

AGENDA ITEM: 8 Page nos. 1 - 166

Meeting	Audit Committee
Date	21 June 2010
Subject	2009/10 Statement of Accounts
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	To approve the Statement of Accounts for 2009/10 as required by Account and Audit Regulations 2003

Officer Contributors	Andrew Travers – Deputy Chief Executive and Chief Finance Officer Karen Balam – Interim Assistant Director of Resources Maria G Christofi – Head of Strategic Finance
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Statement of Accounts (Unaudited) Appendix B – External Auditor’s Report under International Standard on Auditing (ISA) 260 for the year 2009
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Karen Balam on 020 8359 2460 or Maria G. Christofi on 020 8359 7122

1 RECOMMENDATIONS

- 1.1 That the Committee review and approve that the annual Statement of Accounts be signed by the Chairman as having been approved.
- 1.2 That the Statement of Accounting Policies included in the accounts be adopted.
- 1.3 That the Deputy Chief Executive and Chief Finance Officer, in consultation with the Chairman of the Audit Committee, be authorised to agree significant changes, if any, to the Statement of Accounts, following discussions with the external auditor, and to inform members of the Committee accordingly.
- 1.4 That the Committee consider whether it wishes to receive a briefing on International Financial Reporting Standards and the impact on the Statement of Accounts, as part of its training programme in the next twelve months.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 It is important that members receive regular monitoring reports on the Council's financial position. It is a statutory requirement that the Statement of Accounts is presented to members for approval before 30 June 2010.

4 RISK MANAGEMENT ISSUES

- 4.1 These are addressed in the Statement on Internal Control for 2009/10 which is incorporated within the Council's Annual Governance Statement and will form part of the final Statement of Accounts. The Annual Governance Statement is due to be considered elsewhere on this agenda.

5 EQUALITIES AND DIVERSITY ISSUES

- 5.1 Financial monitoring is important to ensure the management of resources to ensure the equitable delivery of services to all members of the community and to reduce the differential impact of the services received by all of Barnet's diverse communities.

6 FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 6.1 The Statement of Accounts shows the financial position of the council as at 31 March 2010.

7. LEGAL ISSUES

- 7.1 As referred to in the report.

8. CONSTITUTIONAL POWERS

- 8.1 Constitution Part 3 – 2 – Responsibility for Council Functions – Audit Committee: To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

9 BACKGROUND INFORMATION

- 9.1 The Statement of Accounts represents an important formal corporate statutory document. This is reflected in the requirements of the Account and Audit Regulations 2003 and requires the accounts to be signed and dated as approved by the Chairman of the approving Committee.
- 9.2 The Statement of Accounts is attached at Appendix A. The external audit will begin in June 2010 and it is proposed that the Deputy Chief Executive & Chief Finance Officer in consultation with the Chairman of this committee agree any significant changes following discussion with the auditors. Alongside the audit, the Statement of Accounts and all the supporting documentation will be open for public inspection for a period across July and August 2010.
- 9.3 As was the case last year, it is essential that the Income & Expenditure account, which reports a deficit in 2009/10, is considered alongside the Council's financial outturn reported to the Cabinet Resources Committee on 17 June 2010. This showed how the Council achieved against its approved budget for 2009/10 and the achievement of an increase in the overall level of reserves. The I&E account is reconciled back to the outturn via two further statements, the Movement of General Fund Balances and the Statement of Total Recognised Gains & Losses, which in effect contain the technical and other accounting adjustments that ensure certain liabilities (e.g. depreciation) do not impact on the Council Tax payer.
- 9.4 Unlike last year, the Statement of Recommended Practice (SORP) for local authorities has been subject to changes. Overall, the presentation of the Statement of Accounts has not been significantly changed from 2008/09. However, it should be noted that next year shall see the introduction of the authority's Statement of Accounts' conversion to International Financial Reporting Standards (IFRS).
- 9.5 The 2008/09 Statement of Accounts has been subject to prior year adjustments. The PFI contract has come 'on-balance sheet' which has resulted in additional assets and a corresponding liability being recognised, changes to the way of recording the Collection Fund has been restated thus

increasing the Net Worth of the Council by £2.453m. This change has been reflected in the prior year figures in the Statement of Accounts.

- 9.6 Whilst further explanation of the accounts are contained within the Chief Finance Officer's foreword, it is worthwhile highlighting some of the key issues for 2009/10:-
- 9.7 The overall financial position of the Council has remained consistent from that of 31 March 2009 as a result of a net small overspend against budget of £0.798m (excluding Schools and Central Expenses). The general fund balance has decreased from £17.482m to £15.780m and earmarked reserves have increased to £38,864m, thereby ensuring that the council is in a stronger position to cope with financial risks outlined in the 2010/11 council budget report.
- 9.8 It is important to emphasise that the earmarked reserves have been established for specific reasons (e.g. to meet potential costs which fall outside the technical accounting definition of capital but are crucial to the successful completion of the project; transformation and risk and to meet later years costs of the PFI lighting scheme) and are not for general utilisation.
- 9.9 The Housing Revenue Account balance has increased by £1.095m to £4.948m due to an in year surplus in 2009/10.
- 9.10 Also included in the Statement of Accounts are the group account statements for the Council and its subsidiary company, Barnet Homes Ltd. The statements are based on the draft accounts received from Barnet Homes Ltd which will be approved by their board in July but are still subject to audit. Any adjustments which are required to the Barnet Homes Ltd accounts by their external auditor, will also have to be reflected in the group accounts statements for the Council.
- 9.11 In addition to the Statement of Accounts, included in Appendix B is the External Auditors Report under International Standard on Auditing (ISA) 260 for the year 2009. This is the detailed report, required from the External Auditors, on matters arising from the audit of the Council accounts and pension fund accounts. All issues raised by the External Auditor have been addressed in the Statements or the processes of the Council.

10 LIST OF BACKGROUND PAPERS

- 10.1 None.

Legal: MM
CFO: AT

**London Borough of Barnet
Statement of Accounts
For the year ended 31 March 2010
UNAUDITED**

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SECTION 1

Introduction and review of the year 2009/10

Explanatory forward

Foreword and statement of responsibilities

This statement of accounts sets out the financial statements for the London Borough of Barnet, its pension fund and the group accounts.

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. In Barnet that officer is the Chief Finance Officer (CFO), Andrew Travers.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts, this is done by elected members.

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 are subject to external audit.

Andrew Travers, the CFO, is also the Deputy Chief Executive and reports directly to the Chief Executive. Together with the Corporate Governance Directorate, the Finance Directorate holds responsibility for leading on risk management strategy. The Finance Directorate maintains a regular review of the council's financial systems and investigates any irregularities that arise. Further information is contained in the annual governance statement.

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 are reasonable and prudent;
- Complied with the code of practice.

The CFO has also:

- kept proper accounting records which are up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The CFO is required to sign and date the statement of accounts for the year ended 31 March 2010, stating that it gives a true & fair view of the authority at the accounting date and its income and expenditure for the year.

The statement of accounts - Introduction

This details the process in place during 2009/10 for ensuring proper financial management and control. It then reviews the effectiveness and raises any major issues that have arisen in the year.

There are some changes to the format of the accounts for 2009/10 as a result of the application of the statement of recommended practise (SORP) 2009. Further significant changes from 2010/11 onwards are expected, due to the introduction of International Financial Reporting Services (IFRS).

Statement of accounting policies

This explains the basis on which the accounts have been prepared and their compliance with relevant regulatory body guidance.

The authority's accounting statements comprise of:

(i) The core financial statements

Income and expenditure (I&E) account

This summarises the resources generated and consumed by the authority in providing services during 2009/10. The account also shows how the council's services are funded; the four main sources being specific income, council tax, redistributed non-domestic rates and government grants.

Statement of movement on the general fund balance

This is a reconciliation statement which shows how the balance of resources generated/consumed in the year links in with the statutory requirements for raising council tax.

Statement of total recognised gains and losses (STRGL)

This statement brings together all the gains and losses of the council for the year and shows the aggregate decrease in its net worth. In addition to the deficit sustained by the income and expenditure account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

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.

Cash flow statement

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

(ii) The applicable supplementary single entity financial statements

Housing revenue account (HRA)

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 (GLA), acting as an agent in this instance. The fund shows the income due from council tax, non-domestic rates and the application of the proceeds.

(iii) Group accounts

The authority has only one wholly owned subsidiary company, Barnet Homes Ltd., an arms length management organisation (ALMO), over which it has full control and influence through the management agreement. The primary aim in establishing this company is to remove it from public sector borrowing controls and to allow a greater commercial freedom. These group accounts therefore show the consolidated position for the council. For statutory purposes Barnet Homes Ltd produce their own statement of accounts.

The SORP requires the council to produce group versions of its core financial statements:

- group income and expenditure account
- group statement of total recognised gains and losses
- group balance sheet
- group cash flow statement

It also requires the production of a further statement which demonstrates how the group statement links to the council's own income and expenditure account:

- reconciliation of the single entity income and expenditure account surplus or deficit to the group income and expenditure account surplus or deficit

(iv) Pension fund accounts

The pension fund account shows the contributions to the fund during 2009/10 and the benefits paid from it. The net assets statement sets out the financial position for the fund as at 31 March 2010. The fund is separately managed by the council acting as trustee and its accounts are separate from those of the council.

Review of the financial year

Introduction

This section sets out some of the key features of the council's general and financial performance for 2009/10.

Council performance

Council performance was assessed by the Audit Commission under the Comprehensive Area Assessment (CAA) process. The conclusion was as follows:

'Overall Barnet council performs well. The council has maintained high resident satisfaction levels with nearly all of its services compared with similar areas. Crime is low and the fear of crime is reducing. Services for vulnerable people and those needing care and support are good. Educational attainment is high and improving. Children with learning difficulties and or disabilities consistently perform well.

The council's strong vision of the future for local people supports the mission of being a successful city suburb. The council recognises that the borough is changing with a growing and ageing population and the challenges that this will bring. The council has recently assessed what things it does well and what the challenges for the future will be, and these form part of the new 'Future Shape Programme'.

Barnet council scores 3 out of 4 for managing performance. The council is delivering improvements in line with its own targets and those shared with partners. Over 80 per cent of targets are on track to be met. Councillors, staff and partners monitor progress against targets closely and act quickly to improve services that are not delivering as planned. There are good plans to improve services, which are based on a clear understanding of local need and partners and residents support these.

With its partners, the council has some ambitious longer-term plans for example, to strengthen the local economy through regeneration. The aim is to increase and improve housing and local facilities in the borough and develop jobs. The council has been successful with bids for central government funding, including Growth Area Funding and Building Schools for the Future programme.

The council is also working with residents who have suffered through the recession. For example, it is developing an internship scheme to support young people to find a job when they finish their education. Working with its housing partners, the council has reduced homelessness; built more affordable homes and improved the condition of homes let to former council tenants.

The Office for Standards in Education, Children's Services and Skills (OFSTED) has rated the council's children's services as performing well. Children and young people in Barnet generally achieve well in school, better than similar areas and this is continuing to improve. The gap in educational attainment between the lowest achieving children and others is consistently narrower than in similar areas in the early years. The council and partner agencies work well together to protect children and young people from harm and abuse.

The Care Quality Commission has graded the council's adult social care as performing well. Social services provide good support and care for people to live more independently. The number of people receiving direct payments, where they then arrange their own care and support instead of getting them directly from the council, is high compared to the London average. An inspection of social services in August 2009 found that the safeguarding of vulnerable adults was good in Barnet.

The council scores 3 out of 4 for its use of resources. The council manages its finances well and by changing the way it does things, has made significant savings. Compared with councils in similar areas Barnet Council provides good value for money services. The council has a good understanding of the needs of its residents and provides services to meet these.

Barnet Council recognises that in future, it may have to deliver services with less funding and is reviewing the way it works and how its' services will be provided to local people. Its 'Future Shape Programme' is introducing a new way of managing the organisation to drive change and improvement in services. The programme aims to give residents a greater say in the design of services; bringing together the council and other local public agencies and making savings as a result.

The council manages its staff and services well and is developing plans for the future. Staff sickness absence is consistently low. Council staff are well motivated and committed to what the council is trying to achieve for residents in Barnet. The council has good plans in place to ensure it has the staff capacity to meet growing demands for its services.'

The Audit Commission has announced that the CAA will not take place in 2010, and will be consulting in due course on a revised approach to audit and inspection.

Financial performance

The council entered 2009/10 in a strong financial position with general balances of £17.482m. This position provided the council with some measure of flexibility to meet the financial challenges it faced in 2009/10 most notably: demand lead cost pressures in Adult Social Services, reduced return on the council's investments due to falling interest rates, reduced income from fees and charges due to the recession and the costs associated with the snow affecting road repairs, fees and charges on parking. Notwithstanding these pressures, financial year 2009/10 saw a budgeted use of balances of £0.923m and a net overspend of £1.702m on services financed by the General Fund. This overspend, which was forecast and reported to Members through the course of the year, led to General Fund Balances as at 31 March 2010 of £15.780m. This is above the £15m target level of balances as set out in the council's Medium Term Financial Strategy.

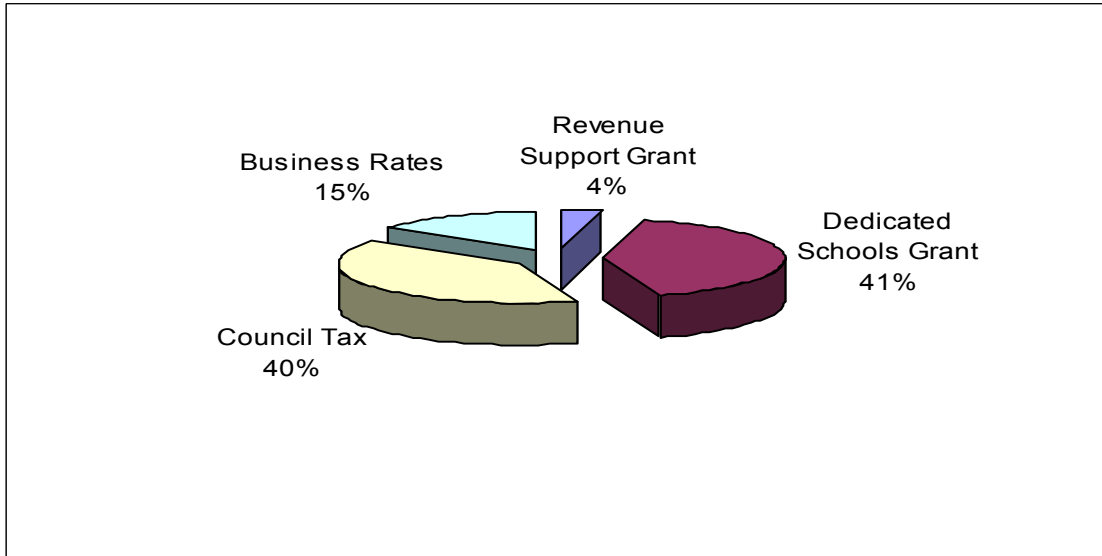
The General Fund

The General Fund acts like a 'current account' which exists to finance the council's day to day costs of providing services. All expenditure, other than that relating to capital and the Housing Revenue Account (see below) is charged to the General Fund. At the start of financial year 2009/10 the council planned in year General Fund expenditure of £244.8m (net of specific service related grants and income from fees and charges).

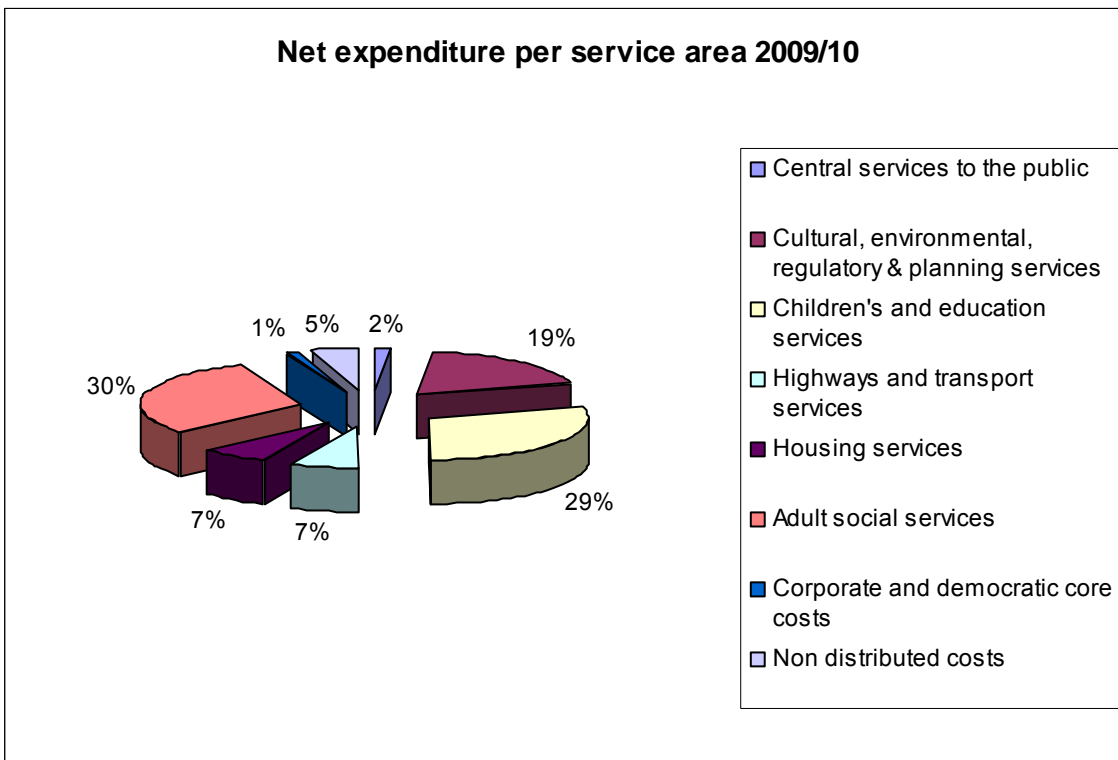
2009/10	Revised council spending plan	Actual net spend	Difference (actual - original)
	£000	£000	£000
Individual schools' budget	202,261	202,410	149
Net service expenditure	266,125	265,014	(1,111)
Contribution to /(from) balances	(923)	(1,702)	(779)
Budget requirement	<u>467,463</u>	<u>465,722</u>	<u>(1,741)</u>

A detailed breakdown of actual expenditure in 2009/10 by Service Area is set out in the Income and Expenditure Account.

Approximately 60% of General Fund expenditure was funded by central government, either through service specific grants or through general grants. The Council Tax funded around 40% of General fund expenditure in 2009/10, as illustrated overleaf:



The following table sets out the council's spending on individual service areas:



Earmarked reserves

Earmarked reserves are amounts of money set aside to cover expenditure in future years for specific purposes. Earmarked reserves at the start of the financial year were £34.6m and increased to £38.9m as at 31 March 2010.

Housing Revenue Account

The Housing Revenue Account (HRA) covers expenditure on providing, maintaining and managing council owned housing stock. This expenditure is offset by income from rent. Under the 1989 Local Government Housing Act, the HRA is ring fenced (held separately) from other accounts and its expenditure can not be subsidised from the General Fund (or vice versa)

In 2009/10 the HRA returned a surplus (increase of in year income over in year expenditure) of £1.095m (£0.401m deficit in 2008/09). This surplus has been transferred to cumulative HRA Balances which stand at £4.858m as at 31 March 2010 (£3.763m as at 31 March 2009).

Part of the Council's capital programme involves the major regeneration of some of the Borough's Housing Estates. As these projects progress it is expected that the number of Council-owned dwellings will fall, reducing rental income but without a proportionate fall in associated operating costs. This will provide a challenge to the future financial viability of the HRA and will be a key area of focus through the financial planning process..

Capital Programme

During the year the council maintained investment in the priority areas of schools, housing, highways and infrastructure. Total capital expenditure was £115.545m, financed by a combination of borrowing (£48.083m), Government Grants (£45.476m), Developer Contributions (£2.227m) Sale of Surplus Assets (£3.319m) and contributions from revenue (£16.440m).

Consistent with Corporate Priorities, the year saw significant progress in the Primary Schools Capital Investment Programme (PSCIP) with the rebuilding of Whitings Hill and Broadfield schools now almost completed and Fairway and Northway underway. In addition, the year saw work start on the re-development of Hyde and Parkfield schools – both of which will include new children's centres, and the re-build of East Barnet Secondary School.

Investment in Housing saw yet more properties in the Borough reach the Decent Homes Standard. There was also significant improvement in disabled facilities and 62 new homes were completed on the Stonegrove Estate (with a further 117 new homes due in 2010/11).

Investment in Highways saw the reconstruction of several roads, carriageways and footpaths, the creation of additional Controlled Parking zones and London Bus networks. 2009/10 also saw play equipment installed in 11 parks for children through the Playbuilders Scheme.

Investment in infrastructure was concentrated on developing the Council's Core ICT systems – geared to modernising the way the Council works in order to improve service delivery and value for money, for example computerised storage of documents, Customer Relations Management software, mobile and home working facilities. Other notable infrastructure improvements included the refurbishment of Burnt Oak Library which featured a new Customer Service Centre. 2009/10 also saw further significant regeneration of the Colindale Development Area and installation of CCTV cameras at Temple Fortune ensuring Barnet remains a safe and successful city suburb.

Pension fund

Although the Pension Fund accounts are now approved as a separate document, it is important to comment on the impact of the global financial crisis on the overall valuation of the fund.

The value of the fund as at 31 March 2010 was £631.7m, the majority of which is invested in the stock market. The fund increased in value by £149.6m.

Looking forward

It is clear that resources for all public services will be severely constrained over the next few years. For local government, we are anticipating significant real terms reductions in the level of central government support. The Council's response to this challenge is the 'Future Shape' programme, which aims to transform the way local services are delivered in Barnet. In this way we hope to improve value for money for Barnet's citizens, delivering 'more for less'.

The statement of the Chief Finance Officer

The required financial statements appear on pages 37-115 and have been prepared in accordance with the accounting policies set out on pages 25-35.

Andrew Travers
Interim Deputy Chief Executive & 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 21st June 2010.

Cllr Monroe Palmer
Chairman of Audit Committee

SECTION 2

Annual governance statement and accounting policies

ANNUAL GOVERNANCE STATEMENT 2009/2010

1. Scope of Responsibility

Barnet London Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including the management of risk.

Barnet London Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework delivering Good Governance in Local Government. This statement explains how the Council has complied with the code and also meets the requirements of regulations 4[2] of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit Regulations 2006 in relation to the publication of a statement of internal control.

2. The Purpose of the Governance Framework

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

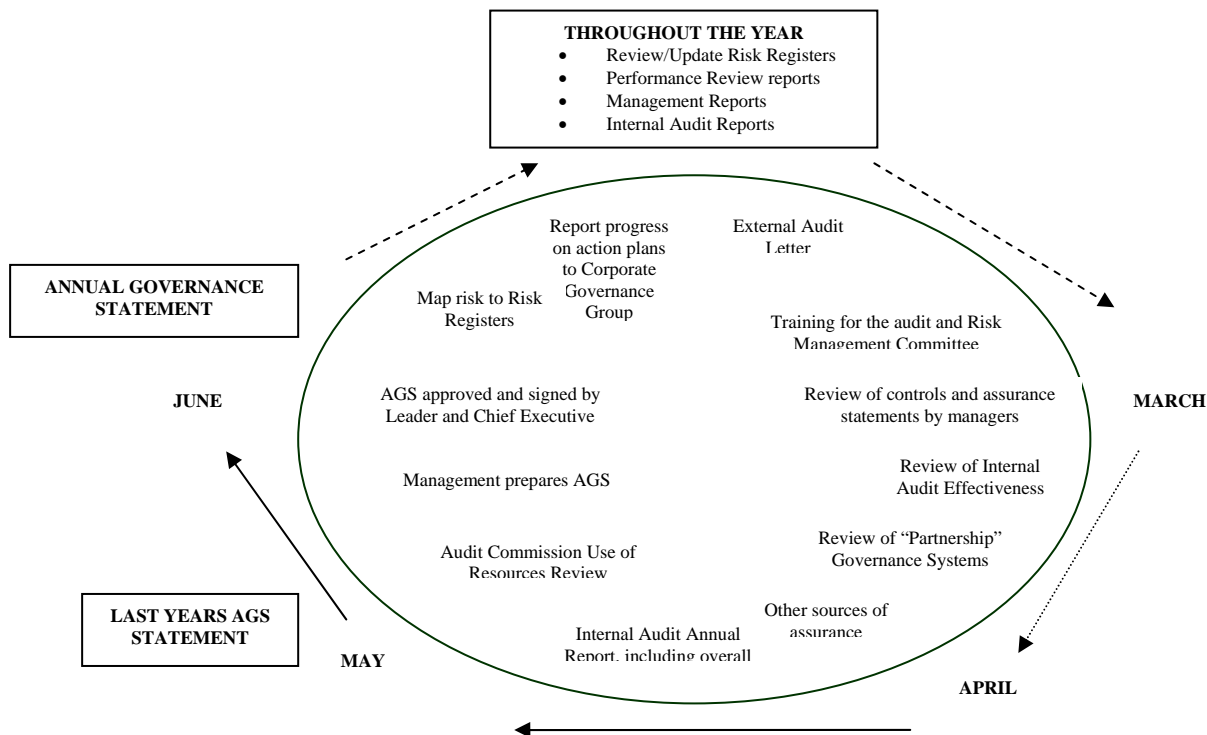
Internal Control Environment:

The Internal Control Environment is a system of checks and balances designed to manage risk, facilitate policy and decision making and deliver effective performance management in a cost effective and efficient manner thereby ensuring the Council uses its resources effectively:

- Performance Management System
- Corporate Strategy and Business Planning
- Annual Budget and Monitoring
- Code of Corporate Governance
- Project Management
- Anti Fraud Policy (and the work of the Corporate Anti Fraud Team)
- Financial Regulations and Procedures
- Code of Conduct
- Whistle Blowing Policy
- Complaints Policy
- HR Policies
- Information Standards
- Standards Committee
- Scrutiny Panels
- Audit Committee
- Contract Procedure Rules
- RIPA Policy

The Governance Framework:

The governance framework has been in place within Barnet London Borough Council for the year ended 31st March 2010 and up to the date of approval of the annual report and accounts. The governance cycle adopted by the Council is as follows:-

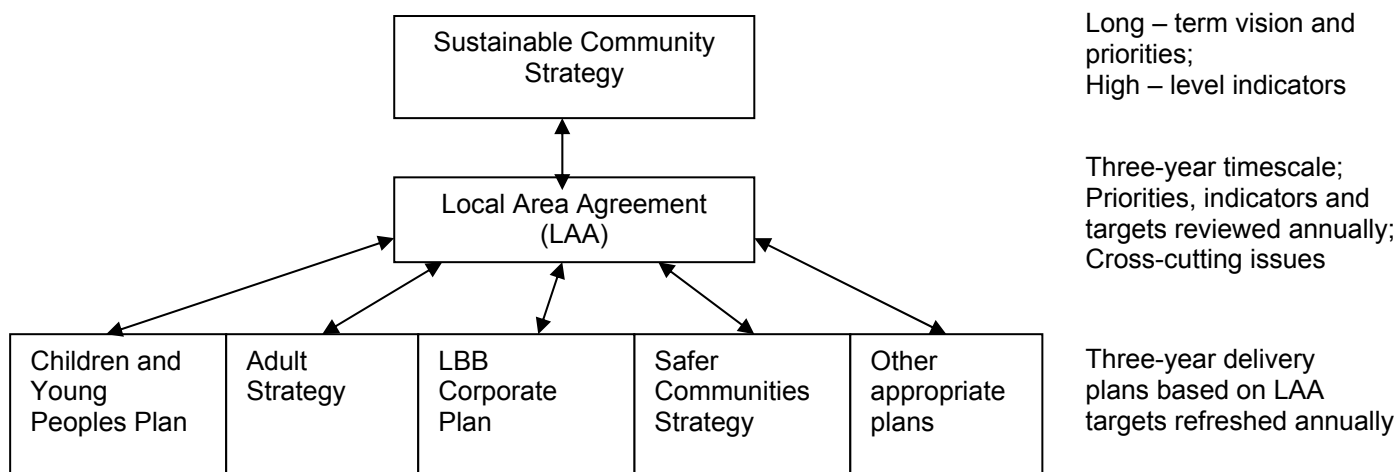


3. The Corporate Governance Environment

The Councils governance environment is consistent with the six principles of the CIPFA/SOLACE framework.

