



Haringey Council

Agenda Item

General Purposes Committee

On 28 June 2006

Report title: **Statement of Accounts 2006/07**

Report of: **Acting Director of Finance**

Ward(s) affected: All

Report for: Decision

1. Purpose

1.1 To set out 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 2006/07.

Report authorised for: **Gerald Almeroth - Acting Director of Finance**

ACTING HEAD OF CORPORATE FINANCE

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 19th June 2007 received the Council's provisional outturn but this report sets out the final outturn position.

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 2007 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 Director of Finance to Cabinet 19 June 2006 – Outturn 2006/07

Local Government Finance Act 1992

Local Government Act 2003

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 the end of June 2007 and this is one month earlier than for 2006/07. This has been brought forward one month each year for the last three years and this is the final year of change.
- 6.3 The appended financial statements are recommended for approval.
- 6.4 The Use of Resources element of the Comprehensive Performance Assessment (CPA) includes requirements that the Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. Also that the Council publishes its accounts in accordance with statutory requirements and publishes summary accounts in a way that is accessible to the public and other stakeholders. This also includes ensuring that this Committee rigorously scrutinises the accounts when presented at this meeting.

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 in the Borough with the September edition of Haringey People, as well as being published on the Council's website.

7. Final Outturn

- 7.1 The provisional outturn reported to the Cabinet in June showed a net service underspend of £2.9 million, excluding schools. After approved carry forwards of £1.446 million, this gave a net revenue position of £1.5 million underspend. The Cabinet agreed to this underspend being set aside to specific reserves.
- 7.2 The report to cabinet of 19th June 2007 reported the final outturn position on the General Fund as being in balance after transfers to reserves. The final position is a small overspend of £235,000.

- 7.3 The final position on the general reserves of the Council is a balance of £12.007 million, after taking in account the share of the collection fund surplus of £98,000
- 7.4 The provisional schools revenue overspend in 2006/07 reported to Cabinet of £0.2 million moved to that of a £0.5 million overspend. The £0.5 million from 2006/07 is funded from the revenue surpluses carried forward by schools in 2005/06 of £5.7 million, thus reducing these to £5.2 million at the close of 2006/07.
- 7.5 The final outturn position is in line with that anticipated in the Council's overall financial strategy.
- 7.6 The provisional capital outturn reported to Cabinet in June showed an underspend of £6.9 million and carry forward proposals of £6.6 million. Carry forwards relate to ring fenced resources and to schemes planned to be funded from capital receipts. The final outturn remained as previously reported.
- 7.7 The provisional HRA outturn reported to Executive in June was a deficit of £641k against a planned surplus of £114k. The final outturn is £756k after taking into account of the planned contribution from reserves and the provision for Homes for Haringey deficit. This deficit provision increased from the planned £0.8 million to £1.030 million as a result of additional final entries Homes for Haringey have been required to put through their accounts. This has moved the HRA reserve to a position of £3.624 million, which is £0.25 million less than planned.

8. Statement of Accounts

- 8.1 The Statement of Accounts set out the Financial Statements for the Council and the Council's Pensions Fund and are 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).
- 8.2 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 and providers.
- 8.3 In preparing the 2006/07 statements some fundamental required presentational changes have been made. These are due to changes in the accounting regulations that govern the preparation of the accounts. The main changes are as follows, and each section is then further explained in the following pages:
- 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) replaced 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.

8.4 The Statements have five main Sections. The following paragraphs explain key matters under each Section.

8.5 Section one (pages 1 to 8)

8.5.1 This Section includes the foreword. The **foreword** sets out the Authority's responsibilities to maintain proper administration of its financial affairs, responsibilities to ensure proper financial control, and the Director of Finance's responsibilities. It also includes a review of the financial year that sets out our priorities. This also shows the outturn of the general fund compared to budget and the change in general fund balances between years, the HRA outturn, the capital outturn compared with budget and the summary position for the Pension Fund.

8.6 Section two

8.6.1 This Section includes the Statement on Internal Control and the Statement of Accounting Policies.

8.6.2 Our **Statement of Internal Control** (pages 15 to 18) has been approved by the Leader of the Council and Chief Executive as required and was approved by the Audit Committee on 26 April 2007. The statement is required to show that the Council conducts its business in accordance with the law, proper standards, that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Haringey 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 ensuring that there is a sound system of internal control which facilitates the effective exercise of Haringey's functions and which includes arrangements for the management of risk.

