52.3%.

As mentioned above, the fund makes investments in property via property unit trusts. These amount to £49.50m (including cash earned on the property investment). As specifically allowed in the regulations, all the fund's day-to-day cash is invested by the Council. Interest totalling £1.48m (£1.14m) was paid at appropriate rates. The average cash balance held during the year was £31.93m, (£24.76m) and the average interest rate applied was 4.7% (4.6%), which represents the average 7-day rate. The average daily interest was £4k (£3k). The year-end cash balance was £116.44m (£31.87m). The figures in parentheses are for 2004/05.

Current market valuation of the assets is based on current market convention where they are primarily traded. This is either the last traded or middle market price. When representative prices are unavailable, investments are valued on the most appropriate basis in the opinion of the relevant fund manager.

7. Investment Transactions and Performance

Purchases of investments during 2005/06 were £171.8m (£159.5m) and sales proceeds were £241.8m (£141.7m) Profits/(Losses) on realisation were £26.9m (£0.9m). The figures in parentheses are for 2004/05.

As shown in the net asset statement, the fund invests in fixed interest stocks, UK equities, property (indirectly through unit trusts) and overseas equities and bonds. There were no investments in unlisted securities during the financial year under review. The fund also holds an interest earning cash balance, invested with the Council as mentioned above.

The fund made a general return in 2005/06 of 22.6%. The W.M. Company's statistics show that the average return for local authority pension funds was 24.9% and that Barnet was in the 88th percentile of funds measured.

Performance of all pension funds was buoyed by a strong recovery after most major economies adjusted to absorb the impact of high oil prices in the year under review.

8. Prior Year Adjustments

There were no prior year adjustments.

9. Related Party Transactions

The administration expenses of £0.70m shown in the main accounts above were incurred by the London Borough of Barnet and are broken down as follows:

	2005/06	2004/05
	£'000	£'000
Human Resources pensions administration	567	742
Accountancy administration	0	45
Payroll	136	295
Total	**703**	**1,082**

Costs of human resources are the total cost of that section within HR administering pension's entitlement and contributions, the cost of accountancy administration is an apportionment of the salaries of the core accountancy team determined by the time spent by members of the team on administrative matters relating to the pension fund. Payroll's expenses are determined by reference to the number of payslips processed which relate directly to the pension fund and Payments expenses are established by apportioning the total cost of the Payments section according to the number of transactions generated by each section.

There were no material transactions between the fund and the trustees of the fund, or between the fund and the senior officers of the borough, during the financial years 2005/06 and 2004/05.

10. Post Balance Sheet Events

There were no post Balance sheet events in the year under consideration.

Glossary

For the purpose of compiling the statement of accounts, the following definitions have been adopted:

Accounting Policies

Those principles, bases, conventions, rules and practises applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

(i) recognising

(ii) selecting measurement bases for, and

(iii) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or

(b) the actuarial assumptions have changed.

Assets

These can either be:

- Fixed assets – tangible assets that give benefits to the authority for more than one year.

- Community assets – assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and historic buildings.

- Council Dwellings – these are owned by the Council providing services to the communities. Such examples include leisure centres, libraries and museums.

- Vehicles – These assets are used by the Council for the direct delivery of services, such examples include dust carts.

- Equipment – Held by the local authority in the delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objective of the authority.

- Infrastructure assets – fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of such fixed assets are highways and footpaths that cannot be transferred to another owner.

- Investment property – includes land and buildings held by the authority that are awaiting sale or development. This category also includes some property let on a commercial basis as well as some property that is for the good of the community.

- Non-operational assets – fixed assets held by an authority but not used or consumed in the delivery of services or for the service or strategic objectives of the authority. Examples of non-operational assets include investment properties and assets that are surplus to requirements, pending their sale. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held solely for investment purposes and does not support the service or strategic objectives of the authority and the rental income is negotiated at arm's length.

Asset Management Revenue Account (AMRA)

An account that capital accounting regulations requires the authority to maintain. All principal repayments and interest charges on loans are charged to this account. The AMRA is used to reverse out the capital charges for asset rentals made to the service accounts to leave only the annual external interest and principal repayments in the consolidated revenue account.

Associate Company

An organisation is an associate of a parent local authority where the authority holds a long term, participatory interest and is in a position to exercise a significant but not dominant influence over that organisation.

Benefits

Benefits can be received in the form of future economic benefits or in the form of service potential. Assets that are used to deliver goods and services in accordance with the reporting authority's objectives but which do not directly generate net cash inflows can be described as embodying 'service potential'. Assets that are used to generate net cash inflows can be described as embodying 'future economic benefits'.

