To:
All members of the Audit Committee

Please reply to:

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Date: 18 February 2025

Supplementary Agenda

Extraordinary Audit Committee - Tuesday, 25 February 2025

Dear Councillor

I enclose the following item which was marked 'to follow' on the agenda for the Audit Committee meeting to be held on Tuesday, 25 February 2025:

Yours sincerely

Melis Owen
Corporate Governance

To the members of the Audit Committee

Councillors:

J. Button (Chair)
K. Howkins (Vice-Chair)
J.R. Boughtflower
J.P. Caplin
L. E. Nichols
H.R.D. Williams
P.N. Woodward
P. Briggs

Independent Member: P. Briggs

Spelthorne Borough Council, Council Offices, Knowle Green

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Substitute Members:	Councillors: M. Arnold, C. Bateson, M. Bing Dong, T. Burrell and O. Rybinski

Audit Committee

25 February 2025

Title	**2024-25 Accounting Policies Spelthorne Borough Council and its subsidiaries Knowle Green Estates Limited and Spelthorne Direct Services Limited**
Purpose of the report	To inform the Committee
Report Author	Emilia Grodzka, Joint Finance Manager – Systems & Controls
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Services
Recommendations	**Committee is asked to acknowledge the 2024-25 accounting policies**
Reason for Recommendation	To provide details of the Accounting Policies which will be used in the preparation of the 2024-25 Statement of Accounts

1. Summary of the report

What is the situation	Why we want to do something
• The 2024-25 Accounting Policies set out how the Council and its Group subsidiaries will deal with a variety of matters in the preparation of the Statement of Accounts	• As part of producing the 2024-25 Statement of Accounts the Accounting Policies set out how the Council will deal with key accounting issues.
This is what we want to do about it	**These are the next steps**
• Review the 2024-25 Accounting Policies. • Question Finance Officers on the 2024-25 Accounting Policies	• To note the 2024-25 Accounting Polices for the Council and the Group, which includes the Council and its subsidiaries Knowle Green Estates Ltd and Spelthorne Direct Services Ltd.

1.1 This report sets out the Council's proposed accounting policies to be adopted for Spelthorne Borough Council and its subsidiaries for the financial statements for the year end 31 March 2025.

2. Key issues

2.1 The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts.

2.2 These policies have to be fully disclosed as a note to the annual accounts and a copy of the policies for the Council (sole entity) and Group Accounts (Council and its subsidiaries) as shown in appendix A and B respectively.

2.3 There has been a change to the accounting policies regarding operating leases for the Council as a lessee (1.17.1.1 in Appendix A). The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments.

2.4 During the 2023-24 year end close down seminars, a number of commentators and CIPFA are advising that there is a general view that the accounting policies for Council's have become too complex and whilst they cover every item that is applicable to the Council, they should perhaps reflect if these policies have a material impact on the Statement of Accounts and where the answer is that they are immaterial, the accounting policies should reflect this.

2.5 Having considered this guidance, and in view of the fact that the Council has had its audit work carried out for the first time in the last five years, it is proposed that the Council will start with the full list of accounting policies contained in the appendices below and refine if required.

2.6 Please note that as the audit evolves, it may be necessary to develop or adapt the attached accounting policies, and the Committee will be informed.

3. Options analysis and proposal

3.1 Option 1 (Preferred): Accept the proposed accounting policies.

3.2 Option 2: Suggest amendments to the proposed accounting policies.

4. Financial management comments

4.1 There are none.

5. Risk management comments

5.1 If the accounting policies are not accepted, the Auditors will question our position and will end up with issuing a qualified audit opinion. There is no risk that we are in breach of law if accounting policies are not accepted.

6. Procurement comments

6.1 There are none.

7. Legal comments

7.1 There are no direct legal implications arising from this report.

8. Other considerations

8.1 Note that the Statement of Accounts have a supporting glossary which explains some of the accounting terms referred to in the Accounting Policies.

