Haringey Council

Agenda Item

General Purposes Committee On 29 March 2010

Report title: **Accounting Policies and Accounts 2009/10**	
Report of: **Chief Financial Officer**	
Ward(s) affected: All	**Report for**: Decision

1. Purpose

1.1 To request approval for amendments to the accounting policies that are being used for the closure of the Council's accounts for 2009/10.

2. Recommendation

2.1 That the Committee approves the amendments made to the attached accounting policies to be used for the closure of the Council's accounts for 2009/10.

Report authorised by: Gerald Almeroth – Chief Financial Officer

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3. Executive Summary

3.1 Under the Council's constitution, the General Purposes committee has a role to approve statements under The Accounts and Audit Regulations 1996.

3.2 The accounting policies to be applied in preparing the Statement of Accounts 2009/10 are detailed in this report.

3.3 The main changes proposed to policies for 2009/10 are in relation to new accounting standards for PFI schemes and service concessions.

3.4 The other changes proposed have been made to further clarify the existing policies for the reader of the accounts.

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

4.1 The CIPFA Code of Practice on Local Authority Accounting for 2009 has introduced new accounting standards to be applied to PFI schemes and service concessions.

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 2009 – 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 General Purposes Committee has a role to approve statements under The Accounts and Audit Regulations 1996. Accounting policies are the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in those financial statements.

6.4 The accounting policies are to be used as part of the year end process to close the accounts of the Council.

6.5 The Council's internal audit function and external auditors Grant Thornton have both given assurances that the Council has correctly applied appropriate accounting policies in relation to previous years. Issues of clarification raised by Grant Thornton to assist the reader of the accounts have been incorporated into these policies.

7. Accounting Policies

7.1 For 2009/10 there have been only two major changes to the accounting policies as a result of changes to accounting regulations:

(a) the requirement to account for Private Finance Initiatives and similar arrangements by applying accounting standard IFRIC 12 (International Financial Reporting Interpretations Committee). This standard will require most Councils to bring their PFI schemes on balance sheet. Haringey's PFI scheme is currently suspended and the assets and liabilities were brought onto balance sheet in 2008/09. Consequently it is believed that this new standard will have no impact on Haringey's Statement of Accounts in 2009/10;

(b) the requirement to account for the income collected for Council Tax on an accruals basis in the Income and Expenditure Statement and to hold a debtor or creditor in the balance sheet for Non-National Domestic Rates.

Otherwise the accounting policies being used in 2009/10 are substantially the same as in 2008/09.

7.2 Other changes to the wording of the policies have been made in order to improve the overall disclosure and understanding for the reader.

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 2008/09 they undertook a review of the policies but did not raise any major issues within their annual report (ISA260) to the Council.

8. Recommendation

8.1 That the Committee approves the amendments made to the attached accounting policies to be used in the closure of the Council's accounts for 2009/10.

APPENDIX A

(New text shown in italics)

Statement of Accounting Policies

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

General Principle

The accounts are 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.

The Accounts have been prepared under the historic cost convention except for certain categories of fixed assets and financial instruments in accordance with the SORP.

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.

Council Tax

The Council Tax income included in the Income and Expenditure Account for the year is the accrued income for the year due to the Council. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

National Non-Domestic Rates

A debtor or creditor is recognised in the Balance Sheet in respect of the amount of cash collected from NNDR taxpayers (less the amount retained in respect of billing authority's cost of collection allowance in England and Wales) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

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 Other 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 support functions have been allocated to services on a variety of bases, reflecting the level of work provided by these support functions.

Lease 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 of the Council 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 financing arrangement for its secondary schools. The contract terms changed in February 2007 at which point the arrangement with the contractor was considered against Treasury Task Force guidance and the accounting standards in force at the time. *This arrangement has been reviewed under IFRIC 12 Service Concession Arrangements.* 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 PFI partner 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. The interest payable each year is charged against the "Interest payable and other similar charges" line on the face of the income and expenditure account. The principal repayment due under the contract is accounted for within the Statutory provision for the repayment of debt (known as Minimum Revenue Provision) and is funded by the PFI grant given each year by the government.

