

Putting the Community First



**London Borough of Barnet  
Statement of Accounts  
For the year ended 31<sup>st</sup> March 2008**

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## **SECTION 1**

### **Introduction & Review of the year 2007/08**

# Explanatory Foreword

## Foreword and statement of responsibilities

This document sets out the financial statements for Barnet Council, the council's pension fund statements and group accounts.

### The authority's responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In Barnet that officer is the Chief Finance Officer (CFO), Clive Medlam.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

### Internal financial control

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

The Chief Finance Officer reports to the Executive Director for Resources, though has direct access to the Chief Executive and Leader when required. The council's Corporate Governance Directorate (incorporating Internal Audit and the Corporate Anti Fraud Team) and the Resources Directorate hold the responsibility for leading on risk management strategy. The Corporate Governance Directorate maintains a regular review of the council's financial systems and investigates any irregularities that arise. Further information is contained within 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 should sign and date the statement of accounts for the year ended 31 March 2008.

## **The Statement of Accounts - Introduction**

This details the process in place during 2007/08 for ensuring proper financial management and control. It then reviews the effectiveness and raises any major issues that have arisen in the year.

There have been significant changes in the format of the accounts for 2007/08 as a result of the application of the Statement of Recommended Practice (SORP) 2007, which has altered the presentation of these accounts when compared to previous years.

### **Statement of accounting policies**

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

The authority's accounting statements comprise:

#### **(i) The 'core' financial statements:**

##### **Income and Expenditure (I&E) account**

This represents a summary of the resources generated and consumed by the authority in the year. 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 increase in its net worth. In addition to the surplus generated 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.

##### **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). 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, which is an arms length management organisation (ALMO), Barnet Homes Ltd, which it has full control and influence over 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 2007/08 and the benefits paid from it. The net assets statement sets out the financial position for the fund as at 31 March 2008. 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

### Changes to and interpretation of the statement of accounts

Before reviewing the council's performance with the previous financial year, it is important to make readers aware of the changes to the basis on which the accounts were prepared, especially as these changes are not as immediately obvious as those which occurred in 2006/07. The statements have been prepared in line with the statement of recommended practice (SORP) for local authorities, and the changes for 2007/08 are part of the continuing wider move to bring local authority accounting more in line with that of the private sector and other parts of the public sector.

The first of the changes is the creation of the revaluation reserve. Whilst this could, on the surface, appear to be a straight replacement of the old fixed asset restatement account (FARA), it is importantly different in that it is, from an accounting perspective, far cleaner. Under the previous SORP, transactions *other than* revaluations were posted to the FARA resulting in a lack of transparency. Such transactions, for example reductions in value and non-enhancing capital expenditure, now have to be accounted for as impairments and are therefore visible within the main statements. To enable the creation of the revaluation reserve, which has been done at zero, the FARA and the previous capital financing account have been merged to be the capital adjustment account.

The other significant change relates to the measurement and accounting treatment of the Council's borrowings and investments, or 'financial instruments', to give them their technical title. As with the introduction of the revaluation reserve, these changes form part of the gradual alignment of local authority accounting practice. The financial instrument changes are technically complicated and impact on the Income and Expenditure Account by increasing the deficit (compared to what the deficit would have been under the previous rules). However, as allowed under statutory regulations, the effect of this was reversed out 'below the line' of the Income and Expenditure Account to avoid any impact on General Fund balances. Despite a change to the way in which a small proportion of the authority's debt is measured, there is only a minimal impact on the balance sheet – as detailed in the Statement of Recognised Gains and Losses (STRGL).

These changes are explained further within the relevant sections of the statement of accounting policies.

It is important that the income & expenditure account is viewed alongside the council's financial outturn reported to the Cabinet Resources Committee in June 2008. The I&E account is reconciled back to the outturn through two further statements, the movement of general fund balances and the statement of recognised gains and losses, which, in effect, contain the technical and other accounting adjustments which ensure that certain liabilities do not impact on the council tax payer.

I feel it worth commenting that, as drawn out above and noted later, there is significant additional work for officers to plan for and incorporate these changes each year. The concern in bringing out these changes is a loss of accessibility and transparency for the readers of these accounts, in particular local residents, and that their needs from the documents, assurance on the stewardship of public funds, is different from that of the readers of private sector accounts, i.e. profitability and/or the potential for investment. This view has been and will continue to be represented to the relevant bodies in responding to consultations of future changes to the accounting requirements for local authorities.

### The Council

It is important to briefly highlight the consistently high performance of Council services. Our achievements overall were recognised by the independent Audit Commission, which has awarded Barnet the highest possible 4 star rating. This means we are considered an excellent council and among the best in the country and that all our services have been found to be performing well.

As part of this, the Council's Use of Resources assessment, which encompasses the overall arrangement for financial management, asset management, performance management and governance and control, improved to a strong level 3. As part of the assessment, we were also recognised as having notable practice for financial reporting, through the Council's annual finance and performance report and summary statement of accounts document, and its internal control framework.

This progress is due to continued focus on key priorities and an understanding of the significance of delivery against shared objectives. The Corporate Plan continues to be the central record of all key targets, which are measured to demonstrate corporate success or failure. This has been the basis of our performance management framework for the past five years.

## Overall financial performance and financial management

This year has again seen further improvement in the financial health of the organisation with the Council's general fund balance increasing to £17.4m. Further to this, the level of earmarked reserves has also been increased to £18.2m to take the total level of reserves and balances, excluding balances held by locally managed schools, to over £35m. This is a very significant achievement for the authority and gives it a position of significant financial strength from which to explore potential future opportunities and manage financial risks.

This has, also, been achieved with sub inflation increases in the level of local taxation in the past four years and with significant reductions in the council's budget. Over the last five years, there has been £59m of efficiencies and reductions taken from the base budget of the authority.

This improvement in the financial health is reflected in the overall improvements in the council's financial management. This has manifested in improvements in the financial systems, more detailed and more timely financial monitoring reports, development of financial risk registers and the approval of the council's medium term financial strategy. This improvement was recognised by the use of resources judgement where the council's external auditor has now assessed the authority as performing above the minimum requirements in all areas and has identified two areas where it is achieving notable practice.

A further point to draw out is the improvement in the management and collection of outstanding monies owed to the Council. It reduced by a further £3.7m in 2007/08 on top of the reduction of £9.8m in 2006/07, which represents an enormous achievement by the Revenues Services team. The Council's approach was formalised in March when the Cabinet Resources Committee approved the revised debt management policy.

In the annual audit and inspection letter in March, the Council's external auditor highlighted that the level of balances of £12.1m at that time remained relatively low for an authority the size of Barnet. Now that the accounts have been closed, with balances increasing to over £17m, I feel that this issue has been fully addressed. Nonetheless, the level of balances and reserves will, of course, remain as a key consideration in the Council setting the annual budget and Council Tax each March.

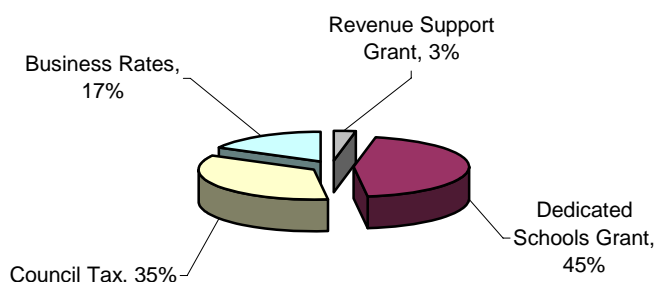
### The general fund

The general fund contains the income and expenditure relating to the services of the council, other than council housing. In 2007/08 the Council planned net expenditure of £404m as set out in the following table.

<b>2007/08</b>	Original council spending plan	Actual net spend	Difference (actual-original)
	£'000	£'000	£'000
Individual schools' budget	187,154	185,503	(1,651)
Net service expenditure	217,436	204,837	(12,599)
Contribution (to)/from balances	(326)	6,926	6,600
Budget requirement	404,264	397,266	(7,650)

The detail of the council's spending is set out in the income and expenditure account, which shows the majority of gross expenditure was on education, housing and social services. The gross expenditure totalled £934m and gross income £929m (including dedicated schools grant), to give a net expenditure of £5m. The following graph shows the main sources of revenue financing:

## Sources of Revenue Financing



A key aspect is that 65% of expenditure is funded by government either through general or specific grants.

When the 2007/08 budget was approved by the Council in March 2007, the estimated 31 March 2008 general fund balance was £17.45m (excluding schools). The Council also had specific earmarked reserves of £12.39m, as at 1 April 2007.

Balances	General fund	Schools	Total
	£'000	£'000	£'000
Brought forward 01/04/2007	12,099	10,272	22,371
2007/08 Outturn	5,348	1,898	7,246
Outstanding school advances	-	(246)	(246)
Carried forward 31/03/2008	17,447	11,924	29,371

### Housing Revenue Account

The Housing Revenue Account is a statement of the income and expenditure on the council's ring fenced social housing. The council is landlord for 11,195 dwellings, and the income and expenditure relating to this is, as said, ring-fenced, that is, the Council is prevented by legislation from subsidising the cost of its social housing from its general fund and vice versa.

In 2007/08, the Council spent over £61.2 million on its social housing and had income of just under £50.6m. After financing and appropriation adjustments, there was an in-year deficit of £0.67m million on the account to take the accumulated HRA balances to £4.16m. This deficit is a distinct cause for concern, particularly with regard to the future long term viability of the HRA, as the commencement of the major regeneration of some housing estates becomes closer. As the regeneration projects progress, the number of properties within the HRA will fall and this will lead to a significant reduction in rental income. There will not, however, be a proportionate fall in the associated costs, which is likely to lead to an ongoing base budget problem for the HRA.

### Capital programme

The Council has continued its investment in priority areas over the last twelve months, such as schools modernisation, bringing its housing stock up to the decent homes standard, improvements to the highways and enabling major regeneration programmes. The commitment to modernising the authority has also continued with the further development of its core systems and enhancement of its infrastructure.

To do this the Council has maximised the use of both its own money, via receipts from the sale of surplus assets or via prudential borrowing, and external sources of funding, such as government grants and contributions from private developers.

During December 2007 and January 2008 two bridges were successfully installed on Aerodrome Road. The replacement of the two masonry arch railway bridges removes a height and capacity restriction on this road which forms the most direct link between the Colindale Regeneration area and the Transport for London Road Network (TLRN). This will improve access to the regeneration area for pedestrians and cyclists, enable the provision of an east-west bus link and ease congestion at the Aerodrome Road/A41 junction.

Over the last year, the procurement process for the £90m rebuild of six of the Council's primary schools has been completed. Whilst reports to the Cabinet Resources Committee have included updates on projects being slipped, this stage of the programme, which is comfortably the largest element of the overall capital programme, has been completed six months ahead of schedule thus enabling the build of the first school to commence early. Due to the inflation associated with building contracts, this is not only a significant accomplishment but will also enable the mitigation of that inflationary risk. In the course of the next twelve months, we will begin the marketing of the surplus land at the schools to achieve the capital receipts that will fund the schemes and the biggest remaining financial risk relates to the values achieved being below expectations.

## **Treasury management**

The past year has again been one of strong treasury management performance that has been central to the overall improvement in the financial position of the Council. The authority has previously taken advantage of the opportunities to borrow in advance of need to ensure securing debt at affordable rates and the investment of these funds has seen an excellent level of return. In 2007/08, the average investment rate of 5.91% was achieved against a benchmark return of the 7 day LIBID rate of 5.58%. This additional 0.33% performance achieved an extra £903k interest earnings.

The council's current debt portfolio has been described as 'one of the best in the country' by the authority's external treasury advisors, though due to the decisions to borrow early, the council's balance sheet does look slightly skewed. This is because a proportion of the schemes are yet to commence in earnest and therefore the capital financing is being invested until such time as the expenditure is incurred. The Council's average rate of borrowing on its portfolio is 4.09% and during the year the average available rates for long term borrowing reached were 4.90% thus demonstrating the benefits of the decision to borrow when rates were significantly lower. The reliance on prudential borrowing was, however, again highlighted as part of the setting of the 2008/09 budget as being unsustainable and only minimal further schemes were added to the Council's capital programme. Emphasis continues to be placed on the requirement for new projects to obtain funding through external sources or to contain a significant invest to save element.

## **Pension fund**

The pension fund is part of the local government pension scheme with contributions into the fund coming from both members of the scheme and the employers (including Barnet). In 2007/08, the fund received contributions of £44.43m (£8.91m from members, £33.36m from the employers and £2.16m from transfers in) and made payments to pensioners of £28.79m.

The value of the fund as at 31 March 2008 was £548.64m, the majority of which is invested in the stock market. The fund increased in value by £9.13m during 2007/08 but had a negative return of 0.7%. The funding level was estimated by the council's actuary to be 67% as at 31 March 2008, which is a slightly worse than the position twelve months ago. Both the negative returning and the funding level reflect the position of the market in the final quarter of 2007/08 where there was a significant fall in the value of all virtually stocks and shares as part of the credit crunch. The fund was ranked in the 23<sup>rd</sup> percentile by WM Company Ltd who measures the performance of the pension fund against a peer group of other local authority funds.

There was an important change to the governance arrangements of the pension during the year with the creation of the Pension Fund committee which now holds the responsibility for the management of the fund. The committee has further enhanced the active management of the fund by challenging the three appointed fund managers on their performance and reflecting that performance in the reallocation of funds between them. The Pension Fund committee is also responsible for the scrutiny and approval of the accounts of the fund and this occurred at the meeting on 26 June 2008. The pension fund accounts are subject to a separate audit outside the review of the Council's financial statements and this year the Audit Commission has explicitly identified a separate fee of £40,000 for doing this. That fee was previously included in the overall cost of the Barnet audit but there has been no reduction in that fee meaning the total cost of the accounts inspection has increased by approximately 10% when compared to last year.

## Looking forward

As part of the approval of the annual budget, the council also agrees the draft financial forward plan which projects the potential council tax requirement for future years. The current forward plan identifies a significant resource gap for each of the next three years to achieve an acceptable council tax increase and this represents another considerable challenge for the authority. This situation has been exacerbated by another poor settlement from Central Government following the comprehensive spending review.

