

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

#### **L. Termination Benefits**

Termination benefits are charged on an accruals basis to the appropriate service at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

#### **M. Changes in Accounting Policies**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

#### **N. Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in a specified period, no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

#### **O. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

#### **P. Rounding**

It is not the Council's policy to adjust for immaterial cross-casting differences between the main statements and disclosure notes.

### **2a. Critical Judgements and Assumptions**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council or relevant professionals engaged by the Council, such as actuaries, about the future. Estimates are made taking into account historical experience, current trends, professional advice and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Items in the Council's Balance Sheet at 31 March 2017 for which there is a risk of material adjustment in the forthcoming financial year include pensions liabilities, property, plant and equipment valuations, insurance provisions and bad debt provisions.

Critical judgements made in the Statement of Accounts are:

#### ***Future of Local Government***

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

#### ***Bad Debt Provisions***

Bad debts are provided for by using trend data for recent years regarding collection rates and overview of debt position, and applying that analysis to aged debt, thus ensuring that the net debtor represents a reasonable estimation of collectible debt.

## **Provisions and Contingent Liabilities**

The rules in IAS 37: Provisions, Contingent Liabilities and Contingent Assets, determine whether a provision or contingent liability should be recognised in the accounts. The interpretation of the rules is particularly challenging with respect to legal cases as a judgement needs to be made as to the outcome of litigation. The experience of the Council's internal legal function is utilised to determine how current legal cases are likely to conclude and the possible financial impact of the outcome of the case. The largest single element of Provisions is that which relates to the Insurance Fund, explained further below.

### **Insurance Fund**

The Council holds a fund to act as a means to self-insurance. This is split between a consideration held in provisions to deal with post-1992 claims, which are deemed to be more robustly understood and quantifiable, and a reserve to deal with pre-1992 claims, which is based more on judgement as to a reasonable level to hold. See Note 23.

### **Restructures, Redundancies and Termination Benefits**

A provision has been made to meet the cost of those staff who have agreed to leave as part of voluntary redundancy arrangements.

### **Service Concessions**

The Council is deemed to control the services provided under the following PFI agreements. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and the assets recognised as Property Plant and Equipment on the Council's Balance sheet. See note 22.

### **Group Accounts**

The Council has considered the relationships it has with other entities, and has determined that Group Accounts do not need to be produced because, where the Council has control over other entities, the effect of preparing Group Accounts would not be material on the financial statements.

### **Pensions Liabilities**

Estimation of the net liability to pay pensions depends on a number of complex judgements agreed with the Council's actuaries, Hymans Robertson LLP.

The sensitivities regarding the principal assumptions used to measure the pension liability in respect of the Lambeth scheme are set out in the table below:

	Approx. increase to pension liability		Approx. increase to monetary amount	
	LPFA	Lambeth	LPFA	Lambeth
	%	%	£'000	£'000
1 year increase in member life expectancy	4	3-5	3,222	78,978
0.5% increase in salary increase rate	<1	1	180	19,776
0.5% increase in pension increase rate	6	8	4,875	153,517
0.5% decrease in real discount rate	6	9	5,000	175,253

Lambeth Pension Fund has not employed an asset-liability matching strategy.

The sensitivity analyses above have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method.

### **Property Valuations**

Properties are subject to full valuation by a qualified valuer under a rolling programme at least once every five years. Where there has been significant works carried out to the asset during the year, the asset is subject to a full valuation on completion of those works. At the balance sheet date, all assets with carrying value over £1 million are subject to a further desktop valuation. The valuation in 2016/17 was conducted by Wilks Head and Eve LLP.

The valuers have arrived at their opinion of Fair Value, Fair Value (Existing Use) and Market Value from referring to recent comparable market transactions. For specialised properties the Fair Value (Existing Use) has been derived using Depreciated Replacement Cost methodology.

The HRA residential portfolio was valued as a desktop review utilising a beacon methodology. In order to value the whole portfolio, it was necessary to research a number of information sources. These include sales of directly comparable property, changes of income flow for non-residential HRA property, information available at a local level showing house price movement plus regional and National Indices.

