



**Haringey** Council

Agenda Item

**General Purposes Committee**

**On 26 June 2008**

Report title: **Statement of Accounts 2007/08**

Report of: **Chief Financial Officer**

**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 2007/08.

**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 17th June 2008 received the Council's provisional outturn. 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 2008 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 17 June 2008 – Outturn 2007/08

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 30<sup>th</sup> June 2008.
- 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 Performance Assessment (**CPA**) 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 August.
- 6.5 The accounts are submitted to allow members to rigorously and robustly 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 £2.109 million, excluding schools. After approved carry forwards of £1.490 million, this gave a net underspend of £619,000 of which members agreed to set aside £600,000 to a specific strategic waste depot earmarked reserve leaving a transfer to general balances of £19,000.
- 7.2 This has only changed marginally as the final outturn, after taking into account transfers to reserves and final adjustments, is an underspend of £63,000. This additional surplus will go into the general reserves.
- 7.3 The final position on the general reserves of the council is a balance of £12.003 million, after taking into account the share of the collection fund deficit of £67,000.
- 7.4 The provisional schools revenue underspend of £2m reported to Cabinet is now reported at £1.866 million. This is added to the surplus carried forward

from 2006/07 of £5.219 million, thus increasing the balance available to schools to £7.085 million at the close of 2007/08.

- 7.5 The final outturn is in line with that anticipated in the Council's overall financial strategy.
- 7.6 The provisional capital outturn that was reported to Cabinet showed an underspend of £6.9 million. The final underspend reduced slightly to £6.7 million.
- 7.7 The provisional HRA outturn reported was a surplus of £1.1 million which increased the HRA balances to £4.7 million. The final surplus is £600,000 lower from that report to Cabinet. This is due to a transfer to reserves of £600,000 to provide for an additional payment for the pension fund deficit prior to the creation of the ALMO, Homes for Haringey.

## **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.
- 8.3 In preparing the 2007/08 statements consideration has been given to changes to the accounting regulations, referred to above, for 2007/08 which has resulted in some changes to the 2007/08 accounts, when compared to those published in 2006/07. The main changes are as follows, and each section is then further explained in the following pages:
  - **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 we present this information in the accounts. As a result there are some additional notes in the accounts that provide further information to the reader;
  - **Revaluation Reserve** – the balance sheet includes a new account, the Revaluation Reserve. The balance in this account represents the value by which the Council's Land and Buildings have increased since they were purchased or built. Since this is a new account for 2007/08, the figure shown for this year represents the increase in value since 2006/07, and;
  - **Changes to 2006/07 comparator figures** – since the publication of the 2006/07 Statement of Accounts work has been undertaken to further analyse and understand the 'other' balance in the Statement of Total Recognised Gains and Losses, which was £14.79 million in 2006/07.

This work has shown that a number of accounting entries were incorrectly shown in 2006/07 which have been restated for 2007/08. This results in some of the comparator figures in the principle statements being changed, thus allowing a more meaningful comparison with the 2007/08 figures. None of these changes affect the 'bottom line' of the Council's finances, i.e. the balance on the revenue account, council tax or its balances.

## 8.5 Section one

8.5.1 The **Executive Summary** shows the outturn of the general fund compared to budget and 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.

## 8.6 Section two

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

8.6.2 The **Annual Governance Statement** has been approved by the Leader of the Council and Chief Executive as required and was approved in draft form by Audit Committee on 12<sup>th</sup> May 2008. Haringey 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. 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, Haringey is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

8.6.4 The AGS contains the following action plan for the Council in 2008/09:

Issue	Action	Responsibility	Due date
Embed partnership governance arrangements	Ensure governance arrangements in respect of partnerships are fully embedded into the council's overall governance arrangements	Head of Member Services/ Head of Legal Services	September 2008
Address the findings of the Housing allocations review	Ensure that the recommendations arising out of the Audit Commission inspection are fully addressed.	Director of Urban Environment	Ongoing during 2008/09
Embed the Local Code of Corporate Governance (LCCG) across the Council	Ensure that the LCCG is approved and adopted at full council Ensure that the LCCG is published and appropriately publicised to all relevant stakeholders.	Head of Member Services/ Head of Legal Services	September 2008
Provide corporate	Provide updates and information on	Head of Member	Ongoing

governance assurances to officers and members	governance issues on a regular basis to CEMB and other officer and/or member groups on corporate governance issues.	Services/ Head of Legal Services	during 2008/09
Improve corporate data management systems and procedures	Ensure that the corporate data management policy is formally approved and adopted.	Assistant Director – Culture, Libraries and Learning	September 2008
Fully embed the corporate Management of Risk Strategy	Ensure the Management of Risk Strategy is appropriately publicised to all relevant stakeholders. Ensure that processes are in place to provide assurance that the strategy is fully complied with for all risk management activities.	Head of Audit and Risk Management	Ongoing during 2008/09

8.6.2 The **Statement of Accounting Policies** shows the accounting policies that apply to the financial statements of the Council. The changes in regulation regarding financial instruments have resulted in additional accounting policies for 2007/08.

## 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)** 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 compliant with the UK accounting standards and only contains accounting transactions in line with these accounting 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.