As a result of the continued poor settlements, the Council has a heavy reliance on the income from Council Tax to fund service provision. This position exacerbates the particular annual budget problem the Council faces as the cost of services increase at a rate significantly above that of both the settlement and, due to the Council's commitment in its medium term financial strategy, Council Tax. When combined with the increased demands placed on the Council, this means we are facing a position of having to identify in the region of £10m of savings every year in order to achieve a balanced budget.

As we close of 2007/08 we also need to look to prepare for the closing of future years accounts and, in particular, the potential requirements of International Accounting Standards. As is often the case, the exact requirements are unclear at this stage but it will be essential for Council officers to look at the potential systems and information requirements and we are already planning briefing sessions in conjunction with our external auditor.

In May, Cabinet authorised the Chief Executive to initiate a review of the organisation of the Council and to identify potential options for delivering Council services in the future. The review will look at the future challenges facing the authority and how we should organise ourselves to continue to deliver excellent services while freeing up capacity to deal with new and intractable issues. The initial results will be reported back to Cabinet in December.

### **The statement of the Chief Finance Officer**

The required financial statements appear on pages 31-82 and have been prepared in accordance with the accounting policies set out on pages 24-29.

**Clive Medlam BSc., CPFA**  
**Chief Finance Officer**

### **Statement of the Chairman of the Audit Committee.**

I confirm these accounts were approved by the Audit Committee on behalf of the London Borough of Barnet at the meeting held on 30 June 2008.

**Cllr Jeremy Davis**  
**Chairman of Audit Committee**



# **Independent Auditors' Report to London Borough of Barnet**

## **Opinion on the financial statements**

We have audited the financial statements of London Borough of Barnet for the year ended 31 March 2008 under the Audit Commission Act 1998, which comprise the Income and Expenditure Account, the Statement of Movement of General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the supplementary statements and related notes and the Group accounts. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

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

## **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006. We review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We are not required to consider, nor have we considered, whether the Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures. We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

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

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

## Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority and its Group as at 31 March 2008 and its income and expenditure for the year then ended.

The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008 other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

### Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements. Under the Local Government Act 1999, the authority is required to prepare and publish a Best Value Performance Plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### Auditor's Responsibilities

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

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

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

## Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July/August 2005, in all significant respects, London Borough of Barnet made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007.

## Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 in December 2006. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## Certificate

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

Signature: .....

Date: .....

**Grant Thornton UK LLP,  
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## **SECTION 2**

### **Annual Governance Statement**

## ANNUAL GOVERNANCE STATEMENT 2007/08

### 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 a combination of economy, efficiency and effectiveness.

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

The statement explains how Barnet London Borough Council delivers good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) Regulations 2006, which require the Council to publish a statement on internal control in accordance with proper practice. Proper practice has been defined as an Annual Governance Statement.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The Governance Framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and 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.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. The system also recognises that it is not possible, or even desirable in a value for money context, to eliminate all risk of failure to achieve policies, aims and objectives. The system of internal control and risk management is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Barnet London Borough Council for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts.

### 3. THE GOVERNANCE FRAMEWORK

- *Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users.*

For the relevant period the Council's corporate priorities were set out in its Corporate Plan 2007/8-2010/11. The Corporate Plan sets out the Council's vision for the organisation. It affirms the values and aspirations of Barnet for the place, the people and the organisation. The corporate priorities are clearly defined in the Corporate Plan which demonstrates how the Council will achieve its objectives over the four year period and reviews progress to date. The Corporate Plan is approved by the Council's Executive and is published on the Council's website.

Corporate priorities are cascaded through Service Plans and populate targets for service teams and individuals.

- *Reviewing the Authority's vision and its implications for the Authority's governance arrangements.*

Progress against corporate priority targets is monitored through the corporate performance framework. Targets are reviewed and revised upon receipt of final year end data. The vision is reviewed on an annual basis with the publication of a fresh Corporate Plan. One of the key objectives under Corporate Priority "More Choice Better Value" is to "enhance and further develop corporate governance". Governance arrangements are reviewed annually by the Special Committee (Constitution Review) whose recommendations are reported to the full Council for ratification.

- *Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring they represent the best use of resources.*

Monitoring of performance against the corporate priority objectives is via the FirstStat process, Finance & Performance Review meetings and Member Challenge. These processes have been developed to monitor business/service performance and have involvement at the highest Member and Officer levels within the Council. In addition, there are also quarterly performance reports to Overview & Scrutiny Committees and high level exception reporting to CRC within the monitoring reports.

During the relevant period the Business Improvement Team has collated data from services for Quarterly Performance Monitoring Tables and Best Value Performance Indicators. The information presented in the monitoring tables is assessed by the Business Improvement Team and Head of Service to provide a traffic light rating on performance for each key measure linked to service objectives. This information is then reported to Scrutiny Committees and Finance & Performance Review meetings.

Services must ensure that systems are in place to collect relevant performance data all year round. It is the Service's responsibility to ensure the accuracy of the data provided, the existence of detailed audit management trails supporting the data and that the data is robust. Adopting a Data Quality Policy and undertaking robust challenge and scrutiny through strengthened corporate governance (FirstStat, FP&R) has resulted in improving data quality and performance/service delivery improvement.

Ensuring best use of resources is delivered through a range of mechanisms including FirstStat and Finance & Performance Reviews, Value for Money reviews; Internal Audit reports and support on procurement exercises from the Corporate Procurement Team. Also Key Priorities Board, Capital & Assets Group and, at a lower level, programme boards.

The Council is also one of a number of London boroughs that participates in the annual Residents Survey which provides comparative data on satisfaction levels with service delivery for and between the different local authorities. Information from this and other consultation exercises assist in driving forward service improvements.

- *Defining and documenting the roles of the executive, non-executive, scrutiny and officer functions with clear delegation arrangements and protocols for effective communication.*

The Council has a Constitution that is subject to annual review by the Special Committee (Constitution Review). The Constitution sets out the governance arrangements operating within the Council. They are a Leader and Cabinet model of Executive. Council appoints a Leader and Cabinet. The Leader allocates executive responsibilities and the Council appoints committees to discharge regulatory and scrutiny responsibilities. All relevant roles, terms of reference and delegated responsibilities are set out in the Constitution which is published on the Council's website. The Constitution also includes Protocols for Member – Officer Relations.

- *Developing communication and embedding codes of conduct, defining the standards of behaviour for members and staff.*

Councillors and co-opted members are required to comply with the Members Code of Conduct which is set out in the Constitution. There are a number of other protocols which apply the principles of the Code to specific areas of Council activity. The Standards Committee is required to promote and maintain high standards of conduct by councillors and co-opted members. Officers are also subject to a code of conduct and a number of other policies and procedures relating to their employment. These policies and procedures are published on the Council's intranet.

- *Reviewing and updating standing orders; standing financial instructions; a scheme of delegation and supporting procedure notes/manuals which clearly define how decisions are taken and the processes and controls required to manage risks.*

The Council's Standing Orders and Financial Regulations are included within the annual reviews carried out by the Special Committee (Constitution Review) and formed part of the 2007/8 review. Delegation is also dealt with in the Constitution and Officers are required to draw up a list of specific powers delegated to them to be published in the Council's website. These arrangements will be reviewed in 2008. The Constitution explains how decisions are taken and Governance pages on the Council's website help to facilitate understanding of the relevant processes.

There has been continuous improvement in the arrangements for risk management in 2007/8 with further development of embedding risks management across the Council, thereby providing the basis for effective risk management policies and procedures.

The Risk Management Strategy was developed in 2007 and as part of best practice it has since been reviewed and updated alongside the guidelines by the Audit Committee. The revised version reflects the transfer of responsibility for risk to the Head of Risk & Insurance. It is an essential part of the risk management toolkit as it ensures a consistent approach to the identification, mitigation and monitoring of risk across the Authority. An embedded approach to risk management cannot be demonstrated without a comprehensive Risk Management Strategy.

An assessment of the Authority's Internal Control Checklist (ICC) is carried out annually to test and prove the internal control environment within the Council. The process supports the Internal Audit planning process, the Finance and Performance Review process and is also available to External Audit. Quarterly risk management forums are held to share risk management best practice, agree changes to the risk management procedures, identify risk management training needs and agree the format of the ICC process. Comprehensive risk registers are maintained by services to record risks and risk management progress relating to their service plan, team plans and all major projects.

The Corporate Risk Register is monitored, reviewed and updated quarterly at Council Directors' Group and twice yearly at Audit Committee.

Internal Audit continue to review and report on risk management arrangements in their interim and annual reports, and provide a statement on the adequacy of risk management arrangements across the Council.

The Finance & Performance Review process continues to review high level risks through individual service risk registers whilst encompassing close monitoring of service delivery performance, performance against budgets and budget reduction targets thus minimising the chances of unachievable saving being incorporated in the budget. F&PR also reviews the financial risk registers and challenge Cabinet Members and officers on it.

All committee reports include a section on risks, which contributes to Members being better informed prior to deciding on policy and decision making. This also raises the awareness and increases Member and Officer understanding of risk and the risk management process. There is also now a single Use of Resources section to all committee reports.

A comprehensive Corporate Risk Register exists, providing clarity and ownership of those potential risks that may have a direct impact to the corporate priorities. Progress on the management of these risks and the inclusion of new corporate risks is discussed and agreed at Directors Group. Updates are then taken to the Audit Committee.

As part of the annual budget and Council Tax setting, the Chief Finance Officer identifies the potential financial risks and contingent liabilities facing the Authority in reaching his view on the adequacy of balances and reserves. These risks are captured and monitored in a comprehensive financial risk register which also tracks the mitigating actions required to minimise the likely impact on the Council.

The financial risk register is controlled by the Chief Finance Officer but is owned by all members of the Council Directors Group, and forms part of the regular financial monitoring programme to Cabinet Resources Committee. It also forms part of the F&PR sessions, and at officer level is a standing item on the regular "Section 151" meetings that the Chief Finance Officer has with the Heads of Finance.

- *Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities.*

The Audit Committee's comprehensive terms of reference as set out in the Constitution incorporate the core functions as identified by the CIPFA document. The Committee has a membership of non-Executive Members and is chaired by an Opposition Councillor. It has 5 meetings a year programmed into the Council's Calendar of Meetings. The Committee approves its own work programme for each Council year.

- *Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful.*

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

The Council has comprehensive policies and financial regulations which are reviewed at regular intervals. These arrangements are directed at ensuring compliance with all applicable regulations and other relevant codes.

- *(Arrangements for) Whistleblowing and for receiving and investigating complaints from the public are in place and well publicised.*

The Council has a whistleblowing policy and counter-fraud guidance published on its website. The whistleblowing policy aims to encourage staff and others to feel confident in raising serious concerns by providing clear avenues through which those concerns can be raised and reassuring staff who raise concerns that they will not be victimised if they have a reasonable belief and the disclosure was made in good faith. The counter-fraud guidance is designed to assist in both the detection and reporting of fraud. The Council has a well established three stage corporate complaints process.

- *Identifying the development needs of members and senior officers in relation to their strategic roles, and are supported by appropriate training.*

The Council has Officer training and development policies embedded within its HR framework. The aim of the policies is to assist in the achievement of the organisation's aims and objectives by providing opportunities for staff to gain the necessary skills and knowledge required to deliver high level performance for the authority. The Council also has a performance appraisal scheme which provides all staff with regular assessments of their performance and development needs in relation to their work objectives. A Member Development Panel with representatives of all three political groups meets to consider training and development for elected Members. Induction and other courses are run internally for Members with both in-house and external speakers.

- *Establishing clear channels of communication with all sections of the community and other stakeholders ensuring accountability and encouraging open consultation.*

The Council actively engages with all relevant stakeholders when developing its vision and strategies. Residents Forums, Leader Listens meetings, a Civic Forum, a Citizen's Panel and other extensive consultation arrangements are all elements of this active engagement. All Committee meetings are open to the public and both agendas and minutes are available on the Council's website. The 'People' section of the Corporate Plan's Vision and Values recognises the richness of Barnet's diversity and the importance of having an effective dialogue with faith, black and minority ethnic groups and with those who are disabled. The Plan emphasises that the Council needs to find innovative forms of engagement and new ways of communicating with citizens. This will ensure they all have an equal opportunity to participate in the discussions that will help the Council understand their needs and preferences and help them take greater control over their lives and have the ability to make informed choices for themselves.

- *Incorporating good governance in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements.*

The success of the Council rests on its leadership role in bringing together other public services, the voluntary and community sector and the business community. This work is co-ordinated through the Local Strategic Partnership (LSP). An Executive chaired by the Leader of the Council, brings together the most senior leaders from the main agencies that deliver public services in Barnet. The Council also holds a Civic Network twice a year to bring together the widest range of organisations in Barnet to help shape future strategy. Barnet's Sustainable Community Strategy 'Barnet: A First Class Suburb' was launched on 1 April 2006 following extensive analysis of the issues facing Barnet and residents' priorities. It sets out a shared vision for Barnet in 2016 and contains four themes:-

- o Investing in children and young people
- o Safer, stronger, and cleaner Barnet
- o Growing successfully
- o Healthier Barnet (including older people).

Each of these is supported by more detailed ambitions and an Action Plan of activities that will make a real impact on these priorities is updated annually and overseen by the LSP.

A process was put in place during 2007/08 to incorporate the relationship between the Council and the LSP into the Council's Constitution. The relevant article in the Constitution sets out the role of the LSP, where decision making responsibilities rests, the role of the Executive in ensuring appropriate governance arrangements for the LSP and its subsidiary boards and in ensuring that a partnership register is maintained by the Council's officers and that the Council puts appropriate scrutiny arrangements in place.

#### 4. REVIEW OF EFFECTIVENESS

The Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the internal auditors and by comments made by the external auditors and other inspection agencies.