9. Equality and Diversity

9.1 There are none.

10. Sustainability/Climate Change Implications

10.1 There are none.

11. Contact details

11.1 Emilia Grodzka, Joint Finance Manager – Systems & Controls
e.grodzka@spelthorne.gov.uk

12. Timetable for implementation

12.1 Effective immediately for the 2024-25 audit.

Background papers: There are none.

Appendices:
Appendix A – 2024-25 Spelthorne Borough Council Accounting Policies
Appendix B – 2024-25 Group Accounting Policies

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APPENDIX A

Accounting Policies

1.1 General Principles

1.1.1. The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year-end and comply with the Code of Practice on Local Authority Accounting (The Code), issued by the Chartered Institute of Public Finance & Accountancy (CIPFA). Accounting policies and estimation techniques have been selected and used having regard to the accounting principles and concepts set out in International Financial Reporting Standards Framework for the Preparation of Financial Statements, specifically:

- The qualitative characteristics of financial information
- Relevance
- Reliability
- Comparability
- Understand ability
- Materiality
- Accruals
- Going concern

1.1.2 Where there is specific legislation, this will have primacy over any other provision. The accounts have been prepared under the historical cost convention modified by the revaluation of certain categories of non-current assets.

1.2 Accruals of Income and Expenditure

1.2.1 Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction, and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3 Cash and Cash Equivalents

1.3.1 Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in a specified period, no more or less from the date of the balance sheet and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.3.2 In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

1.4.1 Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

1.4.2 Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

1.4.3 Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

1.4.4 Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 Charges to Revenue for Non-current Assets

1.5.1 Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service
- for Finance Leases, Minimum Revenue Provision (MRP) is equal to the write down of the liability

1.5.2 The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue (Minimum Revenue Provision) towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance (England and Wales).

1.5.3 Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.6 Council Tax and Non-Domestic Rates (England)

1.6.1 Billing authorities act as agents, collecting Council Tax and National Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR.

1.6.2 Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

1.6.1 Accounting for Council Tax and NDR

1.6.1.1 The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council’s share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council’s General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement (MIRS).

1.6.1.2 The Balance Sheet includes the Council’s share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

1.7 Employee Benefits

1.7.1 Benefits Payable during Employment

1.7.1.1 Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

1.7.1.2 An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.7.2 Termination Benefits

1.7.2.1 Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

1.7.2.2 Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

1.7.3 Post-employment Benefits

1.7.3.1 The majority of employees of the Council are members of the Local Government Pension Scheme, administered by Surrey County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

1.7.3.2 The Local Government Pension Scheme is accounted for as a defined benefits scheme.

1.7.3.3 The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

1.7.3.4 Liabilities are discounted to their value at current prices, using a Corporate Bond yield curve constructed using the constituents of the iBOxx AA corporate bond index.

1.7.3.5 The assets of Surrey Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

1.7.3.6 The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

Re-measurements comprising:

- The return on pension plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions

made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Surrey Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

1.7.3.7 In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

1.7.3.8 In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

1.7.3.9 The negative balance that arises on the Pensions Reserve thereby measures the impact to the General Fund of being required, by statute, to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.7.4 Discretionary Benefits

1.7.4.1 The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.8 Events After the Reporting Period

1.8.1 Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

1.8.2 Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.9 Financial Instruments

1.9.1 Financial Liabilities

1.9.1.1 Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

1.9.1.2 For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

1.9.1.3 Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

1.9.1.4 The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.9.2 Financial Assets

1.9.2.1 Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

1.9.2.2 The Council holds financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

1.9.2.3 The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

1.9.3 Financial Assets Measured at Amortised Cost

1.9.3.1 Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value.

1.9.3.2 They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

1.9.3.3 For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement. However, the Council has made a number of loans at less than market rates (soft loans) in the past.

1.9.3.4 When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

1.9.3.5 Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.9.3.6 Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

1.9.4 Expected Credit Loss Model

1.9.4.1 The Council recognises expected credit losses on all of its financial assets held at amortised cost. The expected credit loss model also applies to lease receivables and contract assets.