Principle 1: Identifying and Communicating the Council’s Vision and Purpose

The diagram below outlines the relationship between the local strategic plans:-



In May 2008 Cabinet agreed the establishment of a Future Shape of the Organisation programme, in order to ensure that the Council was best placed to exercise local leadership and respond to the challenges that would face local government and public services in the future.

In December 2008 Cabinet agreed a programme structure for the next phase of the future shape programme, and that a detailed assessment of the overall model for public service commissioning, design and delivery be undertaken. The outcome of this assessment was reported back to Cabinet in two phases on 6 July and 21 October 2009.

The conclusions of the initial work were that to meet the challenges ahead, the following principles should be applied:

1. A new relationship with citizens

In which citizens will have a much greater involvement in designing services and actively participating in improving their lives and Barnet.

2. A one public sector approach

In which our strategies and services and those of our public sector partners are integrated and aligned, so that we can work together to improve outcomes for people in Barnet. An important aspect will be placing democratic accountability at the heart of it all.

3. A relentless drive for efficiency

In which the Council plays a leading role in ensuring that public services as a whole are as efficient as they can be.

The 21 October report to Cabinet considered arrangements for implementing the Future Shape work programme and agreed that given the size of the programme and the risks involved, separate governance arrangements, including a Future Shape Programme Board and Overview and Scrutiny Committee be created to oversee the implementation of Barnet's Future Shape programme.

This Board was subsequently named as the One Barnet Programme Board and first met on 11 February 2010. Its specific purpose is to:

- Provide governance for the implementation of the Future Shape programme, to be known as the One Barnet programme
- Set the direction of the One Barnet programme and agree in principle and at first approval stage those projects that will form part of the programme
- Ensure that all projects deliver a corporate priority and fit with the 3 Future Shape principles
- Make recommendations to Cabinet, or any other Council decision making body where formal decisions are required, on the implementation of elements of the programme

It has a remit to:

- Consider and agree a work programme for the implementation of the One Barnet programme
- Review initial assessment plans and outline business cases
- Make recommendations to Cabinet on the approval or refusal of business cases
- Make any other recommendations to Cabinet as appropriate
- Receive reports from the Council's Investment Approvals Board ("IAB") as to the management of projects in the programme
- Consider any appropriate feedback from the Future Shape Scrutiny Panel

It is chaired by the Leader of the Council, and also includes the Deputy Leader, as well as Chief Executive, Deputy Chief Executives and Representatives from key public sector local strategic partners.

The Board is intended to be a consultative body only and does not take decisions in its own right. The Board will consider matters before it and make any recommendations as necessary to the Council's Cabinet or any other of the Council's decision making bodies.

Alongside this, the Future Shape Overview and Scrutiny Panel was established with a power to review the proposals being taken to the Programme Board as part of its activities to ensure early engagement in their development. The Panel evaluates and challenges business cases, reviews options appraisals, examines

linkages between the strands of the Future Shape programme, oversees implementation and refers issues to the One Barnet Programme Board and/or Cabinet as appropriate.

The governance of the Local Strategic Partnership will be reviewed during 2010-11 including the relationship with the One Barnet Programme Board.

Principle 2: Members and officers Working Together to Achieve a Common Purpose with Clearly Defined Functions and Roles

Elected members are collectively responsible for the governance of the Council. The Local Government Act 2000 introduced new executive arrangements whereby full Council, following proposals from the Executive, agrees the Council’s policy framework, budget and key strategies. The Executive (the Cabinet), which comprises elected members, is responsible for implementing them and is responsible for exercising all functions of the Council except to the extent they have been categorised as non-executive functions (e.g. planning, licensing, elections and other miscellaneous functions).

This effectively separates decision-making and scrutiny of those decisions. The Chief Executive, Section 151 officer, Monitoring Officer and other senior managers are responsible for advising the Cabinet and scrutiny committees in legal, financial and other policy considerations.

<p>Executive Roles:</p>	<p>The Cabinet comprises a Leader and nine executive Members with the following portfolio responsibility (during the review period):</p> <ul style="list-style-type: none"> • Leader & Resources • Deputy Leader and Children’s Services • Planning and Environmental Protection • Housing and Regeneration • Adults • Public Health • Investment in Learning • Policy and Performance • Environment and Transport • Community Engagement and Community Safety
<p>Clear Decision Making:</p>	<p>Formal procedures and rules govern the Council’s business:</p> <ul style="list-style-type: none"> • Constitution • Scheme of Delegations • Financial Regulations • Scrutiny Process Guidance • Terms of reference for the Pension Fund Panel
<p>Compliance:</p>	<p>Specific statutory responsibility rests with:</p> <ul style="list-style-type: none"> • Chief Executive (Head of Paid Service) • Director of Corporate Governance (Monitoring Officer) • Deputy Chief Executive (Section 151 Officer)

<p>Monitoring:</p>	<ul style="list-style-type: none"> • Financial and operational data is reported to the Cabinet and Review panels quarterly • Work programmes of the Overview & Scrutiny Committees and the Audit Committee include a challenge to both policy development and performance review • Performance monitoring has improved in 2009/10 by bringing together operational and financial performance information • The institution of a dedicated Budget and Performance Overview & Scrutiny Committee has also enabled more effective Member oversight of the Council's performance • Further improvements are planned in 2010 with the introduction of customer satisfaction reporting
<p>Value for Money:</p>	<p>The Council has been very successful at driving the efficiency Agenda with the costs being one of the lowest in London. However there is still much to do. Recognising this the new streamlined corporate plan has 'better services with less money' as one of only three key priorities. Some key activities to take this agenda forward are:</p> <ul style="list-style-type: none"> • Establishment of an Investment Advisory Board • Service savings targets • Improved performance management/service planning • London Efficiency Challenge • Benchmarking exercises • Future Shape Programme (this is the main vehicle for driving the future efficiency programme and will change the way in which services are procured and delivered). • Every committee or Delegated Powers report has a corporate requirement to detail the value for money implication of the issue under consideration
<p>Partnerships:</p>	<p>Partnership working is pivotal to Barnet's success. The Local Strategic Partnership (LSP) is at the heart of this approach. Metropolitan Police, Barnet College, NHS Barnet (the Primary Care Trust, Middlesex University and CommUNITY Barnet (formerly Barnet Voluntary Service Council work with the Council for the benefit of our communities. Key priorities of the LSP as expressed in the Sustainable Community Strategy are:-</p> <ul style="list-style-type: none"> • Growing Successfully • Safer, Stronger and Cleaner Barnet • Investing in Children and Young People • Healthier Barnet (including older people).

Principle 3: Values of Good Governance and Standards of Behaviour

The Council recognises that good governance is underpinned by shared values demonstrated in the behaviour of its members and staff.

The Director of Corporate Governance is the Monitoring Officer and is responsible for ensuring that the Council acts in accordance with the Constitution. However Directors have the primary responsibility for ensuring that decisions are properly made within the operations of the Directorates. The standards of conduct and behaviour expected of members and officers are clearly set out in a number of the codes of conduct for members and for officers.

- Members Code of Conduct
- Officer Code of Conduct
- Protocols for Member – Officer Relations
- Planning and Licensing Codes

Training programmes for both members and staff support these codes.

The Deputy Chief Executive is the nominated Chief Financial Officer in accordance with Section 151 of the Local Government Act 1972. The Chief Internal Auditor has direct access to all three statutory officers and has well established reporting lines to members.

Core Principle 4: Making Transparent Decisions Which are Subject to Scrutiny and Risk Management

The Council recognises that all of its decisions must be legal and reasonable in the knowledge that all decisions are challengeable. The Council must therefore be able to demonstrate that decision makers followed a proper process, the decision was properly documented and was taken having regard to all relevant considerations.

Scrutiny Function:

The Scrutiny function works effectively to challenge performance and policy development which is supported by focussed reviews undertaken by Task and Finish Groups and Ad Hoc Committees. Recent work undertaken in relation to youth homelessness and road resurfacing has been strongly welcomed by the Cabinet.

Scrutiny committees, which comprise non-executive members, question and challenge the policy and performance of the Cabinet and also the Council's policy and performance in respect of non executive functions. The successful instilling of a culture of pre-decision Scrutiny is integral to the continued effective operation of the Scrutiny function, allowing meaningful member oversight of and contributions to major strategic and policy items.

Scrutiny has also had an ongoing role in the Council budget process, allowing member oversight of the long and short term financial picture, together with guiding the Council's direction with regard to budget consultation.

Audit Committee:

A major strength of the internal control system is the role of the Audit Committee. The purpose of an Audit Committee is to provide independent assurance of the adequacy of the internal control environment, and to oversee the financial reporting process.

To achieve these aims, the committee is responsible for the following key functions:

- Reviews of internal audit strategy, annual plan and performance, plus review of summary internal audit reports, and seeking assurance that action has been taken as necessary;
- Consider, where appropriate, the reports of external audit and inspection agencies.
- Consider the effectiveness of the authority's risk management arrangements, and seek assurances that action is taken on risk related issues identified by auditors and inspectors;
- Ensure that the authority's assurance statements, including the Corporate Governance Statement, properly reflect the risk environment and any actions required to improve it;
- Ensure that there are effective working relationships between external and internal audit, inspection agencies, and other relevant bodies, and that the value of the audit process is actively promoted;
- Reviews the Council's controls on data quality processes

Standards Committee:

The Standards Committee is responsible for:

- Promoting high standards of conduct
- Assisting members to observe the Code of Conduct

- Advising the Council on the adoption of revisions to the Code of Conduct
- Monitoring the operation of the Code of Conduct
- Provision of training on the Code
- The granting of any dispensations

Robust Risk Management Processes:

The Council has continued to progress the development and embedding of risk management, both corporately, and across all Service areas during 2009/2010. Formal risk management arrangements provide for risk identification, analysis and ownership. Service Plans utilise service based risk registers in their objective setting and overarching or corporate wide risks are identified within the Corporate Risk Register.

All Cabinet and Committee reports include a section on risks ensuring members make fully informed decisions.

Quarterly risk management forums are held to share best practice and to agree procedural improvements and the Internal Control Checklist process to aid managers proactively manage their service risks. A process which is reviewed annually.

As part of the budget setting process the Chief Financial Officer will assess the financial risks facing the Council and will recommend to the Council a prudent level of reserves, provisions and balances having taken into account those risks.

The Internal Audit Function:

The Internal Audit function operates under the Local Government Accounts and Audit Regulations, which require the maintenance of adequate and effective systems of internal audit of accounting records and control systems, and full assistance from officers and members in the provision of documents, records, information and explanation to enable the proper fulfilment of those audit responsibilities. The work of the Service reflects professional best practice, is guided by the Code of Practice for Internal Audit on Local Government and by the policies, procedures, rules and regulations established by the Authority.

The internal audit function, which works closely with the external auditor, undertakes a planned programme which is approved by the Audit Committee. The programme includes independent reviews of the systems of internal control and risk management.

Each Head of Service is responsible for operating systems of internal control within their service that will provide reasonable assurance of effective and efficient operations, reliable information and compliance with laws and regulations. A report on audit activity is made regularly to the Audit Committee. Internal Audit has concluded overall, based on the findings of work undertaken at Barnet Council that only limited assurance can be given on the systems of internal financial control in place. A number of areas for improvement have been identified and will be implemented on an agreed and phased basis subject to the assessed level of risk.

Strong Financial Management:

The system of internal financial control is based upon a framework of regular management information, financial regulations, administrative procedures and a structure of delegation and accountability. Internal financial controls include:

- The establishment of key controls within the accounting systems of the Council
- A robust system of budgetary control including formal quarterly including projected outturns, and additional summary reports. Provisional outturn statements are produced and presented as close to the end of the financial year as possible
- Financial reports which indicate financial performance up to year end and include action plans for dealing with pressure areas
- The production of regular financial reports at various levels within the Council which indicate actual expenditure against budgets
- A clear and concise capital appraisal process for prioritising and approving all capital projects
- Adherence to Prudential Indicators approved by Council to ensure that the Council only undertakes capital expenditure for which it can afford both the financing costs and the running costs;

- Provision of a financial management training course for all new budget managers;
- Financial Training for new budget holders
- Provision of a Project Management training

Core Principle 5: Developing the Capacity of Members and Officers to be Effective

The Council needs people with the right skills to direct and control staff. To this end both Members and staff need to have the right skills to drive the organisation forward. The Council's learning and development needs are met through training, e-learning and other methods.

- All new members are provided with a detailed induction programme into the operations, objectives, partnerships, and codes of the Council.
- Following the implementation of the new Corporate Plan, officer personal evaluation and target setting has to be directly aligned to the Council's key priorities.
- Cross organisational engagement has been undertaken to improve knowledge and understanding of those corporate priorities and how services contribute to them
- A two year Member Induction and Development Programme has been developed in consultation with Members and Officers, to be implemented at the start of the municipal year 2010/11.

Core Principle 6: Engaging with Local People and Stakeholders

The Council is committed to engaging with its citizens. Community participation and engagement is essential to secure sustainable improvement in public services and to engage citizens in the public decision making processes that affect their lives.

There is a range of consultation and engagement mechanisms to identify local people's views and priorities. The Council is responsive to local views and is particularly sensitive to the needs of vulnerable people. Planning recognises local needs in more disadvantaged areas.

The Council adopted a Consultation and Engagement Strategy in 2004. As a consequence some traditional modes of communication have been used such as Residents Forums, Citizens' Panel and a Civic Network. However, in recent years communication vehicles have gone through radical change. The Council has maximised the use of these new opportunities, during the review period, including:-

The Leader Listens:	<ul style="list-style-type: none"> • Invites every household to meet with the Leader at meetings organised by polling district • Includes a blog which is moderated by the Leader • Extended to Leader Listens to Faith and Small Business
Website:	<ul style="list-style-type: none"> • Website re-launched in 2009 • Social networking links from home page • 'Improved ability for citizens to post comments • 'Fix My Street' – ability for residents to post issues • Pledge Bank – opportunity for communities to obtain funding by making a part commitment
Ward Visit:	Chief Executive and Ward Members meets residents to discuss local issues

Budget Consultation:	<ul style="list-style-type: none"> • A series of face to face events, via the Leader Listens, Area Forums, and a Leader Listens Business Event • An online Budget Simulator (575 respondents) • An online qualitative survey on the Budget Headlines (18 respondents) • Letters sent out to all business rate payers inviting them to comment and take part in the consultation on the Budget Headlines • Budget and Performance Overview & Scrutiny Committee providing opportunity for wider consultation with Members on the budget at all stages of its development
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4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior officers of the Council who have responsibility for the governance environment, the Head of Internal Audit's annual report, and any comments made by the Council's external auditors and any other review agencies and inspectorates.

In practice the Council has a continuous process in place for maintaining and reviewing the effectiveness of its governance framework which includes the following:-

Monitoring:	Financial and operational monitoring presented to senior managers, the Cabinet, and Scrutiny Committees on a quarterly basis
Internal Audit:	<ul style="list-style-type: none"> • Monitored by Audit Committee in year • Further strengthening of resources and profile planned • Implementation of revised working practices
Year End Processes:	<ul style="list-style-type: none"> • No significant issues identified in year end service control reports • Statutory Officer assurances obtained on internal control and governance arrangements • Review and cross referencing of inspection and audit reports and no issues identified.
Risk Management:	Service based risk registers completed and available for challenge Corporate risk register reviewed and refined
Standards Committee:	Met regularly and covered work programme in addition to fully operating the system of local regulation through Sub-Committee assessment meetings and hearings
Audit Committee:	Met regularly throughout the year Regular reports received on:- <ul style="list-style-type: none"> • Risk management • Internal Control • Anti fraud • Governance
Overview & Scrutiny	Overview & Scrutiny reviews its effectiveness on a yearly basis, with the findings reported with its annual report to Full Council.
Special Committee (Constitution Review)	Special Committee (Constitution Review) reviews the Council's Constitution over the course of the municipal year to ensure that good governance is maintained by it accurately reflecting current legislation and practice.

Significant Governance Issues:

A number of areas for improvement were identified in the 2008/09 Annual Governance Statement. An update of those issues is set out below – those highlighted have actions that carry through to the 2010/11 Improvement Plan:-

Improvement Area:	Current Position:
Lack of adherence to the Councils Treasury Management Strategy	New procedures now operating to ensure compliance with the Strategy. Regular reports presented to the Audit Committee on activity and a compliance and training programme has been developed for Members to ensure that they have the necessary skills to robustly challenge and scrutinise the process.
Project Design and project management failures	A corporate framework was introduced in the summer of 2009. This has brought significant improvements to the governance and challenge of project initiation and delivery. It also provides detailed guidance and support for anyone involved in the management of a project.
Implementation of new scrutiny arrangements	New arrangements successfully implemented at the Annual Council Meeting 2009. A review of the new arrangements will be carried out early in 2010/11.
Clarification of the internal control systems and processes	An Internal Control Improvement Action Plan identified areas and provided actions for enhancing internal control. These actions, whilst some are ongoing, will be effectively implemented by September 2010.
Project post implementation reviews	As part of the corporate project management framework a post implementation review is required for every project. These will be captured and by the project consultancy team with the Commercial Services Directorate and used on future projects.
Member development	Developed a Member Induction and Development Programme 2010-12 to be implemented following the 2010 municipal elections.
Statutory Officer meetings – to aid improved governance	These meetings have been held on a regular monthly basis throughout the review period and have an agenda to deal with key current governance issues.
Review of the Scheme of delegation	The carrying out of this review was agreed by the Special Committee (Constitution Review) in 2009/10 and a further reported will be presented to the Committee in 2010/11.
Role and profile of regulatory committees	Revised versions of Members Planning Code of Practice and Members Licensing Code of Practice were adopted by the Council in November 2009 following full consideration by the Standards Committee and the Special Committee (Constitution Review). Both aimed at giving Members and others a clearer insight into the appropriate behaviours and arrangements for dealing with these regulatory processes.
Develop partnership working towards a Goal of 'one public service'	'One Barnet Programme Board' including representation from partners established to oversee Future Shape programme (see below). LSP continues to oversee joint working including receiving reports on Future Shape;
Ensure governance remains central to change management programme	See above comments on project management governance

5. 2010/11 Improvement Areas

Key Improvement Area:	Assigned To:
CAFT Pro Active Fraud Programme 2010/11 will include high risks areas based on outcomes from previous CAFT investigations, 'No Assurance' IA reports, and national areas of concern for local government. This includes the impact of the recession on local authority fraud risks.	CAFT Manager
An overarching Information Management Strategy to pull together the various policies and procedures relating to information governance and data processing and management	Head of IS/Performance &OD Manager
A detailed action plan for addressing the data protection issues highlighted in the ICO Audit Data Protection Audit Report	CDG/Director of Corporate Governance/Head of IS
Internal audit will provide quarterly progress reports to the Audit Committee on performance against the agreed annual plan.	Head of Internal Audit
Internal Audit will work with directors and senior managers on strengthening the risk management system	Head of Internal Audit
A comprehensive training programme for Members of the Audit Committee will be prepared and delivered to enhance the Committee's performance	Democratic Services Manager
Improving the Overview & Scrutiny structure to maximise the effectiveness of the Scrutiny function, including entrenching a pro-active culture of pre-decision Scrutiny.	Democratic Services Manager
Ensure partnership governance arrangements fit for purpose, specifically of the LSP	ACE/ DCG
Raise the profile of risk management within the organisation and embed within the business planning process.	DCE/AD of F

Statement of Accounting Policies

Introduction

The general principles adopted in compiling the Statement of Accounts for 2009/10 are consistent with the Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice 2009 (SORP), as issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Accordingly, the general principles that underpin these financial statements represent proper accounting practice for local authorities in England.

Changes have been made in accounting treatments to reflect changes from SORP 2009 that apply to local authorities from 1st April 2009. These changes are not intended to impact upon the overall financial position of the council or to impact on Council Tax levels.

All relevant Standard Statement of Accounting Practice (SSAP) and Financial Reporting Standards (FRS), so far as they apply to local authorities, have been observed. Any departures from these standards are disclosed, where relevant, in the policies detailed below.

The accounts have been prepared under the historic cost convention, modified by the revaluation of certain categories of tangible fixed assets in accordance with the SORP.

The accounts are prepared on an accruals and going concern basis.

Accounting for Retirement Benefits within HRA

Day to day housing management is carried out by Barnet Homes therefore Barnet's HRA employs very few staff directly. The cost of obtaining a separate HRA actuarial report, to split the notional cost of HRA staff from those employed by the general fund cannot be justified. For this reason although the HRA has been reported on a FRS17 basis, no attempt has been made to show a separate liability related to defined benefit provision.

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. Such amounts are included as part of the Debtor and Creditor figures on the Balance Sheet. With regards to interest due but not paid on loans and investments (as at the Balance Sheet date) the Council's Policy is to add this to the carrying value of the loan or investment and not to debtors or creditors.

Bad Debt

Bad debt is the extent to which an original amount of money owed to the council is impaired (no longer recoverable). The council's policy for estimating the provision required for bad debt is to firstly consider any specific debts which are regarded as being individually significant, e.g. bankruptcy of a company that owes a significant amount of money to the council. The remaining debt is then divided into the following groups:

- Tenants
- Council Tax
- Business Rates
- Other Local Authorities
- Sundry (trade) debtors

Each group has particular characteristics with regards to the debtor's propensity to pay the amount due. An assessment of impairment of debt for each group is then undertaken at the balance sheet date, based on historical loss experience but adjusted to reflect the current economical climate. The provision for bad debt is then estimated on this basis and the amount is reflected in the balance sheet carrying figure for Debtors.

Best Value Accounting Code of Practice

Best Value Accounting Code of Practice (BVACOP) represents proper practice with regards to consistent financial reporting. Written by CIPFA, its objective is to standardise the way in which Local Authorities identify and report expenditure so as to provide a consistent basis for all financial disclosures, enabling meaningful comparisons to be made between different Local Authorities. To this end, the council's policy is to fully adopt the provisions of BVACOP and to use the BVACOP standard Service Expenditure Analysis when reporting on the Net Cost of Services in the Income and Expenditure Account, even though the code allows alternatives to be used.

Under BVACOP, the costs of running centralised support functions (such as Finance, IT and Payroll) are recharged to direct Service Departments through the internal recharge mechanism using various apportionment bases (e.g. headcount, time spent, area occupied, invoices processed, etc) to reflect the work / support that has been provided. Under BVACOP Guidance, two specific types of cost (Corporate & Democratic Costs and Non-Distributed Costs) can be apportioned between the General fund, Housing Revenue Account and the Pension Fund. However this guidance is not obligatory and as the amounts involved would be immaterial the council's Policy is not to apportion such costs.

Capital Receipts

A capital receipt is income received in exchange for the disposal of a fixed asset. It is held in the capital receipts unapplied account until the money is 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.

Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect council tax and national non-domestic rates (NNDR). Under SORP 2009, in its capacity as a billing authority an authority acts as an agent: it collects and distributes Council Tax Income on behalf of the major preceptors and itself.

Up to 2008/09 the SORP required the Council Tax income included in the Income and Expenditure Account to be the amount that under regulation was required to be transferred from the Collection Fund to the General Fund of the billing authority. From the year commencing 1 April 2009, for both billing authorities and major preceptors, the Council Tax income included in the Income and Expenditure Account for the year shall be accrued income for the year.

The change of accounting policy for council tax and NNDR has required prior year adjustment to the 2008/09 corresponding amounts. A further disclosure is set out in note 2 to the Core Statements.

Contingent Assets

Contingent Assets are transactions that may give rise to economic benefit to the council but cannot be estimated with reasonable certainty at the balance sheet date due to the very existence of the asset being dependent on the outcome of uncertain future events (such as resolution of legal proceedings).

Council policy is to give a brief description of the contingent asset in the notes to the Core statements.

Contingent Liabilities

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.
- iii. Detail of any contingent liability is given in notes to the balance sheet.

Accounting standards dictate not to recognise any contingent liabilities in the Accounting Statements, but to give a brief description (subject to the amount (s) being material). London Borough of Barnet discloses this in the notes to the Core statements.

Earmarked Reserves

Earmarked Reserves are amounts of money set aside to cover expenditure in future years on specific projects or major initiatives - which would not be able to proceed unless money was set aside from prior year resources.

The effective impact of making an Earmarked Reserve is to decrease balances available for general purposes (General Fund balances) and to create / increase the amount set aside on the balance sheet to meet specific future expenditure (Earmarked Reserves). The council's policy is for departments to consider the need and apply for an Earmarked Reserve for their area, consistent with their service plans and the corporate plan. All applications for Earmarked Reserves are subject to approval by the Chief Finance Officer.

Reserves are discretionary not mandatory. A full breakdown of the council's Earmarked Reserves as at 31 March 2010 is set out in note 36 to the Core Statements.

Estimations

Apart from Bad Debt Provisions, the only significant estimations in the accounts relate to:

- Community Care Services - estimates are made in respect of clients who have received care but where the invoices from the Care Provider have not been received until after the end of the financial year.
- Pension Fund – estimates are made based on the triennial review which was undertaken in 2007.
- Property valuations – some estimates are made based on market forces.
- Special Parking Account - estimates are made over likely income recoverable from unpaid penalty charge notices issued in 2009/10.

Exceptional / Extraordinary Items and Prior Period Adjustments

Where applicable and relevant exceptional items and extraordinary items are disclosed in the income and expenditure 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. For 2009/10 there have been two changes in accounting policies (Collection Fund and for Private Finance Initiative). In both instances prior year comparatives have been provided in the relevant statements.

Financial Instruments

A financial instrument is any transaction that generates an asset in the accounts of one entity and a liability in the accounts of another entity. All financial instruments are either classified as Financial Assets or Financial Liabilities and insofar as the council is concerned this covers our borrowings, loans, investments, trade debtors and creditors.

