Haringey Council

Agenda Item

General Purposes Committee On 25 June 2009

Report title: **Statement of Accounts 2008/09**	
Report of: **Chief Financial Officer**	
Ward(s) affected: All	**Report for**: Key Decision

1. Purpose

1.1 To provide Members with the Council's financial statements for approval. These statements have been prepared with the aim of giving clear and concise information about the financial affairs of the Authority to Members of the Council, the public and other stakeholders.

2. Recommendations

2.1 That the Committee approve the Council's financial statements for 2008/09.

Report authorised by: Gerald Almeroth – Chief Financial Officer

Contact officer: Graham Oliver – Head of Finance – Accounting and Control
Telephone 020 8489 3725

3. Executive Summary

3.1 Approval of the Council's accounts is a non-executive function, fulfilled by the General Purposes Committee.

3.2 Cabinet on 16th June 2009 received a report on the Council's provisional financial outturn on a service basis. This report sets out the final outturn position within the full financial statements.

3.3 The report also explains the structure of the statement of accounts, provides some interpretations for Members, and highlights key matters regarding the statements for Members consideration.

3.4 The statutory deadline for the financial statements to be approved is 30th June 2009 in line with Government legislation.

3.5 The financial statements are appended for approval.

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:

Report of Chief Financial Officer to Cabinet 16 June 2009 – Outturn 2008/09

Local Government Finance Act 1992

Local Government Act 2003

CIPFA Accounting Code of Practice (ACOP) for Local Authorities

6. Background

6.1 Approval of the Council's accounts is a non-executive function, fulfilled by the General Purposes Committee. The Cabinet in June received the Council's provisional outturn. This report sets out:

- the final outturn;
- the structure of the statement of accounts, provides some interpretations for Members, and highlights key matters regarding the statements.

6.2 The statutory deadline for the financial statements to be approved is 30th June 2009.

6.3 The appended financial statements are recommended for approval.

6.4 It is best practice, as outlined in the Use of Resources element of the Comprehensive Area Assessment (**CAA**) that the Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. It is also good practice that in addition to the Council publishing its accounts in accordance with statutory requirements it also publishes summary accounts in a way that is accessible to the public and other stakeholders. The unaudited summary accounts will be included in the annual report due to go to all residents and stakeholders in September

6.5 As part of the Council's drive to continuously improve, for the first time these accounts have already been subject to a pre-audit technical review by Grant Thornton, the Council's external auditors.

6.6 The accounts are submitted to allow members to scrutinise them before finalisation for audit.

7. Final Outturn

7.1 The provisional outturn reported to Cabinet in June showed a net service underspend of £765,000, excluding schools. After approved carry forwards of £735,000, this gave a net underspend of £30,000 to be transferred to general balances.

7.2 This has only changed marginally as the final outturn, after taking into account transfers to reserves and final adjustments, is a net underspend of £71,000. This surplus will go into the general balances.

7.3 The final position on the general balances of the Council is a balance of £7.534 million, after taking into account the share of the collection fund deficit of £34,000.

7.4 The provisional dedicated schools grant (DSG) underspend of £1.112m reported to Cabinet (£470k overspend on schools, £1.582 million underspend on non-schools DSG) remains unchanged. The £470k overspend on schools will reduce the 2007/08 £7.085 million balance available to schools to £6.615 million at the close of 2008/09. The £1.582 million non-schools underspend is a ring-fenced carry forward which will be used in accordance with legislation and following consultation with the Schools Forum.

7.5 The final outturn is in line with that anticipated in the Council's overall financial strategy.

7.6 The provisional capital outturn reported to Cabinet showed an underspend of £14.220 million (10.5%), which has remained unchanged.

7.7 The provisional HRA outturn reported was a surplus of £2.524 million which increased the HRA balances to £7.248 million has also remained unchanged to that reported to cabinet.

8. Matters for attention in the 2008/09 accounts

8.1 There have been no major changes required to the 2008/09 accounts caused by amendments in regulations but detailed below are some key matters to bring to the Committee's attention.

8.2 There are some prior year adjustments required during the closing of the 2008/09 accounts. The reason for this is that during 2008/09 a new asset accounting module of SAP was implemented meaning for the first time the Council has a property database integrated with the financial accounting system. During the implementation a data cleansing exercise was carried out which resulted in a small number of duplicate entries for assets being discovered and, therefore, an overstatement of the 2007/08 closing balances for council dwellings. The overall impact is a reduction of £37.5 million of the original closing balance of £1,281 million (2.93% of original value).

