

AUDIT PANEL			
Report Title	2007/08 UPDATE ON THE STATEMENT OF ACCOUNTS AND OTHER ACCOUNTING ISSUES		
Key Decision	NO		Item No. 3
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES		
Class	Part 1	Date: 20 DECEMBER 2007	

## 1 Summary and Purpose

To update the audit panel with changes to the 2007 Statement of Recommended Practice (SORP) and other accounting issues that will result in changes to the 2007/08 Statement of Accounts.

## 2. Recommendation

That the report be noted.

## 3. Changes to the SORP

3.1 There were a number of changes to the SORP for this year as set out below:

3.2 In 2006/2007 the reserves section of the balance sheet contained a *Fixed Asset Restatement Account* and a *Capital Financing Account*. In 2007/2008 these are to be replaced with a *Revaluation Reserve* and a *Capital Adjustment Account*. These new reserves will carry out a very similar role to the old reserves, with only technical differences around areas such as impairing fixed assets. However, it should be noted that the opening balance on the *Revaluation Reserve* will be nil. This means all past revaluations of fixed assets will be included in the overall value of the fixed assets and future revaluations will start from scratch. The affect of any revaluations during 2007/08 will be shown in the revaluation reserve. CIPFA introduced these changes in order to bring Local Authority accounting practices in line with UK Generally Accepted Accounting Principles.

3.3 The SORP now requires the Council's treatment of financial instruments (loans, derivatives, etc) to be in line with recently issued Financial Reporting Standards. This will result in a reclassification of financial instruments and the creation of two new reserves: An *Available-for-sale Financial Instruments Reserve* and a *Financial Instruments Adjustment Account (FIAA)*. This new SORP requirement will also require the full cost (or income) of premiums (or discounts) on the early redemption of debt to be recognised immediately on the Income & Expenditure Account. However, the effect of these premiums and discounts on the overall General Fund balance will still be written down

over a number of years, so there will be no additional impact on the General Fund balance as a result of this change. In 2006/07 premiums and discounts were shown on the balance sheet as deferred premiums or discounts. These totalled £14.817 million and will be amalgamated into the FIAA for 2007/08. These new requirements will also result in some changes to the interest calculation on soft loans (eg, interest free travel season ticket loans to employees) and financial guarantees.

- 3.4 Other smaller changes to the SORP include new requirements around the presentation of Local Area Agreement grants and additional disclosures about charitable trusts.

#### **4. Best Value Accounting Code of Practice (BVACOP)**

Services in the Income & Expenditure Account will be amended to reflect new SORP requirements. There will be possible additional costs to services for certain losses from fixed asset impairments; possible costs or income from the new requirements for soft loans; and possible costs from financial guarantees. However, it should be noted that these are not additional costs to the Council overall, rather a change in the way they are accounted for that will mean they are charged directly to services.

#### **5. Lewisham Homes**

Further to the creation of Lewisham Homes as an 'Arm's Length Management Organisation' (ALMO) in 2006/07, the Authority will be required to prepare Group Accounts in 2007/08 in addition to the standard accounting statements. The Group Accounts will consolidate the Authority's financial statements with those of Lewisham Homes, and will include (among others) a Group Income & Expenditure Account, Group Balance Sheet and Group Cash Flow Statement. All transactions between the Council and Lewisham Homes will be removed as part of the consolidation. Notes to the Group Accounts will also be required, and these will be similar to the Authority's own notes to the accounts. In addition, there will be a requirement to make further disclosures specifically related to the Group Accounts, in order to explain the purpose of Lewisham Homes and its relationship with the Authority.

#### **6. Phoenix Community Housing Changes to the SORP**

During 2007/2008 Lewisham will transfer some of its council housing stock to Phoenix Community Housing, a resident-led housing association. This will be noticeable as a significant reduction in the council dwellings fixed assets that the Council will show on its balance sheet in the 2007/2008 accounts. At the end of 2006/2007 the council dwellings fixed assets were valued at £1,294 million. This is different to the Lewisham Homes arrangement in that the assets will transfer to Phoenix and will appear on their balance sheet, whereas Lewisham Homes will manage part of the Council's housing stock, but that stock still remains on the Council's balance sheet.

## **7. Interim Review**

- 7.1 A mid-year review of the balances on the balance sheet has been carried out and any large variances have been investigated. Variances included an increase in short term investments, movement on the bank balance and grants that have not yet been allocated.
- 7.2 A projected £0.861m overspend against the revenue budget was reported to Mayor & Cabinet on 14 November 2007. The capital budget was reported to be £2.8m over programmed (underspent).

### **BACKGROUND PAPERS**

None reported