In year review mechanisms include the following:-

- The Executive is responsible for considering overall financial and performance management and receives comprehensive reports on a regular basis. It is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.
- There is a comprehensive Scrutiny function which holds the Executive to account.
- The Standards Committee have met regularly throughout the year to consider and review issues relating to the conduct of Members. Their work has included reviewing the Code of Conduct for Members and preparation/training for the new requirements for dealing with investigations into Members' conduct.
- The Audit Committee met throughout the year to provide independent assurance to the Council in relation to the effectiveness of the risk management framework and internal control environment. The Committee met 5 times during the year receiving regular reports on risk management, internal control, anti-fraud and governance matters. There are also regular reports from the External Auditor, including the report to those charged with governance (the ISA260 report).
- Internal Audit is an independent and objective assurance service to the management of the Council who complete a programme of reviews throughout the year to provide an opinion on the internal control, risk management and governance arrangement. In addition, the Corporate Anti-Fraud Team undertakes fraud investigation and proactive fraud detection work which includes reviewing the control environment in areas where fraud or irregularity has occurred. Significant weaknesses in the control environment identified by Internal Audit and the Corporate Anti-Fraud Team are reported to senior management and the Audit Committee. Both Internal Audit and the Corporate Anti-Fraud Team produce annual reports to the Audit Committee.

- The External Auditor's Annual Audit and Inspection Letter is considered by the Audit Committee, the Executive and the Council's Directors Group.
- The External Auditors completed their CPA Use of Resources key lines of enquiry assessment during the year and awarded the Council's internal control arrangements a score of 4 overall. The Use of Resources assessment overall retained a score of 3.
- The Business Improvement Team monitors Best Value and other Performance Indicators on a quarterly basis.
- A Corporate Risk Register exists, which the Council Directors Group uses throughout the year to review corporate risks and ensure that actions are being taken to effectively manage the Council's highest risks. Services regularly review their risk registers and any issues they consider to be a corporate risk are discussed at Council Directors Group prior to inclusion in the Corporate Risk Register. Corporate risk management support services in this process by attending management teams when requested.

The year end review of the governance arrangements and the control environment included:

- Obtaining reports from Services that key elements of the control framework were in place during the year in their departments. They were also asked to identify areas where control weaknesses had resulted in significant issues arising for the department and their comments are reflected in this statement.
- Obtaining assurances from other senior management, including the S.151 Officer and the Monitoring Officer, that internal control and corporate governance arrangements in these essential areas were in place throughout the year.
- Validating assurances obtained by reference to documentation held and by comparing the assurances provided to an evaluation of the effectiveness of the control environment.
- Reviewing external inspection reports received by the Council during the year, the opinion of the Head of Internal Audit and ethical Governance in his annual report to management and an evaluation of management information in key areas to identify any indications that the control environment may not be sound.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and a plan to address any weaknesses and ensure continuous improvement of the systems is in place.

## 5. SIGNIFICANT GOVERNANCE ISSUES

In previous years the Statement on Internal Control identified items which required improvement, and the Council has taken significant action to address those issues - in particular a considerable amount of work has been done in the areas of governance of partnerships. There were no significant issues affecting the Council's governance framework in 2007/08, however, the Council is constantly looking to improve the governance framework and so has identified a number of actions needed to further strengthen existing systems:-

- a Local Code of Corporate Governance will be introduced during 2008;
- a training/development plan for Members will be developed in 2008;
- the Council's partnership register is being extensively reviewed to ensure that it will record the detail of all the Council's significant partnerships;
- a review of the delegated powers arrangements will take place in 2008;
- scrutiny arrangements will be made more effective in 2008;
- business continuity planning and support deficiencies to be addressed;
- a review of information management, particularly security of data in emails and on laptops/data sticks, will take place in 2008;

- arrangements to be put in place to ensure effective and proper local handling of Member code of conduct complaints;
- steps will be taken in 2008 to reduce proportion of follow-up audits still being given limited or no assurance;
- a Counter Money Laundering Policy will be put in place;
- further steps will be taken to ensure that appropriate risk management and health and safety responsibilities are incorporated into managers job descriptions;
- implementation of a computerised risk management system to enable easier reporting and greater visibility through wider access to include partnerships and Members.

6. CERTIFICATION

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified Section 5. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangement. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Leader of the Council: \_\_\_\_\_ Date: \_\_\_\_\_

Chief Executive: \_\_\_\_\_ Date: \_\_\_\_\_

# Statement of Accounting Policies

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

## General

This Statement of Accounts has been prepared according to the Accounts and Audit Regulations 2003. The general principles adopted in compiling the accounts are those recommended by the Code of Practice on Local Authority Accounting and the Statement of Recommended Practice (SORP) relating thereto Published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The code and related SORP meet all requirements of proper accounting practice for local authorities in England.

As part of the general move toward aligning public sector accounting with that of the private sector and international accounting standards, the 2007 Code of Practice requires a number of changes to the presentation of the accounts together with consequent restatement of prior year's figures. The main changes are: -

- The replacement of the Consolidated Revenue Account and Statement on Reserves with an Income and Expenditure Account, Statement of Movement on the General Fund Balance, and Statement of Total Recognised Gains and Losses;
- The Housing Revenue Account (HRA) format has changed in line with the new single entity format. The HRA now comprises an HRA Income and Expenditure Account and a Statement of Movement on the HRA Balance;
- The removal of the requirement to make a capital financing charge;
- Consequent on the above the format of the Group Accounts has changed, removing unnecessary differences between group accounts and single entity accounts;
- Any profit or loss on the disposal of general fund property, and in certain circumstances HRA property, has now to be recognised in the accounts.

## Best Value Accounting Code of Practice (BVACOP)

BVACOP provides guidance in three key areas. The definition of total cost, trading accounts and service expenditure analysis.

## Associated and Subsidiary Companies (FRS2)

The 2007 SORP requires authorities to produce group accounts where group relationships occur with associated and subsidiary companies.

## Accounting for Retirement Benefits (FRS17) within Housing Revenue Account (HRA)

As day to day housing management is carried out by Barnet Homes, Barnet's HRA employs very few staff directly. Because of 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 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. This approach includes customer and client receipts, employee costs, interest and supplies and services.

## **Bad Debt**

Barnet makes provision to adjust the carrying amount of debtors that may prove uncollectible. Once a decision has been reached that it is no longer economic to pursue a debt, it is written off against this provision.

## **Contingent Asset**

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

## **Contingent Liability**

A contingent liability is either:

- i. a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control, or
- ii. a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.
- iii. Detail of any contingent liability is given in notes to the balance sheet.

## **Fixed Assets**

### **• Recognition**

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

### **• Measurement**

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

The current asset values are based on certificates issued by the Borough Valuer. All assets are valued on a rolling programme over five years, with the exception of housing stock which is re-valued annually. Further information on valuation is given in note 23

### **• Depreciation**

All fixed assets are depreciated using the straight line method, with no residual value over their useful life. The useful life of each of the authority's buildings is determined by the Borough Valuer, while the 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.

Accounting regulations applying to local authorities assets have changed as part of the move toward aligning with the requirements of International Financial Reporting Standards (IFRS). It is now a requirement to account separately for historic cost (actual expenditure on acquiring assets) and any change in value due to a general change in prices etc. This will not be immediately apparent on the face of the accounts but may affect the amount charged to an individual service's net cost. The charges are still reversed out of the general fund balance reconciliation account and so have no effect on council tax.

### **• Impairment**

The Borough Valuer reviews our assets annually for impairment. Impairment is provided for assets where there is a material reduction in value at the year end over and above normal depreciation. It is accounted for in the year in which it arises.

Where the Authority transfers Housing stock (HRA) to a Housing Association at a nil or nominal value this is treated as an impairment loss rather than a gain/loss on disposal.

- **Profit or Loss on disposal**

Where the Authority disposes of an asset, the asset is revalued by the Borough Valuer prior to disposal. The profit or loss is then calculated with reference to this updated carrying value. The exception to this is the transfer of housing stock to a Housing Association at nil or nominal value which is treated as impairment (see above).

### **Charges to revenue in respect of capital**

Service revenue accounts, including the Housing Revenue Account (HRA) are charged with a capital charge for all capital assets used in the provision of services. Capital charge under the new SORP is now equal only to the depreciation of the fixed assets consumed in delivering services. Previously services also received a notional interest rate charge in addition to depreciation.

Services are charged with impairment loss in respect of economic consumption should this arise.

Capital charges have a neutral impact on the amounts to be raised from local taxation (Council tax), as they are reversed in the Reconciliation of General Fund Balance.

### **Intangible Assets**

Clarification of reporting requirements regarding intangible assets means that this category of asset is no longer relevant to Barnet. Redundancy costs previously depreciated over a number of years as an ongoing benefit to the authority are now written out in the year they are incurred. Software, previously included as intangible, is now included as equipment. The opportunity has been taken to reassess the depreciation of software in line with current thinking, which has substantially increased the depreciation charged for these items.

### **Intra Group Transactions**

FRS2 requires intra group transactions to be eliminated in full in the preparation of the group statements.

### **Capital Receipts**

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

### **Government Grants and Contributions**

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

Grants and contributions relating to fixed assets are credited to the Government Grants Deferred Account and released 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.

### **Leasing**

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

### **Redemption of debt**

In accordance with the requirements of the Local Government and Housing Act 1989, the Council has set aside a minimum revenue provision (MRP) of 4% for the General Fund. The Department for Communities and Local Government (CLG) has introduced new guidance on MRP that is effective from 31 March 2008; the duty to make an MRP will remain, however the most notable change is the abolition of a required MRP of 4%. Councils will be required to make a provision that they consider prudent; alternatives will allow

revenue provision to be spread over the life of the asset, which could be longer than 25 years as well as depreciating the asset over its estimated life. Councils will be required to prepare an annual statement on their policy for MRP for submission to full Council. There is no longer a statutory requirement for a minimum revenue provision for the Housing Revenue Account and the Council has not set aside a voluntary amount

## **Reserves**

Expenditure is charged to revenue and not directly to any reserve. For each reserve established, the purpose, usage and basis of transactions are identified in the notes to the Council's financial statements. The net effect of revenue sums set aside appears as an adjustment in the Income and Expenditure Account. The movements are reflected in the notes to the core financial statements.

## **Provisions**

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

- **Insurance Provision**

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

## **Estimations**

The only significant estimations in the accounts are in respect of certain community care services where revenue accruals have been made based on clients receiving care within the year for when invoices have not been received until after the end of the financial year and Special Parking Account predicted income recovery from unpaid penalty charge notices issued in 2007/08.

## **Investments**

Investments are shown on the balance sheet at cost.

## **Pension Costs**

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

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

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

- **Classification of Schemes**

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

purposes of FRS17 pension schemes are classified into two categories, Defined Benefit or Defined Contribution. The Barnet scheme is classified as Defined Benefit. The teachers' schemes of the 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 Teachers scheme, whilst being a defined benefit scheme is treated as a defined contribution scheme as explained above. This means that the pension costs reported for any year is equal to the contributions payable for the scheme for the same period. The costs are recognised within Net Cost of Services.

- **Cash**

As at 31<sup>st</sup> March 2008 the London Borough of Barnet pension fund had £51.9m cash in hand which was managed with the Council's cash as part of the Council's temporary investment strategy.

- **Pensions**

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

## **Stocks and work in progress**

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

## **Support service allocations**

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

## **Exceptional Items, Extraordinary Items and Prior Period Adjustments**

Where applicable and relevant exceptional items and extraordinary items are disclosed in the 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. More details and fuller explanations are given in the individual relevant financial statements.

## **Post Balance Sheet Events**

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

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

## **The Euro**

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

**Clive Medlam BSc., CPFA,  
Chief Finance Officer**

## **SECTION 3**

### **Core Financial Statements**

## Income & 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 2007 to 31 March 2008. 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	Gross Expenditure £000	2007/08 Gross Income £000	Net Expenditure £000	2006/07 Net Expenditure £000
Central Services to the Public		7,712	(4,196)	3,516	1,183
Cultural, Environmental & Planning Services		86,289	(15,499)	70,790	48,816
Children's & Education Services		340,639	(276,053)	64,586	29,445
Highways, Roads & Transport Services		36,376	(19,784)	16,592	15,102
Housing Services		295,447	(248,850)	46,597	15,181
Adult Social Services		95,488	(15,375)	80,113	106,294
Corporate & Democratic Core Costs		14,048	(3,366)	10,682	4,525
Non Distributed Costs		9,190	(8,100)	1,090	6,821
<b>NET COST OF SERVICES</b>		<b>885,190</b>	<b>(591,225)</b>	<b>293,965</b>	<b>227,366</b>
Redundancy costs				1,197	1,144
Precepts & Levies	5			1,284	1,143
Trading Undertakings	6			387	1,318
Interest payable and similar charges				6,699	5,840
Contribution of housing capital receipts to Government Pool				3,902	2,239
Interest & investment income				(13,834)	(7,655)
Pension interest costs & expected return on pension assets				5,665	6,304
<b>NET OPERATING EXPENDITURE</b>				<b>299,264</b>	<b>237,699</b>
Net operating expenditure was financed by: -					
Demand on Collection Fund				(141,603)	(136,565)
General Government Grant				(11,824)	(13,614)
Non-domestic rates redistribution				(70,454)	(67,586)
Transfer of Collection Fund deficit				1,362	1,471
<b>Deficit for the year</b>				<b>76,746</b>	<b>21,406</b>

### Statement of Movement on the General Fund Balance

The Statement of Movement on General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. It is a reconciliation statement that summarises differences between the outturn on the income and expenditure Account and the General Fund Balance.

