Haringey Council

Agenda Item

Audit Committee On 23 April 2009

Report title: **Accounting Policies and Accounts 2008/09**

Report of: **Chief Financial Officer**

Ward(s) affected: All	**Report for**: Decision

1. Purpose

1.1 To report and consider the accounting policies that are being used for the closure of the Council's accounts for 2008/09.

2. Recommendation

2.1 That the committee reviews and agrees the attached accounting policies to be used in the closure of the Council's accounts for 2008/09.

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3. Executive Summary

3.1 Under the Council's constitution, the Audit Committee has a role to review and agree the accounting policies that are in operation in the Council and will be utilised for annual closure of accounts.

3.2 The accounting policies to be applied in preparing the Statement of Accounts 2008/09 are detailed in this report. There are only minor changes proposed to policies for 2008/09.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 None.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (SORP) – (CIPFA Publication)

Local Government Finance Act 1992

Local Government Act 2003

6. Background

6.1 The Council is required to produce an annual statement of accounts which set out the financial statements for the Council and the Pensions Fund and are prepared in accordance with the Accounting Code of Practice in Great Britain (ACOP) and the Best Value Accounting Code of Practice (BVACOP). These codes are incorporated into a Statement of Recommended Practice (SORP) which details how the accounting policies need to be applied and is the benchmark against which the accounts are audited.

6.2 A key part of the production of the accounts of the Authority is ensuring that accounting policies are applied in the most appropriate manner. The accounting policies that are to be applied are found in the attached appendix.

6.3 The Audit Committee has a role to review the accounting policies to be used as part of the year end process and to ensure they are being applied appropriately.

6.4 Internal auditors Deloitte and external auditors Grant Thornton have both given assurances that the Council has correctly applied appropriate accounting policies in relation to previous years. As part of the 2007/08 audit, Grant Thornton undertook a thorough review of the accounting policies in place and the adequacy of how they were disclosed and raised no issues or recommendations as a result of this review.

6.5

7. Accounting Policies

7.1 For 2008/09 there have been no changes to the accounting policies as a result of accounting regulations and therefore the accounting policies being used in 2008/09 are the same as in 2007/08.

7.2 A few minor changes to the wording of the policies has been done in order to improve the overall disclosure and understanding.

7.3 The accounting policies and their application are reviewed every year by the Council's external auditors, Grant Thornton, as part of the annual audit. In 2007/08 they undertook a thorough review of the policies but did not raise any issues or recommendations as a result.

8. Recommendation

8.1 That the committee reviews and agrees the attached accounting policies to be used in the closure of the Council's accounts for 2008/09.

APPENDIX A

Statement of Accounting Policies

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

General Principle

These accounts have been prepared in accordance with the Accounting Code of Practice on Local Authority Accounting in Great Britain (ACOP) and the Best Value Accounting Code of Practice (BVACOP), as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). These codes have been approved as a Statement of Recommended Practice (SORP). Details of the Pension Fund and accounting policies used can be found in section 5 of these accounts.

Accruals of Income and Expenditure

The Council's accounts are prepared on an accruals basis in that, income and expenditure is accounted for in the year in which it arises, by the creation of material debtors and creditors, including estimates where appropriate.

Treatment of Debtors

The Authority undertakes to recover all outstanding debts. However, where doubts exist over the recoverability of these debts a provision is made. Once a debt is deemed irrecoverable it is written off.

Government Grants and Contributions

Government grants and other contributions are accounted for on the accruals basis and in accordance with the matching principle. This means that income must be matched to its corresponding expenditure, and will therefore remain on the balance sheet as a liability until the equivalent expenditure is incurred. They are shown in the accounting statements when the conditions for their receipt 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 the revenue account in line with depreciation. Where a grant is not associated with a specific asset it is written-down to the income and expenditure account in the year of use.

Cost of Support Services

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

Leases arrangements

Finance Leases – Under the Statement of Standard Accounting Practice (SSAP) 21, assets acquired under finance leases are treated as being in the ownership of the lessee. Therefore the outstanding liability that the Council has is recorded on the balance sheet as a capital sum outstanding and written down every year, over the life of the lease, with the annual interest element being charged to the Council's revenue account.

Operating Leases - Rentals payable under operating leases are charged to revenue on an accruals basis and on a straight-line basis.

Private Finance Initiative

The Council has a PFI arrangement for its secondary schools. The ownership of these assets are with the Council and therefore they are contained within the balance sheet and valued in accordance with the fixed assets accounting policies.
In addition the total value of the liability that is due to the contractor is contained on the balance sheet and is written down each year as payment is made. This liability is split between a long-term liability and short term creditor, for the sum due within the next 12 months.

Valuation of Stock

Stocks have been valued at net current replacement value. This is not compliant with SSAP 9 which states stock should be valued at the lower of cost and net realisable value. The divergence from normal accounting standards is due to the level of stock held and the additional costs involved with full compliance.

Capital Receipts

These arise from the sale of long-term assets. The receipts arising from the sale of General Fund assets are 100% usable by the Authority on capital expenditure. For the sale of HRA assets the Local Government and Housing Act 1989 requires these generated from the sale of Council housing to be split between a usable and a pooled element (25%/75%), any receipts generated from the sale of other housing land and buildings are split 50%/50%. This pooled element is paid over to Central Government and the total amount paid can be seen in the income and expenditure account. The usable part is used to finance capital expenditure.

Deferred Capital Receipts

When the Authority disposes of long-term assets such as council dwellings and advances a mortgage to the purchaser, the mortgage is shown in the balance sheet as a long-term debt and an equal amount is shown as a deferred capital receipt. The long-term debt and deferred capital receipt are both written down as the principal is repaid by mortgagees.