Capital Charges

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Defined Benefit Scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employees benefits relating to employee service in the current y ear and prior periods.

Depreciation

The measure of the cost or revalued amount of the benfits of the fixed asset that have been consumed during the period.

Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Events After the Balance Sheet Date

Events after the balance sheet date are those events, favourable or unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

Fixed Asset Restatement Account

An account showing the surpluses or deficits on revaluation of fixed assets. This reserve is not available for general use in the financing of capital expenditure.

FRS's

Financial reporting standards issued by the Accounting Standards Board requiring information to be shown in accounts.

General Fund

The main revenue fund of the authority, it shows income from and expenditure on the council's day to day activities. It excludes the provision of housing that must be charged to a separate housing revenue account.

Government Grants

The amounts of money the authority receives from the Government and inter-government agencies to help fund both general and specific activities.

Government Grants Deferred

Capital grants that are credited to the balance sheet and amortised to revenue over the life of the relevant assets to offset charges made for depreciation.

Housing Revenue Account (HRA)

The account which shows the income from and expenditure on the provision of council housing. Other services are charged to the general fund.

Joint Venture

A joint venture is where a parent local authority holds an interest on a long term basis in an organisation and that organisation is jointly controlled by the local authority and one or more other entities under a contractual arrangement.

Leases

These may be finance leases that transfer the risks and rewards of ownership of an asset to the authority. Alternatively they may be operating leases that are more akin to a hire agreement.

Liabilities

Amounts the authority either owes or anticipates owing to others, whether they are due for immediate payment or not.

Long-term Contracts

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

Major Repairs Allowance (MRA)

The MRA is a government subsidy that was introduced to replace Housing Revenue Account borrowing for repairs.

Major Repairs Reserve (MRR)

This reserve is for capital expenditure on HRA assets.

Minimum Revenue Provision (MRP)

Statute requires revenue accounts to be charged with a minimum revenue provision of 4% for general fund and 2% for the housing revenue account as a notional redemption cost of all external loans.

Net Book Value

The amount at which fixed assets are included in the balance sheet, ie their historical cost or current value less the cumulative amounts provided for depreciation.

Operational Assets

Fixed assets held and occupied, used and consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the authority.

Prior Period Adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Precept

The amount of income demanded of the collection fund by an authority entitled to such income.

Preceptor

An authority entitled to demand money of the collection fund. The preceptors on Barnet’s collection fund are the council itself and the Greater London Authority.

Provisions

Amounts held in reserve against specific potential liabilities or losses where there is uncertainty as to amounts and/or due dates. Payment to a provision is counted as service expenditure.

Public Works Loan Board (PWLB)

A Government body that lends money to local authorities for periods in excess of one year, often at preferential interest rates.

Rateable Value

Assessment by the Inland Revenue of a property’s value from which rates payable is calculated.

Related Parties

Two or more parties are related parties when at any time during the financial period:

(i) one party has direct or indirect control of the other; or

(ii) the parties are subject to common control from the same source; or

(iii) one party has influence over the financial and operational policies of the other party to the extent that the other party might be inhibited from pursuing at all times its own separate interests; or

(iii) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

(i) the purchase, sale, lease, rental or hire of assets between relate parties.

(ii) the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund

(iii) the provision of a guarantee to the third party in relation to a liability or obligation of a related party

(iv) the provision of services to a related party, including the provision of pension fund administration services

(v) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

Reserves

Amounts prudently held to cover potential liabilities. Payments to reserves are not counted as service expenditure. Payments from reserves are passed through service revenue accounts, cf. provisions. Earmarked reserves are allocated for a specific purpose. Unallocated reserves are described as balances.

Revenue Support Grant

A government grant paid towards the cost of general fund services. It is the authority's largest single source of income.

SSAP's

Standard statements of accounting practice. These are agreed by accounting bodies and describe standard treatment to be used in the preparation of accounts. They are gradually being replaced by FRS's.

Stocks

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until after a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Subsidiary

An organisation is a subsidiary of a parent local authority if the authority has either a majority share in the organisation or exercises a dominant influence over it.

Substance over Form

Financial Reporting Standard 5 requires that the substance (real effect on the authority) of a transactions is reported rather than just actual monetary movements (substance over form) at the time they happen. That is future liabilities or gains are recognised in the accounts when thy are incurred rather than just when paid for or received.

This largely refers to assets where benefits or liabilities of ownership pass without legal title or they may endow future liabilities or gains. In Barnet's case for instance a lease agreement's transactions will show the actual amount paid or received in the year, but there is a liability for future payments or receipts for the life of the lease, these are recognised in the accounts.

Useful life

The period over which the local authority will derive benefits from the use of fixed asset.