	<b>2007/08</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
Deficit for the year on the Income & Expenditure Account	76,746	21,406
Net additional amount required by proper practices to be debited or credited to the General Fund Balance for the year	(83,745)	(22,765)
Increase in General Fund Balance for the Year	(7,000)	(1,359)
General Fund Balance brought forward	(22,371)	(21,012)
General Fund Balance carried forward	(29,371)	(22,371)
Amount of General Fund Balance held by schools	(11,924)	(10,272)
Amount of General Fund Balance generally available for new expenditure	(17,447)	(12,099)
	(29,371)	(22,371)

## General Fund Balance Reconciliation Statement

Net additional amount to be credited to the General Fund Balance for the year comprising: -	2007/08 £000	2006/07 £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>		
Amortisation of intangible fixed assets	(3,990)	(5,151)
Depreciation and impairment of fixed assets	(83,986)	(10,274)
Excess of depreciation charged to HRA services over the Major Repairs Allowance	(11,923)	(9,777)
Government Grants Deferred amortisation	6,216	6,782
Redundancy costs approved by the Secretary of State as capital expenditure	(1,197)	(1,144)
Net charges made for retirement benefits as per FRS17	(23,791)	(34,144)
SORP are different from the amount of finance costs calculated in accordance with statutory requirements	(65)	0
<i>Amounts not included in the Income &amp; 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	5,062	3,212
Capital expenditure charged in-year to the General Fund Balance	5,283	16
Transfer from Usable Capital Receipts	(3,902)	(2,239)
Employer's contributions payable to the Pension Fund and retirement benefits payable to pensioners	22,993	21,998
<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	(671)	1,131
Net transfer to earmarked reserves	6,226	6,825
	<b>(83,745)</b>	<b>(22,765)</b>

## 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.

	<b>2007/08</b> <b>£'000</b>	<b>2006/07</b> <b>£'000</b>
Deficit for the year on the Income and Expenditure Account	76,746	21,406
Surplus arising on revaluation of fixed assets	(77,525)	(54,228)
Actuarial (gains)/losses on pension fund assets and liabilities	(51,971)	(35,714)
Movement on the Collection Fund	(3,605)	1,792
Other (gains) / losses included in the Balance Sheet*	(16,786)	(8,112)
<b>Total recognised gains for the year</b>	<b>(73,141)</b>	<b>(74,856)</b>

### \*Breakdown of Other Gains & Losses

	£
As required by regulation	2,331
Capital grants in advance	(4,867)
Capital receipts not relating to disposals of Fixed Assets	(5,565)
Assets previously excluded from the Balance Sheet	(8,771)
MRR Interest	(364)
Other Balance Sheet items	450
	<u>(16,786)</u>

## Balance Sheet

This statement summarises the Council's assets and liabilities as at 31<sup>st</sup> March 2008.

	Notes	31st March 2008		31st March 2007	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>	18				
Operational assets					
Council dwellings		1,086,000		1,090,000	
Other land and buildings		477,534		467,140	
Community Assets		8,406		7,433	
Vehicles, plant, furniture and equipment		15,990		7,021	
Infrastructure assets		44,755	1,632,684	51,895	1,623,488
Non-operational assets					
Investment Properties		36,091		34,889	
Surplus Assets Awaiting Disposal		69,072		38,555	
Assets Under Construction		63,135	168,298	34,747	108,190
Intangible Assets		0		25,433	
Long term debtors	20	2,626		3,254	
Long term investments		15,505		38,411	
		18,131	1,819,114	67,097	
<b>Total long term assets</b>					1,798,776
<b>Current assets</b>					
Stocks and works in progress	24	363		1,591	
Temporary investments		245,847		181,500	
Debtors	26	54,631		51,600	
Payments in advance		2,859		6,226	
Cash at Bank and in Hand		19,584		18,391	
		323,284		259,308	
<b>Current liabilities</b>					
Creditors	26	(138,826)		(104,180)	
Borrowing repayable within 12 months		(5,087)		(5,087)	
Bank overdraft		(16,366)		(14,866)	
Provisions	27	(11,762)		(9,356)	
		(172,041)		(133,489)	
<b>Net current assets</b>			151,243		125,819
Long-term liabilities					
Long term borrowing		(212,376)		(210,500)	
Government Grants Deferred	37	(98,729)		(76,811)	
Liability related to defined benefit pension scheme		(191,461)		(242,634)	
		(502,566)		(529,945)	
<b>Total assets less liabilities</b>			1,467,791		1,394,650
<b>Financed by</b>					
Revaluation Reserve			73,240		0
Fixed Asset Restatement Account			0		1,211,451
Financial Instrument Adjustment Account			(2,396)		0
Capital Adjustment Account			1,484,972		339,282
Deferred Capital Receipts	36		918		1,264
Usable capital receipts			40,221		35,925
Pension reserve	35		(191,461)		(242,634)
Major Repairs Reserve			6,355		9,580
Specific reserves	31		18,614		12,389
Balances	29		29,371		22,371
Balances – collection fund	34		3,792		187
Balances – housing revenue account			4,164		4,835
<b>Total equity</b>			1,467,791		1,394,650

## Cash Flow Statement

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

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
<b>REVENUE ACTIVITIES</b>				
Cash outflows				
Cash paid to and for employees	314,526		319,136	
Other operating costs	306,685		402,352	
Housing benefits	149,898		140,732	
Non-domestic rate pool	89,257		86,054	
Collection fund precept payments	40,740		38,614	
Payments to housing capital receipts pool	4,402	905,508	2,239	989,127
Cash inflows				
Council tax etc.	(160,238)		(150,133)	
Non-domestic rate pool	(70,454)		(67,586)	
Local business rates	(86,928)		(83,755)	
Revenue support grant	(11,824)		(13,614)	
Rents	(57,166)		(51,858)	
DSS rebate grants	(178,524)		(159,323)	
Other Government grants	(269,289)		(263,718)	
Cash received for goods and services	(154,159)	(988,582)	(138,479)	(928,466)
(see note 1.)		(83,074)		60,661
<b>SERVICING OF FINANCE</b>				
Cash outflows				
Interest paid	5,245		5,202	
Cash inflows				
Interest received	(8,292)	(3,047)	(6,850)	(1,648)
<b>CAPITAL ACTIVITIES</b>				
Cash outflows				
Purchase of fixed assets	85,153		56,786	
Deferred charges and long term debtors	0		6,026	
HRA capital receipts paid to pool.	0		0	
	85,153		62,812	
Cash inflows				
Sale of fixed assets	(9,940)		(13,339)	
Capital grants received	(27,368)		(26,068)	
Other cash income	(3,378)		(687)	
	(40,686)	44,467	(40,094)	22,718
Net cash inflow before financing		(41,654)		81,731
<b>MANAGEMENT OF LIQUID RESOURCES</b>				
Net ( increase)/decrease in short term deposits		64,347		(9,550)
<b>FINANCING</b>				
Cash outflows				
New long term investments	(22,905)		38,400	
Repayment of long term borrowing	0		0	
Repayment of short term loans	0	(22,905)	0	38,400
Cash inflows				
New short term loans	0		(4,948)	
New long term loans	(1,876)		(105,000)	
Long term investment	2,396	520	0	(109,948)
<b>(INCREASE)/DECREASE IN CASH AND CASH EQUIVALENTS (SEE NOTE 5.)</b>		307		633

## Notes to the Core Financial Statements

### 1. Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an Authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and under-spends on the two elements are required to be accounted for separately. The Council is able to supplement the Schools Budget from its own resources and in 2007/08 applied an addition of £20,000,000 in this manner.

Details of the deployment of DSG 2007/08 are as follows:

<b>Schools Budget Funded by Dedicated Schools Grant</b>	<b>Central Expenditure-Limited</b>	<b>Individual Schools Budget</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Original DSG Allocation at start of FY	20,136	165,078	185,215
Adjustment for actual pupil numbers	(86)	0	(86)
Reallocation of DSG by LBB	(1,306)	1,306	0
Final DSG Allocation at end of FY	18,745	166,384	185,129
Actual Expenditure for year/ Grant allocated to school budget shares	(19,364)	(166,384)	(185,749)
(Over)/underspend for the year	(620)	0	(620)
Top-up funding of DSG from Council Resources	20	0	20
Underspend brought forward from 2006-7	832	0	832
<b>(Over)/under spend carried forward to 2008-09</b>	<b>232</b>	<b>0</b>	<b>232</b>

Note: The increase in the Individual Schools Budget of £1.3m is the allocation of the schools contingency budget which was initially held in the centrally retained budget.

### 2. Undischarged Obligations Arising from Long-Term Contracts

In April 2006 the Council jointly with Enfield entered into PFI street lighting contract. The contract involves 6,000 items of street furniture and will increase the number of public lighting columns to around 30,000. The contract will operate for 25 years and expires in 2031. Under this contract payments are made in accordance with contractor performance. In 2007/08 the authority made payments of £3,326,124 (including £862,283 energy payments) and is committed to make payments up to £4,445,516 (including £1,006,516 energy payments) in 2008/09. Contractor charge is smaller in earlier years and increases during the core investment element of the programme, allowing surplus to be invested and interest to reinvested into the project

### 3. Building Control & Inspection

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

<b><u>Building Regulations Charging Account</u></b>	<b>Non-chargeable Building Inspection</b>	<b>Chargeable Building control</b>	<b>Total Building Control Unit</b>
	<b>2007/08 £'000</b>	<b>2007/08 £'000</b>	<b>2007-08 £'000</b>
<b>Expenditure</b>			
Employees	175	869	1,043
Premises		0	0
Transport	12	17	30
Supplies & Services	42	274	316
Central Support	61	307	368
Capital Account Charge			0
<b>TOTAL EXPENDITURE</b>	<b>289</b>	<b>1,467</b>	<b>1,757</b>
<b>Income</b>			
<b>Building Regulation Charges Fees</b>	0	(1,454)	(1,454)
<b>Miscellaneous income</b>	(55)	0	(55)
<b>TOTAL INCOME</b>	<b>(55)</b>	<b>(1,453)</b>	<b>(1,508)</b>
(Surplus)/Deficit for Year	<b>234</b>	<b>14</b>	<b>248</b>

#### **Comparatives 2006-07**

<b>Expenditure</b>	188	1,336	1,524
<b>Income</b>	(15)	(1,274)	(1,289)
(Surplus)/Deficit for Year	<b>173</b>	<b>62</b>	<b>235</b>

### 4. Gain or Loss on Disposal of Fixed Assets

In 2007/08 the Council disposed of 3 General Fund assets and 15 HRA assets. The disposal of these assets came to a combined sale value of £5.7m (Note:- In addition to this sum the Council disposed of 22 Social Housing Units under the 'Right-to Buy' scheme generating £3.3m).

In accordance with guidance from SORP the Council realised neither a gain nor loss on these disposals, but did record impairments on 3 of the HRA assets prior to disposal, as these transactions were stock transfers to Housing Associations. These impairments are recognised in the Income & Expenditure Account within the net cost of Housing Services and the Housing Revenue Account (HRA) expenditure (see Note 7 to the HRA).

## 5. Analysis of Levies and Precepts

The Authority helps to defray the cost of other organisations. It does this either as a statutory duty or voluntarily, where it benefits the Council. Some contributions are made to London wide organisations, such as Transport for London (TfL).

	2007/08 £000	2006/07 £000
<i>Included within Net Cost of Services:-</i>		
London Borough's Grant Scheme (Social Services)	1,165	1,143
Concessionary Fares Scheme (Highways, Roads & Transport)	10,989	10,238
North London Waste Authority (Cultural, Environment & Planning)	7,957	7,955
TfL Traffic Control Signals (Highways, Roads & Transport)	412	402
Other	0	5
sub total	20,523	19,743
<i>Included within Net Operating Expenditure:-</i>		
Coroners Service	202	217
Environment Agency (land drainage)	248	156
Lee Valley Regional Park Authority	411	402
London Pension Fund Authority	423	368
sub total	1,284	1,143
	<b>21,807</b>	<b>20,886</b>

## 6. Trading Undertakings

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 Trading undertakings are shown below:-

	2007-08			Trading (Surplus) / Deficit £'000	2006-07 Trading (Surplus) / Deficit £'000
	Income £'000	Internal Recharges £'000	Expenditure £'000		
Catering	(4,442)	(44)	4,561	74	957
Stores	(151)	4	148	0	44
Transport	(981)	(4,944)	6,202	277	95
Building Cleaning	(71)	(787)	858	0	1
Schools Finance	(712)	2	649	(61)	180
Other	(45)	28	113	97	41
<b>Total</b>	<b>(6,403)</b>	<b>(5,742)</b>	<b>12,532</b>	<b>387</b>	<b>1,318</b>

## 7. Discretionary Expenditure Allowable under Section 137 of the Local Government Act 1972

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

## 8. 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.

	<b>2007/08</b>	<b>2006/07</b>
	£'000	£'000
Staffing costs	427	377
Other costs	49	80
Staff recruitment & advertising	613	661
	<b>1089</b>	<b>1118</b>

## 9. Local Government Goods and Services Act 1970

This Act empowers the Council to provide goods and services to other entities. During financial year 2007-2008 income of £6,066 was received from outside (third party) bodies for providing printing services. The reported figure for 2006-07 was £125,000 but it should be noted that this included income from LEA Maintained Schools which are part of the Council.

## 10. Senior staff remuneration

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

<b>Remuneration Band</b>	<b>2007/08</b>	<b>2006/07</b>
£50,000 to £59,999	219	184
£60,000 to £69,999	89	80
£70,000 to £79,999	23	17
£80,000 to £89,999	13	6
£90,000 to £99,999	10	7
£100,000 to £109,999	5	3
£110,000 to £119,999	2	4
£120,000 to £129,999	3	3
£130,000 to £139,999	3	2
£140,000 to £149,999	0	1
£150,000 to £159,999	2	0
£160,000 to £169,999	1	0
£170,000 to £179,999	1	1
£180,000 plus	0	0
Totals	371	308

These figures include staff working in LBB Maintained Schools

## 11. Leases

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

2007-08 payments in respect of operating leases is £2.593m. The authority is committed to making further payments of £3.323m in future years and has agreements promising income of £.515m in this regard. The future outstanding lease commitments are:-

Years	Vehicles, Plant & Equipment	Operating leases, Lessee	Operating leases, Leasor
	£'000	£'000	£'000
2007-8	2,594	16	2,495
2008-9	2,038	3,288	2,718
2009 -13	1,284	12,862	7,981
<b>Beyond 2013</b>	1	11,469	72,199

## 12. Members Allowances

The total allowances paid to members in financial year 2007-08 was £1,079,133 (£1,017,947 in 2006-07)

## 13. Related Party Transactions

Under law, all members and chief officers are required to declare any 'Related Party Transactions'. In essence, these are financial transactions that took place in 2007-08 between the Council and any external organisation over which they have control or influence.

All members and chief officers were asked to complete a Related Party Transaction Declaration Form to this effect. The vast majority of these were nil returns. A handful of members sit on the board of non-profit making bodies / charities that received grant from the Council. However, the number and size of these grants paid in 2007-08 is not significant and the member / officer concerned would not have benefited personally.