2015/16	Usable Reserves					Unusable Reserves £000s	Relevant Unusable Reserve
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied		
	£000s	£000s	£000s	£000s	£000s		
<b>Adjustments to Revenue Resources</b>							
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement differ from increases/decreases in revenue for the year calculated in accordance with statutory requirements:							
· Financial instruments	100	234	0	0	0	(334)	Financial Instruments Adjustment Account
· Pensions costs	(20,858)	2,111	0	0	0	18,747	Pensions Reserve
· Council tax	(614)	0	0	0	0	614	Collection Fund Adjustment Account
· Holiday pay	99	(163)	0	0	0	64	Accumulated Absences Account
Cancellation of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure:							
· Amortisation of intangible assets	(444)	0	0	0	0	444	Capital Adjustment Account
· Charges for depreciation and impairment	(4,946)	(698)	0	0	0	5,644	
· Revenue expenditure funded from capital under statute	(14,172)	0	0	0	0	14,172	
· Carrying amounts of non-current assets written off on disposal or sale	(6,832)	(18,785)	0	0	0	25,617	
· Capital grant income	29,042	10,918	0	0	(8,287)	(31,673)	
<b>Transfers between Revenue and Capital Resources</b>							
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve and Deferred Capital Receipts Reserve	13,299	37,092	(50,391)	0	0	0	
Use of capital receipts for revenue purposes:							
· Administrative costs of non-current asset disposals	(101)	0	101	0	0	0	
· Payments to the Government housing receipts pool	(3,488)	0	3,488	0	0	0	
Posting of HRA resources from revenue to the Major Repairs Reserve	0	50,803	0	(50,803)	0	0	
Statutory revenue provisions for the financing of capital investment	3,866	0	0	0	0	(3,866)	Capital Adjustment Account
Capital expenditure financed from revenue balances	3,543	0	0	0	0	(3,543)	
<b>Adjustments to Capital Resources</b>							
Repayments of capital loans and mortgages	0	0	(12)	0	0	12	Deferred Capital Receipts
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	9,033	0	0	(9,033)	
Capital Receipts set Aside – regulation 23 (b)	0	0	0	0	0	0	Capital Adjustment Account
Application of S. 106 Receipts to Finance new Capital	4,776	504	0	0	0	(5,280)	
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	55,632	0	(55,632)	
Application of capital grants to finance capital expenditure	0	0	0	0	2,833	(2,833)	
Cash payments in relation to deferred capital receipts	0	0	0	0	0	0	
<b>Total Adjustments</b>	<b>3,270</b>	<b>82,016</b>	<b>(37,781)</b>	<b>4,829</b>	<b>(5,454)</b>	<b>(46,880)</b>	

## 28a. Usable Reserves

	31 March 2017 £'000	31 March 2016 £'000
General Fund	(22,524)	(22,436)
LMS Balances	(15,964)	(19,663)
Earmarked Reserves – General Fund*	(50,240)	(65,712)
Earmarked Reserves - HRA	(45,184)	(41,965)
Housing Revenue Account	(10,747)	(10,746)
Capital Receipts Reserve	(68,918)	(63,554)
Capital Grants Unapplied Account	(58,919)	(58,724)
Major Repairs Reserve	(75)	0
<b>Total Usable Reserves</b>	<b>(272,570)</b>	<b>(282,799)</b>

\* **General Fund** – Used for any non-housing purpose of a revenue or capital nature.

## 28b. LMS Balance – Ring-fenced for the local management of schools

	2016/17 £'000	2015/16 £'000
<b>Balance at 1 April</b>	(19,663)	(20,465)
Overspent School Balances	5,403	4,340
Underspent School Balances	(1,704)	(3,538)
<b>Balance at 31 March</b>	<b>(15,964)</b>	<b>(19,663)</b>

## 28c. General Fund and Housing Revenue Account Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2016/17.

General Fund Reserves	Balance at 31 March 2016 £'000	Transfers in £'000	Transfers out £'000	Balance at 31 March 2017 £'000
Earmarked Grants & Budget Carry-Forwards	(13,271)	(1,106)	6,761	(7,616)
Information and Communication Technology Investment	(2,719)	0	1,358	(1,361)
<b>Insurance and Risk Management</b>	<b>(5,930)</b>	(85)	2,704	<b>(3,311)</b>
Property and Assets	(13,343)	(586)	1,729	(12,200)
Transformation	(13,793)	(800)	6,999	(7,594)
CIL Reserve	(16,656)	(18,104)	16,602	(18,158)
<b>GF Sub-total</b>	<b>(65,712)</b>	<b>(20,681)</b>	<b>36,153</b>	<b>(50,240)</b>
<b>Housing Revenue Account Reserves</b>				
<b>Insurance and Risk Management</b>	<b>(16,248)</b>	(10,700)	2,106	<b>(24,842)</b>
Property and Assets	(25,717)	(2,819)	8,194	(20,342)
<b>HRA Sub-total</b>	<b>(41,965)</b>	<b>(13,519)</b>	<b>10,300</b>	<b>(45,184)</b>
<b>Council Total</b>	<b>(107,677)</b>	<b>(34,200)</b>	<b>46,453</b>	<b>(95,424)</b>

The **Earmarked Grants and Budget Carry-Forwards reserves** were created to provide funds for specific grant-funded projects, and to finance expenditure that has been committed to but not yet incurred at balance sheet date.

