HARINGEY COUNCIL

Agenda Item

Audit Committee **On 26 June 2006**

Report title: **Accounting Policies and Accounts 2006/07**

Report of: **Acting Director of Finance**

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

1. Purpose

1.1 To detail out the council's accounting policies that have been applied in 2006/07, in order for the committee to ensure the appropriate accounting policies have been followed.

1.2 To note the application of these policies with the Council's statutory accounts for 2006/07 and note that it is the role of the General Purposes committee to approve these accounts.

2. Recommendations

2.1 That the Committee consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

2.2 That the committee note the draft Statement of Accounts 2006/07.

Report authorised by: Gerald Almeroth - Acting Director of Finance

G. Almeroth

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3. Executive Summary

3.1 The Audit committee has a role to ensure that the Council is applying appropriate accounting policies in the compilation of it's financial accounts.
3.2 The accounting policies applied are detailed in this report and specifically any changes that have occurred in 2006/07.
3.3 Approval of the Statement of Accounts resides with the General Purposes Committee and therefore this committee is asked to note the draft accounts prior to the approval at the General Purposes committee.
3.4 Internal audit and the audit commission have both given assurances that the Council is correctly applying accounting policies.

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 Statement of Accounts set out the Financial Statements for the Council and the Council's 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 who 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 have been applied are found in the attached appendix.

6.3 The Audit Committee has a role to review the annual statement of accounts of the Authority specifically in relation to the application of these polices and in relation to the audit of accounts and any matters being raised by the external auditors.

6.4 In preparation of the 2006/07 statements there have been some fundamental presentational changes brought about. These are due to changes in the accounting regulations that govern the preparation of the accounts. The main changes are as follows:

- The removal of the Consolidated Revenue Account (CRA) replaced by an Income and Expenditure Account and a Statement of Movement on the General Fund.
- A new Statement of Total Recognised Gains and Losses (STRGL).
- The order of the statements and the notes have changed.
- The Housing Revenue Account (HRA) replace by an HRA Income and Expenditure Account and a Statement of Movement on the HRA.
- Group Accounts produced for the first time, with Homes for Haringey accounts being grouped with Haringey's Accounts, as a 100% subsidiary of Haringey Council.
- The accounts of Alexandra Palace and Park are now contained as an appendix to the main statements purely for information.

6.5 The majority of these are presentational changes and do not change the accounting policies being implemented.

7. Accounting Policies

7.1 The vast majority of the accounting policies have remained the same as in previous years. As stated above the format of the accounts has fundamentally changed but this has not resulted in any changes to the accounting policies.

7.2 The only changes in accounting polices are:

- **Basis of consolidation** – this has been amended to take out references to Alexandra Park and Palace, as the accounts of the Trust do not form any part of the Haringey accounts and are just appended to the accounts for information.
- **Basis of charges for use of fixed assets** – This has been removed as the ACOP no longer recognises the notional interest charge that Local Authorities have been required to make.
- **Debt Restructuring** – This has been added to clearly state what the Council's accounting policy is.
- **Prior year adjustments** – this has been amended to state that the 2005/06 have been amended due to the changes in the presentation of the accounts.

7.3 The accounting policies and their application is reviewed every year by the Audit Commission as part of the annual audit and there have been no issues raised in recent years with regard to this application.

8. Other important matters

8.1 We have worked closely with the Audit Commission to improve on the closure of accounts process in 2005/06 and fully taken into account recommendations that arose for the 2005/06 audit of accounts.

8.2 The Council has improved the 2006/07 accounts by working through the Audit Commission's action plan arising from the production of the 2005/06 accounts and by taking into account matters arising from the CPA Use of Resources action plan.

8.3 Particular emphasis has been placed on achieving excellent working papers to accompany the statements, which we have worked with the external auditors on, in order to gain a better understanding of what their requirements are.

8.4 In 2005/06 an Annual Report was produced which incorporated a set of summary accounts. For 2006/07, following positive feedback from the 2005/06 Annual Report and further consultation carried out, an Annual Report is again being produced and will be sent to all households with the September edition of Haringey People, as well as being published on the Council's website.