8.3 Proper accounting practice requires that a local authority's property asset base is revalued every 5 years as a minimum and Haringey achieves this through a rolling 5 year programme, with approximately 20% of its properties being revalued every year. This programme allows for a smoothing out over the 5 years of any fluctuations in the property market. However for 2008/09 just under 50% of properties were valued as the commercial and schools portfolios were targeted which constitute the largest part of the estate and there has been an increased valuation on this of £53 million.

8.4 Council dwellings are revalued every year, again in line with proper practice, by way of beacon values. This year, due to the current economic situation there has been a fall in asset values of council dwellings of £186 million (16%).

8.5 Finally an adjustment for a potential loss (impairment) has been made against investments to take into account the deposits placed in three of the Icelandic Banks that are in administration, in accordance with national guidance issued by CIPFA. The amount of the Icelandic related investments that would be lost to the authority under the current predictions is £4.718 million. However, accounting regulations require the authority to account for the fact that these funds have not and will not be available for the authority's use until the future dates identified and therefore is a notional loss of future interest. The overall impairment loss recognised in the Income and Expenditure Account in 2008/09 is £9.311 million and has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered. The interest rates used for this calculation are prescribed to be the 'contract' rate, i.e. the rate under the existing deposit terms, which on average is just under 5%. Further details of the impairment can be found in note 40 in the accounts.

9. Statement of Accounts

9.1 The statement of accounts set out the financial statements for the Council and the Pensions Fund and is appended to this report. These have been prepared in accordance with the Accounting Code of Practice in Great Britain (ACOP) and the Best Value Accounting Code of Practice (BVACOP).

9.2 The statements have been prepared with the aim of giving clear and concise information about the financial affairs of the Authority to both Members of the Council, the public and other stakeholders.

9.3 Section one

9.3.1 The **Executive Summary** shows the outturn of the general fund compared to budget and the change in general fund balances between years, HRA outturn, capital outturn compared with budget and the summary position for the Pension Fund. It also sets out the Authority's responsibilities to maintain proper administration of its financial affairs, responsibilities to ensure proper financial control, and the Chief Financial Officer's responsibilities.

9.3 Section two

8.4.1 This section includes the Annual Governance Statement and the Statement of Accounting Policies.

8.4.2 The **Annual Governance Statement** has been approved by the Leader of the Council and Chief Executive as required and includes comments from Audit Committee who received a draft on 2nd June 2009. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and 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.

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

8.6.4 The AGS contains the following action plan for the Council in 2009/10:

Issue	Action	Responsibility	Due date
External assessment - Joint Area Review (JAR)	Ensure that the recommendations in the JAR action plan are implemented in accordance with the agreed timetable.	Director of Children and Young People's Service	December 2009
Performance management – treasury management	Implementation of recommendations following independent review of treasury management arrangements and revised CIPFA guidance	Chief Financial Officer	July 2009
External assessment – Adult Services	Ensure that any recommendations arising out of the independent inspection of the Adult Services function are fully addressed.	Director of Adults Culture and Community Services	March 2010
External assessment – Housing Allocations	Ensure that all recommendations arising out of the independent inspection of the Housing Allocations Service function are fully addressed.	Director of Urban Environment	March 2010
Performance Management – data quality	Implementation of Information Governance Board project timetable and actions	ACE – PPP&C	March 2010
Performance Management – data quality	Ensure that the new performance management IT system is embedded across the council for performance, risk and projects to maximise its effectiveness	ACE – PPP&C	March 2010

9.3.1 The **Statement of Accounting Policies** shows the accounting policies that apply to the financial statements of the Council. These were approved by the Audit Committee on 23rd April 2009.

8.4 Section three

8.4.1 This section shows the Council's accounts.

8.4.2 The section includes the **Income and Expenditure Account (I&E)** which shows the annual gross expenditure, income and net expenditure analysed by service and also shows how the Council's services are funded. The service expenditure headings conform to the Best Value Accounting Code of Practice (BVACOP).

8.4.3 The I&E account has been prepared to be compliant with the UK accounting standards and only contains transactions in line with these standards. The result of this is a number of transactions that are unique to Local Government are not included in this statement and the I&E account needs to be read in conjunction with the Statement of Movement on the General Fund Balances.