Capital Expenditure

Expenditure is charged to capital where it meets the definition of capital as per the SORP and is greater than £10,000. This includes staffing costs where they are directly attributable to a capital project, e.g. architects costs, and non-enhancing expenditure where it is being directly used to maintain the value of the asset and ensuring it remains fit for purpose.

Fixed Assets

Fixed assets are included in the Balance Sheet on the following basis:

(a) specialist operational land and properties are valued based on Depreciated Replacement Cost (DRC), and non-specialist land and properties are valued based on DRC, existing use or market value as appropriate;
(b) council housing is valued at Existing Use Valuation (EUV) and then has a social housing percentage applied to arrive at the valuation;
(c) non-operational assets in the form of investment properties and surplus assets are valued on the basis of their open market value with other non-operational assets valued at net current replacement value;
(d) infrastructure assets are included in the Balance Sheet at historical cost basis net of depreciation;
(e) community assets such as parks are recorded at a nominal value;
(f) intangible assets are valued at cost and amortised over their lifetime, normally 5 years.

All valuations are subject to review as part of a five year rolling programme.

The Authority has a process for identifying impairments that have incurred on fixed assets, e.g. where fire damage has occurred to an asset resulting in a reduced valuation, and have applied this in accordance with Financial Reporting Standard (FRS) 11.

Deferred Charges

Deferred charges relate to expenditure on assets that do not belong to the Authority, for example Improvement Grants, but the expenditure still falls within the definition of capital expenditure. The treatment of these costs is:

(a) Expenditure recorded in the balance sheet is written out to the income and expenditure account in the year in which the expenditure is incurred and then reversed through the Statement of Movement in General Fund Balances;
(b) Financing costs for deferred charges are accounted for corporately after net expenditure has been disclosed;
(c) No asset is shown within the Authority's balance sheet.

Depreciation

Where asset life is short-term, the value of those assets is written out to revenue using the straight-line method over the following periods:

Vehicles Plant & Equipment	5 years
Infrastructure	30 years
Buildings	20 to 60 years
Council Dwellings	No depreciation charge is made but the Housing Major Repairs Allowance (MRA) is used as a proxy to depreciation.

Intangibles Amortised over 5 years

Depreciation is charged on all assets except non-operational investment assets, community assets and assets awaiting disposal. For community and awaiting disposal assets this is a departure from SORP as the amounts involved are deemed to be immaterial. Newly acquired assets are not depreciated in the year of acquisition and assets in the course of construction are not depreciated until they are brought into use. The MRA that is used as a proxy for council dwellings depreciation is a lower figure than if a straight line depreciation method were to be used. Depreciation is calculated on the opening balance of an asset and any revaluation is done as at the 31st March and will only be taken into account for depreciation purposes in the following year.

When assets are re-valued the accumulated depreciation to date is written out of the balance sheet to the Revaluation Reserve, in accordance with proper accounting practice. In addition, adjustments are made to historical depreciation which may result in additional charges being made to the I&E account. Where this occurs the adjustment is reversed back out through the STMGFB.

Where an asset disposal has occurred the cumulative depreciation is written down in the year of disposal.

Minimum Revenue Provision

In accordance with the requirements of the Local Government and Housing Act 1989, the authority has set aside a minimum revenue provision for repayment of debt of 4% of the Council's capital financing requirement. In addition the Authority has set aside a voluntary revenue provision (VRP) to cover debt repayments where it is deemed more prudent to set aside over a shorter period of time.

Provisions

The Authority has made a number of provisions for liabilities that are probable to occur, but the timing and amounts are uncertain and have applied this in accordance with Financial Reporting Standard (FRS) 12.

Reserves

A reserve contains funds that have been set aside for a future earmarked purpose that may arise. 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 Authority's Financial Statements. The general fund reserve is un-earmarked and is to allow for any future unknown contingencies that may arise. This reserve is set by the Chief Financial Officer at what is deemed to be a prudent level.

Pension Costs

Under Financial Reporting Standard 17 (FRS 17) the Council is required to account for retirement benefits when it is committed to pay them, even if the actual payment 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 (6.9% for 2007/08) 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. For the purposes of FRS17 pension schemes are classified into two categories, defined benefit or defined contribution. The Haringey 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.

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

Value Added Tax

VAT is included within the accounts only where it is irrecoverable. Any recoverable amounts due from HMRC are included in the balance sheet as a debtor.

Contingent Liability or Asset

Where the Authority has a potential future liability, or a potential future gain, but cannot say with any certainty whether it will come about or the value of this liability it is disclosed by way of a note to the accounts.

Associated and Subsidiary Companies (FRS2)

The Authority has a financial relationship with a number of companies. Details are contained in the notes to the Authority's Financial Statements. The SORP requires Authorities to produce group accounts where group relationships occur with associated and subsidiary companies. All the companies with which Haringey has a relationship have been assessed against the group account requirements and only that with Homes for Haringey is deemed to be within the Haringey group. Homes for Haringey Ltd is a wholly owned subsidiary and therefore group accounts have been prepared in accordance with the accounting standards. These have been produced using the acquisition method and all intra-group transactions have been removed.

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 full 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)

Financial Instruments – these are categorised as either financial assets or financial liabilities, which the accounting policies for both are stated below.

Financial Assets

Financial assets are divided into the following categories: loans and receivables; financial assets at fair value through profit or loss; available-for-sale financial assets;

and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available. Haringey Council only holds loans and receivables.

All financial assets are recognised when an entity becomes a party to the contractual provisions of the instrument.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade debtors, long term borrowing and cash are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the profit and loss account.

Provision against trade debtors is made when there is objective evidence that the group/company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the group/company becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the profit and loss account. All other financial liabilities are recorded initially at fair value, net of direct issue costs. Liabilities valued on an amortised costs basis is done so using the effective interest rate (EIR) method.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.