The **Information and Communication Technology Investment** reserves serve to fund the expenditure necessary on ICT projects as part of the Council's continuing transformation.

21a. The value of assets held under PFI and similar contracts and an analysis of the movement in those values.

	Lilian Baylis £'000	Norwood Hall £'000	Waste Fleet £'000	Home 2 School £'000	Lambeth Lighting £'000	Myatts Field North £'000	Total £'000
<b>1 April 2016</b>	<b>27,368</b>	<b>13,960</b>	<b>4,680</b>	<b>0</b>	<b>12,049</b>	<b>39,610</b>	<b>97,667</b>
Additions	187	0	934	0	85	3,489	4,695
Revaluations	0	0	0	0	0	3,717	3,717
Depreciation	(393)	(316)	(2,340)	0	(354)	(463)	(3,866)
Impairments	0	0	0	0	0	(7,155)	(7,155)
Other	0	0	0	0	0	(45)	(45)
<b>31 March 2017</b>	<b>27,162</b>	<b>13,644</b>	<b>3,274</b>	<b>0</b>	<b>11,780</b>	<b>39,153</b>	<b>95,013</b>

21b. The value of outstanding liabilities resulting from PFI, finance leases and similar contracts at each Balance Sheet date and an analysis of the movement in those values.

	Lilian Baylis £'000	Lambeth Lighting £'000	Norwood Hall £'000	Home to School £'000	Waste Mgt £'000	Myatts Field North £'000	Sub- Total £'000	Finance Lease* £'000	Total £'000
<b>31 March 2015</b>	<b>(10,553)</b>	<b>(9,400)</b>	<b>(8,559)</b>	<b>(757)</b>	<b>(3,058)</b>	<b>(75,884)</b>	<b>(108,211)</b>	<b>(384)</b>	<b>(108,595)</b>
Liability in year	0	0	0	0	0	(6,256)	(6,256)	384	(5,872)
Payments in year	304	600	226	242	197	1,275	2,844	0	2,844
<b>31 March 2016</b>	<b>(10,249)</b>	<b>(8,800)</b>	<b>(8,333)</b>	<b>(515)</b>	<b>(2,861)</b>	<b>(80,865)</b>	<b>(111,623)</b>	<b>0</b>	<b>(111,623)</b>
Liability in year						(3,489)	(3,489)	0	(3,489)
Payments in year	359	609	230	374	273	2,552	4,397	0	4,397
<b>31 March 2017</b>	<b>(9,890)</b>	<b>(8,191)</b>	<b>(8,103)</b>	<b>(141)</b>	<b>(2,588)</b>	<b>(81,802)</b>	<b>(110,715)</b>	<b>0</b>	<b>(110,715)</b>

21c. Details of payments due to be made under PFI, finance leases and similar contracts (separated into repayments of liability, interest and service charges) as at 31 March 2017 are set out in the table below.

	Lilian Baylis					Lambeth Lighting				
	Liability £'000	Interest £'000	Service £'000	PPE £'000	Total £'000	Liability £'000	Interest £'000	Service £'000	PPE £'000	Total £'000
Within 1 year	397	1,528	862	192	2,979	598	704	1,217	115	2,634
2-5 years	2,139	6,161	3,668	711	12,679	2,503	2,376	5,176	490	10,545
6-10 years	3,666	7,256	5,125	1,668	17,715	3,086	1,765	7,353	1,000	13,204
11-15 years	3,687	4,253	3,122	666	11,728	2,004	425	6,097	1,182	9,708
<b>Total</b>	<b>9,890</b>	<b>19,198</b>	<b>12,776</b>	<b>3,237</b>	<b>45,101</b>	<b>8,191</b>	<b>5,270</b>	<b>19,843</b>	<b>2,787</b>	<b>36,091</b>

	Waste Management				Home To School			
	Liability £'000	Interest £'000	Service £'000	Total £'000	Liability £'000	Interest £'000	Service £'000	Total £'000
Within 1 year	376	1,080	16,395	17,851	141	103	677	921
2-5 years	2,212	2,378	51,684	56,274	0	0	0	0
<b>Total</b>	<b>2,588</b>	<b>3,458</b>	<b>68,079</b>	<b>74,125</b>	<b>141</b>	<b>103</b>	<b>677</b>	<b>921</b>