## 14. Pooled Budgets

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

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

### **Statement of Account Notes - Pooled Budgets**

	2007-2008		
	Total	LBB	Barnet PCT*
Purchasing of Equipment	1,443	703	740
Contract Management	570	370	200
Stock adjustment	1,132	1,132	0
	<b>3,145</b>	<b>2,205</b>	<b>940</b>
Contributions	(2,329)	(1,214)	(1,115)
	816	991	(175)

The contract with the existing provider of stock, whereby the council owned the stock, ceased on 31<sup>st</sup> March 2008. Under the new arrangements starting on 1<sup>st</sup> April 2008, the council will no longer own stock in stores as such the stock held in stores was used during 2007-08. The value in the balance sheet reflects the expected purchase of the remaining stock by the new provider.

### 15. Audit Fees

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

Aspect	2007-08 £'000	2005-06 £'000
Fees payable to Grant Thornton UK LLP, the Council's appointed auditors, with regards to external audit service	421	420
Fees payable to the Audit Commission in respect of statutory inspection	26	138
Fees payable to Grant Thornton UK LLP for the certification of grant claims and returns	80	100
Total	527	658

The figures shown above are net of VAT and are included in the 2007-08 Net Cost of Services on the Income & Expenditure Account

### 16. Schemes under the Transport Act

No road charging schemes or workplace charge levies operational within the Authority in 2007/08.

### 17. 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 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. Barnet's practice is not to exceed the minimum required.

The figures were:

	2007/08 £000	2006/07 £000
General fund minimum revenue provision	5,062	3,212
Depreciation Charges	(90,571)	(18,423)
Balance transferred from the capital adjustment account	(85,509)	(15,211)

The large depreciation figure this year is due largely to the writing out of what were formally intangible assets.

## NOTES TO THE BALANCE SHEET

### 18. Movement of Fixed Assets 2007/08

	Assets Under Construction	Community Assets	Council Dwellings	Deferred Charges	Infrastructure	Investment Property	Other Land & Buildings	Surplus Assets	Vehicles, Plant & Equipment	Fixed Asset Totals	Intangibles	Fixed Asset Totals
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Book Value 1 April 2007	34,747	7,547	1,120,377	0	76,734	34,889	483,800	38,643	17,094	1,754,442	35,963	1,790,405
Accumulated Depreciation b/f	0	(114)	(30,377)	0	(24,839)	0	(16,660)	(88)	(10,073)	(71,964)	(10,530)	(82,494)
<b>Net Value 1 April 2007</b>	<b>34,747</b>	<b>7,433</b>	<b>1,090,000</b>	<b>0</b>	<b>51,895</b>	<b>34,889</b>	<b>467,140</b>	<b>38,555</b>	<b>7,021</b>	<b>1,731,679</b>	<b>25,433</b>	<b>1,757,112</b>
Reclassifications & other changes	0	(91)	0	0	0	1,688	4,750	701	10,834	17,882	(10,834)	7,048
Revaluations	0	1,243	0	0	0	1,518	42,677	32,087	0	77,525	0	77,525
Additions	28,389	0	36,382	8,198	0	0	9,878	0	1,694	84,541	127	84,668
Impairments	0	(172)	(20,476)	0	0	(1,980)	(28,256)	(496)	0	(51,381)	0	(51,381)
Disposals	0	0	(4,791)	0	0	0	(4,500)	(1,774)	0	(11,065)	0	(11,065)
Deferred Charges	0	0	0	(8,198)	0	0	0	0	0	(8,198)	0	(8,198)
Depreciation for year	0	(8)	(15,115)	0	(7,140)	(24)	(14,155)	0	(3,559)	(40,001)	(14,727)	(54,728)
<b>Net book value 31 March 2008</b>	<b>63,135</b>	<b>8,406</b>	<b>1,086,000</b>	<b>0</b>	<b>44,755</b>	<b>36,091</b>	<b>477,534</b>	<b>69,072</b>	<b>15,990</b>	<b>1,800,983</b>	<b>0</b>	<b>1,800,983</b>
Accumulated Depreciation c/f	0	(122)	(45,492)	0	(31,979)	(24)	(30,815)	(88)	(13,632)	(111,965)	(25,257)	(137,222)

## 19. Financing of capital expenditure

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

	£'000	£'000	£'000
Capital Receipts		9,322.00	
Revenue contributions/MRA		16,236.00	
Contributions including Section 106 receipts		4,001.00	
Borrowing	28,499.00		
Grants		26,610.00	84,669.00
Plus: 2006/07 expenditure financed in 2007/08			3,034.00
			87,703.00

## 20. Long Term Debtors

There was a decrease in the investment position during the year from an opening balance of £3.254m to a closing position of £2.626m.

## 21. Assets Held

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

Assets	31 March 2008	31 March 2007
Schools - nursery & primary *	49	49
Schools - secondary & special *	18	18
Schools - referral units	1	1
Youth service facilities	4	4
Other education establishments	2	2
Libraries	14	14
Museums	2	2
Children's homes & hostels	2	2
Adolescent resources centre	0	1
Children & family centres	5	6
Day centres for physically disabled	1	1
Day centres for mentally ill	2	2
Council dwellings	11,195	11,236
Garages	2,599	2,667
Car parks	25	25
Memorials etc	8	8
Community Assets - Parks & open spaces	174	174
Sports grounds	28	28
Golf courses	3	3
All weather playing areas	2	2
Athletics tracks	1	1
Swimming pools	3	3
Allotments (hectares)	91	91
Public offices	5	7
Other buildings	5	3
Vacant awaiting disposal	25	28
School land not attached to school assets	11	14
Borough roads & footpaths (length in km)	725	725

\* Excludes voluntary aided schools

## 22. Capital Commitments

At 31<sup>st</sup> March 2008, the Council was contractually committed to expenditure amounting to some £98.566m. The schemes are summarised across services as follows:-

### Capital Commitments

Service Area	Total £'000
Housing	17,977
Environment & Transport	2,708
Resources	1,080
Childrens services	76,800
<b>TOTAL</b>	<b>98,566</b>

## 23. Fixed Asset Valuation

The Council's Chief Valuer, Brian Smart (MRICS) values the Authority's freehold property portfolio following the statements of asset valuation practice and the guidance notes of the Royal Institution of Chartered Surveyors. The values are updated as part of a rolling five-year programme.

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

Changes in accounting regulations mean that the value of individual assets have to be split between the historic cost of acquisition, basically how much it cost to buy it, and any revaluation of the asset due to changes in market value. This is a technical accounting matter and is not shown on the face of the accounts but affects the way services are charged for the consumption of the assets they use. The main impact is on disposal of assets enabling any real gain or loss to be determined, as against any notional effect. Because of the nature of local government, the values of assts in the balance sheet as at 31 March 2007 are determined to be their historic cost. This is an expedient approach as the task of identifying the actual historic cost of all assets across local government would involve a cost totally disproportionate to any possible benefit.

## 24. Stocks and Works in Progress

	2007/08 £'000	Movement £'000	2006/07 £'000
Works in progress - works in default	7	(45)	52
Stores - housing & central stores	0	(30)	30
- transport stores	45	2	43
- road signs and equipment	36	(32)	68
- social services aids for the disabled	39	(1,132)	1,171
- libraries & museums	26	(1)	27
- grounds maintenance	7	(30)	37
- other	203	40	163
	<b>363</b>	<b>(1,228)</b>	<b>1,591</b>

Under a pooled budget agreement with Barnet PCT, ownership of the stock relating to community equipment stores (classified as "social services aids for the disabled") passed to the Council on 1 July 2003, but will be split and

apportioned between the PCT and the Council pro rata to their respective contributions in the event that this agreement be terminated.

The Council has entered into a contract with a new provider for the provision of social care related equipment. Under this new arrangement the ownership of the stock sits with the contractor rather than the Council.

## 25. Assets Held Under PFI Arrangement

In April 2006 the Council jointly with Enfield entered into PFI street lighting contract. The contract involves 6,000 items of street furniture and will increase the number of public lighting columns to around 30,000. The contract will operate for 25 years and expires in 2031

Under this contract payments are made in accordance with contractor performance. In 2007/08 the authority made payments of £3,326,124 (including £862,283 energy payments) and is committed to make payments up to £4,445,516 (including £1,006,516 energy payments) in 2008/09. Contractor charge is smaller in earlier years and increases during the core investment element of the programme, allowing surplus to be invested and interest to reinvested into the project

## 26. Debtors and Creditors

An analysis of the Authority's debtors and creditors as at 31<sup>st</sup> March 2008 is as follows:-

	<b>2007/08</b>	<b>2006/07</b>
	£'000	£'000
<b>Debtors</b>		
Other local authorities	2,754	2,213
Government departments	16,429	12,557
Ratepayers & Taxpayers	21,777	22,533
Tenants (including temporary accommodation)	14,939	13,332
Other public bodies	5,955	2,249
Sundry	20,843	31,005
sub total	82,697	83,889
Less: Provision for bad debts	(28,066)	(32,289)
<b>Net Debtor Total</b>	<b>54,631</b>	<b>51,600</b>
<b>Creditors</b>		
Other local authorities	13,477	10,593
Government departments	9,747	1,382
Ratepayers & Taxpayers	4,099	4,844
Other public bodies	2,554	2,147
Utilities	962	903
Pension Fund	51,870	29,304
Sundry	48,084	43,587
Receipts in Advance	8,033	11,420
<b>Creditor Total</b>	<b>138,826</b>	<b>104,180</b>

## 27. Provisions

Provisions are amounts of money set aside to meet liabilities that have arisen from past events which are likely to result in future transfer of economic benefit to a third party. The precise amount and timing of this transfer of economic benefit is uncertain. Provisions are included as expenditure within the Net Cost of Services on the Income & Expenditure Account.

	Balance b/fw 01.04.2008	In year Expenditure / Reductions	New Provisions raised in year	Balance c/fwd 31.03.08	Note
	£'000	£'000	£'000	£'000	
Grants to Voluntary Sector	58	48	0	10	
Insurance	7,849	0	451	8,300	i
Legal	475	425	-	50	
Housing & Property	954	184	2,437	3,206	ii
Disputed Invoices	0	0	195	195	
Other	20	20	0	0	
	<u>9,356</u>	<u>677</u>	<u>3,083</u>	<u>11,762</u>	

- 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 insurance Provision reflects 100% of the Council's ultimate projected liabilities
- ii. This Provision primarily relates to the projected loss of likely loss of Housing Benefit subsidy and to a lesser extent, back dated rent payable on leased property following a rent review

## 28. Depreciation and intangible assets.

All fixed assets are depreciated using the straight line method, with no residual value over their useful life. The useful life of each of the authority's buildings is determined by the Borough Valuer, while the 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.

Clarification of reporting requirements regarding intangible assets means that this category of asset is no longer relevant to Barnet. Redundancy costs previously depreciated over a number of years as an ongoing benefit to the authority are now written out in the year they are incurred. Software, previously included as intangible, is now included as equipment. The opportunity has been taken to reassess the depreciation of software in line with current thinking, which has substantially increased the depreciation charged for these items.

Accounting regulations for premiums on early repayment of debt now require that these are written out in the year they are incurred. As an anomaly for local government accounting, peculiarly to the housing revenue account, such premiums are not removed from the HRA balances immediately but written down from a holding account over the outstanding original life of the loan. This is a mechanism to accommodate the Government's housing subsidy arrangements.

## 29. Revenue balances

- i) The general surplus is the Authority's buffer against unpredictable events that are too large to be met from reductions in current budgeted expenditure.
- ii) In the general fund are locally managed schools' balances. Schools may carry balances, surplus or deficit, forward to subsequent years.

### 30. Reserves and balances held by schools under delegated schemes

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 the end of 31 March 2008 the accumulated surplus of these delegated budgets (excess of cumulated income over cumulated expenditure) stood at £11.9m, an increase of £1.6m from the previous year. This surplus balance is 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 to other purposes.

<b>Schools Outturn as at 31/03/08</b>			
	<b>Total Balances</b>		
Sector	<b>As at 31/03/08</b>	As at 31/03/07	Increase / (decrease)
	<b>£000</b>	£000	£000
Nursery	<b>338</b>	260	77
Primary	<b>7,400</b>	6,601	799
Secondary	<b>4,080</b>	3,721	358
Special	<b>353</b>	401	(48)
<b>Total</b>	<b>12,170</b>	10,984	1,186
O/st School GF Advances as at 31/03/08	<b>246</b>	712	
<b>Net School Balances</b>	<b>11,924</b>	10,272	

### 31. Reserves

Reserves are pots of money set aside to cover expenditure in future years on a specified projects or major initiatives which would not be able to proceed unless money was set aside from 2007/08 resources.

The position on the Council's Specific Reserves as at 31 March 2008 is shown below.

Reserve Type	Balance 01/04/2007 £'000	Net movement in year £'000	Balance 31/03/2008 £'000	Purpose of reserve	Notes
Revaluation Reserve	0	73,240	73,240	Store of unrealised gains on revaluation of fixed assets not yet realised through sales	
Capital Adjustment Account	1,550,733	(65,762)	1,484,971	Store of capital resources set aside to meet past expenditure	
Financial Instruments Adjustment Account	0	(2,396)	(2,396)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	
Usable Capital Receipts	35,925	4,296	40,221	Proceeds of fixed asset sales available to meet future capital investment	
Pension Reserve	(242,634)	(51,173)	(191,461)	Balancing account to allow inclusion of pensions liability in the balance sheet	1
Housing Revenue Account	4,835	671	4,164	Resources available to meet future running costs for council houses	2
Major Repairs Reserve	9,580	3,225	6,355	Resources ready to meet capital investment in council housing	3
General Fund	22,371	(7,001)	29,372	The prudent reserve to meet non-housing day to day running costs	4
Specific Reserves	12,389	(6,225)	18,614	Money earmarked for future projects.	5
Collection Fund	187	(3,605)	3,792	Balance of undistributed funds present within the Collection Fund	
Deferred Capital Receipts	1,264	346	918	Expected payments of mortgage principal resulting from loans made by the Council	
<b>Total</b>	<b>1,394,650</b>	<b>(54,384)</b>	<b>1,467,790</b>		

#### Notes

- 1 Pensions Note 35
- 2 HRA statements
- 3 HRA statements
- 4 Statement on Movement on General fund Balance
- 5 See table overleaf for details

Nature of Specific Reserve	Balance 01/04/2007	Transfers from Reserve	Transfers to Reserve	Balance 31/03/2008
	£000	£000	£000	£000
Capital projects	2,000	1,518	4,618	5,100
Restructure, Redundancy & Severence	3,686	99	255	3,842
Software & IS Licences	900	293	333	940
Utilities	500	-	-	500
Litigation	1,000	862	1,870	2,008
Dedicated Schools Grant (DSG)	832	832	232	232
Street Lighting	1,716	-	961	2,677
Revenue Contributions	42	42	-	0
Recycling	-	-	200	200
Preventative Technology	-	-	333	333
Implementation of IFRS	-	-	500	500
Future of the Council Review	-	-	400	400
Other Minor Reserves	1,613	1,056	915	1,472
<b>Sub Total</b>	<b>12,289</b>	<b>4,702</b>	<b>10,617</b>	<b>18,204</b>
Special Parking Account (SPA)	100	-	310	410
<b>Total</b>	<b>12,389</b>	<b>4,702</b>	<b>10,927</b>	<b>18,614</b>

### 32. Net Assets

This statement analyses the Councils assets and liabilities as at 31<sup>st</sup> March 2008 between the general fund and the HRA.