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 minimal levels 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 those generated from the sale of council housing to be split between a retained and usable element of 25% and a pooled element that is paid across to the government of 75%, any receipts generated from the sale of other housing land and buildings are split 50%/50%. 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. Any non-enhancing capital expenditure is written down to the income and expenditure account in the year it is incurred and this is then reversed out through the Statement of Movement on the General Fund Balance into the capital adjustment account (CAA).

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; and
(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.

Impairment of Fixed Assets

The Authority has a process for identifying impairments that have incurred on fixed assets, and have applied this in accordance with Financial Reporting Standard (FRS) 11. *Impairments where there is evidence of obsolescence or physical damage e.g. where fire damage has occurred to an asset resulting in a reduced valuation, are charged to the Income and Expenditure Account and then reversed out via a reconciling item in the Statement of Movement of the General Fund balance. Other impairments are first recognised in the Statement of Total Recognised Gains and Losses until the asset's carrying amount reaches its depreciated historical cost and taken to the Revaluation Reserve; and thereafter in the Income and Expenditure Account.*

Revenue Expenditure Funded from Capital Under Statute (formerly Deferred Charges)

Expenditure *treated as capital by virtue of a capitalisation direction* or on assets that do not belong to the Authority, for example improvement grants, which still falls within the definition of capital expenditure are referred to as revenue expenditure funded from capital under statute. 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 revenue expenditure funded from capital under statute are accounted for corporately after net expenditure has been disclosed; and
(c) no asset is shown within the Authority's balance sheet.

Depreciation

The value of assets is written out to revenue, in the form of a depreciation charge, using the straight-line method over the following periods:

Vehicles Plant & Equipment	- 5 years
Infrastructure	- 30 years
Buildings	- 20 to 60 years
Council Dwellings	*- 20 to 60 years*
Intangibles	- Amortised over 5 years

Depreciation is charged on all assets except non-operational investment assets, community assets and surplus assets, held for disposal. For community assets and awaiting disposal assets this is a departure from the 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. Depreciation is calculated on the opening balance of an asset and any revaluation is done as at the 31 March and will only be taken into account for depreciation purposes in the following year.

When assets are revalued the accumulated depreciation to date is written out of the balance sheet to the revaluation reserve.

Asset Disposals

The gain or loss on disposal of a tangible fixed asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the carrying amount of the fixed asset. This amount is credited (gain) or charged (loss) to the Income and Expenditure account. Its impact is reversed out as a reconciling item in the Statement of Movement on the General Fund Balance.

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, and revised guidance contained within the prudential code, the Authority has set aside a minimum revenue provision for repayment of debt. *For capital expenditure incurred before 1 April 2008 and for supported capital expenditure after this date, this is 4% of the Council's capital financing requirement for the General Fund (Option 1 of CLG Guidance). For unsupported capital expenditure after 1 April 2008, MRP is linked to the life of the asset for which borrowing is undertaken (Option 3 of CLG Guidance).* In addition the Authority has set aside additional provision 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 or amounts are uncertain. These are detailed in the provisions note and have been applied in accordance with Financial Reporting Standard (FRS) 12. *Provisions are recognised when the Authority has a present obligation as a result of a past event which can be reliably estimated and it is probable a financial settlement will be required. Provisions are reviewed at the end of each financial year. Additions are made from the appropriate revenue account and released back to the same revenue account if no longer required.*

Reserves

A reserve contains funds that have been set aside for a future earmarked purpose that may arise. Expenditure is charged to revenue or capital 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 capital receipts* *reserve is not available for revenue purposes. Some of the reserves can only be used for specific statutory purposes.*

The general fund reserve is not 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 and in accordance with the reserves policy agreed at Full Council.

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 2008/09) to calculate future liabilities.

- **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 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 DCSF, 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.

- **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 the 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.

- **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 above or below the present value of the scheme liabilities. The change in the defined benefit asset or liability is shown in the STRGL and analysed into the following components, current service costs, interest cost, expected return on assets and actuarial gains and losses, past service costs and gains and losses on settlements and curtailments.

- **Defined Contribution Schemes**

  The teachers' pension 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 are 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 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 accounts 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 where these occur.

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. The Council only holds loans and receivables.

All financial assets are recognised when an entity becomes a party to the contractual provisions of the instrument. These assets are initially recognised at amortised cost on the balance sheet.

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 income and expenditure 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 income and expenditure account. All other financial liabilities are recorded initially at fair value, net of direct issue costs. Liabilities valued on an amortised costs basis are 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.