The council's financial liabilities and financial assets are carried on the balance sheet at amortised cost. The amortised cost is derived by taking the amount of the instrument at its inception, deducting the value of cash repayments made in year and adding on the interest charged / credited to the Income and Expenditure account. However, the SORP requires that the fair value of these instruments is disclosed in the notes to the account. The fair value of an instrument is the amount for which it could be sold for in an open market based on the present value of the future cash flows.

Premiums paid on the early settlement of debt are also classified as Financial Instruments. Regulations allow such premiums to be charged to general fund balances over the number of years equal to that which was remaining on the original loan, or to charge such premiums over a shorter time frame if desired. The council's policy is to spread the premium over the term that was remaining on the original loan which gave rise to the premium. Further information on the council's Financial Instruments is set out in the Notes to the Core Statements.

Fixed Assets

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

Recognition

Tangible fixed assets are measured initially at cost comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. However, any expenditure on an asset that is under £50,000 is considered non-enhancing and is treated as revenue expenditure.

Valuation

Tangible fixed assets are then valued and included in the balance sheet on the basis recommended in the CIPFA Code of Practice and in accordance with the statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS):

- Operational land and buildings - are included in the balance sheet at existing use value or, if specialised properties, at depreciated replacement cost (DRC) on a modern equivalent asset (MEA) basis these include schools.
- Non-operational land and buildings - on the basis of open market value;

- Infrastructure and community assets (including street lighting PFI) - are included at depreciated historic cost;
- Council dwellings are valued at existing use for social housing purposes.
- Vehicles, Plant and Equipment are valued at historical cost less depreciation as an approximation to current value.

The freehold and leasehold properties that comprise the Authority's property portfolio are subject to a 5 year rolling programme of revaluation, although Top 10 properties, all schools and all DRC's are valued every year, which is 80% of the council's portfolio. This ensures that where market conditions or rebuilding costs alter, all affected assets are considered over a reasonable period of time. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Infrastructure and community assets are recognised in the Balance Sheet as the expenditure is incurred. Other operational assets are recognised from the date they become operational. Until that time, they are included as assets under construction under the non-operational heading and valued at cost.

Depreciation

In accordance with FRS15 (Tangible Fixed Assets), all tangible fixed assets other than land and non-operational buildings are depreciated on a straight-line basis over their estimated useful lives. The Housing Revenue Account is charged an amount equivalent to the depreciation on Council Dwellings by way of a Major Repairs Allowance. Other Housing properties are depreciated in the normal manner. The Income and Expenditure Account, therefore, fully reflects the use of assets and the consumption of their economic benefits in the provision of services. Charges for depreciation are included as a charge to services. Estimated useful lives are reviewed as part of the asset revaluation exercises or where, in the interim, there has been an enhancement to an asset that has extended its useful operational life.

Asset Category	Maximum Years Estimated Useful Life
Land & Building	50
Community Assets	50
Infrastructure	15
Vehicles, Plant & Equipment	20
Intangibles	15
PFI street lights	25

Impairment

Impairment can be defined as the unexpected or sudden reduction in quality or value of an asset. It can be caused by consumption of economic benefits or by a general fall in prices.

Examples of impairment are:

- A significant decline in a fixed asset's market value during the period;
- Evidence of obsolescence or physical damage to the fixed asset;
- A significant adverse change in the statutory or other regulatory environment in which the authority operates;
- A commitment by the authority to undertake a significant reorganisation.

In accordance with Financial Reporting Standard 11 (FRS11) - Impairment of Fixed Assets - the balance sheet valuation of all tangible fixed assets is reviewed annually where there is objective evidence that impairment has occurred. The authority accounts for it by:

- charging the loss as additional depreciation to the relevant service revenue account where the loss is due to the consumption of economic benefits e.g. physical damage or obsolescence, or
- Writing off the loss against any gains attributable to the asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

The council's policy is that where an impairment loss is charged to the Income and Expenditure Account and there are accumulated revaluation gains in the revaluation reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals

Where an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). However, in accordance with statutory financing arrangements, the written off value of disposals is appropriated to the Capital Adjustment Account and the receipts appropriated to the Usable Capital receipts Reserve within the Statement of Movement on the General Fund Balance.

Government and Non-Government Grants and Contributions

Government grants and other contributions are accounted for on an accruals basis and recognised immediately as income in the Income and Expenditure Statement. 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. Revenue grants are matched in service revenue accounts with service expenditure to which they relate.

Grants and contributions relating to fixed assets are credited to the government grants deferred account and released to service revenue accounts in line with depreciation. As per depreciation, these amounts are reversed in the reconciliation of general fund balance to avoid impact on local taxation. Grants to cover general expenditure Revenue Support Grant (RSG) are credited to the foot of the Income & Expenditure account after net operating expenditure.

Group Accounts

The council's policy is to prepare Group Accounts to reflect the full range of economic activity which it has control over, as some of this activity is conducted by subsidiary companies which have a separate legal entity to that of the council. The Policy for consolidating the activity of subsidiaries with that of the council in the Group Accounts is based on the requirements of the SORP. The council reviews annually the extent to which other entities (over which the council has a material interest) need to be consolidated into the Group Accounts. In consolidating the accounts, all transactions and balances between the council and its subsidiaries are eliminated in full. Further information is set out in the Group Accounts.

Intangible Assets

These are assets that do not have a physical form but which are identifiable and provide the council with rights to future economic benefits. The council carries just one type of intangible asset on its balance sheet, being the purchase of software licences. The policy is to amortise cost of the asset to revenue over its economic life, to reflect the pattern of consumption or benefits.

Investments

The Treasury Management policy was updated in March 2009 and stated that deposits are now subject to a maximum of 92 days investment term.

Leasing

There are two basic types of lease, finance and operating. A finance lease is where the lease covers substantially the whole life of the asset and the lessee is, in effect, buying the asset on a deferred purchase. Finance leases are treated as fixed assets and would appear on the balance sheet.

Operating leases are in effect short term rentals and are charged to revenue over the life of the agreement.

Minimum Revenue Provision

Statute 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 consumption of capital assets used. The depreciation charge is treated as the council's revenue provision and any variation from the statutory minimum is transferred between the capital adjustment account and the income and expenditure account.

The MRP for 2009/10 is calculated in accordance with the 2009/10 MRP Policy Statement agreed by Council on 3rd March 2009 and CLG Guidance on MRP. The Council Policy is to:

- Continue to charge 4% on capital expenditure incurred before 1st April 2008 and on future supported capital expenditure (Option 1 of Government guidance)
- Capital expenditure incurred on or after 1st April 2008 and funded by prudential borrowing will be repaid based on the useful asset life of the asset using equal annual instalments (Option 3 of Government guidance)

For PFI the council's policy is to charge MRP equal to the difference between lease payments and the finance charge.

A breakdown of MRP charged for the year 2009/10 can be found in note 19 of the Core statements.

Pension Costs

Under financial reporting standard 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's actuary uses the AA corporate bond rate to calculate future liabilities.

Pension reserve

The pension reserve is the financial accounting mechanism to ensure that FRS17 has no impact on council tax; this is where the actuarial gains / losses are charged. 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 council'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 Income and Expenditure Account.

Classification of schemes

The council participates in two different pension schemes. The first is for teachers, a scheme administered by the Department for Children Schools and Families (DCSF). The second is the Local Government Pension Scheme (LGPS) for non-teaching staff and which provides its members with a defined pension related to their pay and length of service. Under FRS17, pension schemes are classified into two categories: Defined Benefit Schemes and Defined Contribution Schemes. The LGPS is classified as a Defined Benefit Scheme. The teachers' scheme of the DCFS, 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 are 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 income and expenditure 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 teacher's 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.

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 are 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).

Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services are passed to the PFI contractor. Payments made by the council under a contract are generally called a unitary charge and are charged to revenue to reflect the value of services received in each financial year. The council has one PFI contract for the maintenance of street lighting in the borough. Under SORP and FRS 5 the contract was adjudged the equivalent of a service contract and so the assets involved were not included in the authority's balance sheet, as it was felt that the major risks and rewards inherent in the contract currently lie with the contractor. Changes in the SORP 2009/10 state that requirements are based on IFRIC 12 *Service Concession Arrangements*. The requirements apply in respect of PFI contracts existing as at 1st April 2008 and that prior period adjustments will be needed. This mandatory change in policy means that the council's PFI service will be reflected on the balance sheet along with a liability for the financing provided by the PFI operator, based on the fixed asset used.

The original recognition of these fixed assets is balanced by the recognition of a liability and prepayment for amounts due to the scheme operator to pay for the assets for street lighting.

Fixed assets recognised on the balance sheet are revalued and depreciated in the same way as similar infrastructure assets owned by the council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of services received during the year - debited to the relevant service in the income and expenditure account;
- Finance cost - an interest charge on the outstanding balance sheet liability;
- Contingent rent - increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income & Expenditure Account;
- Payments towards liability - applied to write down the balance sheet liability towards PFI operator;
- Lifecycle replacement costs - recognised as fixed assets on the balance sheet.

Any scheme entered into before 1 April 2009 will therefore have to be accounted for as if the new arrangements had applied since the inception of the scheme. This will require:

- restatement of the 1 April 2008 Balance Sheet for schemes entered into before that date.
- Adjustment of 2008/09 comparatives to reflect revised accounting arrangements for in-year transactions.

The PFI street lighting scheme comes on to the Balance Sheet as at 1 April 2008 and the change in accounting arrangements are complex. The following adjustments have been made:

- the assets used in the PFI scheme have been recognised on the balance sheet, based on their fair value at the time they became available for use,
- a finance lease liability has been recognised for the operator, written down to the amount outstanding at 1 April 2008
- variations to the contract have been accounted for as at the date that the variations became effective.

The change of accounting policy for PFI has required prior year adjustment to the 2008/09 corresponding amounts. A further disclosure is set out in note 2 to the Core Statements.

Provisions & Reserves

Provisions are amounts charged to revenue to cover expenditure that has not been incurred but where there is an obligation and where the cost and timing of the expenditure is not yet known. Making a provision is mandatory not discretionary. Until such time as a corresponding payment is made to discharge the obligation, Provisions are carried on the Balance Sheet as a liability. When expenditure to which the provision relates is incurred, it is charged against the provision, reducing the liability amount carried on the Balance Sheet.

Provisions may also be created where there is some uncertainty over the Council's entitlement to receive income. This may arise in connection with changes in the eligibility criteria of central government grant programmes or as a result of the interpretation of new legislation.

There is a specific Provision for Insurance which reflects the council's liability for events that have occurred as at the balance sheet date but where the timing of the payment is dependent upon the settlement process. The Council's policy is to base the Insurance Provision on a valuation by an Independent Actuary.

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

Certain reserves are kept to manage the accounting processes for trading accounts & retirement benefits. All Provisions and Reserves are subject to approval by the Chief Finance Officer. A full breakdown of the Council's Provisions and Reserves as at 31 March 2010 is set out in note 32 to the Core Statements.

Redemption of debt

The Chief Finance Officer's treasury management section borrows money and manages such borrowings, both long and short term, on behalf of the council. The need for these is reviewed regularly by projecting planned revenue and capital income and expenditure. Debt redemption is considered when the council has the capacity to do so and where it would be financially beneficial, giving due regard to financial standing, liquidity and credit risk. Premiums levied by lenders for early debt redemption are subject to a modification test prescribed in the SORP. This determines whether the premium is added to the carrying value of any replacement loan and amortised to revenue over the life of the replacement loan or if it is charged in full to the income and expenditure account in the year in which it is incurred.

Redundancies

Due to their potential to distort in year Service Expenditure the council can apply for permission from Central Government from available capital resources. Where permission is granted, an adjustment is made through the Statement of Movement on General fund so that the cost of redundancies does not impact on General Fund balances, where it is not then the relevant service accounts incur the cost.

For the financial year 2009/10 redundancy expenditure has been absorbed in the net cost of services.

Revenue Expenditure Funded from Capital under Statue

Sometimes the council will incur expenditure which, whilst it provides benefit to the authority for more than a year, does not result in the creation or enhancement of an asset owned or controlled by the council. Examples include Home Improvement Grants and expenditure on Voluntary Aided School land & buildings. Such expenditure is charged to the relevant service area within the Income & Expenditure Account. However statutory regulations allow such expenditure to be funded from available capital resources. Therefore a technical accounting adjustment is made which results in the charges to the Income & Expenditure Account not impacting on General Fund balances and which reduces the level of Capital Reserves held by the Authority.

Stocks and work in progress

Stocks and stores are included in the accounts at the lower of cost or net realisable value. Work in progress on uncompleted jobs is valued at cost, including overhead allocations.

Value Added Tax (VAT)

Income & expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

SECTION 3

Core financial statements

Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the period 1 April 2009 to 31 March 2010. It includes all day to day expenses and related income on an accruals basis, as well as the cost of fixed assets consumed in the period and the projected value of retirement benefits earned by employees in the year.

On its services the council spent:	Note	2009/10			2008/09*
		Gross expenditure £000	Gross income £000	Net expenditure £000	Net expenditure £000
Central services to the public		8,366	(3,249)	5,117	4,444
Cultural, environmental, regulatory & planning services		75,569	(18,283)	57,286	70,772
Children's and education services		421,285	(334,338)	86,947	74,688
Highways and transport services		45,625	(25,239)	20,386	18,749
Housing services		312,140	(291,238)	20,902	27,285
Adult social services		106,499	(15,697)	90,802	91,865
Corporate and democratic core costs		7,447	(3,023)	4,424	13,300
Non distributed costs		25,143	(10,991)	14,152	6,615
Net cost of services		1,002,074	(702,058)	300,016	307,718
Gain on the disposal of fixed assets	4			(152)	(179)
Precepts and Levies	6			1,646	1,508
Trading undertakings	7			733	(127)
Interest payable and similar charges				7,840	7,698
Housing capital receipts paid to Government pool				905	737
Interest and investment income				(2,137)	(12,862)
Pension interest costs and expected return on pension assets	40			16,404	12,193
Net operating expenditure				325,255	316,686
Net operating expenditure was financed by:					
Demand on collection fund				(154,679)	(149,537)
General Government grant	20			(31,909)	(25,204)
Non-domestic rates redistribution				(74,706)	(79,053)
Net Deficit for year				63,961	62,892

*Restated

Statement of Movement of General Fund Balance

The Statement of Movement on the General Fund Balance provides the necessary reconciliation between amounts included and not included in the Income and Expenditure Accounts but required by statute to be included or excluded when determining the movement on the General Fund Balance for the year.

	2009/10	2008/09 *
	£000	£000
Deficit for the year on the income and expenditure account	63,961	62,892
Net additional amount required by proper practices to be debited or credited to the general fund balance for the year	(60,926)	(64,259)
Decrease / (Increase) in general fund balance for the year	3,035	(1,367)
General fund balance brought forward*	(30,713)	(29,346)
General fund balance carried forward	(27,678)	(30,713)
Amount of general fund balance held by schools	(11,898)	(13,231)
Amount of general fund balance generally available for new expenditure	(15,780)	(17,482)
	(27,678)	(30,713)

*Restated

Note of Reconciling items for the Statement of Movement on the General Fund Balance

	2009/10		2008/09*	
	£000	£000	£000	£000
<i>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on General Fund Balance for the year</i>				
* Revenue expenditure funded from capital under statute	(64,966)		(12,225)	
* Depreciation, amortisation and impairment of fixed assets	(47,111)		(78,867)	
* Excess of depreciation charged to HRA services over the Major Repairs Allowance	(8,941)		(7,387)	
* Amortisation of Deferred Government Grants	47,355		14,312	
* Redundancy costs approved by the Secretary of State to be treated as capital expenditure	-		-	
* Net gain on disposal of fixed assets	152		181	
* The amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements	(36)		(43)	
* Net charges made for retirement benefits as per FRS17	(30,275)		(26,921)	
		(103,822)		(110,950)
<i>Amounts not included in the Income & Expenditure Account but which are required by statute to be included when determining the movement of the General Fund Balance for the year</i>				
* Minimum revenue provision for capital financing	6,906		6,320	
* Capital expenditure charged in-year to the General Fund Balance	3,372		1,057	
* Transfer from Usable Capital Receipts	(905)		(737)	
* Employer's contributions payable to the Pension Fund and retirement benefits payable to pensioners	26,338		24,844	
		35,711		31,484
<i>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</i>				
Housing Revenue Account Balance	1,095		(401)	
Voluntary revenue provision for capital financing	-		-	
Net transfer to earmarked reserves	4,238		13,516	
Collection Fund Adjustment Account	1,852		2,092	
		7,185		15,207
Net Additional Amount required to be credited to the General Fund for the year		(60,926)		(64,259)

*Restated

Statement of Total Recognised Gains and Losses

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

	2009/10 £'000	2008/09* £'000
Deficit for the year on the income and expenditure account	63,961	62,892
Surplus arising on revaluation of fixed assets	(118,995)	(156,832)
Actuarial (gain) / loss on pension fund assets and liabilities	215,187	24,468
Other (gains) / losses included in the balance sheet*	(549)	345
Total recognised loss	159,604	(69,127)

*Breakdown of other gains and losses

Amortisation of legacy debt redemption premium	(378)	(378)
Other	(171)	614
Loss re legacy cash issue	-	109
	(549)	345

* Re-stated

Balance Sheet

This statement summarises the council's assets and liabilities as at:

	Note	31 March 2010		31 March 2009 *	
		£000	£000	£000	£000
Fixed assets	21				
Operational assets					
Council dwellings		1,286,738		1,220,000	
Other land and buildings		465,349		491,171	
Community assets		8,739		8,619	
Vehicles, plant, furniture and equipment		15,251		21,633	
Infrastructure assets	30	82,897	1,858,974	69,565	1,810,988
Non-operational assets					
Investment properties		56,353		34,347	
Surplus assets awaiting disposal		30,836		38,517	
Assets under construction		115,363	202,552	77,112	149,976
Intangible assets	22	1,448		2,197	
Long term debtors	24	2,087		2,473	
Long term investments	5	24,442	27,977	9,606	14,276
Total long term assets			2,089,503		1,975,240
Current assets					
Stocks and works in progress	29	379		458	
Temporary investments	5	182,413		216,313	
Debtors	31	53,932		51,882	
Payments in advance		4,146		5,586	
Cash at bank and in hand	51	28,906		21,733	
		269,776		295,972	
Current liabilities					
Creditors	31	(177,387)		(155,525)	
Borrowing repayable within 12 months	5	(12,239)		(6,103)	
Bank overdraft	51	(25,424)		(25,138)	
Provisions	32	(9,083)		(9,230)	
		(224,133)		(195,996)	
Net current assets			45,643		99,976
Long-term liabilities					
Long term borrowing	5	(204,401)		(211,484)	
Long term lease	30	(15,859)		(11,426)	
Government grants deferred	42	(124,186)		(121,126)	
Pension Scheme	40	(441,160)	(785,606)	(222,036)	(566,072)
Total assets less liabilities			1,349,540		1,509,144
Financed by					
Revaluation reserve		325,124		221,421	
Financial instrument adjustment account	46	(1,718)		(2,060)	
Capital adjustment account		1,367,547		1,421,952	
Deferred capital receipts	39	646		773	
Usable capital receipts		17,012		10,568	
Pension reserve	40	(441,160)		(222,036)	
Collection fund adjustment account	38	6,891		5,040	
Major repairs reserve		3,798		4,384	
Earmarked Reserves	36	38,864		34,626	
Balances – general fund	34	27,678		30,713	
Balances – housing revenue account		4,858		3,763	
Total equity			1,349,540		1,509,144

*Re-stated

Cash Flow Statement

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

	Notes	2009/10		2008/09*	
		£000	£000	£000	£000
Net Revenue Activities	47		(47,440)		(15,399)
Servicing of finance					
Cash outflows					
Interest paid		8,088		6,822	
Cash inflows					
Interest received		(4,240)	3,848	(11,889)	(5,067)
Capital activities					
Cash outflows					
Purchase of fixed assets	23	115,545		104,229	
Long term debtors	24	(386)		(153)	
		<u>115,159</u>		<u>104,076</u>	
Cash inflows					
Sale of fixed assets		(10,250)		(2,808)	
Capital grants received		(49,778)		(33,115)	
Other cash income		(2,227)		(6,916)	
		<u>(62,255)</u>	52,904	<u>(42,839)</u>	61,237
Net cash inflow before financing			9,312		40,771
Management of liquid resources			1,918		1,409
Net increase/(decrease) in short term deposits	49		(33,900)		(29,534)
Financing					
Cash outflows					
New long term investments	49	14,836		(5,899)	
Repayment of long term borrowing		-		-	
Repayment of short term loans		-	14,836	-	(5,899)
Cash inflows					
New short term loans	49	(6,136)		(1,016)	
New long term loans	49	7,083		892	
Long term lease					
Long term investment		-	947	-	(124)
(Increase)/Decrease in cash and cash equivalents	51		<u>(6,887)</u>		<u>6,623</u>

* Restated

1. Dedicated Schools Grant (DSG)

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (formally the Department for Children, Schools and Families), the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. The ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares.

Details of the deployment of DSG receivable for 2009/10 is as follows:

School's budget funded by DSG	Total		
	£000		
Final DSG 2009/10			202,138
Brought forward from 2008/9			272
Carry forward to 2010/11 agreed in advance			-
			<u>202,410</u>
	Central expenditure	ISB	Total
	£000	£000	£000
Agreed budgeted distribution 2009/10	21,521	180,889	202,410
Actual central expenditure	(18,795)	-	(18,795)
Actual ISB Deployed to Schools	-	(182,588)	(182,588)
Local authority contribution for 2009/10	4	-	4
Carry forward to 2010/11	<u>2,730</u>	<u>(1,699)</u>	<u>1,031</u>

2. Prior Period Adjustment

Income & Expenditure Restatement	2008/09			
On its services the council spent:	Net expenditure Restated £000	Movement £000	Net expenditure Audited £000	
Central services to the public	4,444	51	4,393	(i)
Cultural, environmental, regulatory & planning services	70,772	111	70,661	(i)
Children's and education services	74,688	351	74,337	(i)
Highways and transport services	18,749	1,327	17,422	(i & ii)
Housing services	27,285	145	27,140	(i)
Adult social services	91,865	281	91,584	(i)
Corporate and democratic core costs	13,300	52	13,248	(i)
Non distributed costs	6,615	1,473	5,142	(i & ii)
Net cost of services	307,718		303,927	
Gain on the disposal of fixed assets	(179)		(179)	
Impairment loss on deposits	-	(4,306)	4,306	(i)
Redundancy costs	-	(1,202)	1,202	(i)
Precepts and Levies	1,508		1,508	
Trading undertakings	(127)		(127)	
Interest payable and similar charges	7,698	788	6,910	(ii)
Housing capital receipts paid to Government pool	737		737	
Interest and investment income	(12,862)		(12,862)	
Pension interest costs and expected return on pension assets	12,193		12,193	
Net operating expenditure	316,686		317,615	
Net operating expenditure was financed by:				
Demand on collection fund	(149,537)	(2,343)	(147,194)	(iii)
General Government grant	(25,204)		(25,204)	
Non-domestic rates redistribution	(79,053)		(79,053)	
Transfer of collection fund deficit / (surplus)	-	251	(251)	(iii)
Net Deficit for year	62,892		65,913	

Balance Sheet Restatement

31 March 2009

	Restated £000	Movement £000	Audited £000	
Fixed assets				
Operational assets				
Council dwellings	1,220,000		1,220,000	
Other land and buildings	491,171	1,678	489,493	(iv)
Community assets	8,619		8,619	
Vehicles, plant, furniture and equipment	21,633	276	21,357	(iv)
Infrastructure assets	69,565	12,438	57,127	(v)
Non-operational assets				
Investment properties	34,347		34,347	
Surplus assets awaiting disposal	38,517		38,517	
Assets under construction	77,112	(1,786)	78,898	(iv)
Intangible assets	2,197		2,197	
Long term debtors	2,473		2,473	
Long term investments	9,606		9,606	
Current assets				
Stocks and works in progress	458		458	
Temporary investments	216,313		216,313	
Debtors	51,882	(3,712)	55,594	(vi)
Payments in advance	5,586	2,681	2,905	(v)
Cash at bank and in hand	21,733		21,733	
Current liabilities				
Creditors	(155,525)	2,304	(157,829)	(vi)
Borrowing repayable within 12 months	(6,103)		(6,103)	
Bank overdraft	(25,138)		(25,138)	
Provisions	(9,230)		(9,230)	
Long-term liabilities				
Long term borrowing	(211,484)		(211,484)	
Long term lease	(11,426)	(11,426)		(v)
Government grants deferred	(121,126)		(121,126)	
Pension Scheme	(222,036)		(222,036)	
Total assets less liabilities	1,509,144		1,506,691	
Financed by				
Revaluation reserve	221,421	(3,452)	224,873	(iv)
Financial instrument adjustment account	(2,060)		(2,060)	
Capital adjustment account	1,421,952	4,632	1,417,320	(iv & v)
Deferred capital receipts	773		773	
Usable capital receipts	10,568		10,568	
Pension reserve	(222,036)		(222,036)	
Collection Fund Adjustment Account	5,040	5,040	-	(vi)
Major repairs reserve	4,384		4,384	
Earmarked Reserves	34,626	2,681	31,945	(vi)
Balances – general fund	30,713		30,713	
Balances – collection fund	-	(6,448)	6,448	(vi)
Balances – housing revenue account	3,763		3,763	
Total equity	1,509,144		1,506,691	

- i) An exceptional item by definition is an item that occurs once. All items previously identified as exceptional items that have occurred for more than one year have been reclassified in the net cost of services.
- ii) In order to recognise PFI on Balance Sheet it has required the interest element of the unitary payment to be recognised, as well as the reversing out of the unitary payment. Various elements of the charge have also been recognised within Highways and transport services.
- iii) As specified by SORP 2009 the transfer of collection fund surplus is no longer required to be shown on the face of the Income & Expenditure but in reconciling items.
- iv) Movements following transition to SAP Asset Register.
- v) Bringing PFI on Balance Sheet has required recognising an asset and a liability. The unitary payment has an element of prepayment. In order to negate the impact on General Fund balances and mitigate the effect on council tax, earmarked reserves and capital adjustment account have been used.
- vi) Collection Fund restatement as per SORP 2009 has required de-recognising collection fund balance and creating a reserve account called Collection Fund Adjustment Account. Various creditor and debtor balances have been recognised or derecognised to ensure the authority's position as an agency.

3. Building Control and Inspection

Local authorities are required to prepare a building control account statement under the Building (Local Authority Charges) Regulations 1998. The results of trading were:

	Non-chargeable building inspection	Chargeable building control	Total	Non-chargeable building inspection	Chargeable building control	Total
	2009/10 £000	2009/10 £000	2009/10 £000	2008/09 £000	2008/09 £000	2008/09 £000
Expenditure						
Employees	173	785	958	180	858	1,038
Transport	9	15	24	12	17	29
Supplies and services	10	241	251	22	264	286
Central support	42	230	272	61	325	386
Total	234	1,271	1,505	275	1,464	1,739
Income						
Building regulation fees	-	(1,508)	(1,508)	-	(1,458)	(1,458)
Other income	(48)	-	(48)	(44)	-	(44)
Total	(48)	(1,508)	(1,556)	(44)	(1,458)	(1,502)
Deficit for year	186	(237)	(51)	231	6	237

4. Gains / Losses on disposal of fixed assets

Details of the gain or loss on disposal are outlined in the table below.