8.5 The external audit for 2006/07 accounts will commence on 1 July, the auditors will report any issues to this Committee on 11 September and then the accounts are due to be signed off by the auditors at the end of September.

9. Recommendations

9.1 That the Committee consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

9.2 That the committee note the draft Statement of Accounts 2006/07

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). The pension fund has been prepared in accordance with the Pensions SORP.

Accruals of Income and Expenditure

In the Revenue Account, income and expenditure are generally accounted for in the year in which they arise on an accruals basis, 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 debts prove to be irrecoverable, provisions are made and the debt is written off.

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 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 Asset Management Revenue Account in line with depreciation.

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 and PFI 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 rental payments are charged to the Asset Management Revenue Account and the asset valuation is included within the Authority's fixed assets and depreciated accordingly.

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

PFI (Private Finance Initiative) contracts and other long-term contracts are not accounted for on the Authority's balance sheet where the risks and rewards of ownership of the relevant assets have been transferred to or are with the contractor.

Basis of Consolidation

The Consolidated Balance Sheet aggregates the balance of each of the Authority's separate funds except for Trust Funds and the Pension Fund, for which separate information is provided.

Valuation of Stock

Stocks have been valued at net current replacement value, which is not in accordance with SSAP 9, as the difference between cost and net realisable value is not considered to be material.

Capital Receipts

These arise from the sale of long-term assets and from the repayment of capital advances for home purchases and housing associations. 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 reserved element (25%/75%), any receipts generated from the sale of other housing land and buildings are split 50%/50%. As from 1st April 2004 the reserved element is paid over to Central Government. The usable part may be 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.

Fixed Assets

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

(a) operational land and properties are valued based on their existing use;
(b) council housing is valued at market value and then has a social housing percentage applied to arrive at the valuation.

(c) non-operational assets and investment properties are valued on the basis of their open market value and are classified in line with the 2006 SORP requirements;
(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.

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.

Where assets were purchased by finance leases, the annual rentals are charged to the revenue account. The related liability of future rentals payable is not shown in the accounts. The assets acquired by this facility are valued within fixed assets, where they are still owned by the Authority.

Deferred Charges

Deferred charges relate to expenditure on assets that do not belong to the Authority, for example Improvement Grants. The treatment of these costs is in line with CIPFA's recommendations in that:

(a) Expenditure charged to the balance sheet is written out to service revenue accounts in the year in which the expenditure is incurred;
(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
Intangibles	5 years
Infrastructure	30 years
Buildings	20 to 60 years

Depreciation is charged on all assets except non-operational investment assets. 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.

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. In addition the Authority has set aside a voluntary revenue provision to cover a capital determination awarded by the Office of the Deputy Prime Minister (ODPM) in 2004/05 regarding the Alexandra Park and Palace debt.

Repurchasing of Borrowing

Where debt premiums or discounts have been incurred due to restructuring of the Council's debt portfolio these are written off over the lifetime of the old loan period, in the case of premiums or 10 years in the case of discounts.

Provisions

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

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 Authority's Financial Statements.

Retirement Benefits

The accounts have been produced in accordance with FRS17. The discount rate used in the calculation of FRS17 is the AA corporate bond rate in of 5.4%.

Value Added Tax

VAT is included within the accounts only where it is irrecoverable and where re-imbursement of VAT paid is due from Customs and Excise.

Contingencies

Where the Authority can estimate with some certainty a contingent loss or gain, it has been included in the financial statements. However, where the cost cannot be accurately estimated, it is detailed by way of a note to the accounts.

Prior Year Adjustments

A number of changes to the SORP governing Local Authority Accounting have occurred this year which has resulted in fundamental changes to the format and layout of the Authority's accounts. Where these changes have occurred the comparator figures for 2005/06 have been amended, to allow for useful comparison, and notes have been included in the accounts to inform readers of where these changes have occurred.

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. London Borough of Haringey has a wholly owned subsidiary in Homes for Haringey Ltd and therefore group accounts have been prepared in accordance with the accounting standards.

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)