8.4.4 The bottom line of the I&E account shows a deficit position of £142.758 million. This is before a number of key statutory transactions have been put through the accounts. These transactions are shown in the **Statement of Movement on the General Fund Balances**. This statement shows how the balance on the Income and Expenditure Account moves to the final balance that is taken to the Council's general reserves. The end of year closing revenue position is a net underspend of £41k and is arrived at after adjusting the I&E balance for a number of statutory adjustments for example deduction of depreciation, accounting for any revenue contributions to capital outlay (RCCO) and transfers to and from specific reserves.

8.4.5 Once the net planned transfer from reserves of £4.449 million is taken into account the year end general fund balance is £7.538 million which is in line with the Council's overall medium term financial strategy. At this level the reserves are still considered to be adequate. The Council's reserves are a key determinant of financial strength and define the Council's ability to respond robustly to the strategic and performance agendas whilst managing the financial risks inherent in the operation of a large and complex organisation. Current plans provide for the general reserve to be maintained at the minimum target level of £10 million and the medium term financial strategy allow for the reserves to be brought back to this level and therefore the reserves are still in a sound position.

8.4.6 **The Statement of Total Recognised Gains and Losses (STRGL)** shows how the Council's reserves, the bottom section of the balance sheet, have moved year on year. For 2008/09 this shows the balance sheet has decreased by £231 million, primarily caused by the overall decrease in the value of fixed assets (£85 million), a decrease in investments (£46 million), and an increase in the pensions' liability (£79 million).

8.4.7 The **Balance Sheet** shows the financial position of the Authority (excluding amounts attributable to the Pensions Fund), and summarises its assets and liabilities.

8.4.8 It is appropriate to highlight the following key issues relating to the Balance Sheet.

- **Fixed assets** are valued on a rolling basis by the Head of Property Services. Valuation bases are in accordance with the Statement of Asset Valuation practices and guidance notes of the Royal Institute of Chartered Surveyors. The accounting policies on fixed assets set out the different valuation methodologies applied to each asset type. The overall value of the assets have decreased by £85 million which was caused by:
  - The downward valuation of council dwellings of £186 million
  - The annual revaluation of other council's land and buildings has resulted in increased valuations of £54 million

- Non-operational assets have increased by £46 million primarily due to an increase in assets under construction of £38 million

- **Debtors** – debt management has been a key focus for Haringey for a number of years. The table below shows that overall the Council's net debt position has improved by £5.457 million (7.06%).

Gross debtors	2008/09	2007/08	Increase/ (decrease)	Increase/ (Decrease)
	£'000	£'000	£'000	%
Public Sector debtors	31,632	34,407	(2,775)	(8.07)
Non Public Sector debtors	40,163	42,845	(2,682)	(6.26)
TOTAL	**71,795**	**77,252**	**(5,457)**	**(7.06)**

- **Net current assets** have decreased by £42.5 million. The main reason for this is a reduction in short term investments of £46 million, the improved debtor position and a decrease in sundry creditors. The reduction of investments has occurred following strategic decisions to utilise cash balances and not borrowing to help finance the Council's capital programme. Net current assets are still in a strong position in that current assets far exceed current liabilities.

- **Provisions** are amounts set aside to meet future liabilities where they are certain to occur but the amount and timing is uncertain. These have decreased to £8.8 million due to the proper use of these provisions in 2008/09. The full details are set out in note 26 to the accounts.

- **Long term borrowing** shows a decrease of £17.8 million. This is due to some specific loans moving to short-term borrowing as they are due for repayment in 2009/10. The overall borrowing portfolio of the Council has remained static compared to 2007/08. The majority of this is borrowing supported within the government's grant formula.

- The **net pensions' liability** has worsened by £79.21 million to a deficit of £306.628 million. For the Council this is as a result of the current global economic climate and the impact of this on overall market conditions and the value of equities falling significantly. The liability has a substantial impact on the net worth of the authority, as recorded in the balance sheet, resulting in an overall balance of £698.574million. However, statutory arrangements for funding this deficit mean that the overall financial position of the authority remains healthy. The triennial actuarial review is due to start in March 2010 which will examine the position of the scheme at that point and recommend actions required by member organisations of the pension fund to ensure the fund is fully funded to meet its long term liabilities. The pension fund accounts were approved by the Pensions Committee on the 18th June 2009.