Type	Number sold	Gain £000
General fund properties	9	172
Directly attributable costs of disposal		(20)
General fund Total		152
HRA properties (non-dwellings)	11	90
HRA properties (dwellings)	11	-
Total	31	242

5. Deposits & Loans

Deposits Outstanding

Deposits

	31 March 2010 £'000	31 March 2009 £'000
AAA rated counterparties (including Debt Management Office & Other Local Authorities)	119,600	116,300
AA rated counterparties	-	5,000
A rated counterparties	62,000	75,000
Other counterparties	27,400	27,400
Bonds - AAA rates	-	-
Total	<u>209,000</u>	<u>223,700</u>
Interest on deposits	3,814	6,515
War Loans	10	10
Icelandic impairments	(5,969)	(4,306)
Total	<u>206,855</u>	<u>225,919</u>

In May 2010, CIPFA's Local Authority Accounting Panel issued revised guidance on the level of impairment to be recognised in the 2009/10 Accounts by local authorities who had deposits with Icelandic Banks. The council are assuming priority status, but this is to be determined by Icelandic courts. The figure is arrived at using a revised impairment calculator provided by CIPFA specifically for this purpose and is based on the following assumptions:-

- 94.86% of the deposit placed with Landsbanki being returned.
- 100% of the deposits placed with Glitnir Bank being returned.

The impairment loss recognised in the Income and Expenditure Account 2009/10, £1,663m (£1,202m 09/10 and £0.461m not adjusted for in 08/09 LAAP Bulletin 82) has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

Repayments will be based on the value of the deposit in Icelandic Krona (ISK). The deposits may be subject to an exchange rate risk, as the sterling value received will depend on the prevailing exchange rate.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

Borrowing Outstanding

Short Term Borrowing

	31 March 2010 £'000	Rate of Interest
PWLB		
Less than one year	7,000	£6m @ 4.4% £1m @ 4.7%
Market Loans		
Less than one year	5,000	£5M @ 4.5%
	<u>12,000</u>	
Interest accruals on short term PWLB loans	126	
Interest Accruals on short term loans money market	112	
EIR Adjustment	1	
Total Short Term Loans	<u><u>12,239</u></u>	

Long Term Borrowing

	31 March 2010 £'000	Rate of Interest
PWLB		
Between one and two years	1,000	£1m @ 4.75%
Between two and seven years	-	-
Between seven and fifteen years	2,000	£2m @ 4.85%
More than fifteen years	137,000	£22m @ 4.25% £14M @ 4.7% £14M @ 4.45% £20m @ 3.7% £22m @ 4.2% £45m @ 4.1%
Market Loans		
Between one and two years	2,500	£2.5M @ 3.05%
Between two and seven years	40,000	£40M @ 3.83%
Between seven and fifteen years	5,000	£2M @ 3.95% £3M @ 3.94%
More than fifteen years	15,000	£5m @ 3.52% £5m @ 3.67% £5m @ 3.79%
	<u>202,500</u>	
Interest accruals on long term PWLB loans	1,070	
Interest Accruals on long term loans money market	251	
Legacy balance adjustment	80	
EIR Adjustments	500	
Total	<u><u>204,401</u></u>	

6. Analysis of Precepts & Levies

The authority helps to defray the cost of other organisations. It does this either as a statutory duty or voluntarily, where it meets service objectives. Some contributions are made to London wide organisations, such as Transport for London (TFL).

	2009/10 £000	2008/09 £000
Included within net cost of services:		
London Borough's Grant Scheme (Social Services)	1,163	1,153
Concessionary Fares Scheme (Highways, Roads and Transport)	8,366	10,146
North London Waste Authority (Cultural, Environment and Planning)	10,387	8,724
TFL Traffic Control Signals (Highways, Roads and Transport)	439	422
Total	20,355	20,445
Included within Net operating expenditure:		
Coroner's Service	258	245
Environment Agency (land drainage)	274	275
Lee Valley Regional Park Authority	420	415
London Pension Fund Authority	694	573
Total	1,646	1,508
Total	22,001	21,953

7. Trading Operations

A number of operations that the council undertakes are technically classified as trading operations. This is where the client can choose who provides the service and is not obliged to use the council run trading undertaking. Most of the council's trading operations provide services on an internal basis only to other parts of the authority and the accounts of those undertakings are shown below.

	2009/10			2008/09	
	Income £000	Internal recharges £000	Expenditure £000	Trading (surplus)/deficit £000	Trading (surplus)/deficit £000
Catering	(5,046)	138	5,082	174	35
Transport	(302)	(7,401)	8,366	663	(52)
Transfer to Transport Reserve	-	-	-	(120)	-
Schools Finance	-	-	-	-	(111)
Other	-	16	-	16	-
Total	(5,348)	(7,247)	13,448	733	(127)

8. Discretionary Expenditure under Section 137 of LGA Act 1972

Section 137 of the Local Government Act 1972 gives local authorities the power to incur expenditure which, in their opinion, is in the interests of their area or any of its inhabitants for purposes not otherwise authorised by statute. Awards of a similar nature can also be made by the Council under Section 2 of the Local Government Act 2000. The Council has reviewed its activities in light of this and concluded that no expenditure was incurred in financial year 2009/10 under these powers.

9. Expenditure on Publicity

Section 5 of the Local Government Act 1986 requires a separate account of expenditure on publicity. The council's expenditure on publicity is expedited through the Communications and Web teams. The staff recruitment and advertising is incurred by the council's HR department.

	2009/10	2008/09
	£000	£000
Staffing costs	499	442
Other costs	35	41
Staff recruitment and advertising	647	738
Total	1,181	1,221

10. Local Government Goods & Service Act 1970

This Act empowers the Council to provide goods and services to other entities. During financial year 2009/10 income of £6,652 was received from outside (third party) bodies in return for providing printing services. The reported figure for 2008/09 was £5,555.

11. Local Area Agreements

The Council is a participant in an LAA which is a three year agreement, based on the local Sustainable Community Strategy, between central Government and the Local Strategic Partnership (LSP). The LAA consists of a series of challenging targets that reflect the most important issues in Barnet that the LSP will be expected to meet over the next three years.

The members of the LSP are London Borough of Barnet, Barnet College, Barnet Primary Care Trust, The Metropolitan Police, Middlesex University and Barnet Voluntary Service Council.

12. Senior Staff Remuneration

The number of employees who received taxable remuneration in excess of £50,000, excluding employer's pension contributions for the year was:

Remuneration band	2009/10	2008/09
	Total - Number of Employees	Total - Number of Employees*
£ 50,000 - £54,999	177	167
£ 55,000 - £ 59,999	95	79
£ 60,000 - £ 64,999	60	64
£ 65,000 - £ 69,999	58	37
£ 70,000 - £ 74,999	27	35
£ 75,000 - £ 79,999	14	15
£ 80,000 - £ 84,999	15	12
£ 85,000 - £ 89,999	12	7
£ 90,000 - £ 94,999	3	5
£ 95,000 - £ 99,999	3	2
£100,000 - £104,999	4	1
£105,000 - £109,999	3	5
£110,000 - £114,999	1	4
£115,000 - £119,999	4	1
£120,000 - £124,999	2	1
£125,000 - £129,999	1	-
£130,000 - £134,999	2	2
£135,000 - £139,999	2	1
£140,000 - £144,999	1	2
£145,000 - £149,999	-	1
£150,000 ≥	3	3
	487	444

* Restated

Senior Officers - salary is £150,000 or more per year (England) - 2009/10

Post Title and Name	Note	Salary (Including fees & allowances)	Expense Allowances	Total Remuneration excluding pension contributions 2009/10	Pension contributions	Total Remuneration including pension contributions 2009/10
		£	£	£	£	£
Chief Executive - Mr N Walkley		200,976	-	200,976	48,234	249,210
Executive Director for Environment & Development - Mr B Reynolds		178,425	-	178,425	42,822	221,247
Executive Director for Communities - Ms J Stansfield	i	74,344	-	74,344	7,137	81,481
Director of Adult Social Services - Ms I Findlay		163,498	-	163,498	38,808	202,306
Director of Children's Services - Mr R McCulloch-Graham	ii	137,920	-	137,920	33,101	171,021
		755,163	-	755,163	170,102	925,265

i) Ms J Stansfield was an employee at Barnet until 31st October 2009. Her annualised salary was £178,425 for 2009/10 (£178,425 in 2008/09)

ii) Mr R McCulloch-Graham commenced employment at Barnet on 1st June 2009, at an annualised salary of £165,504

Senior Officers - salary is £150,000 or more per year (England) - 2008/09

Post Title and Name	Note	Salary (Including fees & allowances)	Expense Allowances	Total Remuneration excluding pension contributions 2008/09	Pension contributions	Total Remuneration including pension contributions 2008/09
		£	£	£	£	£
Chief Executive - Mr L Boland	iii	146,188	-	146,188	34,055	180,242
Acting Chief Executive - Mr B Reynolds		173,968	-	173,968	40,535	214,503
Executive Director for Communities - Ms J Stansfield		165,574	-	165,574	38,579	204,153
Executive Director for Resources - Mr N Walkley		163,402	-	163,402	37,887	201,289
Acting Executive Director for Environment & Development - Mr S Murray	iv	138,985	-	138,985	32,383	171,368
		788,116	-	788,116	183,438	971,555

iii) Mr L Boland was employed as Chief Executive at Barnet until 4th January 2009. Mr B Reynolds acted into the role of Chief Executive.

iv) Mr S Murray was Acting Executive Director for Environment & Development, annualised salary for this post for 2008/09 was £170,028.

The following table sets out the remuneration disclosures for Senior Officers whose salary are less than £150,000 but equal to or more than £50,000 per year. The disclosure shows Directors, Assistant Directors and Heads reporting to Directors 2009/10

	Position	Note	Salary (Including fees & allowances)	Expense Allowances	Total Remuneration excluding pension contributions 2009/10	Pension contributions	Total Remuneration including pension contributions 2009/10
			£	£	£	£	£
	Director of Environment and Transport		140,127	-	140,127	33,238	173,365
	Director of Planning Housing & Regeneration	v	137,536	-	137,536	32,999	170,535
	Major Projects Director		132,495	-	132,495	31,795	164,290
	Director of Corporate Governance		132,480	-	132,480	31,795	164,275
	Director of Strategy		126,084	-	126,084	30,260	156,344
	Head of Housing and Environmental Health		107,574	-	107,574	25,730	133,304
	Major Capital Programmes Deputy Director		107,410	-	107,410	24,938	132,348
	Deputy Director of Adult Social Services		103,684	-	103,684	24,800	128,484
	Acting Deputy Director - Childrens		99,555	906	100,461	23,893	124,354
	Assistant Director - Health Partnerships		99,555	-	99,555	23,893	123,448
	Head of Legal & Deputy Monitoring Office		97,238	-	97,238	23,310	120,548
	Head of Building Control and Structures		93,783	906	94,689	21,970	116,659
	Assistant Director Organisational Development & Customer Care		93,244	-	93,244	22,378	115,622
	Performance & Development Assistant Director		87,382	-	87,382	17,985	105,366
	Assistant Director Customer Services & Libraries	v	87,282	-	87,282	17,974	105,256
	Assistant Director Inclusion		86,872	-	86,872	19,313	106,185
	Assistant Director Environment		86,860	-	86,860	20,838	107,698
	Head of Strategy - Planning and Housing		84,692	-	84,692	20,290	104,982
	Head of Planning & Development Management		84,543	-	84,543	20,290	104,833
	Assistant Director - Shared Services		84,411	-	84,411	20,238	104,649
	Assistant Director - Performance		83,291	-	83,291	19,770	103,062
	Assistant Director Environment	v	81,571	-	81,571	19,577	101,147
	Principal Inspector - Research & Procurement		80,446	906	81,352	17,804	99,155
	Head of Regeneration		81,162	-	81,162	19,479	100,641
	Head of Revenues		78,479	-	78,479	18,703	97,183
	Assistant Director Partnerships, Performance & Planning		76,021	-	76,021	17,145	93,166
	Deputy Director of Corporate Governance	v	75,057	-	75,057	17,638	93,071
	Head of Information Systems		74,396	-	74,396	17,816	92,212
	Assistant Director of Policy - Intelligence & Analysis	v	73,238	-	73,238	17,577	90,815
	Head of Internal Audit & Ethical Governance	v	72,080	-	72,080	17,299	89,379
	Head of Procurement		68,580	-	68,580	16,458	85,038
	Director for Resources	v	53,766	-	53,766	12,904	66,670
	Assistant Director - Strategic Services	v	53,262	-	53,262	12,783	66,045
	Acting Director - Children's Services	v	49,051	472	49,523	11,527	78,242
	Acting Corporate Anti Fraud Team Manager		46,232	-	46,232	11,071	57,303
			3,119,438	3,190	3,122,627	735,480	3,875,674

The following table sets out the remuneration disclosures for Senior Officers whose salary is less than £150,000 but equal to or more than £50,000 per year. The disclosure shows Directors, Assistant Directors and Heads reporting to Directors 2008/09

Position	Note	Salary (Including fees & allowances)	Expense Allowances	Total Remuneration excluding pension contributions 2008/09	Pension contributions	Total Remuneration including pension contributions 2008/09
		£	£	£	£	£
Director for Resources		143,730	-	143,730	33,474	177,204
Director of Adult Social Services	v	140,525	-	140,525	32,742	173,267
Acting Director - Children's Services		131,894	-	131,894	30,421	162,315
Director of Corporate Governance		130,968	-	130,968	30,466	161,433
Director of Environment and Transport	v	123,379	-	123,379	26,268	149,647
Director of Strategy	v	111,882	-	111,882	25,603	137,484
Director of Environment & Transport	v	108,777	-	108,777	25,321	134,098
Deputy Director of Adult Social Services		108,479	244	108,723	25,276	133,999
Deputy Director Safeguarding & Social Care	v	105,892	-	105,892	24,660	130,552
Assistant Director - Health Partnerships	v	97,990	244	98,234	22,828	121,062
Head of Building Control & Structures		94,151	849	95,000	20,659	115,659
Head of Legal & Deputy Monitoring Office		92,686	-	92,686	21,568	114,254
Assistant Director - Strategic Services		91,672	-	91,672	21,353	113,025
Deputy Director of Corporate Governance	v	91,144	-	91,144	19,783	110,927
Assistant Director Organisational Development & Customer Care		90,312	-	90,312	21,043	111,355
Assistant Director Environment	v	85,165	778	85,943	19,488	105,432
Acting Deputy Director	v	82,644	849	83,493	18,338	101,831
Assistant Director - Shared Services	v	82,202	-	82,202	19,101	101,304
Assistant Director Environment	v	81,374	725	82,099	18,960	101,059
Assistant Director Inclusion		81,960	-	81,960	17,978	99,938
Assistant Director Customer Services & Libraries	v	81,848	-	81,848	18,067	99,914
Head of Revenues		77,773	-	77,773	17,978	95,751
Major Projects Director	v	75,790	-	75,790	17,659	93,449
Acting Director of Planning Housing & Regeneration	v	74,985	-	74,985	17,461	92,446
Major Capital Programmes Deputy Director	v	74,733	-	74,733	17,413	92,145
Head of Internal Audit & Ethical Governance	v	74,707	-	74,707	17,396	92,103
Head of Strategic Finance	v	74,401	-	74,401	17,230	91,631
Head of Information Systems		73,535	-	73,535	17,126	90,660
Assistant Director Partnership, Performance & Planning		72,602	-	72,602	15,798	88,400
Corporate Anti Fraud Team Manager		71,952	-	71,952	15,059	87,010
Performance & Organisational Manager		69,298	-	69,298	13,467	82,765
		2,898,447	3,690	2,902,137	659,983	3,562,120

v) These personnel were not in post for the full financial year

13. Leases

The council does not own all of the property, vehicles and other equipment that it uses. These items are held under operating leases.

In the year 2009/10 the council paid £6.034m in respect of operating leases and there are commitments in place of £56.519m for future years.

Properties are leased out and in 2009/10 this produced an income of £3.065m with £99.046m contracted for future years.

Years	Vehicles, plant and equipment leased in £000	Property leased in £000	Property leased out £000
2009/10	1,911	4,123	(3,065)
2010/11	1,718	4,197	(3,405)
2010/11-2014/15	1,474	15,397	(8,088)
2015 to completion	-	33,733	(87,552)
Total	5,103	57,450	(102,110)

14. Members Allowances

The total expenses and allowances paid to members in financial year 2009/10 was £1,239,325. The breakdown of these are members expenses - £42,975 and member allowances - £ 1,196,350 (£1,186,608 in 2008/09).

	2009/10 £000	2008/09 £000
Member Allowances	1,196	1,127
Member Expenses	43	60
Total	1,239	1,187

15. Related Party Transactions

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

Central government has effective control over the general operations of the council. It is responsible for the statutory framework within which the council operates, provides the majority of its funding, in the form of grants, and prescribes the terms of many of the transactions that the council has with other parties e.g. housing benefits.

Members of the council have direct control over the authority's financial and operating policies. By virtue of their office, through their residence in the borough and/or as active members of the community, members of the council participate in and are members of a variety of other public bodies and community groups. The council has well established

mechanisms and procedures for preventing undue influence. Part of these mechanisms is the disclosure of interests in the register of members' interest. In addition, every year members are asked to complete a Declaration of any Related Party Transactions. In financial year 2009/10 several members declared that they had acted as Trustees for local Voluntary Organisations and as School Governors - some of which had economic activity with the Council. However the value of these transactions was not significant and the members concerned were not in a position to control or direct those transactions.

The council has a number of significant transactions with other local authorities and local health authorities. In particular the authority places pupils into neighbouring authorities' schools, the expenditure for which is included within the children's and education services line of the income and expenditure account.

Every year all chief officers are required to complete a related party transactions declaration. For financial year 2009/10 there was no material transactions to declare.

The Pension Fund accounts are set out in Section 6 of these Statements. In 2009/10 the council's employer's contributions to the Fund were £24,988m. The council's member's contributions to the Fund were £6,929m. The Council charged the Fund £1.031m for administering the Fund.

The council has full control and influence over its subsidiary company, Barnet Homes Ltd. Accordingly, Group Accounts have been prepared under the requirements of FRS2, accounting for subsidiaries, and are set out in the notes to Section 5 of these statements

16. 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 NHS Barnet 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:

	2009/10			2008/09		
	Total £000	Barnet £000	NHS Barnet £000	Total £000	Barnet £000	NHS Barnet £000
Equipment, servicing and repairs	1,431	844	587	1,353	738	615
Contract management (including delivery, collection and storage)	687	443	244	579	375	204
Stock adjustment	-	-	-	-	-	-
	2,118	1,287	831	1,932	1,113	819

The council and NHS Barnet contribute the value of the costs incurred to the pool, ensuring that accrued contributions match expenditure.

17. Audit Fees

The cost to the Authority of external audit and inspection fees are as follows:

	2009/10 £000	2008/09 £000
Fees payable to Grant Thornton UK LLP, the council's appointed external auditors for:		
-external audit service	415	420
-the certification of grant claims and returns	85	85
Fees payable to the Audit Commission in respect of statutory inspection	20	26
Total	<u>520</u>	<u>531</u>

The figures shown above are included in the 2009/10 net cost of services on the income and expenditure account.

18. Schemes under the Transport Act (Road Charges)

No road charging schemes or workplace charge levies were operational within the Authority in 2009/10.

19. Minimum Revenue Position

Statute 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 reflect the consumption of capital assets used. The depreciation charge is treated as the council's revenue provision and any variation from the statutory minimum is transferred between the capital adjustment account and the income and expenditure account.

The figures were:

	2009/10	2008/09*
	£000	£000
General fund minimum revenue provision	5,059	5,262
PFI - minimum revenue provision	1,847	1,058
Total	<u>6,906</u>	<u>6,320</u>

*Restated

20. General Government Grants

The income and expenditure account shows a figure of £31.909m for general Government grant. This amount comprises two elements of non-specific grant:

	2009/10	2008/09
	£000	£000
Revenue support grant	17,243	11,005
Area based grant	14,666	14,199
Total	<u>31,909</u>	<u>25,204</u>

The increase in the Revenue Support Grant balance of £6.238m is offset by a reduction in the Business Rates received, these are due to changes in Government formula grant.

21. Movement of Fixed Assets 2009/10

	Operational Assets					Total	Non-Operational Assets			Total	Intangible assets	Total
	Other land and Buildings	Vehicles Plant and Equipment	Infrastructure	Community Assets	Council House Dwellings		Investment Properties	Surplus assets	Assets under construction			
	£000	£000	£000	£000	£000		£000	£000	£000			
Value of assets at 31 March 2009	514,334	63,993	109,118	9,026	1,236,530	1,933,001	34,347	38,517	77,112	149,976	2,726	2,085,703
Reclassifications	(14,322)	-	7,305	(140)	-	(7,157)	10,333	(3,176)	-	7,157	-	-
Additions from AUC	2,317	1,241	6,164	-	-	9,722	-	-	(9,722)	(9,722)	-	-
Additions to assets	487	862	7,722	-	-	9,071	-	-	47,973	47,973	-	57,044
Upward Revaluations	28,572	-	-	443	67,795	96,810	21,699	2,646	-	24,345	-	121,155
Downward valuations	(14,480)	-	-	-	-	(14,480)	(790)	(5,212)	-	(6,002)	-	(20,482)
Disposals	-	-	-	-	(1,093)	(1,093)	(7,218)	(1,939)	-	(9,157)	-	(10,250)
Value of assets at 31 March 2010	516,908	66,096	130,309	9,329	1,303,232	2,025,874	58,371	30,836	115,363	204,570	2,726	2,233,170
Accumulated Depreciation at 31 March 2009	(23,163)	(42,360)	(39,553)	(407)	(16,530)	(122,013)	-	-	-	-	(529)	(122,542)
Reclassifications	171	-	-	-	-	171	(171)	-	-	(171)	-	-
Writeback of depreciation on revaluation	1,553	-	-	-	16,530	18,083	-	-	-	-	-	18,083
Downward valuations	(11,437)	(356)	-	(183)	-	(11,976)	(1,847)	-	-	(1,847)	-	(13,823)
Disposals	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	(18,683)	(8,129)	(7,859)	-	(16,494)	(51,165)	-	-	-	-	(749)	(51,914)
Depreciation at 31 March 2010	(51,559)	(50,845)	(47,412)	(590)	(16,494)	(166,900)	(2,018)	-	-	(2,018)	(1,278)	(170,196)
Asset at 31 March 2009	491,171	21,633	69,565	8,619	1,220,000	1,810,988	34,347	38,517	77,112	149,976	2,197	1,963,161
Asset at 31 March 2010	465,349	15,251	82,897	8,739	1,286,738	1,858,974	56,353	30,836	115,363	202,552	1,448	2,062,974

22. Intangible Assets

The only intangible assets the authority has are elements of software licences that have been capitalised as beneficial to the authority as useful for more than the year of account. Intangible assets are held at historic cost and amortised to nil value over an assumed useful life.

23. Financing of Capital Expenditure

Below is the year's capital expenditure on fixed assets:

	Total capital financed in 2009/10 £000	Total capital financed in 2008/09* £000
Capital receipts	3,319	5,118
General fund revenue contributions	3,372	1,057
HRA revenue contributions/MRA	13,068	10,205
Contributions including Section 106 receipts	2,227	6,916
Borrowing	48,083	48,371
Grants	45,476	34,761
Total	115,545	106,428

*Restated

24. Long Term Debtors

There was a decrease balance for long term debtors during the year from an opening balance of £2.473m to a closing position of £2.087m.

Debtor	31 March 2010 £000	Movement £000	31 March 2009 £000
Court services	1,005	(121)	1,126
Car loans	341	(106)	447
Housing	646	(127)	773
Other	95	(32)	127
Total	2,087	(386)	2,473

25. Assets Held

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

Assets Held

Assets	31 March 2010	31 March 2009
Schools - nursery & primary *	49	49
Schools - secondary & special *	18	18
Schools - referral units	1	1
Youth service facilities	3	3
Other education establishments	2	2
Libraries	14	14
Museums	2	2
Children's homes & hostels	2	2
Homes for people with learning difficulties	1	1
Children & family centres	5	5
Day centres for physically disabled	1	1
Day centres for mentally ill	2	2
Council dwellings	11,065	11,100
Garages	2,551	2,578
Car parks	25	25
Memorials etc	7	7
Community Assets - Parks & open spaces	170	174
Sports grounds	24	24
Golf courses	5	6
All weather playing areas	2	2
Athletics tracks	1	1
Swimming pools	3	3
Allotments (hectares)	91	91
Public offices	5	5
Other buildings	4	4
Vacant awaiting disposal	24	27
School land not attached to school assets	13	14
Borough roads & footpaths (length in km)	725	725

*Excludes voluntary aided schools

26. Capital Commitments

At 31 March 2010, the council was contractually committed to expenditure amounting to some £56.951m. The schemes are summarised across services as follows:

Service area	2009/10 Total £000	2008/09 Total £000
Adults Social Services	592	-
Childrens Service	28,981	58,874
Environment and Operations	2,301	2,249
Planning, Housing and Regeneration	632	823
Commercial Services	64	2,112
Corporate Services	40	8
HRA	23,981	11,015
Total	56,951	75,081

27. Fixed Asset Valuation

The council's Valuation Manager, Judith Ellis MRICS values the authority's freehold property portfolio in accordance with 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 valued on an existing use basis. Where that use is one that is rarely represented by market transactions the depreciated replacement cost (DRC) approach might be used. The housing stock is included in the balance sheet at a discounted market value to take into account the nature of a social housing portfolio. Non-operational assets and investment properties are valued on a fully open market basis. Equipment and infrastructure (e.g. roads) are not valued as such but included at historic cost.

The valuation date was 1st April 2009, and all valuations were carried out to this date. An analysis of the movement in the market was carried out using various property indices together with an analysis of market transactions. This indicated that there had been a slight increase in values and no impairment was, therefore, imposed on the values.

28. Net Assets Employed

This statement analyses the council's net assets as at 31st March 2010 between the general fund and the HRA.

	2009/10	2008/09*
	£000	£000
General Fund	71,113	302,050
HRA	1,278,427	1,207,094
Total	<u>1,349,540</u>	<u>1,509,144</u>

*Restated

The total pension liability of £219.1m reduced the Authority's net worth significantly resulting in a general fund balance of £71.1m however the statutory arrangement for funding the deficit means the financial position of the Authority remains healthy.

29. Stock and Work in Progress

The authority's stocks of materials and work in progress at 31 March are shown below:

	2009/10	Movement	2008/09
	£000	£000	£000
Works in progress	7	-	7
Stores	372	(79)	451
Total	<u>379</u>	<u>(79)</u>	<u>458</u>

30. Assets Recognised under PFI arrangement

In April 2006 the council entered into a PFI contract to provide street lighting, the Core Investment Programme (CIP) is for 5 years. The post CIP Operating period is for a further 20 years. The 25 year contract will expire in 2031/32.

At year end street lights that have been erected are recognised on the authority's balance sheet as infrastructure assets. Each year over the CIP assets and corresponding liabilities are to be acknowledged.

