AGENDA ITEM: 14 Page nos. 180 - 192

Meeting	Audit Committee
Date	7 December 2010
Subject	**Accounting Policies under International Financial Reporting Standards (IFRS)**
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	To consider the accounting policies being adopted under International Financial Reporting Standards (IFRS).

Officer Contributors	Maria G. Christofi, Assistant Director Financial Services, Finance Directorate Anisa Darr, Finance Manager (Closing & Monitoring)
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A - Accounting Policies
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Anisa Darr, Finance Manager (020 8359 7106).

1. RECOMMENDATIONS

1.1 That the accounting policies being adopted under Internal Financial Reporting Standards (IFRS) be noted.

2. RELEVANT PREVIOUS DECISIONS

2.1 The audited Statement of Accounts for 2009/10 were approved by the Audit Committee on 21 September 2010.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 Review of accounting policies is an integral part of producing robust financial statements, which supports Barnet's Corporate Plan objective of "Better Services with less money"

4. RISK MANAGEMENT ISSUES

4.1 Accounting policies underpin the production of the Statement of Accounts. The accounts are then audited by external auditors. A positive external audit opinion on Barnet's Statement of Accounts plays an essential and key role in providing assurance that Barnet's financial risks are managed in an environment of sound stewardship and control.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Accurate financial reporting is important to ensure the management of resources to enable 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. USE OF RESOURCES IMPLICATIONS (FINANCE, PROCUREMENT, PERFORMANCE & VALUE FOR MONEY, STAFFING, ICT, PROPERTY, SUSTAINABILITY)

6.1 None other than what may be contained in the body of the report.

7. LEGAL ISSUES

7.1 None other than what may be contained in the body of the report.

8. CONSTITUTIONAL POWERS

8.1 Within the Council's Constitution, the functions of the Audit Committee are detailed and include "To consider the external auditor's annual letter, relevant reports and the report to those charges with governance".

9. BACKGROUND INFORMATION

9.1 First time adoption of IFRS (IFRS1) requires compliance in the year of adoption (2010/11), restatements of prior year (2009/10) and an opening Balance Sheet as at 31/03/2008.

9.2 The accounting policies in appendix A have been derived using the Code of

Practice for Local Authority Accounting 2010/11. The Code is based on approved accounting issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

9.3 The move to an IFRS based Code results in a number of significant changes in accounting practice. The key accounting changes include:

9.3.1 Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation.

9.3.2 The main financial statements have changed, and there are additional requirements regarding segment reporting.

9.3.3 There is a greater emphasis on component accounting and on derecognising parts of an asset that are replaced.

9.3.4 Property leases are classified and accounted for as separate leases of land and buildings. Local authorities will also need to assess whether other arrangements contain the substance of a lease.

9.3.5 Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve.

9.3.6 Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve to the extent that there is a balance on that reserve relating to the specific asset.

9.3.7 The Code introduces a new classification of non-current assets held for sale. Specific criteria apply to this classification.

9.3.8 All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay.

9.3.9 The definition of associates is based on the ability to control rather than actual control, and may lead to a change in the group boundary.

9.4 It is anticipated that a bulletin will be issued to provide accounting guidance on any regulations, statutory guidance or accounts directions that are enacted after the publication of the Code to mitigate its impact on council tax. The accounting policies will duly be updated following the publication of the bulletin.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: MM
CFO: MC

Statement of Accounting Policies

Introduction

The accounts have been prepared in accordance with International Financial Reporting Standards, interpreted for Local Authorities by the Code of Practice for Local Authority Accounting in the United Kingdom 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.

All relevant International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), 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.

In accordance with IAS 1: Presentation of Financial Statements three statements of financial position are presented in the first year of compliance with IFRS. Changes have been made in accounting treatments to reflect IFRS regulations 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.

The accounts have been prepared under the historic cost convention, modified by the revaluation of certain categories of non current assets in accordance with the Code.

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 IAS19 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 Receivables and Payables 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.

Basis for Consolidation

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 Code. 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.

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 Comprehensive 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.

Cash and Cash Equivalents

Under IAS 7 this category on the Balance Sheet include not only cash balances and demand deposits but also cash equivalents which are defined as short term, highly liquid investments which have a short maturity term and are readily convertible to known amounts of cash. The council has determined any deposit with a maturity date of less than three months at the Balance Sheet date to be cash equivalent.

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). 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.

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.

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).

Contingent Assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. 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). Contingent liabilities are assessed continually to ensure that developments are appropriately reflected in the financial statements. 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. The council discloses a full breakdown of the council's Earmarked Reserves as at the Balance Sheet date in the Notes to the Core Statements.

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.

Financial Instruments

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 Comprehensive Income and Expenditure account. However, the Code 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. The council provides further information on its Financial Instruments in the Notes to the Core Statements.