8.7.4 The bottom line of the I&E account shows a deficit position of £20.814 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). 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 2007/08 is a decrease in reserves of £5k and is arrived at after taken into account a number of transactions, for example the effect of the FRS17 pensions adjustment, 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 £12.002 million (from £12.007 million) as a 31<sup>st</sup> March 2008. 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 and therefore the medium term financial strategy is still in a sound position.

8.7.6 **The Statement of Total Recognised Gains and Losses** shows how the Council's reserves, the bottom section of the balance sheet, have moved year on year. For 2007/08 this shows the balance sheet has moved by £318.953 million, primarily caused by increased valuation of our fixed assets.

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

8.7.8 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 value of the assets have increased by £372 million which is caused by:
  - The bringing onto the balance sheet of Haringey's secondary schools, managed through the PFI contract, £168 million.
  - The annual revaluation of 20% of the council's land and buildings which has resulted in increased valuations of £200 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 £2.53 million (3.17%).

Gross debtors	2007/08	2006/07	Increase/ (decrease)	Increase/ (Decrease)
	£'000	£'000	£'000	%
Public Sector debtors	34,407	44,121	(9,714)	(22.03)
Non Public Sector debtors	42,848	35,667	7,181	20.13
<b>TOTAL</b>	<b>77,255</b>	<b>79,788</b>	<b>(2,533)</b>	<b>(3.17)</b>

- **Net current assets** have improved by £11.8 million. The main reason for this improvement is additional short term investments of £46 million, offset by an increase in our sundry creditors. Net current assets are still in a strong position in that our current assets far exceed our 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 increased to £9.8 million and are set out in note 26 to the accounts. In 2007/08 a £1.5 million provision has been created to cover the risk of

additional costs in relation to the potential financial impact of single status pay arrangements.

- **Long term borrowing** has increased by £17 million. This is due to long-term loans taken out as part of planned borrowing to finance capital expenditure. The majority of this is borrowing supported by government grant.
- The **net pensions' liability** has improved by £68.869 million to a deficit of £227.418 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 £936.812 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** summarises the inflows and outflows of cash arising from transactions with third parties.

8.7.10 Of particular interest to the committee in the **Notes to the Core Financial Statements** are:-

- **Note 1 - Statement of Movement on the General Fund Balance** 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** shows the changes that have been put through the accounts to adjust the STRGL balance for 2006/07 as mentioned in 8.3 above;
- **Note 3** details how the new Dedicated Schools Grant (DSG) has been deployed. The DSG is a ring-fenced grant for schools expenditure and the use of it is governed by statute, and;
- **Notes 29-32** 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)** 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 £1.1 million in 2007/08. As a result of this surplus the balance on the HRA is increased to £4.7 million. This 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** 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 2007/08 the Collection Fund made a deficit of £86k, which was then distributed between the Council (£67k) and the GLA (£19k).

## 8.8 Section four

8.8.1 This section contains the Authority **Group Accounts**. 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. The formal approval of the Pension Fund accounts is through the Pensions Committee which is meeting on 23<sup>rd</sup> June 2008. The accounts are brought to GP committee as part of the overall Statement of Accounts of the Authority and the requirement for this committee to approve the overall group statements of Haringey Council.

8.9.2 The **Pension Fund Account** shows the contributions to the Fund during the year and benefits paid from it. This shows a net decrease in the Fund during the year of £14.834 million (2.39%) from £620.04 million to £605.21 million. This reduction has primarily been caused by a decrease in the market value of investments.

8.9.3 The **Net Asset Statement** 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 formal level of funding as a whole for the Fund has increased from 69 per cent to 77.7 per cent between the triennial actuarial valuations as at end of March 2004 and end of March 2007. The level of funding is determined as part of independent **actuarial valuations** of the Fund. The main reasons for the increase in the funding level are an improvement in investment earnings and value, and the planned stepped increases in employers contributions from 2004.

8.9.5 Performance from our fund managers resulted in negative absolute returns of (4.73%) and this was 2.22% below the benchmark that was in place for the year. There has been much volatility in the market due to credit issues that have arisen and are linked to the sub prime mortgage market in the USA. This has impacted upon the performance of our portfolio mainly in the last quarter and is still ongoing.

## **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, both of which are still yet to occur.
- 9.2 AP&P closed the financial year with a provisional deficit of £3.1 million which is amount that the Council has allowed for in its accounts for 2007/08. This is in line with the revised budget agreed at cabinet during 2007/08 for this purpose.

## **10. Other important matters**

- 10.1 council officers have worked closely with Grant Thornton, the council's external auditors, to improve on the closure of accounts process in 2007/08 and have fully taken into account recommendations that arose from the 2006/07 audit of accounts.
- 10.2 The Council has also taken into account matters arising from the CPA Use of Resources action plan.
- 10.3 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.
- 10.4 As in recent years an annual report is being produced, which will include a set of summarised accounts. This will be sent to all households with the August edition of Haringey People, as well as being published on the Council's website.
- 10.5 The external audit for 2007/08 accounts will commence on 1 July, the auditors will report any issues to this Committee on 22nd September and then the accounts are due to be signed off by the auditors at the end of September.

## **11. Recommendations**

- 11.1 That the Committee approve the Council's financial statements for 2007/08.

## **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.