Below is the movement in the carrying value of the assets recognised under the PFI Arrangement:

	2009/10	Additions in year	2008/09
	£000	£000	£000
PFI Street Lights			
Gross Book Value	19,152	6,279	12,873
Accumulated Depreciation	(951)	(516)	(435)
Net Book Value	18,201	5,763	12,438

Below is the movement in the lease liability for the PFI arrangement:

	2009/10	Increase in year	2008/09
	£000	£000	£000
Liabilities			
Lease Liability	15,859	4,433	11,426
	15,859	4,433	11,426

Payments to be made under the PFI arrangement are as follows:

Years	Repayments of liability*	Interest*	Service Charges*
	£000	£000	£000
2010/11	5,034	2,134	1,290
2011/12 - 2015/16	13,240	11,864	7,051
2016/17 - 2020/21	13,159	10,699	8,205
2021/22 - 2025/26	13,121	8,549	9,549
2026/27 - 2030/31	14,051	4,503	11,111
2031/32 - 2035/36	228	27	200
Total commitments	58,833	37,776	37,406

*Based on estimated prices at balance sheet date

31. Debtors, Creditors and provision for Bad Debt

An analysis of the Authority's debtors and creditors as at 31 March 2010 is as follows:

	31 March 2010	31/03/2009*
Debtors	£000	£000
Other local authorities	3,473	2,980
Government departments	17,994	18,233
Ratepayers and taxpayers	12,980	13,196
Tenants (including temporary accommodation)	13,940	14,578
Other public bodies	719	625
Utilities	95	69
Sundry	26,876	23,012
	Sub total	72,693
Less: provision for bad debts	(22,145)	(20,811)
	Net debtor total	51,882

	31 March 2010	31 March 2009
Creditors	£000	£000
Other local authorities	16,558	14,360
Government departments	417	69
Ratepayers and taxpayers	2,131	3,248
Other public bodies	3,122	3,166
Utilities	1,280	1,436
Grants, contributions and S106	27,390	25,664
Pension fund	71,934	52,962
Sundry	46,316	44,675
Receipts in advance	8,239	9,945
	Creditor total	155,525

*Restated

The following approach was taken with regards to estimating the provision for bad debts. In this context, provision for bad debts means the extent to which the original amount of debt is impaired (recovery could be doubtful). The council will still continue to pursue these debts.

The council's debtors were considered collectively for impairment, as there was no individual debtor that was considered to be individually significant. Total debtors were then divided into the following subgroup:

- Tenants
- Council Tax
- Business rates
- Other local authorities and public bodies
- Sundry (trade) debtors

Historical data shows that each of these sub-groups have different characteristics as to the debtors' propensity to pay all amounts due. An assessment of impairment of debtors of each sub group was undertaken at the balance sheet date based primarily on historical loss experience but adjusted to reflect current economical climate and the council's improved debt management.

Total estimated impairment of debt came to £24.145m and the level of debtors carried on the balance sheet as a current asset was reduced from £76.077m by this amount to £53.932m, as the latter figure represents the amount of total debt that is deemed to be reasonably recoverable.

32. Provisions

Provisions are amounts of money set aside to meet liabilities that have arisen from past events and which are likely to result in the future transfer of economic benefit to a third party. However, the precise amount and timing of such a transfer is uncertain. Provisions are included as expenditure within the net cost of services within the income and expenditure account and appear as a current liability on the balance sheet.

	01 April 2009	In year related payments	Written back in year	New Provisions raised	31 March 2010	Note
	£000	£000	£000	£000	£000	
Grants to Voluntary Sector	41	(37)	-	-	4	
Insurance	8,730	(770)	-	-	7,960	i
Legal	-	-	-	220	220	ii
Housing & Property	230	(99)	-	468	599	iii
Disputed Invoices	-	-	-	-	-	
Service Provision Related	224	(64)	-	-	160	iv
Central Expenses	5	(5)	-	140	140	v
Total	9,230	(975)	-	828	9,083	

- i) The insurance provision is for liabilities that have occurred but where the timing of the payment is dependent upon the claim settlement process. The Provision reflects 100% of the council's ultimate projected liabilities.
- ii) The council terminated its contract with Community Investors Development Agency (CIDA) for Local Involvement Network (LINK) hosting services in December 2009, with a months notice. CIDA challenged this through an application for Judicial Review which has been granted. In addition to this, Following the Secretary of State's decision in June 2008 not to uphold the council's previous decision to make a Building Preservation Notice on a specific property, the council has received a compensation claim relating to the drop in market value in the intervening period.
- iii) Relates predominantly to NNDR bills with regards to part of the ground floor at NLBP. Also includes replacement boilers at the council offices in North London Business Park. Under the terms of the lease agreement the council is required to reimburse the landlord for the cost of such work, however as at 31 March 2010 the actual costs have not been verified/agreed.

- iv) Relates to services provided by other bodies and where some or all of the costs the cost of doing so are funded by the council. The provision is in recognition of the council's liability for increased payment in respect of events occurring before 31 March 2010 for services provided by the North London Waste Authority, Barnet & Chase Farm Midwifery Service and CAMHS Peri Natal Service.
- v) Addition Levy relating to London Pension Fund, this is additional levy allocation to London boroughs. However the amount has been disputed by authorities and the outcome is pending.

33. Depreciation

All fixed assets are depreciated using the straight line method, without residual value, over their useful life. The useful life of each of the authority's buildings is determined by the Head of Valuation and Property Services, while vehicles, plant and equipment may vary according to the nature of the items involved. It should be noted that land and investment properties are not depreciated under current regulations.

34. Revenue balances

The general fund balances as at 31 March 2010 stood at £27.678m. These are revenue balances (surplus of cumulative revenue resources over cumulative revenue expenditure) held by the council for two primary reasons:

- i) To act as a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- ii) As contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;

Included in General Fund balances is £11.9m of school balances.

35. Balances held by schools

All maintained schools in Barnet operate delegated budgets. In essence this means that the schools themselves (rather than the authority) are responsible for planning and managing their expenditure. As at 31 March 2010 the accumulated surplus of these delegated budgets (excess of cumulative income over cumulative expenditure) stood at £11.9m, a decrease of £1.3m from the previous year. This surplus balance is made up of revenue and capital balances under the control of individual school governing bodies for future spending for the purposes of their schools and is not available to the authority to apply for other purposes.

Sector	31 March 2010	In year	31 March 2009
	£000	increase / (decrease)	£000
Nursery	394	23	371
Primary	7,450	(203)	7,653
Secondary	4,083	(1,161)	5,244
Special	484	(86)	570
Sub total	12,411	(1,427)	13,838
Less: loans repayable to authority	(512)	95	(607)
Total	11,899	(1,332)	13,231

36. Reserves

Reserve Type	Balance 31 March 2009	Net movement in year	Balance 31 March 2010	Purpose of reserve	Note
	£000	£000	£000		
Revaluation Reserve	221,421	103,703	325,124	Store of gains on revaluation of fixed assets not yet realised through sales	7
Financial Instrument adjustment account	(2,060)	342	(1,718)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	
Capital Adjustment Account	1,421,952	(54,405)	1,367,547	Store of capital resources set aside to meet past expenditure	7
Deferred Capital Receipts	773	(127)	646	Mortgages and deferred loans provided by the council	
Usable Capital Receipts	10,568	6,444	17,012	Proceeds of fixed asset sales available to meet future capital investment	
Pension Reserve	(222,036)	(219,124)	(441,160)	Balancing account to allow inclusion of pensions liability in the balance sheet	1
Collection Fund Adjustment Account	5,040	1,851	6,891	Balance of undistributed funds in the collection fund	5
Major Repairs Reserve	4,384	(586)	3,798	Resources available to meet capital investment in council housing	2
Specific Reserves	34,626	4,238	38,864	Money earmarked for future projects	3
Balances - General Fund	30,713	(3,035)	27,678	Prudent reserve to meet non-housing day to day running costs.	4
Balances - Housing Revenue Account	3,763	1,095	4,858	Prudent reserve to meet future running costs of council housing	6
Total	1,509,144	(159,604)	1,349,540		

Notes:

- 1 Pensions note
- 2 HRA notes
- 3 See table overleaf
- 4 Statement on movement of general fund balance
- 5 Collection fund
- 6 HRA notes
- 7 Restated for accounting changes

Specific reserves are amounts of money set aside to cover expenditure in future years on specified projects or major initiatives that would not be able to proceed unless money had previously been set aside.

The movement on the council's specific reserves during the year is shown below :

Nature of Reserve	Reserve b/fwd 01 April 2009	In year related Expenditure	Written back in year	New Reserves Raised	Reserve c/fwd 31 March 2010
	£000	£000	£000	£000	£000
Capital	5,162	(315)	(4,746)	444	544
Dedicated Schools Grant (DSG)	271	(271)	-	995	995
Elections	341	(41)	-	180	480
Housing Benefit Administration	2,935	(102)	(13)	466	3,286
International Financial Reporting Standards	500	(92)	-	100	508
ICT / Systems Related	881	(452)	(81)	1,075	1,423
Risk (i)	5,000	(120)	-	12,835	17,715
North London Sub Region Partnership	161	-	-	555	716
Transformation (ii)	4,358	(1,358)	-	490	3,490
Premises Related	697	-	(60)	48	685
Street Lighting (iii)	5,894	(54)	(737)	-	5,103
Utilities/Energy	500	-	-	-	500
Working Neighbourhood Fund	452	(31)	-	-	420
Interest	5,733	(1,000)	(4,733)	-	-
Schools	-	-	-	145	145
Transport	-	-	-	120	120
Highways	-	-	-	340	340
Other	1,332	(844)	(60)	1,554	1,983
Sub Total - General Fund Earmarked Reserves	34,217	(4,680)	(10,430)	19,348	38,455
Special Parking Account (SPA)	409	-	-	-	409
Total - All Earmarked Reserves	34,626	(4,680)	(10,430)	19,348	38,864

- i) Risk – to manage risks from litigation, including in respect of Icelandic bank deposits, and risks in respect of managing reductions to central government support to local authorities in 2010/11 and through the medium-term financial strategy period
- ii) Transformation – To is to fund Council's transformation programme to change, protect and improve Council services through a period of reductions in central government to support to local authorities.
- iii) Street Lighting – This is to smooth out the profiling on the PFI Contract.

37. Trust Funds

The authority is trustee to three charitable trusts, only one is significant, the Avenue House bequest. This is managed and administered by the Avenue House Estate Management Charity which is a charity in its own right, totally independent of Barnet and so no balances or transactions of the trust appear in Barnet's accounts.

38. Collection Fund Balances

The council has to record transactions for council tax and business rates in a collection fund account. The balance will be paid to or recovered from the account's preceptors, the council and the Greater London Authority in future years.

	2009/10	2008/09*
	£000	£000
Barnet	6,891	5,040
Greater London Authority	1,918	1,408
Total	<u>8,809</u>	<u>6,448</u>

*Restated

39. Deferred Capital Receipts

Deferred capital receipts largely 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.

	31 March 2009	Net movement in year	31 March 2010
	£000	£000	£000
Deferred capital receipts	773	(127)	646

40. Pension Reserve

The authority has its own defined benefit local government pension scheme. This means that although these benefits will not actually be payable until employees retire, the authority has an obligation to make relevant payments at the time future entitlements are earned. The authority's contributions to pensions earned by employees in the year of account are included in the net cost of services. The net pension interest cost less expected return on assets counts against net operating expenditure. Pension interest cost is the amount that current service cost increases as members of the scheme approach retirement. The actuary calculates this using the projected unit method. These are all notional costs calculated to show the authority's true liability change for the year in line with pension regulations. The actuary's calculation of the net deficit on the pension fund is shown below. The change in the net value of the pension fund includes actuarial losses of £215,187m. These arise from the differences between actual events as they have turned out and assumptions that were made at the date of the earlier actuarial valuation, known as experience gains and losses as well as changes in actuarial assumptions.

	2009/10		2008/09	
	£000	£000	£000	£000
Deficit at the beginning of the year		(222,036)		(195,491)
Net cost of services				
Current cost of services	(10,249)		(12,908)	
Curtailement and settlements	(3,622)		(347)	
Past service cost	-		(1,473)	
		(13,871)		(14,728)
Net operating expenditure				
Interest cost	(37,217)		(40,795)	
Expected return on assets in the scheme	20,813		28,602	
		(16,404)		(12,193)
Amount charged for pensions in the year		26,338		24,844
Net actuarial gain/(loss)		(215,187)		(24,468)
Fund deficit at end of the year		(441,160)		(222,036)

The deficit is calculated by the assets minus the present value of funded obligation (liabilities). The assets have increased but the liabilities more so. The reason for this large increase in liabilities is the financial assumptions used. The discount rate is the main assumption that affects the liabilities, a change of 1% in the real discount rate can cause a change of approximately 20% in the liabilities. As the real discount rate has fallen by 1.4% from 3.9% to 1.5% this along with a higher long term expectation of inflation has caused the liabilities to increase significantly. With the liabilities, or the present value of funded obligation, increasing the deficit has increased by a large amount.

To ensure that the net figure in the accounts is the actual amount paid to the pension fund rather than a notional sum, the FRS 17 figure is reversed out of the general fund balance reconciliation statement and replaced with the actual figure.

The authority also contributes to the Department for Children, School's and Families Teacher's Pension Fund at a rate of 14.1% of pensionable pay. The amount paid in the year, £12.1m is included in the education service costs (2008/09 £11.3m).

Although this is a defined benefit scheme the nature of it is that the authority is unable to identify its share of the underlying assets and liabilities and so cannot report these. Contributions are set in relation to the current service period only.

The contributions to March 2010 are 24.0% and expected contributions to March 2011 are 24.8%.

Barnet as the administrating authority receives administration expenses that were £0.956m in 2009/10 (£0.876m in 2008/09).

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

	2009/10 £000	2008/09 £000	2007/08 £000	2006/07 £000
Estimated liabilities of the scheme	(886,078)	(561,260)	(594,456)	(647,455)
Estimated assets of the scheme	444,918	339,224	398,965	400,773
Net liability	<u>(441,160)</u>	<u>(222,036)</u>	<u>(195,491)</u>	<u>(246,682)</u>

Reconciliation of present value of the scheme liabilities

	31 March 2010 £000	31 March 2009 £000
Opening defined benefit obligation	561,260	594,456
Service cost	10,249	12,908
Interest cost	37,217	40,795
Actuarial loss/(gain)	295,747	(69,267)
Losses on curtailments	3,622	347
Estimated benefits paid (net of transfers in)	(27,501)	(24,482)
Past service cost	-	1,473
Contributions by scheme participants	6,951	6,704
Unfunded pension payments	(1,467)	(1,674)
Closing defined benefit obligation	<u>886,078</u>	<u>561,260</u>

Reconciliation of fair value of the scheme assets

	31 March 2010 £000	31 March 2009 £000
Opening fair value of scheme assets	339,224	398,965
Expected return on scheme assets	20,813	28,602
Actuarial gain/(loss)	80,560	(93,735)
Contributions by employer	26,338	24,843
Contributions by scheme participants	6,951	6,704
Estimated benefits paid (net of transfers in)	(28,968)	(26,155)
Fair value of scheme assets at end of period	<u>444,918</u>	<u>339,224</u>

Basis for estimating assets and liabilities

The liabilities have been assessed using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The actuaries have adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2007. The post retirement mortality tables adopted were the PA92 series projected to calendar year 2007 for current pensioners and 2017 for non-pensioners with a -2 year age rating and a 95% scaling factor.

Assumed life expectancy from age 65 years

Retiring today	Males	19.60
	Females	22.55

Retiring in 20 years

Males	20.67
Females	23.60

It is assumed that 50% of retiring members will opt to increase their lump sums to the maximum allowed.

Financial assumptions

	31 March 2010		31 March 2009	
	% pa	Real	% pa	Real
Price increases	3.9	-	2.7	-
Salary increases	5.4	1.5	4.2	1.5
Pension increases	3.9	-	2.7	-
Discount rate	5.5	1.5	6.7	3.9

The figures are from the Barnett Waddingham FRS 17 Disclosures report, and are based on price increases and pension increase assumptions on the unadjusted difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England. Salary increases are then assumed to be 1.5% above price increases, as last year.

Expected return on assets

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2009 for the year to 31 March 2010). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The following expected returns were adopted:

Expected return on assets

	31 March 2010	31 March 2009
	% pa	% pa
Equities	7.6	7.0
Gilts	4.5	3.9
Bonds	5.5	6.5
Property	5.5	6.5
Cash	3.0	3.0

41. Post Balance Sheet Events

42. 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.

43. Contingent Liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events that are not wholly within the Council's Control.

As at 31 March 2010, known claims made against the council which, whilst either not accepted and / or of an unknown quantity, represent a potential future call on the Council's Resources.

- An adult care service provider has made two substantial deficit claims against the Council. The Council has rejected these claims, and the case has now gone to arbitration. An adverse finding would result in a significant call on Council resources which would need to be managed through consideration of earmarked reserves and future budgetary provision for the relevant services.
- The Council has received two equal pay claims from current and former members of staff. The Council has rejected the claims and the matter may be heard in the Employment Tribunal. An adverse finding would result in a call on Council resources which would need to be managed through consideration of earmarked reserves

44. Contingent Assets

A Contingent Asset is a possible event that may arise as a consequence of a past event but where the existence of the asset (to the council) will only be confirmed by the occurrence of future events that are not wholly within the council's control.

The Isle of Wight off-street car parking Fleming claim has been declined by Her Majesty's Revenue and Customs (HMRC) and the original lead case has been referred back to the UK tribunal (Tax) by the European Court of Justice. There is a possibility that Local Authorities may win the claim against HMRC.

45. Financial Instruments

Introduction

A financial instrument is any transaction which generates an asset in the accounts of one entity and a liability in the accounts of another entity. For the most part, this covers (but is not limited to) borrowings, loans, and investments. The 2007 Statement of Recommended Accounting Practice (SORP) – which under law constitutes proper accounting practice in Local Government – introduced changes to the way Local Authorities have to measure, account and present their Financial Instruments.

The primary purpose of these notes is to assist the reader to evaluate:-

- The significance of financial instruments on the Authority's financial position and performance, and
- The risks arising from those instruments and how the Authority manages those risks.

The Authority has adopted CIPFA's Treasury Management in the Public Services Code of Practice. In accordance with CIPFA's Prudential Code, the Authority has set treasury management indicators to control key risks inherent in financial instruments.

Financial Instrument Balances

As required by the SORP, a breakdown of the Authorities financial instruments is shown below:

	Long Term 31 March 2010 £000	Long Term 31 March 2009 £000	Current 31 March 2010 £000	31 March 2009 £000
Financial liabilities (borrowings) at amortised cost	210,537	212,507	209,340	189,808
Total borrowings	210,537	212,507	209,340	189,808
Financial Assets (Loans and receivables) at amortised costs	26,529	16,913	268,855	293,439
Total Investments	26,529	16,913	268,855	293,439

Fair Value of Financial Instruments

The Authority's financial liabilities and financial assets are carried in the balance sheet at "Amortised Cost". The Amortised Cost is arrived at by taking the initial amount of a loan advance, deducting the value of cash repayments made in year and adding on the interest charged/credited to the Income and Expenditure Account. The SORP requires the Fair Value of these instruments to be disclosed in the notes. The Fair Value of an instrument is the amount for which it could be sold for in an open market – based on the present value of the future cash flows that take place over the remaining terms of the instrument.

The fair value of the Authority's instruments compared to the amounts carried on the balance sheet based on amortised cost are as follows:

i) Financial instruments classified as financial liabilities

	31 March 2010		31 March 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Trade creditors	177,387	177,387	155,525	155,525
Bank overdraft	25,424	25,424	25,138	25,138
Borrowings*	216,640	210,029	217,586	208,848
	419,451	412,840	398,249	389,511

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

ii) Financial instruments classified as financial assets

	31 March 2010		31 March 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Deposits	206,855	211,998	225,919	231,045
Long term debtors	2,078	2,087	2,473	2,473
Short term debtors	58,078	58,078	57,468	57,468
Payments in advance	4,146	4,146	5,586	5,586
Cash at bank	28,906	28,906	21,733	21,733
	300,063	305,215	313,179	318,305

All of the above financial assets are categorised by the SORP as loans and receivables, the defining characteristics being that financial assets:-

- Have fixed and determinable payments; and
- Are not quoted in an active market.

The council does not have any other categories of financial asset.

The fair value is higher for financial assets at 31 March 2010 than the carrying amount because the authority's portfolio of investments includes a number of fixed rate investments where the interest rate receivable is higher than the rates available for similar investments at the balance sheet date. The guarantee to receive interest above current market rates increase the amount that the authority would receive if it agreed to early repayment of the investment.

Nature and Extent of Risk Arising from Financial Instruments

Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- ✓ Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- ✓ Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- ✓ Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- ✓ Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- ✓ by formally adopting the requirements of the Code of Practice;
- ✓ by approving annually in advance prudential indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum for exposures the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- ✓ by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported quarterly to Members.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarises the Authority's maximum exposure to credit risk. The table (composite defaults from Fitch, Standard & Poors and Moody's) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2009 on investments out to 5 years. Defaults shown are by long term rating category on investments out to 1 year, which were the most commonly held investments during the year.

	Amount at 31 March 2010	Historical experience of default	Adjustment for market conditions at 31 March 2010	Estimated maximum exposure to default
	£000	%	%	£000
	(a)	(b)	(c)	(a * c)
Deposits with banks and financial institutions				
AAA rated counterparties including Debt Management Office & Other Local Authorities	119,600	0.00%	0.00%	-
AA rated counterparties	-	0.03%	0.03%	-
A rated counterparties	62,000	0.08%	0.08%	50
Other counterparties	27,400	42.67%	42.67%	11,692
Bonds – AAA rates	-	0.00%	0.00%	-
Trade debtors	14,751	5.00%	5.00%	738
Business rates (NDR) debtors	-	1.00%	1.00%	-
Council tax debtors	12,980	2.00%	2.00%	260
Tenant debtors	13,935	10.00%	10.00%	1,394
Total	254,278			14,205

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £27.4m invested in this sector at that time. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to the CIFPA accounting guidance. The impairment is reflected in the carrying amount of investment and full impairment was charged to revenue in year.

Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties.

The Council also uses non credit rated institutions, in particular the Debt Management Office and other Authorities who are selected on the value of their asset base. In these circumstances these investments have been classified as other counterparties.

The Council generally allows 30 credit for its trade debtors, such that £6.7m of the £6.5m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000
Trade debtors	
Less than three months	1,717
Three to six months	1,024
Six months to one year	609
More than one year	3,158
	<u>6,508</u>

Council tax is payable on a month by month basis and as at 31 March 2010 the past due amounts can be analysed by age as follows:

	Council Tax £000
Less than one year	5,092
More than one year	7,888
	<u>12,980</u>

Collateral – During the reporting period the council held no collateral as security

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- ✓ monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- ✓ monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	31 March 2010	31 March 2009
	£000	£000
Less than one year	9,500	3,500
Between one and two years	1,000	7,000
Between two and seven years	45,000	46,000
Between seven and 15 years	52,000	52,000
More than fifteen years	107,000	107,000
Total	214,500	215,500

The maturity analysis of financial assets is as follows:

	31 March 2010	31 March 2009
	£000	£000
Less than one year	181,600	208,700
Between one and two years	-	15,000
Between two and three years	-	-
More than three years	27,400	-
Total	209,000	223,700

NB. Trade debtors of £6.5m are not shown in the above table.

Market risk

i) Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- ✓ borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- ✓ borrowings at fixed rates – the fair value of the borrowing will fall;

- ✓ investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- ✓ investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account, in which case gains and losses will be posted to the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council’s prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	2,097
Increase in interest receivable on variable rate investments	(2,175)
Impact on Income and Expenditure Account	(78)
Increase in Government grant receivable for financing costs*	(675)
Share of overall impact debited to the HRA*	619
Decrease in fair value of fixed rate investment assets	-
Impact on STRGL	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on I+E Account or STRGL)	800

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at amortised Cost

ii) Price risk

The Council, excluding the pension fund, does not invest in equity shares or marketable bonds.

iii) Foreign exchange risk

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

46. Financial Instrument Adjustment Account

In 2007/08 a change in accounting regulations regarding financial instruments brought about the creation of a new reserve, known as the financial instruments adjustment account (FIAA), which as at 31 March 2010 comprised the following elements:

	Unamortised Debt Premium	EIR Interest	Total
	£000	£000	£000
Bal b/fwd 1 April 2009	1,596	465	2060
In year transactions	(378)	36	(342)
Bal c/fwd 31 March 2010	1,218	501	1,718

The unamortised debt premium relates to a penalty imposed on the council by a lender several years ago when a debt was paid off early. This penalty, or premium is to be written down to revenue over a number of financial years equal to the unexpired term of the original loan instrument.

47. Revenue reconciliation

	Note	2009/10		2008/09*	
		£000	£000	£000	£000
(Surplus)/deficit for year:					
Deficit for the year on the income and expenditure account		63,961		62,919	
Non Cash Transactions					
- Revenue expenditure funded from capital under statute		(64,966)		(12,225)	
- Depreciation, amortisation and impairment of fixed assets		(47,111)		(78,867)	
- Excess of depreciation charged to HRA services over the Major Repairs Allowance		(8,941)		(7,387)	
- Amortisation of Deferred Government Grants		47,355		14,312	
- Net gain on disposal of fixed assets		152		181	
- The amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance		(36)		(43)	
- Net charges made for retirement benefits as per FRS17		(30,275)		(26,921)	
- Minimum revenue provision for capital financing		6,906		6,320	
- Capital expenditure charged in-year to the General Fund Balance		3,372		1,057	
- Transfer from Usable Capital Receipts		(905)		(737)	
- Employer's contributions payable to the Pension Fund and retirement benefits payable to pensioners		26,338		24,844	
- Housing Revenue Account Balance		1,095		(401)	
- Net transfer to earmarked reserves		4,238		13,516	
- Collection Fund Adjustment Account		1,852		2,065	
Net additional amount required to be credited to the General Fund for the year		(60,926)		(64,286)	
- General fund		3,035		(1,367)	
- Housing revenue account		(1,095)		401	
		1,940		(966)	
- Collection fund			1,940	(2,656)	(3,622)
Capital related adjustments					
MRP & other capital related adjustments		(18,314)		(12,969)	
Capital creditors		-		-	
Capital debtors		-		-	
Other revenue adjustments		445		552	
Contributions to/(from) reserves and provisions		(4,091)	(21,960)	(10,799)	(23,216)
Interest: - paid		(7,840)		(6,822)	
- received		2,137	(5,703)	11,889	5,067
(Increase)/decrease in creditors	48	(21,862)		12,253	
Increase/(decrease) in payments in advance	48	(1,440)		46	
Increase/(decrease) in stock and work in progress	48	(79)		95	
Increase/(decrease) in debtors	48	1,664	(21,717)	(6,022)	6,372
Net Revenue Activities			(47,440)		(15,399)

* Restated

48. Movements in other current assets

	Balance Sheet 31 March 2010 £000	2009/10 Movement £000	Balance Sheet 31 March 2009 £000	2008/09* Movement £000
Debtors due within 12 months	53,932	2,050	51,882	(5,869)
Debtors due beyond 12 months	2,087	(386)	2,473	(153)
Creditors	(177,387)	(21,862)	(155,525)	12,253
Stocks and works in progress	379	(79)	458	95
Payments in advance	4,146	(1,440)	5,586	46
Total	(116,843)	(21,717)	(95,126)	6,372

* Restated

49. Movements in liquid resources & financing

	31 March 2010 £000	2009/10 Movement £000	31 March 2009 £000	2008/09* Movement £000
Temporary Investments	182,413	(33,900)	216,313	(29,534)
Long Term Investments	24,442	14,836	9,606	(5,899)
Short term loans	(12,239)	(6,136)	(6,103)	(1,016)
Long term loans	(204,401)	7,083	(211,484)	892
Total	(9,785)	(18,117)	8,332	(35,557)

*Restated

50. Liquid Resources

Liquid Resources are made up of short term deposits.