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 Comprehensive 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 whose conditions have not yet been met are credited to Capital Grants Received in Advance account and released to the Comprehensive Income and Expenditure Account

when the conditions have been met. Grants to cover general expenditure Revenue Support Grant (RSG) are credited to the foot of the Income & Expenditure account after net operating expenditure.

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.

Leases

A lease is defined as an agreement for the use of an agreed period of time in return for a series of payments. Leases can be classed as either finance leases or operating leases and leases are classified as into these categories based on the extent to which risks and rewards incidental to ownership of an asset transfer with the lease.

Finance Leases
A finance lease is a lease that transfers substantially all of the risks and rewards incidental to the use of the asset regardless of whether legal title has transferred to the lessee. Where the council has leased in assets under finance leases the asset is included on the balance sheet and a corresponding liability is created for the future lease payments. With finance lease payments a portion of the rental is regarded as interest on the agreement and the remainder writes down the creditor balance as an effective repayment of principal.

Assets held under finance leases are valued and depreciated under the council's accounting policies. They are valued and depreciated for a period of the length of the lease or the life of the asset, which ever is shorter.

Operating Leases
All other leases are classed as operating leases. These allow the council to have the use, but not the effective ownership of assets over the term of the lease. Rentals payable under the operating leases are charged directly to the relevant service revenue account on a straight-line basis over the term of the lease.

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 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's 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 is disclosed in Notes to the Core statements.

Non-Current Assets

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

Recognition
Tangible non-current 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 non-current 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.
- Investment Property is property (land or building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both.
- Asset held for Sale include all property that the council is trying to sell and are actively being marketed.

The freehold and leasehold properties that comprise the council'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 and until that time, they are included as assets under construction under the non-operational heading and valued at cost.

Componentisation
Under the new IFRS Code for 2010/11, each asset owned or leased by the council is divided up into significant component parts. A component is considered significant when the cost of the component is 20% or greater than the total cost of the asset and has a differing useful life.

Each component is depreciated separately and where there is more than one significant component of the same asset which has the same useful life and depreciation method, such components may be grouped in determining the depreciation charge.

Any component parts of an asset are de-recognised when the component is replaced, even if the original component had not been recognised separately for depreciation purposes. If it is not practical to determine the carrying amount of the replaced components, the cost of the new component is indexed back and then adjusted for depreciation. This is used as a reasonable proxy.

Assets less than £50k will not be considered for componentisation (on the basis of materiality). Assets will only have componentisation applied from 1st April 2010 when they have been revalued, enhanced

or acquired. Until one of these events has occurred an asset will not need to be componentised. Componentisation affects all assets recognised under IAS16, IAS17 and IFRIC12.

Depreciation
In accordance with IAS16 (Property, Plant and Equipment), 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.

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 IAS 36 Impairment of Fixed Assets, impairment reviews are carried out at the end of each financial year to determine if there is any indication that assets may have become impaired. 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.

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 is indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).

Post Employment Benefits and Short Term Benefits

Under financial reporting standard IAS19 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, specifically using the yield on the over 15 year IBOXX AA rated corporate bond index.

Pension reserve

The pension reserve is the financial accounting mechanism to ensure that IAS19 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 IAS19, 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.

Holiday pay accrual

Under IAS 19 an accrual is recognised for short term compensated absences, such as annual leave and other leave benefits rolled over to the following financial year. To avoid impacting on general fund balances, an unusable employee benefit reserve has been created on the Balance Sheet to implement section 8 of Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010.

The basis used to estimate the accrual is three fold:

- Employees that work 'Term Time Only' (TTO), mainly teachers – a percentage based on how many holidays fall in the financial year is applied to annual salary, employer's national insurance contribution and employer's pension contribution.
- Non-teaching staff leave – holiday remaining at year end (to a maximum of 5 days, as per council's policy) is applied to annual salary, employer's national insurance contribution and employer's pension contribution.
- Non-teaching staff eligible for flexi contract – worst case scenario (+10hrs) will be assumed for all staff eligible for flexi contract and applied to their annual salary, employer's national insurance and employer's pension contribution.

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. IFRIC 12 *Service Concession Arrangements* requires the assets used in this contract to be recognised on Balance Sheet.
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.

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.

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 split between short term (due within next 12 months) and long term. 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 are subject to approval by the Chief Finance Officer. A full breakdown of the council's Provisions as at Balance Sheet date is disclosed in Notes 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.

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 council.

Segmental Reporting

The move to IFRS requires information to be presented on reportable segments within the notes. Reportable segments are based on LBB's internal management reporting, i.e. directorates.

A reconciliation between the segment reporting analysis and the net cost of services in the Comprehensive Income and Expenditure Statement is also presented.

Significant Management Judgement in Applying Accounting Policies and Estimation Uncertainty

The only significant estimations in the accounts relate to:

<u>Bad debt</u>
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) Receivables

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 Receivables.

Useful lives of depreciable assets
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

Fair value of financial instruments
The council's financial instruments are carried on the balance sheet at amortised cost. However, the Code 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.

Other
- 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 2010.
- 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 2010/11.

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.