	Myatts Field North				Norwood Hall			
	Liability £'000	Interest £'000	Service £'000	Total £'000	Liability £'000	Interest £'000	Service £'000	Total £'000
Within 1 year	2,830	5,333	2,449	10,612	245	585	176	1,006
2-5 years	12,166	19,689	11,659	43,514	1,101	2,377	803	4,281
6-10 years	17,601	20,139	19,253	56,993	1,688	2,987	1,307	5,982
11-15 years	19,894	13,163	27,196	60,253	1,731	2,719	2,079	6,529
16-20 years	28,645	7,823	27,418	63,886	1,806	2,396	2,877	7,079
21-25 years	666	140	425	1,231	1,532	1,533	1,359	4,424
<b>Total</b>	<b>81,802</b>	<b>66,287</b>	<b>88,400</b>	<b>236,489</b>	<b>8,103</b>	<b>12,597</b>	<b>8,601</b>	<b>29,301</b>

## 22. Provisions

Description	31 March 2016 £'000	Additional provision £'000	Utilised £'000	Released £'000	31 March 2017 £'000
Dilapidations GF	(221)	(179)	0	0	(400)
<b>Insurance Fund GF</b>	<b>(3,501)</b>	<b>(2,265)</b>	<b>2,100</b>	<b>0</b>	<b>(3,666)</b>
NNDR Provision for Appeals	(8,355)	(13,357)	15,199	0	(6,513)
Single Status Provision	(676)	0	589	0	(87)
VPRS Provision GF	(3,578)	0	3,578	0	0
Small Provisions	(718)	(213)	335	300	(296)
Disputes	(1,408)	(1,008)	1,408	0	(1,008)
<b>Sub-Total GF Provisions</b>	<b>(18,457)</b>	<b>(17,022)</b>	<b>23,209</b>	<b>300</b>	<b>(11,970)</b>
<b>Insurance Fund HRA</b>	<b>(2,634)</b>	<b>(366)</b>	<b>532</b>	<b>0</b>	<b>(2,468)</b>
Litigation Provision	(3,322)	0	2,295	0	(1,027)
VPRS Provision HRA	(800)	0	800	0	0
<b>Sub-Total HRA Provisions</b>	<b>(6,756)</b>	<b>(366)</b>	<b>3,627</b>	<b>0</b>	<b>(3,495)</b>
<b>Total Council Provisions</b>	<b>(25,213)</b>	<b>(17,388)</b>	<b>26,836</b>	<b>300</b>	<b>(15,465)</b>

All provisions are reviewed annually to ensure they are at an appropriate level. Below are further details on material provisions.

- **The Insurance Fund provisions** hold the balances set aside for potential liabilities in respect of insurable items for which the Council has elected to self-insure and for payments that fall within the insurance excesses, split between the General Fund and the Housing Revenue Account. The review of insurance provisions is carried out annually using an actuarial forecasting approach which is designed to review the appropriateness of the provisions and reserves for the Council's self-insured claims as at the date of the valuation. This valuation takes into account all known and outstanding (unpaid) claims received from 1998 to date, and also makes a calculation for any incurred but not reported claims (IBNR).
- **Provision for Appeals** was introduced alongside the business rates retention scheme. The provision is calculated through applying the change in past rateable values based on successful appeals and applying this to current outstanding appeals, as supplied by the Valuations Office Agency, and the Council's 30% share is shown above and below.

The following tables analyse provisions on the basis of the profile of their use, based on our best estimates where the information is not known.

2016/17 Description	Less than one year £'000	Between one year and five years £'000	Greater than five years £'000	Balance at 31 March 2016 £'000
Dilapidations GF	(400)	0	0	(400)
<b>Insurance fund GF</b>	<b>(1,349)</b>	<b>(1,738)</b>	<b>(579)</b>	<b>(3,666)</b>
NNDR Provision for Appeals	(6,513)	0	0	(6,513)
Single Status Provision	(87)	0	0	(87)
VPRS Provision GF	0	0	0	0
Small Provisions	(296)	0	0	(296)
Disputes	(1,008)	0	0	(1,008)
<b>Sub-Total GF Provisions</b>	<b>(9,653)</b>	<b>(1,738)</b>	<b>(579)</b>	<b>(11,970)</b>
<b>Insurance Fund HRA</b>	<b>(908)</b>	<b>(1,170)</b>	<b>(390)</b>	<b>(2,468)</b>
Litigation Provision	(1,027)	0	0	(1,027)
VPRS Provision HRA	0	0	0	0
<b>Sub-Total HRA Provisions</b>	<b>(1,935)</b>	<b>(1,170)</b>	<b>(390)</b>	<b>(3,495)</b>
<b>Total Council Provisions</b>	<b>(11,588)</b>	<b>(2,908)</b>	<b>(969)</b>	<b>(15,465)</b>