1.9.4.2 Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

1.9.4.3 The Council indirectly gives a number of loans to local businesses through Funding Circle. Since these loans are indirect, the Council does not have reasonable and supportable information that is available to support the measurement of lifetime expected losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

1.9.5 Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

1.9.5.1 Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

1.9.5.2 The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

1.9.5.3 The inputs to the measurement techniques are categorised in accordance with the following three levels:

1. Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date
2. Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
3. Level 3 inputs – unobservable inputs for the asset

1.9.5.4 Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

1.9.6 Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

1.9.6.1 Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

1.10 Government Grants and Contributions

1.10.1 Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments,
- and the grants or contributions will be received.

1.10.2 Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

1.10.3 Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

1.10.4 Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.10.5 Business Improvement District (BID)

1.10.5.1 Business Improvement District (BID) scheme apply in Staines-upon-Thames. This scheme is funded by a BID levy paid by non-domestic ratepayers.

1.10.5 Community Infrastructure Levy (CIL)

1.10.5.1 The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects progressed by both the Council and other public sector bodies, to support the development of the area.

1.10.5.2 CIL is received without outstanding conditions. It is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges for this Council may be used to fund revenue expenditure.

1.11 Heritage Assets

1.11.1 Heritage Assets – General

1.11.1.1 Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

1.11.1.2 Heritage assets include historical buildings, historic motor vehicles, civic regalia, museum and gallery collections and works of art.

1.11.2 Recognition and Measurement

1.11.2.1 Where the Council has information on the cost or value of a heritage asset the Council will include that value in its 2024/25 Balance Sheet. Where this information is not available, and the historical cost information cannot be obtained the asset can be excluded from the Balance Sheet. A de-minimis level will be set in accordance with our policy for Capitalisation of assets currently set at £10,000.

1.11.2.2 Heritage assets will normally be measured at fair value. Where, exceptionally, it is not practicable to obtain a fair value, heritage assets shall be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses).

1.11.2.3 Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are measured at fair value, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current.

1.11.3 Depreciation, Amortisation and Impairment

1.11.3.1 Depreciation or amortisation is not required on heritage assets which have indefinite lives. The carrying amount of an asset shall be reviewed where there is evidence of impairment, for example, where it has suffered physical deterioration or breakage or where new doubts arise as to its authenticity. Any impairment recognised shall be dealt with under the recognition and measurement requirements of section 4.7 of the Code.

1.12 Intangible Assets

1.12.1 Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council because of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

1.12.2 Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

1.12.3 Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

1.12.4 Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s). Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

1.12.5 Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sales proceeds greater than £10,000) the Capital Receipts Reserve.

1.13 Interests in Companies and Other Entities

1.13.1 The Council has a material interest in its wholly owned subsidiary companies Knowle Green Estates Limited and Spelthorne Direct Services. Group accounts, which present the combined financial position of the Council and the subsidiaries, are published following the Council's disclosure notes. In the Council's own single-entity accounts, the interest is recorded in the balance sheet as a financial asset at cost less any provision for loss.

1.14 Inventories and Long-term Contracts

1.14.1 Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the First In First Out (FIFO)/weighted average costing formula.

1.14.2 Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

1.15 Investment Property

1.15.1 Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

1.15.2 Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

1.15.3 Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.15.4 Investment properties held for the purpose of generating cash flows where the primary objective is generating a commercial return, are tested for impairment to measure a loss in the future economic benefits over and above the systematic recognition of the loss of the asset’s future economic benefits through revaluation at fair value.

1.16 Joint Operations

1.16.1 Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly

1.17 Leases

1.17.1 Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant, or equipment from the lessor to the lessee. All other leases are classified as a right of use asset and operating leases.

1.17.2 Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

1.17.3 Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.17.1.1 The Council as Lessee – A Right of Use Asset

1.17.1.1.1.A right to use asset and corresponding lease liability are recognised at the commencement of the lease.

1.17.1.1.2 The lease liability is measured at the present value of the lease payments, discounted at the rate implicit in the lease, or if that cannot be readily determined, at the lessee's incremental borrowing rate specific to the term and start date of the lease. Lease payments include: fixed payments; variable lease payments dependent on an index or rate, initially measured using the index or rate at commencement; the exercise price under a purchase option if the Council is reasonably certain to exercise; penalties for early termination if the lease term reflects the Council exercising a break option; and payments in an optional renewal period if the Council is reasonably certain to exercise an extension option or not exercise a break option.