8.6.4 The Statement of Internal Control shows that the following actions have been agreed to address the outstanding control issues identified as a result of the review of the effectiveness of the system of internal control:

- Further work will be undertaken to ensure that the business unit, departmental and corporate risk registers are monitored, reviewed and updated appropriately to take account of the re-shaped organisational structure.

- Partnership working has been identified as a key development area for the Council. The risk management programme will therefore encompass all key partnerships to ensure that these have been properly identified, appropriate risk assessments are produced and reviewed and that there are effective arrangements in place for risk sharing.
- 8.6.5 Internal Audit has reviewed the effectiveness of the Council's systems of internal control for 2006/07 and has taken account of any relevant assurances obtained from other internal and external sources.
- 8.6.6 Overall, the Council's system of internal control is deemed to be effective.
- 8.6.7 The **Statement of Accounting policies** (pages 19 to 22) shows the accounting policies that apply to the Financial Statements of the Council. These accounting policies have been to the Audit Committee for confirmation. Only minor changes have been made compared to the previous year.
- 8.7 Section three**
- 8.7.1 This Section shows the Council's accounts.
- 8.7.2 The Section includes the **Income and Expenditure Account (I & E)** (page 25) which shows the 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).
- 8.7.3 The I & E account is a new statement and is compliant with the UK accounting standards. The statements only contain accounting transactions in line with these accounting standards. As a result there are a number of entries that have not been included in previous years, for example gains and losses on sales of assets. Due to these changes the comparator figures for 2005/06 have been amended, in order to ensure that a true comparison between the years can be shown.
- 8.7.4 The bottom line of the I&E account shows a surplus position of £1.213 million. However 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** (page 26). 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 change in balances for 2006/07 is £235k and is arrived at after taken into account a number of transactions, for example the effect of FRS17, deducting depreciation, accounting for any revenue contributions to capital outlay (RCCO), transfers to and from specific reserves and a number of other accounting transactions.
- 8.7.5 After these adjustments to the I&E account the Council's general fund balance decreases to £12.007 (from £12.405 million) as at 31st March 2007. 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

vigorously 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.

8.7.6 **The Statement of Total Recognised Gains and Losses** (page 27) shows how the Councils reserves, the bottom section of the balance sheet, have moved year on year. For 2006/07 the statement shows the balance sheet has moved by £145 million and this statement explains the movement.

8.7.7 **The Consolidated Balance Sheet** (page 28) shows the financial position of the Authority (excluding amounts attributable to the Pensions Fund), and summarises its assets and liabilities.

8.7.8 It is appropriate to highlight the following key issues relating to the Consolidated 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 value of the assets has increased by £134 million, due to the upward valuation of assets, and the purchase/enhancements of assets.
- **Debtors** – debt management has been a key focus for Haringey in 2005/06. The table below shows that overall the Council's debt position has improved by £4.65 million (5.51%). This is primarily due to an improved collection rate on Council Tax and NNDR debt. The position on public sector has improved marginally by £0.62 million (1.39%).

Gross debtors	2006/07	2005/06	Increase/ (decrease)	Increase/ (Decrease)
	£'000	£'000	£'000	%
Public Sector debtors	44,128	44,748	620	1.39
Non Public Sector debtors	35,660	39,691	4,031	10.2
TOTAL	79,788	84,439	4,651	5.51

- **Net current assets** have improved by £64.3 million. The main reason for this improvement is additional short term investments of £73 million which has been caused by the Council taking on additional borrowing at favourable market rates. This is possible by improved flexibilities the Council has through the Prudential Code. Net current assets are still in a strong position in that our current assets far exceed our current liabilities.
- **Total assets including net current assets** have increased by £64.3 million.
- **Provisions** are amounts set aside to meet future liabilities where they are certain to occur but the amount and timing is uncertain. These have increased to £8.7 million and are set out in note 32 to the accounts. The

change is mainly due to a variation in the insurance provision and the requirement to make a provision for the amount of the AP&P pension deficit the Council has agreed to fund upon transfer to Firoka.