51. Movements in cash & cash equivalents

	Balance Sheet 31 March 2010 £000	2009/10 Movement £000	Balance Sheet 31 March 2009 £000	2008/09 Movement £000
Imprest accounts	28,906	7,173	21,733	2,063
Cash overdrawn	(25,424)	(286)	(25,138)	(8,686)
Total	3,482	6,887	(3,405)	(6,623)

52. Reconciliation of net cashflow to movement in net debt

	Note	2009/10 £000	2008/09* £000
Movement in net debt			
Movement of cash in year	51	6,887	-
Cash outflow from long term borrowing	49	7,083	892
Short term borrowing cashflow		(6,136)	(1,016)
Movement in net debt in the year		7,834	(124)
Opening net debt		(220,992)	(223,017)
Total		(213,158)	(223,141)

	Balance Sheet 2009/10 £000	Balance Sheet 2008/09* £000
Analysis of net debt		
Temporary borrowing	(12,239)	(6,103)
Long term borrowing	(204,401)	(211,484)
Imprests	28,906	21,733
Cash	(25,424)	(25,138)
Total	(213,158)	(220,992)

*Restated

53. Other Government Grants

	2009/10 £000	2008/09* £000
Education (excluding DSG)	49,185	59,369
DSG	202,138	195,074
Community care and other social services	9,288	9,525
Asylum Seekers	748	620
Council tax benefits administration	2,960	2,688
Local Authority Business Incentive Grant	588	761
Street Lighting PFI	2,235	2,235
Other	-	-
Total	267,142	270,272

*Restated

SECTION 4

Supplementary financial statements

Housing Revenue Account

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

	Note	2009/10		2008/09
		£000	£000	£000
Income				
Dwelling rents		(46,351)		(45,215)
Non-dwelling rents		(1,558)		(1,534)
Charges for services and facilities		(6,616)		(6,899)
Contributions towards expenditure		-		-
Capital government grants deferred (GGD)		(331)		
Total Income			(54,856)	(53,648)
Expenditure				
Repairs and maintenance		8,461		8,534
Supervision and management		21,297		21,997
Rents, rates, taxes and other charges		85		155
Negative Housing Revenue Account subsidy payable	9	10,387		11,826
Depreciation and impairment of fixed assets	6,7	19,637		26,475
Debt Management Costs		14		34
Increase in bad debt provision		340		412
Revenue Expenditure funded from capital under statute (REFCUS)		1,628		-
Total Expenditure			61,849	69,433
Net Cost of HRA Services per Authority Income and Expenditure Account			6,993	15,785
			-	-
HRA share of the whole authority non-distributed costs				
Net Cost of HRA Services			6,993	15,785
Gain or Loss on sale of HRA fixed assets		(90)		-
Interest payable and similar charges		2,835		2,929
Interest and investment income		(97)		(261)
Impairment loss on investment	7	55		78
Deficit for the year on HRA services			9,696	18,531

Statement of Movement on the HRA Balance

	2009/10	2008/09
	£000	£000
Deficit for the year on the HRA Income and Expenditure Account	9,696	18,531
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the SORP and those determined in accordance with statute:		
EIR interest cost on stepped loans	(14)	(14)
Amortisation of premium on early repayment of debt	8 378	378
Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory		
HRA requirements - Impairment reversal	(2,305)	(6,806)
Gain or Loss on sale of HRA fixed assets	90	-
Transfer from Major Repairs Reserve	3 (8,940)	(11,688)
(Increase)/Decrease in HRA balance for the year	(1,095)	401
HRA Balances		
HRA Balance brought forward	(3,763)	(4,164)
(Surplus)/Deficit for the year	(1,095)	401
HRA Balance carried forward	(4,858)	(3,763)

Housing Revenue Account notes

1. Dwelling stock

The authority's dwelling stock was, at 31 March	2009/10	2008/09
	£000	£000
Houses	3,555	3,560
Bungalows	184	184
Flats	5,812	5,834
Maisonettes	1,412	1,413
Hostels	72	79
Bed sits	30	30
Total	11,065	11,100

2. Value of HRA assets

Values as at 31 March	2009/10	2008/09
	£000	£000
Balance sheet value - dwellings	1,286,738	1,220,000
Balance sheet value -other land and buildings	64,757	42,448
Vacant possession value -dwellings	2,041,000	1,936,000

The difference between vacant possession value and the balance sheet value represents the economic cost of providing council housing.

3. Major Repairs Reserve

	2009/10	2008/09
	£000	£000
Balance as at 1 April	(4,384)	(6,355)
Capital expenditure charged to reserve (dwellings)	10,363	10,205
Depreciation - dwellings	(16,515)	(16,530)
- non-dwellings	(2,169)	(3,218)
Transfer to HRA - dwellings	6,771	8,470
- non-dwellings	2,169	3,218
Interest on balances	(33)	(174)
Balance as at 31 March	(3,798)	(4,384)

The major repairs allowance (MRA) represents the capital cost of keeping the council's dwelling stock in its current condition. Authorities have the flexibility to spend MRA resources outside of the financial year in which they are allocated, enabling the more efficient planning of works. In the revenue account it offsets the depreciation charged. The Major Repairs Reserve (MRR) represents balances carried forward.

4. HRA capital expenditure

The HRA capital transactions were:-

	2009/10	2008/09
Expenditure	£000	£000
Dwellings	24,358	30,532
Other property	1,981	379
Total	<u>26,339</u>	<u>30,911</u>
Financed from		
Borrowing	12,871	17,488
Capital receipts reserve	-	298
Major repairs reserve	10,363	10,205
Other contributions	3,105	2,920
Total	<u>26,339</u>	<u>30,911</u>

5. Capital receipts

Capital receipts from disposals within the HRA were:-

	2009/10	2008/09
	£000	£000
Land	1,065	140
Dwellings	1,070	870
Paid over to pool	(905)	(737)
Total	<u>1,230</u>	<u>273</u>

The authority has to pay a portion of the receipts from the sale of council houses into a government housing pool on the basis that the original cost of the housing would have been partly paid by government grant.

6. Depreciation

The depreciation charged to the HRA was:-

	2009/10	2008/09
	£000	£000
Dwellings	16,515	16,530
Other property	2,169	3,218
Total	<u>18,684</u>	<u>19,748</u>

7. Impairment

Impairment charged to the HRA was:-

	2009/10	2008/09
	£000	£000
Dwellings	-	2,293
Other property	953	4,434
Investments	55	78
Total	<u>1,008</u>	<u>6,805</u>

8. Debt premium amortised in year

2009/10	2008/09
£000	£000
378	378

9. HRA Subsidy

The negative HRA subsidy payable by the authority was made up of:-

	2009/10	2008/09
	£000	£000
Management and maintenance	20,717	20,000
Major repairs allowance	9,743	8,060
Charges for capital	5,493	5,005
Other items of reckonable expenditure	57	57
Interest on receipts	(48)	(54)
Rent	(46,209)	(44,992)
Rent constraint allowance	-	-
Total for year	(10,247)	(11,924)
Prior year adjustments	(140)	98
Total payable	(10,387)	(11,826)

10. Arrears

HRA arrears outstanding at the year end:

	2009/10	2008/09
	£000	£000
Leaseholder service charges	3,472	3,988*
less bad debt provision	(664)	(666)
	2,808	3,322
Housing rents	2,686	2,899
less bad debt provision	(1,251)	(1,393)
	1,435	1,506
Commercial rents	80	113
less bad debt provision	(22)	(33)
	58	80
Net arrears	4,301	4,908

*Restated

11. ALMO – Barnet Homes LTD

The management of the council's housing stock is undertaken by Barnet Homes LTD, an arm's length management organisation (ALMO) that is wholly owned by the authority.

12. Accounting for pensions in the HRA

As day to day housing management is carried out by Barnet Homes Ltd, the HRA employs very few staff directly. Because of this the cost of obtaining a separate HRA actuarial report, to split the notional cost of HRA staff from those employed by the general fund, cannot be justified. Therefore although the HRA has been reported on an FRS17 basis, no attempt has been made to show a separate liability related to the defined benefit position.

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.

The income and disbursement account of the collection fund for 2009/10 is:

	Note	2009/10		2008/09*	
		£000	£000	£000	£000
Income					
Council Tax	1		167,770		165,389
Council Tax Benefits			29,278		26,502
Collectable business rates	2		-		-
			<u>197,048</u>		<u>191,891</u>
Disbursement					
Precepts:					
- London Borough of Barnet		152,069		147,194	
- Greater London Authority		42,323	194,392	42,118	189,312
Estimated surplus on collection fund:	2				
- London Borough of Barnet		758		250	
- Greater London Authority		217	975	73	323
Non-domestic rates					
- Payment to national pool		191,094		184,116	
- Cost of collection allowance		846	191,940	850	184,966
Total disbursed			387,307		374,601
Council tax					
Change in bad debt provision		(4,396)		(2,629)	
Written off	3	3,716	(680)	2,229	(400)
Fund surplus / (deficit) for year			<u>(189,579)</u>		<u>(182,310)</u>
			<u>197,048</u>		<u>191,891</u>
Fund balance brought forward					
Fund surplus / (deficit) for year			5,040		3,792
Fund balance carried forward	38		<u>1,851</u>		<u>1,248</u>
			<u>6,891</u>		<u>5,040</u>

*Restated

Notes to collection fund

1. Council tax

The Government provides the authority with a valuation of each residential property as at 1 April 1991. Each valuation is allocated into one of eight bands on which individual council tax charges are calculated. 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 standard charge is found by taking the amount of income required by the collection fund's two preceptors combined and dividing this by the council tax base. The amount of council tax required from a property in any tax band is the band D charge (£1423.02 for 2009/10) 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
A	0.67	956
B	0.78	5,575
C	0.89	19,289
D	1.00	24,320
E	1.22	31,843
F	1.44	24,374
G	1.67	23,318
H	2.00	6,761
MOD contribution		268
Tax base		<u>136,704</u>

2. Collection fund surplus and deficit

The preceptors share any council tax surpluses and deficits.

3. 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.

SECTION 5

Group accounts

Group Income and Expenditure Account

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

On provision of services the group spent:

	2009/10 Consolidated net expenditure	2008/09 Consolidated net expenditure
	£000	£000
Central services to the public	5,117	4,444
Cultural, environmental and planning services	57,286	70,772
Children's and education Services	86,947	74,688
Highways, roads & transport services	20,386	18,749
Housing services	16,756	23,764
Adult social services	90,802	91,865
Corporate and democratic core	4,424	13,300
Non distributed costs	16,925	9,417
Net cost of services	298,643	306,999
Loss / (gain) on the disposal of fixed assets	(152)	(179)
Precepts and levies	1,646	1,508
Trading undertakings	733	(127)
Interest payable and similar charges	8,317	8,046
Contribution of housing capital receipts to Government pool	905	737
Interest and investment income	(2,216)	(13,182)
Corporation tax	18	82
Pension interest costs and expected return on pension assets	16,404	12,193
Net operating expenditure	324,298	316,077
Net operating expenditure was financed by:		
Demand on collection fund	(154,679)	(149,537)
General Government grant	(31,909)	(25,204)
Non-domestic rates redistribution	(74,706)	(79,053)
Net Deficit for the year	63,004	62,283

* Restated

Reconciliation of the Single Entity Deficit to the Group Deficit

	2009/10	2008/09*
	£000	£000
Deficit from LBB's income and expenditure account	63,961	62,892
Surplus arising from other entities included in the group accounts		
Subsidiaries (Barnet Homes Ltd)	(957)	(609)
Group account deficit for the year	<u>63,004</u>	<u>62,283</u>

* Restated

Group statement of total recognised gains and losses

This statement brings together all the gains and losses of the group for the year and shows the aggregate increase in its net worth. In addition to the deficit sustained on the group income and expenditure account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

	2009/10	2008/09*
	£000	£000
Deficit/(surplus) for the year on the income and expenditure account	63,004	62,283
Surplus arising on revaluation of fixed assets	(118,995)	(156,832)
Actuarial (gain)/loss on pension fund assets and liabilities	229,092	25,412
Other gains and losses included in the group balance sheet	(550)	(4,854)
Total recognised gain for the year	172,551	(73,991)

* Restated

Group Balance Sheet

This statement summaries the assets and liabilities of the Reporting Group as at 31st March 2010

	31 March 2010		31 March 2009*	
	£000	£000	£000	£000
Fixed assets				
Operational assets				
Council dwellings	1,286,738		1,220,000	
Other land and buildings	465,349		491,171	
Community Assets	8,739		8,619	
Vehicles, plant and equipment	15,608		21,918	
Infrastructure assets	82,897	1,859,331	69,565	1,811,273
Non-operational assets				
Investment Properties	56,393		34,387	
Surplus assets awaiting disposal	30,836		38,517	
Assets under construction	115,363	202,592	77,112	150,016
Intangible assets	1,448		2,197	
Long term debtors	2,087		2,473	
Long term investments	24,442	27,977	9,606	14,276
Total long term assets		2,089,900		1,975,565
Current assets				
Stocks and works in progress	379		459	
Temporary investments	187,413		223,313	
Debtors	48,812		48,990	
Payments in advance	4,146		5,586	
Cash at Bank and in hand	33,890		22,524	
	274,640		300,872	
Current liabilities				
Creditors	(180,861)		(159,330)	
Borrowing repayable within 12 months	(12,239)		(6,103)	
Bank overdraft	(25,424)		(25,138)	
Provisions	(9,135)		(9,283)	
	(227,659)		(199,854)	
Net current assets		46,981		101,018
Long-term liabilities				
Long term borrowing & other liabilities	(204,401)		(211,484)	
Government grants - deferred	(124,186)		(121,126)	
Long Term lease	(15,859)		(11,426)	
Liability related to defined benefit pension	(460,466)	(804,912)	(228,025)	(572,061)
Total assets less liabilities		1,331,969		1,504,522
Financed by				
Revaluation reserve		325,124		221,422
Financial instrument Adjustment account		(1,718)		(2,060)
Capital adjustment account		1,367,547		1,421,952
Usable capital receipts		17,012		10,568
Deferred capital receipts		646		773
Pension reserve		(460,465)		(228,024)
Collection fund adjustment account		6,891		5,040
Major repairs reserve		3,798		4,384
Earmarked reserves		38,864		34,626
Balances		29,412		32,078
Balances – housing revenue account		4,858		3,763
Total equity		1,331,969		1,504,522

Group Cashflow Statement

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

	Group 2009/10		Group 2008/09*	
	£000	£000	£000	£000
Net Revenue activities		(49,753)		(15,880)
Servicing of finance				
Cash outflows				
Interest paid	8,088		6,822	
Cash inflows				
Interest received	(4,313)	3,774	(12,219)	(5,397)
Capital activities				
Cash outflows				
Purchase of fixed assets	115,739		104,358	
Deferred charges and long term debtors	(386)		(153)	
Cash inflows				
Sale of fixed assets	(10,250)		(2,809)	
Capital grants received	(49,779)		(33,115)	
Other cash income	(2,227)		(6,916)	
Net cash inflow before financing		53,097		61,365
Management of liquid resources				
Net (increase)/decrease in short term deposits		(35,900)		(25,034)
Financing				
New long term investments	14,836		(5,899)	
Repayment of long term borrowing	-		-	
Repayment of short term loans	-	14,836	-	(5,899)
Cash inflows				
New short term loans	(6,136)		(1,016)	
New long term loans	7,083		892	
Long term investment	-	947	-	(124)
Decrease / (increase) in cash and cash equivalents		(12,998)		9,031

*Restated

Notes to group accounts

1. Introduction

For a variety of legal, regulatory and other reasons, Local authorities often choose (or are required) to conduct their activities not through a single legal entity but through two or more legal entities which fall under its ultimate control. For this reason the financial statements of the local authority do not necessarily, in themselves, present a full picture of its economic activities or financial position. Because of this, the Statement of Recommended Practice (SORP) requires a local authority to prepare group accounts if it has a controlling influence over one or more other legal entities. The aim of the group accounts is to give an overall picture of the extended services and economic activity that is under the control of the local authority. The London Borough of Barnet (the reporting authority) has a subsidiary company, Barnet Homes Ltd, which it has full control and influence over and therefore group accounts have been prepared.

2. Basis of consolidation

The group income and expenditure account, group balance sheet and group cash flow statement have been prepared by consolidating the accounts of the reporting authority (London Borough of Barnet) and its subsidiary (Barnet Homes Ltd) on a line by line basis. The accounts of Barnet Homes Ltd have been prepared using similar accounting policies and practices to that of the reporting authority. However some accounting policies and practices of Barnet Homes Ltd do differ in some respects from the authority's due to legislative requirements. Any material differences are highlighted within the accounts themselves.

3. Barnet Homes Ltd, an arms length management organisation for housing

i) Nature of the business

Barnet Homes Ltd (Companies House Registration No. 4948659) was created by Barnet Council to manage and improve its housing stock. The primary aim in establishing the company was to attract government funding to enable the Decent Homes programme to be delivered. Barnet Homes Ltd, a not-for-profit company, took over responsibility for managing approximately 11,000 council homes from Barnet Council in April 2004. Barnet Homes Ltd is managed by a Board of 12 members made up of 4 council nominees, 3 tenants, 1 lease holder and 4 independent persons with professional skills and experience to help run the services. Until 1 July 2010 Board members were volunteers only receiving out-of-pocket expenses but approval has now been given for Board members to receive remuneration for their services from this date.

ii) Relationship with the authority

Under the SORP, Barnet Homes Ltd is deemed a wholly owned subsidiary of Barnet Council. As such, the council is required to consolidate the financial statements of Barnet Homes Ltd with its own (single entity) accounts in order to form group accounts. The council holds all the share capital in Barnet Homes and would be required to contribute £2 if the company was ever wound up.

iii) Financial performance

In 2009/10 the company made an operating surplus of £0.957 million (£0.609m surplus in 2008/09).

iv) Transactions with the company

The authority paid the company £28.918m in 2009/10 for the provision of housing management services and repair and maintenance works to housing stock (£28.927m in 2008/09). The authority provides the following services to the company:

The authority leases premises to the company and also provides various support services e.g. payroll. Total charges from the authority to the company in 2009/10 were £2.8m (£2.8m in 2008/09).

4. Group cash flow statement

The group cash flow statement, prepared in accordance with the SORP, forms 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 are any intra-group gains and losses. Only cash receipts and payments that flow to and from the group as a whole are included.

5. Accounts

The full set of financial statements for Barnet Homes Ltd can be obtained from:

The Head of Financial Services
Barnet Homes Ltd
9th Floor
Barnet House
1255 High Street
Whetstone
London N20 0EJ

Tel: 0800 389 5225

Internet Web Address: <http://www.barnethomes.org>

SECTION 6

Pension Fund

Fund Account

Contributions and Benefits	Note	2009/10		2008/09	
		£000	£000	£000	£000
Contributions	3	48,676		46,050	
Transfers in	4	4,660		2,973	
Other income		7		1	
		<u>53,343</u>		<u>49,024</u>	
Benefits	5	(35,488)		(31,620)	
Leavers	6	(6,314)		(2,052)	
Administrative expenses	7	(1,030)		(936)	
		<u>(42,832)</u>		<u>(34,608)</u>	
Net (withdrawals)/additions from dealings with members			<u>10,511</u>		<u>14,416</u>
Return on investments					
Investment income	8	14,799		18,806	
Change in market value of investments	9	126,404		(97,873)	
Investment management expenses	10	(2,127)		(1,845)	
Net returns on investments		<u>139,076</u>		<u>(80,912)</u>	
Net increase/decrease in the fund during the year			<u>149,587</u>		<u>(66,496)</u>
Net assets of the scheme					
At 1 April 2009			482,139		548,635
At 31 March 2010			<u>631,726</u>		<u>482,139</u>

Net Assets Statement

	Note	2008/09		2007/08	
		£000	£000	£000	£000
Investment assets	9	627,342		480,589	
Current assets	11	5,177		5,892	
Current liabilities	12	(793)		(4,342)	
		<u>631,726</u>		<u>482,139</u>	

NOTES TO THE PENSION FUND ACCOUNTS

1. Introduction

The Pension Fund is a funded, defined benefit occupational pension scheme set up under the Superannuation Act 1972 and is administered by the London Borough of Barnet. The scheme provides pensions and other benefits to former Authority employees (except teachers, who have a separate scheme) and to the following admitted and scheduled bodies:

Admitted Bodies

Barnet Homes	Birkin Services
Connaught	Fremantle Trust
Friends Moat Mount	Go Plant Hire
Greenwich Leisure	Housing 21
Open Learning Partnership	Servite Housing
Turners Cleaning	

Scheduled Bodies

Ashmole	Barnet College
Danegrove School	Deansbrook Junior
Dollis Junior	Finchley Catholic
Friern Barnet School	London Academy
Mathilda Marks	Menorah Foundation
Middlesex University	Mill Hill County School
Monkfrith School	Osidge School
Queen Elizabeth Boys	St Michael's Grammar
St Pauls CE Primary	Woodhouse College
Wren Academy	

The Fund is financed by member and employer contributions, interest, dividends and realised profits from investments. The Fund provides retirement grants, death grants, member pensions and widows' pensions. The funding policy aims 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.

Contributions made by employees are tiered, related to salary and they range from 5.5% to 7.5%. These rates are applicable to all employees including manual workers.

The number of employees contributing to the fund increased during the year from 7,093 at 31 March 2009 to 7,175 at 31 March 2010. During the same period the number of pensioners increased from 6,041 to 6,207 and the number of deferred pensioners increased from 5,812 to 6,025. A government scheme supplies teachers' pensions; they are not provided for under these arrangements.

2. Accounting Policies

Accounting Standards

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and follow the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

Basis of Preparation

The financial statements are prepared on an accruals basis except in the case of transfer values, which are debited or credited in the year of payment or receipt in accordance with recommended practice. Investment income is taken into account where dividends are declared but not paid at the financial year end.

The financial statements summarise the transactions of the scheme and the net assets of the fund. The financial statements do not take account of liabilities to pay pension and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with in note 15 and these financial statements should be read in conjunction with them.

Investments

Investments are shown in the Net Asset Statement at Market Value. Market Value has been determined as:

- a) Listed securities and securities on the Unlisted Securities Market (USM) are determined by Stock Exchange current bid prices at 31 March 2010.
- b) Unit trust investments are stated at the latest prices quoted by their respective managers as at 31 March 2010.
- c) Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at the rates prevailing on 31 March 2010.

Sale and Purchase of Investments

The purchase and sale of investments is delegated to the fund managers and all settlements are accrued on the day of trading (the costs of acquiring investments are included in the value of the assets). The two fund managers: Schroder Investment Management and Newton Investment Management are required to produce a return on investment within benchmarks set by the Authority. These restrictions and the fund manager's analysis of the assets and issuing bodies, dictates the timing of sales and purchases of investments. Approximately 12% of the Fund is held in house (4% in property unit trusts and 8% in pooled funds) and cash arising from these unit trusts is administered by the staff of the London Borough of Barnet acting on advice from the Authority's independent investment advisor.

Administration Expenses

Administration expenses are calculated as a percentage of the London Borough of Barnet's expenses plus the direct costs of the Pensions section within the Human Resources Department.

Benefits

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme. Benefits are accounted for in the period in which they fall due. Full details of all benefits payable are available on the Borough's internet at www.barnet.gov.uk/pensions

Cash Balances and Interest on Cash

A cash balance of £71.8 million (£52.96 million in 08/09) was held by the Authority at 31 March 2010. Interest on cash held by the Borough on behalf of the Pension Fund is calculated on a rate equivalent to the Borough's average rate of return.

Taxation

The Fund is an exempt approved fund and therefore not liable for UK income tax or capital gains tax. As the London Borough of Barnet is the administrating authority of the fund, VAT input tax is recoverable on all fund activities.

Taxation agreements exist between Britain and a number of countries whereby all or a proportion of the tax deducted locally from investment income may be reclaimed. The proportion reclaimable varies from country to country. Non-recoverable deductions are classified as withholding tax.

3. Contributions

	2009/10	2008/09
	£000	£000
Employers		
LB Barnet	24,988	23,306
Scheduled bodies	10,321	9,239
Admitted bodies	2,907	3,412
Members		
LB Barnet	6,929	6,744
Scheduled bodies	2,732	2,511
Admitted bodies	799	838
	48,676	46,050

4. Transfers In

	2009/10	2008/09
	£000	£000
Individual transfers in from other schemes	4,660	2,973
	4,660	2,973

5. Benefits

	2009/10	2008/09
	£000	£000
Pensions	27,234	25,364
Commutations and lump sum payments	7,948	5,738
Lump sum death benefits	306	518
	35,488	31,620

6. Payments to and on Account of Leavers

	2009/10	2008/09
	£000	£000
Refunds to members leaving service	5	1
Group transfers to other schemes	-	346
Individual transfers to other schemes	6,309	1,705
	<u>6,314</u>	<u>2,052</u>

7. Administrative Expenses

	2009/10	2008/09
	£000	£000
Administration and processing	979	878
Actuarial fees	14	17
Audit fees	37	39
Legal and other professional fees	-	2
	<u>1,030</u>	<u>936</u>

All other costs of administration are borne by the London Borough of Barnet.