8.4.9 The **cash flow statement** summarises the inflows and outflows of cash arising from transactions with third parties.

8.4.9 The **Housing Revenue Account (HRA)** shows the major elements of housing revenue expenditure. The HRA is now managed by Homes for Haringey (HfH) but the management fee paid to HfH is split across its component parts, e.g. repairs and maintenance, supervision. As stated in paragraph 7.7 the HRA made an overall surplus of £2.5 million in 2008/09. As a result of this surplus the balance on the HRA is increased to £7.2 million. This is above the estimates within the medium term financial strategy, although there are continuing pressures in future years, which will need to be managed carefully.

8.4.9 The **Collection Fund** shows the income due from council tax and national non-domestic rates (NNDR) and the application of the proceeds. The Council is responsible for collecting council tax and NNDR; the latter on behalf of the government. The proceeds of the council tax are distributed to two precepting bodies; the Council and the Greater London Authority (GLA). In 2008/09 the Collection Fund made a deficit of £43k, which was then distributed between the Council (£34k) and the GLA (£9k).

8.8 **Section four**

8.8.1 This section contains the Authority **Group Accounts.** The group accounts incorporate together the accounts of the London Borough of Haringey and Homes for Haringey Ltd. Homes for Haringey is a wholly owned subsidiary of the Council. The statements which follow show the group Income and Expenditure account, STRGL, Balance Sheet and cash flow statement.

9. Appendix 1 – Alexandra Park and Palace (AP&P)

9.1 The AP&P draft accounts are attached for information and reference only and do not form a part of the accounts that this Committee is approving. These draft accounts are subject to approval by the AP&P Board and are subject to an audit by the Trust's own independent auditors under Charity Commission regulations, both of which are still yet to occur.

9.2 AP&P closed the financial year with a provisional deficit of £2 million which is the amount that the Council has allowed for in its accounts for 2008/09. This is in line with the projected outturn that has been reported during 2008/09.

10. Other important matters

10.1 Council officers have worked closely with Grant Thornton, the council's external auditors, to further improve the closure of accounts process in 2008/09 and have fully taken into account recommendations that arose from the 2007/08 audit of accounts.

10.2 The Council has also taken into account matters arising from the CPA Use of Resources action plan. The score on financial reporting moved from a 2 to a 3 in 2007/08 and it is anticipated that this score will, at least, be maintained for 2008/09.

10.3 Particular emphasis has been placed on continuing to achieve excellent working papers to accompany the statements, and officers have worked closely with the auditors on this.

10.4 As in recent years an annual report is being produced for 2008/09, which will include a set of summarised accounts as well as key performance information. This will be sent to all households with the September edition of Haringey People, as well as being published on the Council's website. Feedback from residents on the 2007/08 annual report is being taken into account when producing the 2008/09 report along with a consultation exercise with the Council's partners.

10.5 The external audit for 2008/09 accounts will commence on 1 July, the auditors will report any issues to this Committee on 24th September and then the accounts are due to be signed off by the auditors at the end of September 2009.

10.6 The next two years will see a period of immense change in the accounting regulations surrounding the production of the Councils accounts with the requirement to implement new **International Financial Reporting Standards (IFRS).** These changes are required to be implemented for the production of the 2010/11 accounts, but with the need to have amended comparator figures for financial year 2009/10, the work required for this has already commenced.

10.7 The IFRS implementation will cut across a number of areas of the Council, not just finance, such as property services and legal and therefore a cross Council project team to manage the implementation will be created. The Council is also working closely with Grant Thornton on the implementation project and an initial piece of work on a gap analysis has already been completed by Grant Thornton which shows the main areas for action being property valuations, leases and accounting for annual leave entitlements.

10.8 This Committee will be kept appraised of the implementation project and at an appropriate later stage training for members on the new standards and format of the accounts will be given.

11. Recommendations

11.1 That the Committee approve the Council's financial statements for 2008/09.

12. Comments of the Head of Legal Services

12.1 The Council is required by the Accounts and Audit Regulations 2003 to prepare its annual statement of accounts in the prescribed form including statements for each fund where a separate account is required. The statement of accounts complies with the Regulations and the applicable codes of practice. The other legal implications are set out in the body of the report.