- **Long term borrowing** has increased by £46.856 million (from £587.2 million to £634.03 million). This is due to a long-term loans taken out as part of planned borrowing to finance capital expenditure.
- The **net pensions liability** has improved by £31.617 million to a deficit of £299.987 million. This is as a result of improved market conditions for the pension fund investments. 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 £636 million. However, statutory arrangements for funding this deficit mean that the overall financial position of the authority remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. More details on the performance of the Pension Fund is contained within the Pension Fund accounts in section 5.

8.7.9 The **cash flow statement** (pages 30) summarises the inflows and outflows of cash arising from transactions with third parties.

8.7.10 As stated earlier all of the **Notes to the Core Financial Statements** are now contained within this section. Of particular interest to the committee are:-

- **Note 1 - Statement of Movement on the General Fund Balance** (page 31) which shows the statutory transaction that have gone through the General Fund and have an impact upon the final balance carried forward.
- **Note 2 – explanation of prior period adjustments** (page 32) shows the changes that have been put through the accounts for 2005/06 to take into account the accounting changes required.
- **Note 4** (page 33) details how the new Dedicated Schools Grant (DSG) has been deployed. The DSG represents a change in Government funding for Local Authorities and schools brought in on 1st April 2006. The DSG is a ring-fenced grant for schools expenditure and the use of it is governed by statute.
- **Notes 39-41** (pages 49 – 51) details out the current position of the Council's reserves, both statutory and earmarked. The current level of reserves ensures the Council is in a healthy financial position and they are in line with the Medium Term Financial Strategy.

8.7.9 The **Housing Revenue Account (HRA)** (pages 56 to 58) 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 deficit of £787k in 2006/07. As a result of this deficit the balance on the HRA is reduced to £3.596 million. This reduction is in line with the medium term financial strategy although there are continuing pressures in future years, which will need to be managed carefully.

8.7.9 The **Collection Fund** (pages 59 to 60) 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 2006/07 the Collection Fund made a surplus of £129k, which was then distributed between the Council (£98k) and the GLA (£31k).

8.8 Section four

8.8.1 This section contains the Authority **Group Accounts** which is new for this financial year (pages 61 to 70). The group accounts incorporate together the accounts of London Borough of Haringey and Homes for Haringey Ltd, due to the fact that 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.

8.9 Section five

8.9.1 This Section shows the accounts of the Council's Pensions Fund. Provisional accounts are included in the Annual Report that is being reported to the Pensions Fund Annual General Meeting on 2nd July 2007 and has also been sent to each scheme member.

8.9.2 The **Pension Fund Account** (pages 76 to 79) shows the contributions to the Fund during the year and benefits paid from it. This shows a net increase in the Fund during the year of £45.581 million (7.95%) from £573.5 million to £620 million. £13.6 million is due to non-investment income (mainly employee and employer contributions) exceeding expenditure (mainly the cost of pension benefits), £16.6 million is due to an increase in the market value of investments and £18.7 million from investment income (net of investment management expenses).

8.9.3 The **Net Asset Statement** (pages 80 to 82) sets out the financial position for the Fund. The Fund is separately managed by the council acting as trustee and its accounts are separate from the Council's.

8.9.4 The level of funding as a whole for the Fund has increased from 69% in March 2004 to 76% (as at February 2007). The level of funding is determined as part of independent actuarial valuations of the Fund. The main reason for the increase in the funding level is the strong investment returns over the period although this increase has been offset by the reduction in bond yields since the 2004 valuation. This fall in bond yields increases the value placed on the liabilities so the funding level increase has not been as large as might otherwise have been expected. The position will be monitored at the next triennial valuation as at March 2007.

8.9.5 The increase in the Fund during 2006/07 was good. Performance from our Fund Managers resulted in absolute returns of 6.11% although this was marginally, 0.77 per cent, below benchmark. Stock markets are still volatile but in spite of this we were able to achieve strong returns over the past year.

9. Other important matters

- 9.1 We have worked closely with the Audit Commission to improve on the closure of accounts process in 2006/07 and have fully taken into account recommendations that arose from the 2005/06 audit of accounts.
- 9.2 The Council has also taken into account matters arising from the CPA Use of Resources action plan.
- 9.3 Particular emphasis has been placed on achieving excellent working papers to accompany the statements, which we have worked with the auditors on, in order to gain a better understanding of what their requirements are. 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.
- 9.4 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.

10. Recommendations

- 10.1 That the Committee approve the Council's financial statements for 2006/07.

11. Comments of the Acting Head of Legal Services

- 11.1 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.