8. Investment Income

	2009/10	2008/09
	£000	£000
Income from fixed interest securities	2,576	3,131
Dividend from equities	10,280	10,108
Income from index linked securities	375	229
Income from pooled investments	142	965
Income from property unit trusts	1,295	1,337
Interest on cash deposits	448	3,460
Other income	489	308
	<u>15,605</u>	<u>19,538</u>
Irrecoverable withholding tax	(806)	(732)
Total investment income	<u>14,799</u>	<u>18,806</u>

9. Investments

	Value at 01 April 2009 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2010 £000
Fixed interest securities	81,292	41,272	(73,296)	(9,393)	39,875
Equities	227,854	116,263	(104,440)	96,848	336,525
Index-linked securities	24,216	8,843	(10,996)	1,745	23,808
Pooled investment vehicles	72,758	29,173	(5,324)	36,446	133,053
Derivative contracts	-	-	-	-	-
Properties	21,506	-	-	758	22,264
	<u>427,626</u>	<u>195,551</u>	<u>(194,056)</u>	<u>126,404</u>	<u>555,525</u>
Cash Deposits	<u>52,963</u>				<u>71,817</u>
	<u>480,589</u>				<u>627,342</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £238,500 (2008/09: £351,177). There are also transaction costs incurred on behalf of the unitised funds, but these are reflected in the unit cost. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

The market value of investments held under management by the Fund's investment managers at year end totalled £533,261,000. This was split as follows:

	£'000	%
Schroder Investment Management	248,457	46.6
Newton Investment Management	240,168	45.0
Legal & General	44,636	8.4
Total	533,261	100.0

	2009/10	2008/09
	£000	£000
Fixed interest securities		
UK – Government	28,245	66,131
UK - Corporate Bonds	3,829	8,609
Overseas Corporate	4,130	-
Overseas Government	3,671	6,552
	<u>39,875</u>	<u>81,292</u>
Equities		
UK quoted	188,408	125,501
UK unquoted	-	-
Overseas quoted	148,117	102,353
Overseas unquoted	-	-
	<u>336,525</u>	<u>227,854</u>
Index-linked securities		
UK public sector quoted	20,523	24,216
Overseas public sector quoted	3,285	-
	<u>23,808</u>	<u>24,216</u>
Pooled investment Vehicles		
UK Managed funds	35,881	8,233
UK Unit Trusts	97,172	64,525
	<u>133,053</u>	<u>72,758</u>
Property		
UK property unit trusts	22,264	21,506
	-	-
	<u>22,264</u>	<u>21,506</u>
Cash Deposits		
Sterling	71,817	52,963
	<u>71,817</u>	<u>52,963</u>

AVC Investments

The Authority holds assets invested separately from the main fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVC). Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	2009/10 £000	Contributions £000	Income £000	Expenditure £000	2008/09 £000
AVC Investments					
Norwich Union	753	41	26	(57)	743
Prudential					
With Profits	477	45	27	(54)	459
Deposit	291	36	1	-	254
Unit Linked	221	31	36	-	154
Total Prudential AVCs	989	112	64	(54)	867

The fund does not participate in stock lending arrangements.

10. Investment Management Expenses

	2009/10 £000	2008/09 £000
Administration, management and custody	2,017	1,786
Performance Measurement Services	12	13
Other advisory fees	98	46
	2,127	1,845

11. Current Assets

	2009/10 £000	2008/09 £000
Contributions due from employers in respect of		
Employer contributions	1,060	842
Member contributions	279	229
Accrued income	3,814	4,801
Overpayment of Benefits	4	-
Cash Balances	20	20
	5,177	5,892

12. Current Liabilities

	2009/10 £000	2008/09 £000
Unpaid Benefits	344	511
Unsettled Purchases	257	3,479
Miscellaneous	-	-
Accrued Expenses	192	352
	793	4,342

13. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, approved in May 2000, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at www.barnetpensions.org

14. Related Party Transactions

Fund administration expenses payable to the administering authority, the London Borough of Barnet are outlined below

	2009/10	2008/09
	£000	£000
Human Resources	581	584
Accountancy administration	143	177
Payroll Support	232	175
	<u>956</u>	<u>936</u>

15. Actuarial Valuation

Hymans Robertson LLP undertook a formal actuarial valuation of the fund as at 31 March 2007, in accordance with The Local Government Superannuation Regulations 1986. The actuarial valuation calculates the contribution rate payable by Authority, as an employer, to meet the Administering Authority's funding objectives. The actuarial method used by the Actuary is known as the "projected unit method". The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund, which is open to new members.

The actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. The assumptions, which have the most significant effect on the result so the valuation, are:

Assumption	Rate
Future pension increases (based on price inflation)	3.2%
Future pay increases	4.7%
"Gilt-based" discount rate	4.5%
Funding basis discount rate	6.1%
Overall rate of return on investments	7.2%

The 2007 valuation actuarially assessed the value of the Fund's assets as £539.5 million, being sufficient to meet 71% of the Fund's liabilities.

The latest information valuation as at 31st March 2010 as per the requirements of FRS17, use the roll –forward approach together with the following assumptions (the figures in brackets relate to 31st March 2009, and are given for comparison);

Assumption	Rate
Assumed price inflation	3.9% (2.7%)
Salary increases	5.4% (4.2%)
Pension increases	3.9% (2.7%)
Discount rate	5.5% (6.7%)

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 11 December 2007 and is available to view at www.barnet.gov.uk/pensions.

GLOSSARY

Glossary

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

Accounting policies

Those principles, bases, conventions, rules and practices 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.

Accounting standards

A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Act of Parliament and in professional codes and statements of recommended practices. These standards make comparability, among other things, possible.

Accrual

The recognition of income and expenditure as it is earned or incurred, as opposed to when cash is received or paid.

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.
- Intangible assets, these are usually stand alone intellectual property rights such as software licences that, although they have no physical substance are right to show on the balance sheet where they have been capitalised as being of benefit for more than the year of account. Where software is integral to the running of hardware it is properly included in the value of the hardware.

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.

Balance sheet

A statement of the recorded assets, liabilities and other balances at the end of an accounting period.

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'.

Best value accounting code of practice (BVACOP)

BVACOP sets the financial reporting guidelines for local authorities. It supplements the principles and practice set out in the code of practice on local authority accounting (known as the SORP), by establishing practice for consistent reporting. It provides guidance in three key areas:

- The definition of total cost
- Trading accounts
- Service expenditure analysis

Billing authority

A local authority empowered to set and collect council tax, and manage the collection fund, on behalf of itself and local authorities in its area.

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. It is not necessary for the asset to be owned by the authority e.g. renovation grants.

Collection fund

The fund, administered by a billing authority, into which council taxes are paid, and from which payments were made to the general fund of billing and major precepting authorities. NNDR collected by a billing authority is also paid into the fund before being passed on to central government for distribution to local authorities.

Community assets

Assets that a local authority intends to hold in perpetuity, that have no determinable useful life, and may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

Corporate and democratic core

The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Deferred capital receipts

These represent amounts derived from the sale of assets, which will be received in installments over agreed periods of time, such as payments from mortgages on the sale of council houses.

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 year and prior periods.

Depreciation

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

Consumption includes 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 (post balance sheet events)

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.

FRS's

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

General fund

The revenue fund of the authority, it shows income from and expenditure on the council's day to day activities.

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.

Historic cost

The actual cost of an asset in terms of past consideration as opposed to its current value.

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.

HRA subsidy

Revenue funding paid to local authorities to make up any assumed deficit between income and expenditure in the HRA. HRA subsidy is based on the concept of the 'notional HRA'; local authorities are required to construct a notional account using the government's assumptions regarding levels of rents and expenditure on repairs and maintenance. Any deficit is the subsidy entitlement for the year, and if there is a notional surplus then the authority has a negative subsidy entitlement, and the surplus must be transferred to the government.

Impairment

A reduction in the value of a fixed asset, greater than normal depreciation, below its carrying amount in the balance sheet.

Infrastructure assets

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure are highways and footpaths.

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 to maintain the housing stock to a good standard.

Major repairs reserve (MRR)

This reserve is for capital expenditure on HRA assets.

Minimum revenue provision (MRP)

The minimum amount that the council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes.

National non-domestic rates (NNDR)

The rates paid by businesses. These rates are collected by local authorities and paid over to the government. They are then redistributed to local authorities on the basis of relevant population.

Net book value

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation. The NBV should not be taken to represent a current market value.

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.

Outturn

Actual income and expenditure in a financial year.

Pension funds

For the Local Government Pension Scheme, these are the funds that invest employers' and employees' pension contributions in order to provide pensions for employees on their retirement and pensions for employees' dependants in the event of death of the employee.

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; expenditure against a provision is therefore not charged to revenue as this would be double counting.

Prudential borrowing

Borrowing by local authorities without government financial support, but in accordance with the CIPFA Prudential Code for local authority borrowing.

Prudential Code

A professional code of practice prepared by CIPFA, for the prudential system introduced on 1 April 2004. Local authorities are required by legislation to have regard to the code.

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.

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, as against provisions, where it is not. Earmarked reserves are allocated for a specific purpose. Unallocated reserves are described as balances.

Revenue support grant

A general grant payable to support local authorities' revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure and income from the NNDR pool and council tax. Revenue support grant is distributed as part of formula grant.

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 transaction 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 they 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.

London Borough of Barnet

Audit of Accounts 2008/09.

Annual Report to those Charged with Governance 2008/09

September 2009

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- C Appendix: Summary of Unadjusted Misstatements**
- D Appendix: Audit Recommendations**
- E Appendix: Pension Fund Audit**

1 Executive Summary

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

1.1 Purpose of Report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of London Borough of Barnet ('the Authority'). The purpose of this report is to highlight the key issues arising from the audit of the Authority's statement of accounts (including the Group Accounts) for the year ending 31 March 2009.

The document is used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Audit Committee. These requirements are set out in Appendix A.

The Authority is responsible for the preparation of a statement of accounts, which records its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We, as auditors, are responsible for undertaking an audit and reporting whether, in our opinion, the Authority's statement of accounts represents a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice ('the Code'), we are also required to reach a formal conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, the Value for Money (VFM) conclusion. This is primarily based on the work carried out for our Use of Resources (UoR) assessment.

1.2 Status of Audit

We were presented with the draft statement of accounts on 29 June 2009. We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards.

There are a small number of completion points outstanding at the date at which this report was issued, detailed in Section 2.2, which we expect to clear in time for approval by the Audit Committee on 29 September 2009.

There were also a number of points outstanding on the Pension Fund audit and these are being reported separately through a briefing to the Chair of the Audit Committee and communicated to the other Pensions Committee members on 18th September 2009. Issues arising from this work are summarised in Appendix E.

The fieldwork supporting the VFM conclusion is based on our Use of Resources (UoR) audit. This work has been completed sufficiently for us to provide this conclusion.

The appointed day for electors to ask the auditor questions on the accounts this year was 20 August 2009. However, we did not receive questions from the public on this date.

1.3 Overall Conclusions

The Authority continues to prepare good quality accounts that are free from material misstatements and which are supported by good supporting working papers. The accounts required a small number of changes to disclosures in the notes as a result of matters identified during the audit process and there are also a small number of minor adjustments which were not adjusted on grounds of materiality. These are detailed in Section 2 of this report, and are summarised in Appendices B and C. We have also made a number of recommendations to improve the accounts process which are set out in Section 2 and summarised in Appendix D of this report.

Statement of Accounts Opinion

We anticipate providing an unqualified opinion on the Authority's statement of accounts, prior to the statutory deadline of 30 September 2009.

Pension Scheme Statement of Accounts Opinion

We anticipate being able to provide an unqualified opinion on the Pension Fund as a separate opinion on the pension fund accounts, and also within our overall audit opinion to the Authority.

Value for Money Conclusion

In providing our opinion on the statement of accounts, we are also required to reach a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. We propose to give an unqualified Value for Money (VFM) conclusion.

1.4 Use of Resources

Our Value for Money conclusion is informed by our work on the Use of Resources (UoR) assessment. The Use of resources framework assesses the Authority's performance against a range of Key Lines of Enquiry (KLOE), which are scored on a scale of 1 (not-adequate) to 4 (excellent). In order for us to provide an unqualified conclusion, the Authority needed to achieve a score of at least 'level 2' for each Key Line of Enquiry ('KLOE') prescribed by the Audit Commission. This was accomplished. A high level summary of findings from this work is set out in Section 3 of this report. A more detailed report on the Use of Resources assessment for 2008/09 will be presented to the Audit Committee in November 2009, following completion of the process.

1.5 Pension Fund Audit

The Pension Fund audit was undertaken by specialists within Grant Thornton LLP and was subject to a separate audit plan and ISA 260 report. Although our report is being considered by the Pension Fund Committee, we note that the overall approval of the Authority's accounts rests with the Audit Committee. Therefore the outcome of the Pension Fund audit needs to be considered alongside the contents of this report. The summary of key issues on the Pension Fund Statement of Accounts is included for information as Appendix E.

1.6 Whole of Government Accounts

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of the Whole of Government Accounts (WGA). This work is not covered by our opinion on the Authority's accounts. We will complete this work once the accounts audit has been finalised and in time for the 1 October deadline.

1.7 The Way forward

We will continue to work with the Authority to ensure that outstanding issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2009.

1.8 Audit Fee

We have completed our work in line with the planned fee of £420,000 for the Authority and £40,000 for the Pension Fund. The fee was set out in the 2008/09 Audit Plan which was agreed by the Audit Committee in March 2009. The estimated fee for our grants audit for 2008/09 remains £85,000.

1.9 Acknowledgements

We would like to record our appreciation for the positive co-operation and assistance provided to us by the finance department and other staff at the Authority during the course of our audit.

Grant Thornton UK LLP

24 September 2009

2 The Accounts Opinion

2.1 Introduction

This section provides a summary of our findings arising from the audit of the statement of accounts. This includes matters arising from our evaluation of key controls and comment on the Authority's overall financial position.

2.2 Status of the Audit

We carried out our audit in accordance with the audit plan presented to the Audit Committee in March 2008. Our audit is substantially complete.

The following finalisation procedures are outstanding:

- Obtain and review the Authority's letter of management representation.
- Update our post balance sheet events review, to the date of signing the accounts.
- Review of the final version of the statement of accounts, including the Annual Governance Statement, to ensure that agreed adjustments have been made.
- Receipt of outstanding investment confirmations.

2.3 Audit Opinion

We expect to issue an unqualified audit opinion on the Authority's statement of accounts. This is subject to the approval of the statement of accounts by the Audit Committee on 29 September 2009, and completion of our finalisation procedures.

A number of issues arose during the course of the audit which, whilst not considered material to the reported financial performance, should be considered by the Audit Committee. These are set out below.

Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix D.

2.4 Audit Risk

During our planning phase a number of areas in the Statement of Accounts were identified as requiring particular focus, these are referred to as our Critical Assertions. We have reported any matters relating to these assertions in the section 2 of this report, and have nothing further to report. Our Critical Assertions related to our audit of:

- Fixed Assets
- Impairments
- Investments

- Revenue
- Grant Revenue
- Expenditure
- Financial Instruments

In addition, we identified a number of specific audit risk areas from our planning process which were addressed as part of our audit procedures. Key audit risks included:

- Treatment of Icelandic bank deposits in regard to impairment and recoverability (including interest).
- Valuation of land & buildings, including impairment, as a result of the economic downturn.
- Accuracy and completeness of accounting records held on the Fixed Asset Register.
- Correct use of the 'other' balance in the STRGL.
- Formalisation of contractual arrangements with Barnet Homes.

Where issues have arisen in these areas, this has been covered in sections 2.6 and 2.7 of this report, and we have no other matters to report in this regard.

2.5 Financial Performance

The Authority has produced good financial results for the year, including the generation of a substantial net surplus, which are broadly in line with medium term financial plans. The Authority's financial performance in the year can be measured in terms of the net increase in the General Fund Balance and, to a lesser extent, the net increase in Earmarked Reserves, to which the Authority can allocate funds for specific purposes, rather than allocating them to the General Fund.

The General Fund exists to finance the Authority's day to day costs of providing services. All expenditure, other than that relating to capital and the Housing Revenue Account (HRA) is charged to the General Fund through the I&E account.

The Authority has reported an Income and Expenditure (I&E) account deficit of £65.91 million (2007/08 £76.75 million). This is after taking into account an impairment of £4.31 million on the Icelandic Bank investments, as well as a net increase in pension costs of £6.53 million, which was due to a change in the method of valuing pension scheme assets.

The Statement of Movement on the General Fund Balance adjusts the reported I&E deficit to exclude specific costs, which are determined by statute and include transfers to Earmarked Reserves, in order to calculate the net impact on the Authority's General Fund. This statement shows that the Authority has increased the General Fund by £1.367 million in year, bringing the total General Fund balance at year end to £17.482 million (excluding a further £13.231 million allocated to schools).

Earmarked Reserves are amounts of money set aside to cover expenditure in future years on specified projects or major initiatives. In addition to the increase in the General Fund balance, the Authority has been able to increase its Earmarked Reserves by £13.33 million in year, bringing the total balance of Earmarked Reserves to £31.9 million, an increase of 72% on the prior year. This includes an additional £2.8 million to cover housing benefit administration costs, £3 million to cover litigation and £5.7 million to cover potential lost interest as a result of the economic downturn. We are satisfied that the transfers have been approved by the Cabinet Resources Committee (CRC) for specific purposes, and do not impact on our audit opinion. We will conduct work during 2009/10 to further develop our understanding the use of Earmarked Reserves at the Authority.

2.6 Issues Arising in the Year

There are a number of matters arising in the year which should be considered by those charged with governance, when approving the financial statements. These are set out below:

Fixed Asset Valuations & Impairment.

The Authority's freehold and leasehold properties are subject to a five year rolling programme of revaluation. The revaluation of council dwellings was brought forward to take into account the expected fall in value of land and buildings nationally since 2007/08. The revaluations included in the accounts reflect the net effect of significant rises in values between 2005/06 and 2007/08 followed by the significant downturn in values throughout 2008/09. This has resulted in council dwellings increasing in value by £117m in the year. Analysis of the Land Registry database (up to February 2009) indicated that, whilst the general trend since 2005/06 in Greater London has been a 1.5% fall in value of property, the trend in Barnet has been a 9.1% increase. The upwards revaluation of £117 million in council dwellings amounts to a 9.9% increase.

We note that in addition to the cyclical programme of asset revaluations, officers also undertook an impairment review of all those land and buildings not revalued in year as part of the cycle. This helped to ensure that asset values reflected the downward movement in prices as a result of the economic downturn. Impairments to asset values have been recognised appropriately in the statement of accounts with one exception (see section 2.7 for the adjusted error as a result of the fire on council dwellings, incorrectly taken to the revaluation reserve).

We have noted that, among local authorities nationally, the recent short term fluctuations in land and buildings valuations have highlighted a potential issue with the commonly applied policy of valuing assets on a cyclical basis (e.g. five years). The significant movements in asset valuations reported by many Authorities, including London Borough of Barnet, may be an indication that in some cases valuations presented in annual accounts have not kept pace with the movements in economic conditions over this period. As noted above, in 2008/09 the Authority has ensured that asset values fairly represent current economic conditions by conducting an impairment review of land and building assets. The implementation of International Financial Reporting Standards (IFRS) in 2010/11 may provide an opportunity to change the cycle of asset revaluations in the future.

Recommendation: In the light of recent fluctuations in land and buildings asset valuations as a result of the economic downturn, the Authority should consider whether in the medium to long term, the policy of revaluing land and buildings assets on a five year cycle will continue to be appropriate in future.

In addition, our work on the valuation of fixed assets in 2008/09 at the Authority, and other authorities across the country, has highlighted a number of differences in the methods that expert valuers have used in regard to land and building assets, and to housing stock in particular, to provide a valuation of assets in the accounts. As a result of this we requested that the Authority expands its asset valuation note to explicitly state the valuation approach and methods used.

Treasury Management (Icelandic Banks).

Local Authority investment management practices have come under close scrutiny following the collapse of the Icelandic Banks. The Authority has investments of £27.4 million in two Icelandic banks, Landsbanki and Glitnir. In guidance issued through CIPFA 'LAAP' bulletins, the Authority was required to recognise an impairment relating to these investments. The impairment had been calculated correctly based on the guidance in place at the time. The Authority, following the guidance, could have chosen to defer the impairment but opted not to do so and accounted for the full impairment in the Income and Expenditure Account.

Following the preparation of the draft accounts, new guidance was issued by CIPFA (LAAP 82) which made minor changes to the basis for calculating the impairment. The impact of this guidance was to increase the impairment by £1.153 million and to increase the amount of reclaimable penalty interest by £0.693 million. The net increase in the charge to the I&E account is therefore £0.460 million. This constitutes a post balance sheet event however, as the amounts are not material to the fair presentation of the accounts, the Authority has opted not to adjust (see section 2.8 Unadjusted Misstatements).

In 2008/09, the Authority reviewed its treasury management arrangements in response to the Audit Commission's report on Icelandic investments. The Authority's investment policy is to invest in domestic banks, building societies and government backed organisations, and Officers continue to monitor credit ratings and future prospects of financial institutions that the Authority is authorised to invest in, in order to minimise the risk of losses, whilst securing competitive returns.

We reviewed all investments that the Authority holds to ensure it met the current Treasury Management Strategy. We noted that one investment with the Royal Bank of Scotland, totalling £5 million, was made in line with the Treasury Management Strategy in place at the time but did not meet the requirements in the current Treasury Management Strategy. This investment met the credit rating requirements, but had been made for longer than 92 days. The current Strategy states that investments in nationalised banks should be for a period of up to 92 days. We consider this issue should be reported to those charged with Governance, but we do not consider that it represented a breach of policy at the time the deposits were made.

The Audit Commission has required us to complete a review of Treasury Management arrangements at the Authority, which incorporate the work undertaken by the Authority in response to the recent treasury management issues. We have found that the procedures in place at the year end were sufficiently robust to support our VFM conclusion. However, there were a number of areas for development, relating to member training that the Authority will need to address. We are due to report back to the Audit Commission on our findings in October 2009 and will provide a separate report to the Audit Committee to report these findings.

Members' and Officers' Expenses.

Following Audit Commission guidance, we have also reviewed members' and senior officers' expense claims and have performed testing where appropriate. The application of expenses and allowances was found to be consistent with accepted practice and the policies set out in the Authority's Constitution.

Intangible Fixed Assets.

During the year, the Authority reviewed its intangible asset portfolio. In order to improve the presentation of the accounts, the Authority has opted to reclassify intangible assets, with a NBV of £10.72 million, as tangible fixed assets (vehicle, plant and equipment). This change was due to some uncertainty around the separation of fixed and intangible components within these values. We do not consider that the change has a fundamental impact on the presentation of the accounts, and therefore do not consider that a prior year adjustment is necessary. We have reviewed the reclassification and accounting entries and have concluded that the adjustment is valid and has been correctly posted to the accounts.

2.7 Internal Control Issues

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the statement of accounts audit. Our evaluation of the Authority's key financial control systems did not identify any fundamental control issues presenting a material risk to the accuracy of the statement of accounts.

We also performed a high level review of the general IT control environment, as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that had an adverse impact our audit of the accounts.

However, a number of more detailed systems and internal control issues arose from our audit. These are set out below:

Overall System of Internal Control

During the year, the Authority has recognised that there have been a series of weaknesses in the application of internal financial controls and the control culture in the Authority. In addition, a formal objection from a local elector was the subject of a specific external audit review. This gave rise to certain issues, which are being reported separately, and we summarise in this report our principal recommendations in regard to these issues:

Recommendations:

- *The Authority takes action on the weaknesses in internal financial control it has recognised and reports back to the Audit Committee on progress and improvements that have been made.*
- *The Authority reviews, updates and enhances its Standing Financial Instructions and Standing Orders, to ensure that they are up-to-date and help promote a stronger control mechanism across the Authority.*

Internal Audit

Where appropriate, we have been able to use the work completed by Internal Audit to support our audit in documenting and understanding material systems used to produce the statement of accounts. There were no fundamental control issues arising from the work of Internal Audit that would impact on our planned audit strategy as reported to the Audit Committee in June 2009.

We previously agreed with the Authority that a three year internal audit cycle for core financial systems could be accommodated in our audit process, however in doing so we recognised that this would affect the level of reliance that we could place on Internal Audit work, for key processes which were not directly covered in the financial year. We note that that Internal Audit coverage is currently under review and that key processes will be reviewed annually in future. This should allow us to place more reliance on the work of Internal Audit, as part of the managed audit process. We will work closely with the Authority to help develop its internal audit programme.

Recommendation: The Authority should review progress made in regard to improving the coverage, focus and corporate impact of the Internal Audit service, including the mechanism for ensuring that audit recommendations are followed through to completion.

Fixed Asset Register

For a number of years, the Authority has been using spreadsheets to maintain its asset register. During this year's audit, we noted that several manual adjustments had to be made at the year end, to ensure that the net book value of assets per the asset register agreed to amounts on the accounting system. The Authority had also incorrectly accounted for asset additions, which had been duplicated from 2007/08. Furthermore, we noted that the spreadsheet incorrectly pulled through the gross book values and accumulated depreciation for assets re-valued in the year. These issues required substantial resource from the finance team at year end in order to ensure that fixed assets were correctly stated in the 2008/09 accounts. This issue has been highlighted in our reports to those charged with governance in prior years.

The maintenance of a manual fixed asset register on a spreadsheet leaves the Authority open to possible material misstatements in future. An automated system would not eliminate this risk entirely, but would help to reduce this risk significantly. We are aware that the Authority is in the process of developing an asset management system that will meet its requirements.

Recommendation: The Authority should prioritise the development of the asset management system, to ensure that ongoing issues with the accuracy of the accounting record are addressed.

Non-Enhancing Expenditure

The Authority has the following policy on accounted for non-enhancing expenditure 'any expenditure on an asset that is under £10,000 is considered Non-Enhancing and is treated as revenue expenditure'. However, we noted that fixed asset additions include a total of £90,000 made up of individual additions which are less than £10,000. These should be accounted for through the Income and Expenditure account. An adjustment has not been proposed, as the amounts are not material to the 2008/09 statement of accounts.

Recommendation: The Authority should review its capitalisation process, to ensure that non-enhancing expenditure is accounted for in line with its accounting policy.

Tenant Debtors.

Included in the tenant debtors is an amount for Private Sector Tenancy rent deposit schemes amounting to £2.2 million. These are for deposits with landlords and are not maintained as a control account. In 2007/08, we made a recommendation to reconcile this balance to individual deposits and the Authority is in the process of compiling a list of these deposits.

Recommendation: The Authority should ensure that it reconciles this balance to individual tenant deposits. Without this it cannot be that the deposits have been recorded accurately and completely.

One of the issues noted in the previous year was that the SLA contract in place with Barnet Homes did not cover the monitoring of debtors and a recommendation was raised in the 2007/08 ISA 260.

Recommendation: The SLA contract between the Authority and Barnet Homes is revised, to include expectations of Barnet Homes over the monitoring of tenant debtors.

Collection Fund

The Authority could not provide complete records of central government notification regarding the Non-Domestic Rate Pool. This notification is only sent through once and cannot be accessed again on the Logasnet website.

Recommendation: The Authority should maintain copies of central government notification on the NNDR pool, issued via Logasnet, as supporting documentation for the audit trail.

Investment and Borrowings

We noted a number of clearly inconsequential differences between amounts on Logotech, the system used to maintain borrowings, and investments presented in the statement of accounts and on the accounting system. This does not materially affect

the accuracy of the statement of accounts, but it reflects a problem with the reconciliation of systems, and this should be addressed.

Recommendation: The Authority should review and resolve differences to ensure the correct amounts of investments and borrowings are reconciled between associated systems, including Logotec and the accounting system.

Statement of Recognised Gains & Losses (STRGL)

The Authority has made progress in clearing balancing items from the STRGL since 2007/08. However, there remains an 'Other' balance of £345,000, which should be cleared during 2009/10.

Recommendation: The Authority should ensure that residual balancing items in the 'other' balance are removed from the STRGL in 2009/10.

Grants & Contributions

Within the opening balance of £40.221 million for useable capital receipts, £25.831 million was identified during the year as capital contributions received, but not applied, indicating that the incorrect classification had been used in the balance sheet within creditors. Therefore, an adjustment was made to correct the classification, including a restatement of the opening balances stated in the accounts. We reviewed this adjustment and concluded that the correction was valid and had been correctly posted in the accounts.

