Haringey Council

Agenda Item

Audit Committee On 22 July 2008

Report title: **Accounting Policies and Accounts 2007/08**

Report of: **Chief Financial Officer**

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

1. Purpose

1.1 To report and consider the accounting policies that have been followed in the production of the Council's financial statements for 2007/08.

2. Recommendation

2.1 That the Committee reviews the Statement of Accounts 2007/08 and the associated accounting policies.

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3. Executive Summary

3.1 Under the Council's constitution, the Audit Committee has a role to review the Statement of Accounts and the associated accounting policies. The approval of the Statement of Accounts, prior to external audit, falls to the General Purposes Committee and this was done for the 2007/08 Statement of Accounts at their meeting on 26 June 2008.

3.2 Following completion of the audit of the accounts, the External Auditor's report on issues arising from their audit will be brought to this committee for consideration.

3.3 The accounting policies applied in preparing the Statement of Accounts are detailed in this report and specifically mentioned are any changes to policies that have occurred in 2007/08.

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 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, which are attached to this report, 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.

6.4 Internal Audit and the Audit Commission have both given assurances that the Council has correctly applied appropriate accounting policies in relation to previous years.

6.5 In preparation of the 2007/08 statements there have been some changes brought about. These are due to changes in the accounting regulations that govern the preparation of the accounts.

6.6 The majority of these are presentational changes and do not change the accounting policies being implemented with the exception of new accounting regulations surrounding financial instruments. As a result a new set of accounting policies have been added to reflect these.

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 fundamental changes to the accounting policies.

7.2 The only change to the existing accounting polices is set out below and is as a result of applying the recommendation from the new SORP:

- **Financial Instruments** – these are the debts the Council holds (financial liabilities) and investments it has made (financial assets) and 2007/08 has brought about a change in how this information is presented in the accounts. As a result there are some additional notes in the accounts that provide further information to the reader and the accounting policies have been revised to incorporate this change.

7.3 The accounting policies and their application are reviewed every year by the Council's external auditors as part of the annual audit. 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 auditors to improve on the closure of accounts process in 2007/08 and fully taken into account recommendations that arose for the 2006/07 audit of accounts.

8.2 The Council has improved the 2007/08 accounts by working through the Audit Commission's action plan arising from the production of the 2006/07 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 As in recent years an annual report is being produced and following feedback from the 2006/07 annual report improvements have been incorporated. This will be sent to all households with the August edition of Haringey People, as well as being published on the Council's website.

8.5 The external audit for 2007/08 accounts commenced on 1 July, the auditors will report any issues to the General Purposes Committee on 25 September 2008 and then the accounts are due to be signed off by the auditors at the end of September.

8.6 The External Auditor's report on the accounts will, once completed, be brought to this Committee for its consideration.

9. Recommendation

9.1 That the Committee reviews the Statement of Accounts 2007/08 and the associated accounting policies.

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). 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 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 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 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 revenue 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.

The council has a PFI arrangement for it's secondary schools. Prior to 2007/08 these assets were not accounted for on the Council's balance sheet as the major risks and rewards of the contract lay with the Council's partner. However changes to the contract from 1st February 2008 have resulted in these assets being brought back onto the Council's balance sheet

Valuation of Stock

Stocks have been valued at net current replacement value.

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 reserved element (25%/75%), any receipts generated from the sale of other housing land and buildings are split 50%/50%. This 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;
(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:

(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 debt owed by Alexandra Park and Palace.

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 probable 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 of 5.4%.

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

Where the Authority can estimate with some certainty a contingent loss 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.

Contingent Gain

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

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)

Group Accounts Basis of Consolidation

The group accounts of the London Borough of Haringey have been produced using the acquisition method.

Financial Instruments

With effect from 1 April 2007, local authorities have had to adopt a major change of accounting policy in order to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom – the Statement of Recommended Practice 2007, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee. This has been based on major changes in international accounting standards which have resulted in this country in the introduction of new U.K. accounting standards for financial instruments - FRS25, 26 and 29.

This has caused major changes in the accounting treatment of financial instruments, soft loans and guarantees, which have been designed to present a higher quality of information on financial instruments, in line with the private sector. In addition, in order to help identify, quantify and inform on the exposure to and management of risk, new "fair value" disclosure requirements have been introduced. The need for this has arisen in recent years through the high profile failure of a number of financial institutions e.g. Barings, Enron, World Com etc.

Amortised Cost

This change in accounting standards has meant that most financial instruments (whether borrowing or investment) have, in 2007/08, to be valued on an amortised costs basis using the effective interest rate (EIR) method.

However, it should be noted that figures for 31.3.07 which appear in these disclosure notes are shown unaltered from those which were published in the accounts for 2006/07 i.e. they have not been restated to amortised cost etc. Consequently, the figures for 31.3.07 and 31.3.08 are not properly comparable as they have been produced on two different basis. This is a one off problem which will not occur in the accounts for future years when two years' figures will be properly comparable.

Fair Value

In these disclosure notes, financial instruments are also required to be shown at fair value. Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Guidance from CIPFA states that as fair value valuations were not calculated as at 31st March 2007, the column for fair value as at 31st March 2007 in these disclosure notes cannot be filled in and so no figures appear.

For the very same reasons, no figures appear under 'Gains and losses on financial instruments' for 2006/07.

Compliance

This authority has complied with the following: -

1. it has adopted the CIPFA's Treasury Management in the Public Services: Code of Practice
2. set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code