Fixed assets	Total	HRA	General Fund
	£000	£000	£000
Operational assets	1,632,684	1,112,172	520,512
Non-operational assets	168,298	24,069	144,230
Long term debtors	2,626	2,626	0
Long term investments	15,505	0	15,505
Current assets	323,284	11,427	311,857
Current liabilities	(172,041)	(4,844)	(167,197)
	<b>1,970,356</b>	<b>1,145,450</b>	<b>824,907</b>

### 33. 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 (AHM). AHM are a charity in their own right, totally independent of Barnet so no balances or transactions of the trust appear in Barnet's accounts

### 34. 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.

Preceptor	2007/08 £000	2006/07 £000
Barnet	2,948	145
Greater London Authority	844	42
<b>Collection Fund Balance</b>	<b>3,792</b>	<b>187</b>

### 35. Pension Reserve

The authority has its own defined benefit local government pension scheme. 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. To ensure that the net figure in the accounts is the actual amount paid to the pension fund, that includes other sums, 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:

	2007/08		2006/07	
	£000	£000	£000	£000
<b>Net cost of services</b>				
Current service cost	17,671		20,677	
Curtailment & settlements	286		6,856	
Past service cost	169		307	
<b>Net operating expenditure</b>		18,126		27,840
Interest cost	34,896		31,661	
Expected return on assets in the scheme	(29,231)		(25,357)	
		5,665		6,304
<b>Amounts to be met from government grants and local taxation</b>				
Movement on the pension reserve		(798)		(12,146)
<b>Amount charged for pensions in the year</b>		<b>22,993</b>		<b>21,998</b>

The authority also contributes to the Department for Children, Schools and Families Teacher's Pension Fund at a rate of 14.1% of pensionable pay. The amount paid in the year, £11.0m is included in the education service costs. Although this is a defined benefit scheme, the nature of it is such 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. A creditor in respect of contributions due to the Teacher's Pension Fund for £1.5m is included in the accounts. During the year £24,000 was paid as mandatory compensation for teacher's early retirement.

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

	<b>2007/08</b> £000	<b>2006/07</b> £000
Estimated liabilities of the scheme	(594,456)	(647,455)
Estimated assets of the scheme	402,995	404,821
<b>Net asset/(liability)</b>	<b>(191,461)</b>	<b>(242,634)</b>

	<b>Year to</b> <b>31/03/2008</b> £000	<b>Year to</b> <b>31/03/2007</b> £000
Difference between the expected and actual return on assets	(33,879)	(431)
Value of assets	402,995.00	404,821.00
Percentage of assets	8.4%	0.1%
Experience gains/(losses) on liabilities	(9,709)	(977)
Total present value of liabilities	594,456	647,455
Percentage of the total present value of liabilities	-1.6%	-0.2%
Actuarial gains/losses recognised in STRGL	51,971	35,714
Total present value of liabilities	594,456	647,455
Percentage of the total present value of liabilities	8.7%	5.5%

	<b>2007/08</b> %	<b>2006/07</b> %
Rate of inflation	3.60	3.20
Salary increases ( <b>NB</b> based on a 1.5% real)	5.10	4.70
Pension increases	3.60	3.20
Rate for discounting scheme liabilities ( <b>NB</b> based on 3.2% real)	6.90	5.40

The liabilities are the underlying commitments that the authority has, in the long run, to pay retirement benefits. The total liability of £191.461m has a substantial impact on the net worth of the authority as recorded in the balance sheet. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme.

An actuarial review has provided the figures required by FRS17. The fund's actuary has had to make a number of assumptions about future events and circumstances in calculating the figures. This does mean that the resulting calculations are subject to uncertainties and those assumptions within a range of possible values. The last full actuarial valuation of the fund was at 31 March 2007.

Members are able to elect to exchange part of their LGPS pension for additional tax-free cash at retirement and allowance has been made for this in the calculations.

The main actuarial assumptions involved were: -

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

	Long-term return	Assets Held
	%	2007/08
Equities	7.8	68.3
Bonds	5.7	16.2
Property	5.7	6.4
Cash	4.8	9.1

### 36. 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.

### 37. 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.

### 38. Post Balance Sheet Events

There are no post balance sheet events to report on.

### 39. Contingent Liabilities

The Council is subject to a substantial deficit claim from one of its service providers. The claim has been reviewed by officers in conjunction with the Council's legal advisors and is being vigorously disputed. Nonetheless, in the event of the worst case scenario, the claim could result in a significant call on Council balances.

### 40. Notes on 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 in which Local Authorities have to measure, account and present their Financial Instruments.

The primary purpose of these notes is to assist the reader 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

With regard to the latter point, it should be noted that the Authority has adopted CIPFA's Treasury Management in the Public Services Code of Practice and that it has set treasury management indicators to control key risk inherent in financial instruments in accordance with CIPFA's Prudential Code.

## Financial Instruments Balances

As required by the SORP, a breakdown of the Authority's financial instruments is shown in the table below

	<b>Long term</b>	<b>31 March</b>	<b>Current</b>	<b>31 March</b>
	<b>31 March</b>	<b>2007</b>	<b>31 March</b>	<b>2007</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	£000s	£000s	£000s	£000s
Financial liabilities (borrowings) at amortised cost	212,376	210,500	5,087	5,087
Total borrowings	212,376	210,500	5,087	5,087
Financial Assets (Loans and receivables) at amortised cost	15,505	38,410	245,847	181,500
Total investments	15,505	38,410	245,847	181,500

## 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 will take place over the remaining term of the instrument.

The fair values of the Authority's instruments compared to the amounts carried on the balance sheet (using amortised cost) are as follows:

	31 March 2008		31 March 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000s	£000s	£000s	£000s
Financial liabilities	217,463	213,010	215,500	196,828

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. This commitment to pay interest below current market rates reduces the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans.

	31 March 2008		31 March 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000s	£000s	£000s	£000s
Loans and receivables	15,505	15,621	31,400	31,244

The fair value is higher for 31 March 2008 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 increases 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 minimize 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 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. 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 annually 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 regularly.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarizes the Authority's potential maximum exposure to credit risk, based on experience of default and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market conditions. The historical experience of default has been taken from Moody's, a credit rating organization used by the Council and applies to the period 1982-2005. The amounts included in the table overleaf are principal amounts and not at amortised cost.

	Amount at 31 March 2008 £000s	Historical experience of default – 1 year %	Historical experience of default – 3 year %	Adjustment for market conditions at 31 March 2008 %	Estimated maximum exposure to default £000s
	(a)	(b)	©	(d)	(a *d)
Deposits with banks and financial institutions					
AAA rated counterparties	8,600	0.000%		0.000%	0
AA rated counterparties	106,500	0.000%		0.000%	0
A rated counterparties	125,700	0.007%		0.007%	9
A rated counterparties	15,000		0.090%	0.090%	14
Trade debtors	17,025	5.000%		5.000%	851
	272,825				874

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council has an investment with Northern Rock plc, whose rating grade is A, and has been included in this category above. The Bank is currently nationalized and so the rating is that applicable to Government borrowing (AAA). The nationalization applies with a three month notice period for de-nationalization and guarantees are currently in force for long standing deposits.

The Council generally allows 30 days credit for its trade debtors, such that £8.4m of the £17.0m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000s
Less than three months	1,365
Three to six months	417
Six months to one year	666
More than one year	5,981
	8,429

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

### Liquidity Risk

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.

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 through cash flow management procedures required by the Code of Practice.

## Re-financing 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 at principal value is as follows:

	£000s
Less than one year	5,000
Between one and two years	3,500
Between two and seven years	60,000
Between seven and 15 years	8,000
More than fifteen years	139,000
	<b>215,500</b>

The maturity analysis of financial assets at principal value is as follows:

	£000s
Less than one year	240,800
Between two and three years	15,000
	<b>255,800</b>

NB. Trade debtors of £17.02m are not shown in the table above.

## Market risks

**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 liability 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 effect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through 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 and minimum 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:

	<b>£000s</b>
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	0
Impact on Income and Expenditure Account	0
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	0
Decrease in fair value of fixed rate investment assets	476
Impact on STRGL	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on I+E Account or STRGL)	<b>35,665</b>

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 and therefore has no exposure to price risk.

**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.

## Notes to the Cashflow Statement

### 41. Revenue reconciliation

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
(Surplus)/deficit for year:				
-General fund	(6,999)		(1,359)	
-Housing revenue account	671		(1,131)	
	<u>(6,328)</u>		<u>(2,490)</u>	
-Collection fund	(3,605)	(9,933)	(1,793)	(4,283)
Minimum revenue provision and capital expenditure funded by revenue activities	(18,125)		(7,213)	
Contributions from reserves and provisions	(5,406)		(11,275)	
Capital debtors	(313)			
Capital creditors	3,531	(20,313)	1,377	(17,111)
Interest: -paid	(5,245)		(5,202)	
-received	8,292	3,047	6,850	1,648
(Increase)/decrease in creditors	(31,116)		73,326	
(Increase)/decrease in payments in advance	(3,367)		3,336	
Increase/(decrease) in stock and work in progress	(1,228)		145	
Increase/(decrease) in debtors	2,403	(33,309)	3,600	80,407
Pension Fund Cash		(22,566)		0
		<u>(83,074)</u>		<u>60,661</u>

### 42. Movement in other current assets

	Balance	2007/08	Balance	2006/07
	Sheet	Movement	Sheet	Movement
	31/03/08		31/3/07	
	£'000	£'000	£'000	£'000
Debtors	54,631	3,031	51,600	4,287
LT debtors	2,626	(628)	3,254	(687)
Creditors	(138,826)	(34,647)	(104,179)	71,949
				0
Stocks and works in progress	363	(1,228)	1,591	145
				0
Payments in advance	2,859	(3,367)	6,226	3,336
	<u>(78,348)</u>	<u>(36,840)</u>	<u>(41,508)</u>	<u>79,030</u>

#### 43. Movement in liquid resources

	Balance Sheet 31/03/08 £'000	2007/08 Movement £'000	Balance Sheet 31/3/07 £'000	2006/07 Movement £'000
Temporary Investments	245,847	64,347	181,500	(9,550)
Pension Fund Creditor	(51,870)	(22,566)	(29,304)	87,149
Temporary Investments	193,977	41,781	152,196	77,599

#### 44. Movement in long term borrowing

	Balance Sheet 31/3/08 £'000	2007/08 Movement £'000	Balance Sheet 31/3/07 £'000	2006/07 Movement £'000
Long term borrowing	212,376	1,876	210,500	105,000

#### 45. Movement in cash and cash equivalents

	Balance Sheet 31/03/08 £'000	2007/08 Movement £'000	Balance Sheet 31/3/07 £'000	2006/07 Movement £'000
Cash at bank and in hand	19,584	1,193	18,391	(760)
Cash overdrawn	(16,366)	(1,500)	(14,866)	127
Totals	3,218	(307)	3,525	(633)

#### 46. Reconciliation of net cashflow to movement in net debt

<b>Movement in net debt</b>	2007/08 £'000	2006/07 £'000
Movement of cash in year	(307)	0
Cash outflow from long term borrowing	(1,876)	(105,000)
Short term borrowing cashflow	0	(4,948)
Movement in net debt in the year	(2,183)	(109,948)
Opening net debt	(212,062)	(102,114)
	<u>(214,245)</u>	<u>(212,062)</u>
<b>Analysis of net debt</b>	2007/08 £'000	2006/07 £'000
Temporary borrowing	(5,087)	(5,087)
Long term borrowing	(212,376)	(210,500)
Imprests	19,584	18,391
Cash	(16,366)	(14,866)
	<u>(214,245)</u>	<u>(212,062)</u>

#### 47. Other government grants

	2007/08 £'000	2006/07 £'000
Education (excluding DSG)	63,143	55,826
DSG	185,129	173,792
Community care and other social services	12,193	22,033
Asylum seekers	801	781
Council tax benefits administration	2,687	2,229
LABGI	1,960	3,441
Street Lighting PFI	2,235	2,141
Other	1,141	3,475
Totals	<u>269,289</u>	<u>263,718</u>

#### 48. Capital expenditure and income

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

**SECTION 4**

**Supplementary Financial Statements**

## Housing Revenue Account

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

### Housing Revenue Account Income and Expenditure Account

Notes	2007/08		2006/07
	£000	£000	£000
<b>Income</b>			
	(42,852)		(41,428)
	(1,423)		(1,249)
	(6,290)		(7,129)
	(3)		-
		(50,568)	(49,806)
<b>Expenditure</b>			
	8,556		8,180
	21,565		21,159
	117		145
9	10,054		9,331
6,7	42,549		21,201
	27		31
	483		330
		83,351	60,377
<b>Net Cost of HRA Services shown in Income and Expenditure Account</b>			
		32,783	10,571
		-	43
		45	72
<b>Net Cost of HRA Services</b>			
		32,828	10,686
		2,142	1,386
		(213)	(320)
<b>(Surplus) or deficit for the year on HRA services</b>			
		<b>34,757</b>	<b>11,752</b>
<b>Statement of Movement on the Housing Revenue Account Balance</b>			
		34,757	11,752
		(19)	-
8		378	378
		(22,522)	(3,484)
3		(11,923)	(9,777)
		<b>671</b>	<b>(1,131)</b>
<b>Housing Revenue Account Balances</b>			
		(4,835)	(3,704)
		671	(1,131)
		<b>(4,164)</b>	<b>(4,835)</b>

# Housing Revenue Account Notes

## 1. Dwelling Stock

The authority's dwelling stock comprised, at 31<sup>st</sup> March

	<b>2008</b>	<b>2007</b>
	£'000	£'000
Houses	3,562	3,573
Bungalows	184	183
Flats	5,960	5,979
Maisonettes	1,413	1,417
Hostels	46	54
Bed sits	30	30
	<b>11,195</b>	<b>11,236</b>

## 2. Balance Sheet Value of HRA Assets

	Dwellings £'000	Land & Buildings £'000	Totals £'000
Balance Sheet Value at 1st April 2007	1,090,000	52,834	1,142,834
Balance Sheet Value at 31st March 2008	<b>1,086,000</b>	<b>42,600</b>	<b>1,128,600</b>
Vacant Possession value of Dwellings at 31st March 2008	1,723,000		
Vacant Possession value of Dwellings at 31st March 2007	1,730,000		

The vacant possession value of dwellings within the HRA at 31<sup>st</sup> March 2008 is as said above, £1,730m. The difference between this value and the balance sheet value represents the economic cost of providing Council housing.