1.17.1.1.3 The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured, with a corresponding adjustment to the right of use asset, when there is a change in future lease payments resulting from a rent review, change in an index or rate such as inflation, or change in the Council's assessment of whether it is reasonably certain to exercise a purchase, extension or break option.

1.17.1.1.4 The right of use asset is initially measured at cost, comprising: the initial lease liability; any lease payments already made less any lease incentives received; initial direct costs; and any dilapidation or restoration costs. The right of use asset is subsequently depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

1.17.1.1.5 The right of use asset is tested for impairment if there are any indicators of impairment.

1.17.1.1.6 Leases of low value assets (value when new less than £10,000) and short-term leases of 12 months or less are expensed to the Comprehensive Income and Expenditure Statement, as are variable payments dependent on performance or usage, 'out of contract' payments and non-lease service components. These are classified as operating leases.

1.17.1.1.7 The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.17.1.2 The Council as Lessee - Operating Leases

1.17.1.2.1 Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e g. there is a rent-free period at the commencement of the lease).

1.17.2.1 The Council as Lessor – Operating Leases

1.17.2.1.1 Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.18 Overheads and Support Services

1.18.1 The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

1.19 Property, Plant and Equipment

1.19.1 Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant, and equipment.

1.19.2 Recognition

1.19.2.1. Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, if it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

1.19.3 Measurement

1.19.3.1 Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

1.19.3.2. The Council does capitalise borrowing costs incurred whilst assets are under construction.

1.19.3.3 The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

1.19.3.4 Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

1.19.3.5 Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV–SH)
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the Council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

1.19.3.6 Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

1.19.3.7 Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

1.19.3.8 Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

1.19.3.9 Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

1.19.3.10 The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

1.19.4 Impairment

1.19.4.1 Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

1.19.4.2 Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

1.19.4.3 Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.19.5 Depreciation

1.19.5.1 Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

1.19.5.2 Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer

- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer

1.19.5.3 Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

1.19.5.4 Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.19.6 Disposals and Non-current Assets Held for Sale

1.19.6.1 When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

1.19.6.2 If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

1.19.6.3 Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

1.19.6.4 When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

1.19.6.5 Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement) (England and Wales)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

1.19.6.6 The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

1.19.6.7 Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.20 Provisions, Contingent Liabilities and Contingent Assets

1.20.1 Provisions

1.20.1.1 Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

1.20.1.2 Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

1.20.1.3 When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

1.20.1.4 Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

1.20.2 Contingent Liabilities

1.20.2.1 A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

1.20.2.2 Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.20.3 Contingent Assets

1.20.3.1 A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

1.20.3.2 Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.21 Reserves

1.21.1 The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

1.21.2 Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

1.22 Revenue Expenditure Funded from Capital under Statute

1.22.1 Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

1.23 VAT

1.23.1 VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty’s Revenue and Customs. VAT receivable is excluded from income.

1.24 Fair Value Measurement of Non-financial Assets

1.24.1 The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

1.24.2 The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

1.24.3 When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

1.24.4. The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

1.24.5 Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

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APPENDIX B

Group Accounting policies

1.1 General Principles

1.1.1. The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries and adopt the same accounting policies as set out in the Statement of Accounts of the single entity shown earlier and the additional policies highlighted below.

1.1.2 Any gains and losses arising from these companies are fully reflected in the Group Statements comprising of the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, Balance Sheet, Movement in Reserves Statement, Cash flow Statement and associated disclosure notes.

1.1.3 The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Additional policies for Group Accounts

1.2.1 Taxation

1.2.1.1 Deferred Taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

1.2.2 Internal charges against the Group Comprehensive Income and Expenditure Reserve/intra group charges Cash and Cash Equivalents

1.2.2.1 There are intra-group charges which will be eliminated via consolidation such as Directors and Officer time allocations and other sundry transfer charges, dividend appropriations, loan interest and fee set up costs, and other ancillary intra-group charges as per agreed by the Directors of each subsidiary company.

1.2.2.2 Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

1.2.2.3 Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

1.2.2.4 Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

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