Related Party Disclosures

When reviewing the related party disclosure note, we found that not all members had completed and returned their declaration of related party transaction forms, and therefore we were not fully assured of the completeness of the related party disclosures.

Recommendation: The Authority should make sure that Members complete their annual declaration of interests forms and return them as requested, to ensure the disclosure included in the accounts is complete.

Barnet Homes

We noted that the Authority held inter-company debtor and creditor balances at year end with Barnet Homes, the Arms Length Management Organisation (ALMO), which forms the principal additional component in the Authority's group accounts. These transactions primarily comprise of a monthly management charge, internal re-charging of overheads and contributions to capital projects. The Authority has placed reliance on the accounting records of Barnet Homes to identify the inter-company debtor and creditor balances which form part of the disclosures in the balance sheet at year end. These balances were a debtor of £4.345 million and a creditor of £4.04 million.

Recommendation: The Authority should strengthen controls to ensure that the Authority's sales and purchase ledger records are regularly reconciled to inter-company debtor and creditor balances reported by Barnet Homes.

Pension Fund

The Pension Fund does not have a separate bank account and therefore, a creditor is raised for the cash and bank balance held by the Authority on behalf of the Pension Fund, which amounted to £52.751 million at year end.

As reported last year, the Authority does not operate separate bank accounts in the name of the Pension Fund. The result of this is that separate reconciliations are required to ensure that monies in connection with the Pension Fund are ring fenced from that of the Authority. Although our review did not identify any anomalies with the current procedures, there are potential process efficiency gains associated with separating the bank account and it would provide additional assurance that pension fund cash is adequately ring-fenced. We were informed that there is a separate bank account in the Fund's name, but this was not currently being used because of logistical issues.

Recommendation: In the light of updated guidance on cash sharing arrangements, we recommend the pension Fund uses its own bank accounts, separate from those of the Authority.

A number of other issues were reported in the Pension Fund Audit report and the key issues are highlighted in Appendix E.

2.8 Adjusted Misstatements

There were no material misstatements identified during the course of the audit. We identified a number of non-material adjustments which finance officers have agreed to amend. A number of disclosure adjustments have also been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.

All adjusted misstatements are scheduled at Appendix B. The aggregate of these adjustments has not impacted on the Income and Expenditure account deficit or on General Fund balances. This is consistent with prior year performance on the number and nature of audit adjustments identified.

There were a number of adjustments to the Pension fund accounts but these have not had an impact on the Authority's accounts. For details on findings of the Pension Fund audit see Appendix E.

2.9 Unadjusted Misstatements

There were a number of misstatements which were not processed by management on grounds of materiality. We do not consider these to have a significant impact on the validity of the reported accounts; however it is important that those charged with governance satisfy themselves that these misstatements do not warrant adjustment prior to approving the financial statements. These are set out in Appendix C.

2.10 Annual Governance Statement ('AGS')

We have examined the Authority's arrangements and process for compiling the AGS. In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Authority. Our audit has identified a number of enhancements which have been agreed by the Authority. When these are made, we will consider whether the Statement then accurately reflects the position at the Authority in 2008/09. The key issues identified were:

- The issue of non-compliance with the Treasury Management Strategy in prior years is mentioned only briefly. We requested that this issue be explicitly disclosed. This should include confirmation as to whether any other instances of non-compliance were detected during 2008-09.
- The wording in relation to Icelandic banks is weakened with the use of the phrase 'apparent non-compliance' we required the word 'apparent' be removed.
- Wording in reference to the present position on money laundering indicates that the Authority was previously non-compliant with the Act in year, we required rewording to clarify this.
- Disclose how the Authority ensures that allowances and expenses are not claimed or used inappropriately.
- Disclose recent measures that have been taken by Barnet to understand and mitigate risks associated with the Baby P case at Haringey.

We also noted an inconsistency in the Explanatory Forward to the accounts, which also required adjustment. The information on financial performance for the HRA and Capital programme did not include sufficient detail on actual outturn against plan. We required the inclusion of a statement on performance against plan for the HRA and on performance against the capital plan, including an explanation for any major slippage.

We also noted a number of potential enhancements to the disclosure in both statements noted above, which were notified to the Authority for consideration.

2.11 Next Steps

The Audit Committee is required to approve the annual accounts of the Authority for the year ended 2008/09.

Finally, we would like to draw to the attention of those charged with governance further significant changes to the basis on which the statement of accounts will be prepared in future years. The most significant of which is the full implementation of International Financial Reporting Standards (IFRS) into the 2010/11 accounts. It is important that authorities start planning now, as there will be significant changes to the accounts under IFRS. Our experience in other sectors shows that audited bodies that are well prepared for the transition to IFRS have fewer amendments to their accounts than those who are not. Working with the finance team we are already sharing our experiences of working with CIPFA in this area, as well as involving our Financial Reporting Advisory Group who are specialists in planning for IFRS. This process will continue over the next two years.

3 The Value for Money Conclusion

Scoring scale:

- 1 - Below minimum requirements - inadequate performance
- 2 - Meets the basic requirements - in line with national expectations
- 3 - Consistently above expected requirements – performing well
- 4 - Well above minimum requirements – performing strongly

3.1 Introduction

This section sets out the basis for our value for money conclusion and summarises our work on Use of resources (UoR) to date. In 2008/09 a new basis for the assessment was introduced for the UoR Assessment. It is important to note that the basis for the assessment has changed and therefore the scores are not directly comparable with prior years.

3.2 Our Conclusion

Based on the Use of Resources assessment, we propose to give an unqualified value for Money conclusion.

3.3 Provisional Scores

The Authority achieved an overall level 3 for the assessment, in line with approximately two thirds of London Borough councils. A score of 2 was the prevailing score nationally for organisations subject to the assessment.

In order for us to provide an unqualified conclusion, the Authority needed to achieve a score of at least 2 for each Key Line of Enquiry (KLOE). These criteria have been achieved and our proposed assessment for the Authority is summarised by KLOE 'Theme' in table 1.

Please note that the scores set out in table 1 are provisional at this stage as they are subject to national moderation by the Audit Commission. Also note that KLOE Theme 3 will be assessed on a 3 year cycle for local Authorities and therefore KLOE 3.3 was not assessed in 2008/09.

Table 1: Provisional UoR Scores

1. Managing Finances	Provisional Score 2009	VFM Conclusion Requirements
1.1 Financial Planning & Delivering Priorities	3	Met
1.2 Understanding Costs	2	Met
1.3 Reporting Finances & Performance	3	Met
<i>Theme Score</i>	3	

2. Governing the Business	Provisional Score 2009	VFM Conclusion Requirements
2.1 Commissioning & Procurement	2	Met
2.2 Data Quality	3	Met
2.3 Principles of Governance	3	Met
2.4 Risk & Internal Control	2	Met
<i>Theme Score</i>	3	

3. Managing Other Resources	Provisional Score 2009	VFM Conclusion Requirements
3.1 Use of Natural Resources	2	Met
3.2 Asset Management	2	Met
3.3 Managing People	Not Assessed	N/A
<i>Theme Score</i>	2	

Overall UoR Score	Provisional Score 2009	VFM Conclusion Requirements
	3	Met

3.4 The Way Forward

The outcome of our Use of Resources audit will be reported in full in a separate report to be presented to the Audit Committee in November 2009.

A Appendix: Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
- To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.
- To provide to those charged with governance constructive observations arising from the audit process.

Matters Reported under ISA 260

Area	Key Messages
Independence	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none"> • We are independently appointed by the Audit Commission. • The firm has been assessed by the Audit Commission as complying with its required quality standards. • The appointed auditor and client service manager are subject to rotation every 5 years • We comply with the Auditing Practices Board's Ethical Standards. • We have not charged fees for additional services in excess of the main audit fee (£420,000 excluding VAT).

Area	Key Messages
Audit Approach	<p>Our approach to the audit was set out in our 2008/09 audit plan and our audit strategy document for the year ending 31 March 2009. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • We consider the materiality of items in the statement of accounts in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at the Authority for final accounts audit purposes. • In 2008/09 we have been able to place reliance on the work of internal audit in respect of understanding and documenting key accounting systems.
Accounting Policies	<p>We consider that the Authority has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies were in accordance with the 2008 local government Statement of Recommended Practice.</p> <p>The Audit Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18.</p> <p>We have considered the Authority's financial plans in regard to the appropriateness for the Authority to account on a going concern basis and find this to have been appropriate.</p>
Material Risks	<p>We have requested from the Authority a letter of management representations, to state that there are no additional material risks and exposures as at the date of the audit report, which should be reflected in the statement of accounts.</p> <p>We will also perform our own audit procedures to ensure that all significant risks and exposures to the Authority have been recognised in the accounts as at the date of the audit report.</p>

Area	Key Messages
Audit Adjustments	We have discussed with management a number of adjustments to the accounts primarily to improve the fair presentation of the statement of accounts as well as the clarity and presentation of disclosure notes. These adjustments are summarised in Appendix B.
Unadjusted Errors	From the audit results mentioned previously we have identified no unadjusted errors. These are disclosed in Appendix C.
Other Matters	No other matters have been noted.

B Appendix: Adjustments to the Statement of Accounts

The following table presents all significant adjustments made to the accounts arising from the audit process which have been processed and agreed with Officers in the Authority.

Adjustment Type

- **Misstatement** - A change to the value of a balance presented in the statement of accounts.
- **Classification** - The movement of a balance from one location in the accounts to another.
- **Disclosure** - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	Accounts balance	Impact on statement of accounts
Classification	Housing Revenue Account	A £2.293 million impairment incurred as a result of council property burnt down in the year was accounted for by being netted off against the revaluation reserve, however as it results in loss of economic benefit, this should be written off as a charge to the Housing Revenue Account.
Classification	Government Debtors	Included in government debtors is a debtor balance of £1.795 million relating to the Sure Start grant from the DCFS which has been received in the year. An adjustment of £1.795 million is required, decreasing the debtors amount and increasing grants and contributions unapplied.
Misstatement	Fixed Assets and Revaluation reserve	The revalued amount on one entry within the Other Land and Buildings balance has been understated. An adjustment increasing the asset value and revaluation reserve by £0.7 million.

Adjustment type	Accounts balance	Impact on statement of accounts
Misstatement	Fixed assets and Revaluation reserve	In 2007/08 the Authority identified fixed assets that were considered to be missing on the Asset Register, and the missing assets were adjusted through the Capital Adjustment Account (CAA). One of these assets was subsequently found not to be missing from the register, as it existed as duplicate entry, but this was not adjusted on grounds of materiality. In 2008/09 an adjustment was made to correct this entry, however this has been made to the revaluation reserve rather than the CAA and for the total value rather than that of the specific asset in question. This incorrectly decreased the revaluation reserve by £1.722 million and increased Fixed Assets by the same amount. As a result of the 2008/09 audit, this adjustment has been reversed by the Authority and the correct adjustment has been posted to increase the CAA by £0.5 million and to decrease the Fixed Assets balance by the same amount.
Classification	Investments	Investments of £1.212 million were reclassified from long term investments to current investments as they fall due within 12 months. A further £3.622 million of investments were reclassified from long term investments to current investments, which reflects the amount of the Landsbanki Bank investment expected to be repaid in less than one year.
Classification	Borrowings	Borrowings of £1.023 million were reclassified from long term borrowings to current borrowings, as they fall due within 12 months.
Classification	Creditors	Creditors: The Pension Fund does not have a separate bank account and therefore, a creditor is raised for the cash and bank balance held by the Authority on behalf of the Pension Fund. However we noted a timing difference between the corresponding balances recorded in the accounts of the Authority and the Pension Fund, which affected the creditors note. An adjustment of £0.108 million was posted to amend the classification in the creditors note in the statement of accounts. This adjustment had no impact on the overall creditors balance reported on the balance sheet.

Adjustment type	Accounts balance	Impact on statement of accounts
Disclosure	Creditors	During the year the Authority identified grants and contributions that were accounted for in the useable capital receipts accounts amounting to £27.371 million. These amounts have been classified as sundry creditors and we have recommended that these are disclosed as a separate creditor in note 31 of the accounts.
Classification	Statement of total recognised gains and losses (STRGL)	The Authority had a number of items (£4.854 million) included within its 'Other' line with the STRGL. It is not expected that the 'other' line should include any items other than the collection fund and financial instruments adjustment accounts. The Authority agreed to adjust £5.199 million which related to depreciation accounted for in the revaluation reserve. The remaining balance of £345,000 will need to be cleared in 2009/10 (see recommendation on the STRGL section 2.6).
Disclosure	Tangible Fixed Assets	Our work on the valuation of fixed assets in 2008/09 at the Authority, and other authorities across the country, has highlighted a number of differences in the methods that expert valuers have used in regard to land and building assets, and to housing stock in particular, to provide a valuation of assets in the accounts. As a result of this we requested that the Authority expands its asset valuation note to explicitly state the valuation methods used.
Disclosure	Pension Reserve	We recommended that the Authority includes information relating to the fair value of assets for the last four years and other information as required by the SoRP disclosure checklist.
Disclosure	Related Party Disclosure	We recommended that the disclosure on related parties includes information on significant income, expenditure, debtor and creditor transactions.
Disclosure	All	A number of disclosure adjustments have been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.

C Appendix: Summary of Unadjusted Misstatements

The following table presents errors arising from the audit process which have not been adjusted on the grounds of Materiality.

Adjustment type	Accounts balance	Impact on statement of accounts
Misstatement	Government debtors	An increase of £0.148 million in Department of Works and Pensions grant and a corresponding increase in expenditure relating to housing benefits, which is an adjustment to the amounts due to the Authority based on the DWP grant claim submitted for certification. This was not adjusted on grounds of materiality.
Classification	Housing Revenue Account (HRA)	An increase of £0.034 million in charges for services and facilities in the HRA and a corresponding decrease of garage rents, relating to a VAT error in accounting for garage rents. This was not adjusted on grounds of materiality.
Post Balance Sheet Event	Income & Expenditure Accounts	Icelandic Deposits: There has been a potential increase to the impairment of Icelandic deposits and an increase in the interest recoverable on the deposit, through the I&E account as a result of late guidance issued by CIPFA. The net impact on the I&E Account would be to increase the reported deficit by £460,000. This was not adjusted on grounds of materiality
Misstatement	Fixed Assets	Fixed asset additions include a total of £90,000 made up of individual additions which are less than £10,000. These should be accounted for through the Income and Expenditure account. An adjustment has not been proposed, as the amounts are not material to the 2008/09 statement of accounts.

Adjustment type	Accounts balance	Impact on statement of accounts
Misstatement	STRGL	The Authority has made progress in clearing balancing items from the STRGL since 2007/08. However there remains an 'Other' balance of £345,000 which should be cleared during 2009/10

D Appendix: Audit Recommendations

The following table presents recommendations arising from the audit.

Recommendation	Priority	Management Response	Responsible Officer	Action Date
<p>Internal Control</p> <p>The Authority takes action on the weaknesses in internal financial control it has recognised and reports back to the Audit Committee on progress and improvements that have been made</p>	High	Agreed.	Deputy Director of Corporate Governance & S151 Officer	Already implemented
<p>Internal Control</p> <p>The Authority reviews, updates and enhances its Standing Financial Instructions and Standing Orders to ensure that they are up-to-date and help promote a stronger control mechanism across the Authority</p>	High	Agreed. The constitution and financial regulations are currently being reviewed. Proposed changes will then be presented to the Special Committee (Constitutional Review).	S151 Officer & Director of Corporate Governance	In progress – completion by March 2010

Recommendation	Priority	Management Response	Responsible Officer	Action Date
<p>Internal Audit</p> <p>The Authority should review progress made in regard to improving the coverage, focus and corporate impact of the Internal Audit service, including the mechanism for ensuring that audit recommendations are followed through to completion.</p>	High	Agreed.	Deputy Director of Corporate Governance & S151 Officer	In progress – March 2010
<p>Fixed Assets - Asset Management System</p> <p>The Authority should prioritise the development of the asset management system to ensure that ongoing issues with the accuracy of the accounting record are addressed.</p>	High	Agreed. Work has already been commissioned to invest and develop the SAP Asset Module. This will enable all capital journals to be automated by the system.	Head of Strategic Finance	December 2009
<p>Fixed Assets - Capitalisation Policy</p> <p>The Authority should review its capitalisation process to ensure that non-enhancing expenditure is accounted for in line with their accounting policy.</p>	Low	Agreed, this is already on the team plan for Strategic Finance	Head of Strategic Finance	December 2009

Recommendation	Priority	Management Response	Responsible Officer	Action Date
<p>Fixed Asset - Valuations</p> <p>The Authority should review the adequacy of its policy of revaluing land and building assets on a five year cycle in regard to ensuring that asset values fairly reflect movements in prices in each individual year.</p>	High	<p>Agreed. The majority of properties are reviewed on an annual basis. The remaining 8% are revalued on the rolling 5 year programme. Where there is a drop in the market, an impairment exercise is applied across all assets. With the changes as a result of IFRS the position will continue to be monitored to ensure an accurate valuation is achieved.</p>	Valuations Manager	On going
<p>Tenant Debtors</p> <p>The Authority should ensure that it reconciles the balance of individual tenant deposits. Without this it cannot be that the deposits have been recorded accurately and completely.</p>	Medium	Agreed	Finance Manager (Housing)	Exercise is already in progress. Anticipated completion by March 2010.
<p>Tenant Debtors</p> <p>The SLA contract between the Authority and Barnet Homes be revised to include expectations of Barnet Homes over the monitoring of tenant debtors.</p>	Medium	Agreed	Finance Manager (Housing)	Agreement already revised. Awaiting legal clearance by October 2009

Recommendation	Priority	Management Response	Responsible Officer	Action Date
<p>Collection Fund</p> <p>The Authority should maintain copies of central government notification on the NNDR pool, issued via Logasnet, as supporting documentation for the audit trail</p>	Low	Agreed	Deputy Head of Financial Services, Barnet Homes	Immediately
<p>Investments</p> <p>The Authority should review and resolve these differences to ensure the correct amounts of investments and borrowings are reconciled between associated systems, including Logotech and the accounting system.</p>	Medium	Agreed	Treasury Manager	March 2010
<p>STRGL</p> <p>Recommendation: The Authority should ensure that residual balancing items are removed from the STRGL in 2009/10.</p>	Medium	Agreed	Head of Strategic Finance	March 2010

Recommendation	Priority	Management Response	Responsible Officer	Action Date
<p>Related Party Disclosures</p> <p>The Authority should make sure that Members complete their annual declaration of interests forms and return them as requested, to ensure the disclosure included in the accounts is complete</p>	Medium	Agreed	Director of Corporate Governance	March 2010
<p>Shared Bank Account</p> <p>In the light of updated guidance on cash sharing arrangements, we recommend the Pension Fund uses its own bank accounts, separate from those of the Authority.</p>	High	<p>Agreed. Work has to be commissioned to invest and develop the SAP system and the business processes to enable all cash transactions relating to the Pension Fund to be processed direct to the Pension Fund bank account direct. In addition the balances will need to be transferred from the main LBB bank account to the Pension Fund bank account.</p>	Head of Strategic Finance / Improvement & Control Manager	March 2010

Recommendation	Priority	Management Response	Responsible Officer	Action Date
<p>Barnet Homes</p> <p>The Authority should strengthen controls to ensure that the Authority's sales and purchase ledger records are regularly reconciled to inter-company debtor and creditor balances reported by Barnet Homes.</p>	Medium	Agreed. Inter company G/L codes have already been set up so that accruals can be easily identified.	Head of Strategic Finance	Already Implemented

E Appendix: Pension Fund Audit

E1 **Audit Conclusions**

We expect to provide the Pension Fund with an unqualified audit opinion. At the date of this letter, a number of matters remained outstanding on the Pension Fund audit and these will need to be resolved before our audit work will be complete. However, we do not anticipate that the completion of our work in these areas will give rise to any material adjustment.

We provided an update regarding these outstanding matters, to the Pensions Fund Committee members on 18 September 2009.

Matters arising during the course of our work, that we would like to bring to the attention of the Committee, are set out below.

E2 **Key Findings**

This section provides a summary of our observations arising from the audit of the Pension Fund. This includes matters arising from our evaluation of key controls. This section provides a summary of our observations arising from the audit of the Pension Fund. This includes matters arising from our evaluation of key controls.

2.1 **The Audit Timetable**

At the planning stage of our audit, it was acknowledged that there had been changes to key personnel during the course of the year. These changes, and the absence of a key member of the Authority's staff during the audit process, impacted on the timing of audit completion in 2008/09. We appreciate that a number of officers involved this year were new to the Authority and we anticipate that these issues should not be repeated in 2009/10. We will work with the Authority's officers, to ensure this happens.

2.2 **Provision of Information for Audit**

As part of our planning procedures, a schedule summarising our information requirements to support our audit work was provided. At the start of the audit, the information was not readily available from the Authority.

The Treasury Manager drafted the accounts for the Fund. However, given that the interim Treasury Manager had only just joined the Authority at the time of drafting, the audit trail from the nominal ledger into the accounts was not always clearly documented. This resulted in more queries than we would normally have expected, however, we acknowledge that the Treasury Manager did not have the benefit of the history behind the Fund at that time.

In addition, the following key reconciliations had not been completed at the start of the audit:

- Reconciliation investment transactions from the fund managers and those recorded in the nominal ledger
- Review of the validity of a number of older fee accruals

Recommendation: Periodic reconciliations of key account balances should be undertaken during the course of the year, at least on a quarterly basis. This will help highlight any anomalies as they arise for timely rectification. Furthermore, as part of the accounts drafting process, we recommend that a clearer audit trail is maintained between the nominal ledger postings and the draft accounts.

2.3 Adoption of the Revised SORP

The Fund is required to adopt the revised Pension SORP (May 2007) for the first time, this year. The most significant change to the disclosure in the accounts, compared with previous years, is that investments are required to be disclosed using bid values as opposed to mid-market values.

The adoption of the revised SORP represents a change in accounting policy. Ordinarily, this would require prior year balances to be re-stated to reflect revised presentation. The SORP however, recommends only amounts which would result in material differences to the opening balances to be re-stated. We concluded that the change in presentation did not result in material differences to the opening balances, and thus no re-statement was considered necessary.

2.4 Evaluation of Key Controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our review of the Fund's key financial control systems was discussed with the Treasury Manager, and did not identify any matters that present a material risk to the accuracy of the financial statements.

2.5 Use of Shared Bank Accounts

As reported last year, the Authority does not operate separate bank accounts in the name of the Pension Fund. The result of this is that separate reconciliations are required to ensure that monies in connection with the Pension Fund are ring fenced from that of the Authority. Although our review did not identify any anomalies with the current procedures, management time could be saved. For example, when calculating interest receivable, the daily balance attributable to the Pension Fund needs to be calculated, and then a formula applied to ensure that the Fund is allocated appropriate levels of interest. We were informed that there is a separate bank account in the Fund's name, but this is not being used because of logistical issues.

Recommendation: In the light of updated guidance on cash sharing arrangements, we recommend the Fund uses its own bank accounts, separate from those of the Authority.

2.6 Maintenance of Cash Held with Fund Managers

Cash allocated for investment with fund managers is physically held by the Authority (approximately £43m). Each month, the balance per the Authority's records is reported to the fund managers, who then use this as the basis of the cash disclosed per the valuation report. At the year end, the amounts reported by the fund managers compared with the Authority's records were different. As part of the audit, we requested that a reconciliation took place to identify observed differences. At the date of this report, this is still to be resolved.

We recognise that the fund managers require a working cash balance to deal with timing differences on the disinvestment and re-investment of certain funds, and it is not uncommon for fund managers to be provided with a sum of cash for this purpose. It is unclear, however, why these funds need to be kept by the Authority. Managing the surplus fund manager cash in this way requires additional time spent and processes carried out by the Treasury team, which could be saved if the fund managers were given full control over this working balance.

Recommendation: The current arrangement for cash balances held by fund managers are reviewed to ensure that they are appropriate and meet the needs of the Fund.

2.7 Timeliness of Contributions Receipts

Regulations require that contributions deducted from members' salaries are paid over to the fund by no later than the nineteenth day following the calendar month, from which the contributions have been deducted.

During our review of contributions, it was noted that for eight scheduled bodies and seven admitted bodies, contributions were late for between one and forty two days. This included:

- Eight instances of contributions being late for more than twenty five days, relating to total contributions of £88k
- Four instances where contributions were late for more than ten days, relating to total contributions of £687k
- Thirty instances of contributions being late up to ten days, relating to total contributions of £4million.

Recommendation: Scheduled and admitted bodies are reminded of the requirement to ensure that contributions are received on time.

2.8 Considering the Accuracy of Fund Manager Information

Part of our work involves considering the reasonableness of transactions and balances as a whole, to ensure that the accounts do not appear materially mis-stated. When considering investment income in this way, our work did not identify any material anomalies. Our discussions, however, revealed that no additional reviews are carried out by the Treasury team to ensure income due is properly recorded as being received, as it is presumed that the fund managers will be correct.

Furthermore, it was noted that any surplus cash held by Schroders should be returned to the Fund. At 31 March 2009, Schroders held a cash balance of £21k. The Treasury Manager contacted Schroders, who acknowledged this was an oversight on their part.

Recommendation: The information provided by the fund managers is periodically reviewed, and any apparent anomalies challenged with the fund managers, and rectified at the earliest opportunity.

2.9 Maintenance of the Statement of Investment Principles (SIP)

The Statement of Investment Principles obtained during the course of the audit makes reference to Midas as one of the fund managers, and makes no reference to Legal & General.

Recommendation: Following the change in fund managers during the year, we recommend that the Statement of Investment Principles is periodically reviewed and, when changes occur, it is updated at the earliest opportunity.

2.10 Investment Purchases and Sales Recognition

Identification of Trades Relating to the Year

The Senior Management Accountant maintains a useful spreadsheet of all purchases and sales of investments, based on settlement sheets provided by the fund managers. In the final week of March 2009, the settlement sheets did not include the transaction dates, and it was assumed that these transactions related to April. On further examination, it was determined that these transactions related to March, and should be recognised as 2008/09 purchases and sales. The year end valuations had correctly recognised these amounts as unsettled trades. The Senior Management Accountant carried out a further review, and confirmed that £1,099k of purchases and £1,127k of sales had not been given included as such in the accounts.

Information Provided by Third Parties

The purchases and sales spreadsheet was compared to the corresponding nominal ledger entries. It was noted that sales totalling £1,615k, and purchases totalling £1,979k had not been recorded in the accounting records as the Authority was not made aware of the transaction until after the year end.

Recommendation: The process for recording and reconciling investment transactions provided by third parties should be reviewed, to ensure that post transactions relating to the year of audit, are complete in the financial statements. The roles, responsibilities and service expectations of J P Morgan should also be considered.

2.11 Investment Valuation

As noted above, the Pensions SORP requires investments to be disclosed using bid prices. However, the draft accounts had inadvertently been presented using mid-market prices. This has resulted in investments being overvalued by £396k. We were informed by the Treasury Manager that this was due to an error in the spreadsheet formula used to derive the year end values.

Recommendation: Spreadsheets relating to Investment Valuations should be checked by someone independent of the person preparing the original calculations. This will ensure that any inconsistent formulas are identified and help ensure that the accounts are free from material misstatement.



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