## 3. Major Repairs Reserve

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

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

	<b>2007/08</b>	<b>2006/07</b>
	£000	£000
Opening Balance as at 1 <sup>st</sup> April	(9,580)	(5,030)
Capital expenditure charged to reserve (dwellings)	11,694	3,568
Depreciation		
- dwellings (MRA)	(15,157)	(15,172)
- non-dwellings	(4,871)	(2,544)
Transfer to Housing Revenue Account		
- dwellings (MRA)	7,052	7,233
- non-dwellings	4,871	2,544
Interest on Balances	(364)	(179)
<b>Closing Balance as at 31<sup>st</sup> March</b>	<b>(6,355)</b>	<b>(9,580)</b>

The major repairs allowance represents the estimated long-term average amount of capital spending required to maintain a local authority's housing stock in its current condition.

#### 4. HRA Capital Expenditure

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

The HRA capital expenditure was:-

	<b>2007/08</b>	<b>2006/07</b>
	£000	£000
<u>Expenditure</u>		
Houses	37,818	24,743
Other property	887	985
<b>Total</b>	<b>38,705</b>	<b>25,728</b>
	2007/08	2006/07
	£000	£000
<u>Financing</u>		
Borrowing	21,060	18,281
Capital receipts reserve	2,538	1,822
Major repairs reserve	11,694	3,568
Other contributions	3,413	2,057
<b>Total</b>	<b>38,705</b>	<b>25,728</b>

#### 5. Capital Receipts from Disposals

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

	2007/08	2006/07
	£000	£000
Land	3,443	4,334
Houses	4,891	3,389
Paid over to pool	(3,902)	(2,239)
<b>Total</b>	<b>4,432</b>	<b>5,484</b>

#### 6. Depreciation Charge

The total charge for depreciation within the HRA is:-

	<b>2007/08</b>	<b>2006/07</b>
	£000	£000
Houses	15,156	15,172
Other property	4,871	2,545
<b>Total depreciation charged</b>	<b>20,027</b>	<b>17,717</b>

#### 7. Impairment Charges

The value of impairment charges within the HRA is:-

	<b>2007/08</b>	<b>2006/07</b>
	£000	£000
Land	1673	0
Houses	20,476	3,484
Other property	373	0
<b>Total impairment charges</b>	<b>22,522</b>	<b>3,484</b>

## 8. Debt premium written down

	2007/08	2006/07
	£000	£000
Amount amortised in year	<b>378</b>	<b>378</b>

Cash incentive grants , although capitalised are now written out in the year they are created.

## 9. HRA Subsidy

HRA subsidy payable by the authority was as follows:-

	2007/08	2006/07
	£000	£000
Management and maintenance	19,956	19,337
Major repairs allowance	8,104	7,939
Admissable Allowance	0	50
Charges for capital	4,077	3,270
Other items of reckonable expenditure	57	57
Interest on receipts	(82)	(75)
Rent	(42,653)	(40,089)
Rent Constraint Allowance	754	233
<b>Total for year</b>	<b>(9,787)</b>	<b>(9,278)</b>
Prior year adjustments	(267)	(53)
<b>Total Payable</b>	<b>(10,054)</b>	<b>(9,331)</b>

## 10. Arrears

Arrears owing to the HRA at the year end:

	2007/08		2006/07	
	£000	£000	£000	£000
Leaseholder service charges	4,608		3,817	
less bad debt provision	(697)	3,911	(752)	3,065
Housing rents	3,018		3,587	
less bad debt provision	(1,431)	1,587	(1,779)	1,808
Commercial rents	196		204	
less bad debt provision	(36)	160	(24)	180
<b>Net arrears position at 31<sup>st</sup> March</b>		<b>5,658</b>		<b>5,053</b>

## 11. Corporate and Democratic Core and Non-Distributed Costs

In accordance with SORP 2007 the Authority has debited a sum of expenditure to the HRA that represents elements of the Corporate and Democratic Core that can be either directly apportioned to the HRA or fairly apportioned under the principles of BVACOP overhead apportionment. A proportion of past retirement costs included within the Non-Distributed costs have also been debited to the HRA Net Cost of Services.

## 12. ALMO – Barnet Homes Ltd

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

## 13. Accounting for Pensions in the HRA

As day to day housing management is carried out by Barnet Homes, Barnet's 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 defined benefit provision.

## Collection Fund

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

### Income and Disbursement Account 2007/08

#### Collection Fund 2007/08

	Note	'2007/08 £'000		2006/07 £'000	
<b>Income</b>					
Council Tax	1		160,405		153,147
Council Tax Benefits			24,851		24,331
Collectable business rates	2		86,462		85,982
			<b>271,718</b>		<b>263,460</b>
<b>Disbursement</b>					
Precepts:					
- London Borough of Barnet		141,603		136,565	
- Greater London Authority		41,129	182,732	38,992	175,557
Estimated deficit on collection fund:	3				
- London Borough of Barnet		(1,362)		(1,471)	
- Greater London Authority		(389)	(1,751)	(380)	(1,851)
Non-Domestic Rates					
- Payment to national pool		86,033		85,550	
- Cost of collection allowance		429	86,462	432	85,982
<b>Total disbursed</b>			<b>267,443</b>		<b>259,688</b>
<b>Council Tax</b>					
Change in bad debt provision	4	(687)		834	
Written off		1,357	670	1,146	1,980
Fund surplus / (deficit) for year			3,605		1,792
			<b>271,718</b>		<b>263,460</b>
Fund balance brought forward			187		(1,605)
Fund surplus / (deficit) for year			3,605		1,792
Fund balance carried forward			<b>3,792</b>		<b>187</b>

# Notes to Collection Fund

## 1. Council Tax

Council tax is charged according to the Government's valuation of residential properties as at 1<sup>st</sup> April 1991. The spread of valuations is classified into eight bands on which individual charges are calculated. The standard charge is found by taking the total amount of income required by the collection fund's two preceptors and dividing this by the council tax base. The tax base is the total number of chargeable properties in all valuation bands converted to an equivalent number of band D dwellings, with an allowance made for discounts and exemptions. The amount of council tax required from a property in any tax band is the band D charge (£1,350.12 for 2007/08) 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	Band D Equivalents
A	0.67	892
B	0.78	5,420
C	0.89	18,789
D	1.00	24,177
E	1.22	31,461
F	1.44	24,265
G	1.67	23,367
H	2.00	6,691
MOD contribution		283
Tax Base		<u>135,345</u>

## 2. National non-domestic rates

Barnet collects non-domestic rates (NDR) from local businesses and organisations and pays them into the Government's central NDR pool. The Government's national uniform rate, 44.4p in 2007/08 (43.3p in 2006/07) multiplied by the property's rateable value determine the amount charged. The aggregate business valuation for the borough at 31st March 2008 was £234.0m (£235.8m at 31/3/2007).

The amount paid into the central NDR pool is redistributed to local authorities, including Barnet, in line with their overall Formula Grant allocations. In 2007/08, the Pool funded 86% of the Formula Grant distribution in England, which for Barnet was £70.454m. This was paid directly into the general fund.

## 3. Collection fund surplus and deficit

The preceptor's share council tax surpluses and deficits.

## 4. Council Tax written off

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

**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:-

	2007/08 Consolidated Net Expenditure  £'000	2006/07 Consolidated Net Expenditure  £'000
Central services to the public	3,516	1,183
Cultural, environmental & planning services	70,790	48,816
Children's & education Services	64,586	29,445
Highways, roads & transport services	16,592	15,102
Housing services	42,848	10,585
Adult social services	80,113	106,294
Corporate & democratic core	10,682	4,525
Non distributed costs	3,970	11,961
<b>NET COST OF SERVICES</b>	<b>293,096</b>	<b>227,910</b>
Redundancy Costs	1,197	1,144
Precepts & Levies	1,284	1,143
Trading undertakings	387	1,318
Interest payable and similar charges	6,700	5,830
Contribution of housing capital receipts to Government Pool	3,902	2,239
Interest & investment income	(14,302)	(8,061)
Corporation Tax	134	115
Pension interest costs & expected return on pension assets	5,756	6,454
<b>NET OPERATING EXPENDITURE</b>	<b>298,153</b>	<b>238,092</b>
Net operating expenditure was financed by: -		
Demand on Collection Fund	(141,603)	(136,565)
General Government Grant	(11,824)	(13,614)
Non-domestic rates redistribution	(70,454)	(67,586)
Transfer of Collection Fund deficit	1,362	1,471
<b>DEFICIT FOR THE YEAR</b>	<b>75,635</b>	<b>21,799</b>

## Reconciliation of the Single Entity Deficit to the Group Deficit

	2007/08 £'000	2006/07 £'000
Deficit from LBB's Income & Expenditure Account	76,746	21,406
Surplus arising from other entities included in the Group Accounts		
Subsidiaries (Barnet Homes Ltd)	(1,111)	393
Associates	-	-
Joint Ventures	-	-
Group Account Deficit for the Year	<b>75,635</b>	<b>21,799</b>

## Group Statement of the Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Group for the year and shows the increase in 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

	Group Consolidated 2007/08 £'000	Group Consolidated 2006/07 £'000
Deficit/(Surplus) for the year on the Income and Expenditure Account	75,635	21,799
Surplus arising on revaluation of fixed assets	(77,525)	(54,228)
Actuarial (gain) / losses on pension fund assets and liabilities	(54,034)	(37,834)
Movement on the Collection Fund	(3,605)	1,792
Other Gains & Losses included in the Group Balance Sheet	(16,786)	(488)
<b>Total recognised gains for the year</b>	<b>(76,315)</b>	<b>(68,960)</b>

## Group Balance Sheet

This statement summarises the Group's assets and liabilities of the Reporting Group as at 31<sup>st</sup> March 2008

	Group Balance Sheet as at 31.03.2008		Group Balance Sheet as at 31.03.2007	
	£'000	£'000	£'000	£'000
<b>Fixed assets</b>				
<b>Operational assets</b>				
Council dwellings	1,086,000		1,090,000	
Other land and buildings	477,534		467,550	
Community Assets	8,406		7,433	
Vehicles, plant, furniture and equipment	16,341		7,021	
Infrastructure assets	44,755		51,894	
		1,633,035		1,623,898
<b>Non-operational assets</b>				
Investment Properties	36,130		34,926	
Surplus Assets Awaiting Disposal	69,072		38,555	
Assets Under Construction	63,135		34,747	
		168,337		108,228
<b>Intangible Assets</b>		0		23,082
Unamortised Debt Premiums		0		2,351
Long term debtors		2,626		3,254
Long term investments		15,505		38,410
<b>Total long term assets</b>		1,819,504		1,799,223
<b>Current assets</b>				
Stocks and works in progress		363		1,603
Temporary investments		248,347		186,500
Debtors		53,065		48,815
Payments in advance		2,859		6,226
Cash at Bank and in Hand		24,192		18,821
		328,826		261,965
<b>Current liabilities</b>				
Creditors		(143,058)		(106,138)
Borrowing repayable within 12 months		(5,087)		(5,087)
Bank overdraft		(16,366)		(14,866)
Provisions		(11,893)		(9,386)
		(176,404)		(135,477)
<b>Net current assets</b>		152,422		126,488
<b>Long-term liabilities</b>				
Long term borrowing		(212,376)		(210,500)
Government grants - deferred		(98,729)		(76,811)
Liability related to defined benefit pension scheme		(197,318)		(251,212)
<b>Total assets less liabilities</b>		1,463,503		1,387,188
<b>Financed by</b>				
Revaluation Reserve		73,240		0
Fixed Asset Restatement Account		0		1,211,451
Financial Instrument Adjustment Account		(2,396)		0
Capital Adjustment Account		1,484,971		339,282
Usable capital receipts		40,221		35,925
Deferred capital receipts		918		1,264
Pension reserve		(197,318)		(251,212)
Major Repairs Reserve		6,355		9,580
Specific reserves		18,614		12,389
Balances		30,941		23,487
Balances – collection fund		3,792		187
Balances – housing revenue account		4,164		4,835
<b>Total equity</b>		1,463,503		1,387,188

## Group Cashflow

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

	Group Cash Flow 2007-08		Group Cash Flow 2006-07	
	£'000	£'000	£'000	£'000
<b>REVENUE ACTIVITIES</b>				
Cash outflows				
Cash paid to and for employees	314,526		319,136	
Other operating costs	276,907		376,039	
Housing benefits	149,898		140,732	
Non-domestic rate pool	89,257		86,054	
Collection fund precept payments	40,740		38,614	
Payments to housing capital receipts pool	4,402		2,239	
		875,730		962,814
Cash inflows				
Council tax etc.	(160,238)		(150,133)	
Non-domestic rate pool	(70,454)		(67,586)	
Local business rates	(86,928)		(83,755)	
Revenue support grant	(11,824)		(13,614)	
Rents	(57,166)		(51,858)	
DSS rebate grants	(178,524)		(159,323)	
Other Government grants	(269,289)		(263,718)	
Cash received for goods and services	(125,722)		(114,598)	
		(960,145)		(904,586)
(see note 1.)				
<b>SERVICING OF FINANCE</b>				
Cash outflows				
Interest paid	5,246		5,202	
Cash inflows				
Interest received	(8,749)		(7,254)	
		(3,503)		(2,052)
<b>CAPITAL ACTIVITIES</b>				
Cash outflows				
Purchase of fixed assets	85,273		56,855	
Deferred charges and long term debtors	0		6,026	
Payments to housing capital receipts pool	0		0	
		85,273		62,881
Cash inflows				
Sale of fixed assets	(9,941)		(13,339)	
Capital grants received	(27,368)		(26,068)	
Other cash income	(3,378)		(687)	
		(40,687)		(40,094)
<i>Net cash inflow before financing</i>		(43,332)		78,964
<b>MANAGEMENT OF LIQUID RESOURCES</b>				
Net ( increase)/decrease in short term deposits		61,847		(4,550)
<b>FINANCING</b>				
Cash outflows				
New long term investments	(22,905)		38,400	
Repayment of long term borrowing	0		0	
Repayment of short term loans	0		0	38,400
		(22,905)		
Cash inflows				
New long term loans	(1,876)		(4,448)	
New long term investments	2,396		(105,000)	
		520		(109,448)
<b>(INCREASE) /DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(3,871)</b>		<b>3,366</b>

## 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 Accounting Code of Practice 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 remove it from onerous public sector borrowing controls in order to allow greater commercial freedom. Barnet Homes Ltd, a 'Not for Profit' company, took over responsibility for managing approximately 11,000 council homes in Barnet Council in April 2004. It also took responsibility for almost 400 staff from the Council's Housing Services Department. Barnet Homes Ltd is managed by a Board of 15 members made up of 5 Council nominees, 4 tenants, 1 lease holder and 5 independent persons with professional skills and experience to help run the services. Board members are volunteers and only receive out of pocket expenses.

#### ii) Relationship with the Authority

Under the Statement of Recommended Accounting Practice (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 the 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 2006/07 the Company made an operating surplus of £1.1 million. This compares to an operating loss of £0.40 in 2006/07.

#### iv) Transactions with the Company

The Authority paid the Company £28.309m in 2007/08 for the provision of housing management services and repair & maintenance works to housing stock (£28.066m was paid to the Company in 2006/07). The Authority provides the following services to the Company: -

The Authority leases premises to the Authority and also provides various support services e.g. Payroll. Total charges from the Authority to the Company in 2007-08 were £2.9m (equivalent figure for 2006/07 was £5.1m).

#### **4. Group Cash Flow Statement**

The Group Cash Flow statement was prepared in accordance with the 2007 Statement of Recommended Practice (SORP) and 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  
9<sup>th</sup> 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**

## PENSION FUND

Administered under the Local Government Superannuation and Pension Fund Acts

### FUND ACCOUNT

	Notes	2007/08		2006/07	
		£'000	£'000	£'000	£'000
<b>Contributions and Similar Payments</b>					
Contributions receivable – from employees	5, 2	8,907		8,240	
- from employers	5, 2	33,368		27,317	
Transfers in	2	2,156	44,431	4,313	39,870
<b>Benefits and Similar Payments</b>					
Pensions payable	2	(23,866)		(22,082)	
Lump sum benefits payable	2	(4,502)		(6,028)	
Death benefits	2	(419)	(28,787)	(132)	(28,242)
Refund of contributions	2	(19)		(23)	
Transfers out	2	(2,724)	(2,743)	(5,150)	( 5,173)
Administration and other scheme expenses	8		(832)		( 840)
<b>Net Additions from dealings with Members of the Fund</b>			<b>12,069</b>		<b>5,615</b>
<b>Returns on Investments</b>					
Investment Income	2				
Interest on fixed interest securities		4,891		4,811	
Dividends from equities		13,621		8,957	
Income from Index - Linked		219		180	
Interest on cash deposits		2,144		1,785	
Other Income		583	21,458	88	15,821
Change in market value of:-	7				
- realised investments		21,112		19,362	
- unrealised investments		(42,934)		619	
Investment management expenses	4,6	(2,101)		(1,424)	
Taxation		(471)	(24,394)	(321)	18,236
Net returns on investments			(2,936)		34,057
<b>Net fund (decrease)/increase during the year</b>			<b>9,133</b>		<b>39,672</b>
Opening net assets of the scheme			539,502		499,830
<b>Closing net assets of the scheme</b>			<b>548,635</b>		<b>539,502</b>

### NET ASSETS STATEMENT AS AT 31st March 2008

	Notes	2008		2007	
		£'000	£'000	£'000	£'000
Government securities – fixed interest	2, 6, 7	46,547		46,547	
- index linked	2, 6, 7	20,912	67,459	11,919	58,466
Non Government – fixed interest	2, 6, 7	12,081		1,640	
- index linked	2, 6, 7		12,081		1,640
Pooled investment vehicles	2, 6, 7	11,090		9,906	
Property unit trusts	2, 6, 7	34,104		53,468	
UK equities	2, 6, 7	177,627		196,735	
Overseas equities / funds	2, 6, 7	179,570		178,198	
Overseas bonds	2, 6, 7	12,290	414,681	9,180	447,487
			494,221		507,593
Current net assets					
- sundry debtors	4	3,964		3,618	
- sundry creditors	4	(1,420)	2,544	(1,013)	2,605
Cash	6		51,870		29,304
<b>Total net assets</b>			<b>548,635</b>		<b>539,502</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## 1. Fund operation and membership

The Pension Fund is a defined benefit scheme for employees administered by the London Borough of Barnet (the Council) under the provisions of the Local Government Superannuation and Pension Fund Acts. It provides retirement and death grants besides retirement and widow's pensions. Contributions from the Authority, eighteen scheduled bodies (Middlesex University, two colleges, one academy and fourteen schools) and various other Admitted bodies, further details of which can be found at Note 5. Contributions are also made by the employees with the basic contribution rates set at 6% of pay except for manual workers employed prior to 1st April 1998 for whom it is 5%. The contribution rates payable by employees will change with effect from the 1st April 2008 as a result of changes to the Local Government Pension Scheme. Future contribution rates will be tiered and related to salary and will range from 5.25% to 7.5%, these rates will be applicable to all employees including manual workers. The funds investments will generate returns that when combined with the contributions will balance the future liabilities of the fund.

At 31<sup>st</sup> March 2008 there were 6,933 employees contributing to the fund with 5,052 in receipt of benefit and 5,443 entitled to deferred benefits. A Government scheme supplies teacher's pensions; they are not provided for under these arrangements.

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

## 2. Accounting policies

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

### Contributions

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

### Benefits

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

### Investment Expenses

Investment management expenses are accounted for on an accruals basis.

### Administration Expenses

These are a percentage of the London Borough of Barnet's expenses plus the direct costs of the Pension's section within the Human Resources department.

### Interest

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

### Dividends

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

### Purchase and Sale of Investments

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

#### Transfers into and out of the Fund

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

#### Foreign Currency Translation

Foreign currency receipts and payments are translated into sterling at the rate ruling on the date of the transaction. Investments held in foreign currencies as at year-end have been translated at the rates prevailing on 31 March 2008.

#### SSAP 24

The pension costs included in the accounts accord with current Government regulations. These regulations allow non-compliance with SSAP 24 'Accounting for Pension Costs'. The liabilities included in the balance sheet are understated in SSAP 24's terms (see note 4 below).

### **3. Statement of Investment Principles**

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

### **4. Net current assets**

Net current assets at 31<sup>st</sup> March 2008 totalled £2.5m and comprised:

	<b>Debtors</b> £'000	<b>Creditors</b> £'000	<b>Net</b> £'000
Settlements on purchases/sales	1,178	(1,235)	(57)
Investment income	1,961		1,961
Fund manager's fees		(185)	(185)
Tax to be reclaimed	736		736
Payments in advance (Newton Invest Mngt)	20		20
Sundry debtors/creditors	69		69
<b>Total</b>	<b>3,964</b>	<b>(1,420)</b>	<b>2,544</b>

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

### **5. Actuarial position**

The Local Government Superannuation Regulations 1986 set out legal requirements for actuarial valuations. Their main purpose is to assess the amount the Council must pay towards the fund's liabilities. Hymans Robertson LLP, the independent actuary to the fund, reviews the accounts every three years. The last formal actuarial valuation of the fund was carried out as at 31st March 2007. The funding level was 71% compared to 66% as at 31st March 2004. The latest informal valuation as at 31st March 2008 as per the requirements of

FRS17, used the roll – forward approach together with the following assumptions (the figures in brackets relate to 31<sup>st</sup> March 2007, and are given for comparison):

Assumed price inflation	3.60% (3.20%)
Rate of return on investments	
Equities	7.80% (7.80%) per annum
Bonds	5.70% (4.90%) per annum
Property	5.70% (5.80%) per annum
Cash	4.80% (4.90%) per annum
Overall	7.10% (7.20%) per annum
Future pay increases	5.10% (4.70%) per annum
Future pension increases	3.60% (3.20%) per annum
Discount rate	6.90% (5.40%) per annum

The market valuation of assets for past service appraisal was £402.3m (£404.8m). This valuation indicates that assets held at 31st March 2008 were sufficient to cover 67% of the accrued liabilities assessed on an ongoing basis. The financial statements do not take account of liabilities to pay pensions and other benefits after the year-end.

The fund should receive input sufficient to meet 100% of its overall liabilities (Local Government Superannuation (Amendment) Regulations 1993). The Government has allowed local authorities to decide themselves how long to phase in this requirement. Barnet has chosen a period of twenty years, which commenced 1<sup>st</sup> April 2004. The actual employer's contribution for 2007/08 was £33.4m the common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1st April 2005 to 31<sup>st</sup> March 2008 is 21.3% of pensionable pay.

	Contributions 2007/08		Benefits payable 2007/08
	Employees £'000	Employers £'000	£'000
LB Barnet	5,809	21,390	24,374
<b>Scheduled bodies:</b>			
Middlesex University	1,532	6,491	3,348
Schools & Colleges	759	2,592	134
<b>Admitted bodies:</b>			
Barnet Homes	421	1,666	442
Fremantle Trust	138	536	158
Open Learning	21	31	0
Partnership			
Housing 21	101	268	53
Greenwich Leisure	36	77	17
Others	90	317	262
<b>Totals</b>	<b>8,907</b>	<b>33,368</b>	<b>28,788</b>

## 6. Management of the Fund

The Pension Fund Committee appointed by the Council comprises six elected members (two from each political party). This committee counsels the Deputy Director of Resources and Chief Finance Officer about investment of the fund. The W.M. Company also provides an independent performance measurement service.

Apart from internally managed holdings in property unit trusts, the fund is split between three balanced-fund managers, Midas Capital Partners Ltd, Newton Investment Management Ltd, and Schroder Investment Management Ltd. The fund managers report transaction details at quarterly meetings with the Pension Fund Committee. An independent fund advisor monitors the three fund managers for the Council and advises Council officers and members on the in-house managed property unit trust portfolio.

Cash in hand and the market value of funds as at 31st March 2008 held by the managers totalled £494.2m Schrodgers managed 38% of the fund, Midas 14%, and Newton managed 33% of the fund. The property unit trust element of the fund represents 6% and the remaining 9% of the fund is held in cash.

The property part of the fund is managed in-house and is invested in property unit trusts; the total market value of this fund (excluding income earned) was £31.7m.

The cash element of the fund is also managed in-house by the Council's treasury team; interest totalling £2.1m (£1.8m)<sup>1</sup> was earned during the year. The average cash balance held during the year was £32.0m (£35.9m) and the average interest rate applied was 5.71% (4.9%), which represents the average 7-day LIBOR<sup>2</sup> rate. The average daily interest was £4,958 (£4,610). The year-end cash balance was £51.9m (£29.3m).

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

## 7. Investment Transactions and Performance

Purchases of investments during 2007/08 were £231.7m (£305.5m) and sales proceeds were £223.3m (£199.0m). Profits/ (Losses) on realisation were £21.1m (£19.4m).

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

The fund made a general return in 2007/08 of -0.7%. The W.M. Company's statistics show that the average return for local authority pension funds was -2.7% and that Barnet was in the 23rd percentile of funds measured.

## 8. Prior Year Adjustments

There were no prior year adjustments.

## 9. Related Party Transactions

The administration expenses of £0.83m shown in the main accounts above were incurred by the London Borough of Barnet and are broken down as follows:

	2007/08 £'000's	2006/07 £'000's
Human Resources	522	648
Accountancy administration	163	72
Payroll support	147	120
Total	<b>832</b>	<b>840</b>

There were no material transactions between the Fund and the Trustees of the Fund, or between the Fund and the senior officers of the Borough, during the financial years 2007/08 and 2006/07.

The independent Fund Advisor who also monitors the fund managers on behalf of the council was paid a fee of £9,500 for this service during the financial year under review.

## 10. Post Balance Sheet Events

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

<sup>1</sup> Figures in parentheses are for 2006/07.

<sup>2</sup> London inter-bank offer rate.

## 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 aid it standardisation, making 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.

### **Associate Company**

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

### **Benefits**

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

### **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

### **Capital Adjustment Account**

This provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital control system.

### **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.

### **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.

## **Financial Instrument**

A financial instruments any contract that gives rise to a financial asset of one entity and a financial liability of another. They include both the most straight forward assets and liability (e.g. cash and creditors) and the most complex (e.g. embedded derivatives).

## **Fixed Asset Restatement Account**

Due to changes resulting from the 2007 SORP, this account is now defunct and has been replaced by the Revaluation Reserve.

## **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.

## **Impairment**

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

## **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.

## **Non-domestic rate (NDR)**

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 Reserve**

This is an adjustment account that manages the effects of FRS 17 charges made to the Income and Expenditure Account against the statutory requirements for meeting the cost of retirement benefits from

local taxes, as well as absorbing the impact of actuarial gains and losses. It normally balance exactly the pensions liability carried in the top half of the balance sheet.

### **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.

### **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.

### **Revaluation Reserve**

This holds unrealised revaluation gains arising from 1 April 2007 from holding fixed assets that will be realised on disposal.

### **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.