

# Runnymede's Accounting Policies

## 1.1 General principles

The Accounts and Audit Regulations 2015 require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These proper accounting practices principally comprise:

- the Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (as amended) (the 2003 Regs)

The Statement of Accounts has been prepared using the going concern and accruals bases. The historical cost convention has been applied, modified by the valuation of the following material categories of non-current assets and financial instruments:

Class of Assets	Measurement Basis								
Property, Plant and Equipment: Dwellings	Current value - comprising existing use value for social housing. Dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secure tenancies.								
Property, Plant and Equipment: Other Land and Buildings	Current value - comprising existing use value. Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost.								
Property, Plant and Equipment: Surplus Assets	Fair value - 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								
Investment Properties	Fair value – as above								
Financial Instruments – Fair Value through Profit or Loss	Fair value – as above								
Pension Assets	Fair value – <table border="0" style="margin-left: 20px;"> <tr> <td>Quoted securities</td> <td>Current bid price</td> </tr> <tr> <td>Unquoted securities</td> <td>Professional estimate</td> </tr> <tr> <td>Unitised securities</td> <td>Current bid price</td> </tr> <tr> <td>Property</td> <td>Market value</td> </tr> </table>	Quoted securities	Current bid price	Unquoted securities	Professional estimate	Unitised securities	Current bid price	Property	Market value
Quoted securities	Current bid price								
Unquoted securities	Professional estimate								
Unitised securities	Current bid price								
Property	Market value								

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. 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.

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

Where relevant, the Statement of Accounts has been adjusted to reflect events after 31 March and before the date the Statement was authorised for issue only where the events provide evidence of conditions that existed at 31 March.

## 1.2 Income and expenditure recognition

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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.

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- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue expenditure has 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 Adjustments Between Accounting Basis and Funding Basis

The resources available to the Council in any financial year and the expenses that are charged against those resources are specified by statute (the Local Government Act 2003 and the 2003 Regulations). Where the statutory provisions differ from the accruals basis used in the Comprehensive Income and Expenditure Statement (CIES), adjustments to the accounting treatment are made in the Movement in Reserves Statement (MiRS) so that usable reserves reflect the funding available at the year-end. Unusable reserves are created to manage the timing differences between the accounting and funding bases. The material adjustments are:

Expense	Accounting Basis in CIES	Funding Basis in MiRS	Adjustment Account
Property, Plant and Equipment	Depreciation and revaluation/impairment losses	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Intangible Assets	Amortisation and impairment	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Investment Properties	Movements in fair value	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Revenue Expenditure Funded from Capital under Statute	Expenditure incurred in the year	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Capital Grants and Contributions	Grants that became unconditional in the year or were received in the year without conditions	No credit	Capital Grants Unapplied Reserve (amounts unapplied at 31 March)  Capital Adjustment Account (other amounts)
Non-Current Asset Disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital Adjustment Account (carrying amount)  Capital Receipts Reserve (sale proceeds and costs of disposal)  Deferred Capital Receipts Reserve (where sale proceeds have yet to be received)
Financial Instruments	Premiums payable and discounts receivable on the early repayment of borrowing in the year Losses on soft loans granted in the year and interest receivable in the year on an amortised cost basis	Deferred debits and credits of premiums and discounts from earlier years in accordance with the 2003 Regs  Interest due to be received on soft loans in the year	Financial Instruments Adjustment Account
Pooled Investments	Movements in the fair value of pooled investment funds	Historical cost gains/losses for money market fund investments disposed of in the year	Pooled Investment Funds Adjustment Account
Pensions Costs	Movements in pensions assets and liabilities	Employer's pensions contributions payable and direct payments made by the Council to pensioners for the year	Pensions Reserve
Council Tax	Accrued income from current year bills	Demand on the Collection Fund for current year plus recovery of share of estimated deficit/surplus for previous year	Collection Fund Adjustment Account

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Expense	Accounting Basis in CIES	Funding Basis in MiRS	Adjustment Account
Business Rates	Accrued income from current year bills	Budgeted income receivable from the Collection Fund for the current year plus recovery of share of estimated deficit/ surplus for previous year	Collection Fund Adjustment Account
Holiday Pay	Projected cost of untaken leave entitlements at 31 March	No charge	Accumulated Absences Adjustment Account

### 1.4 Cash and cash equivalents

Cash comprises of cash in hand and deposits at financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that mature in 7 days or less from the date of acquisition, or repayable without penalty on notice of not more than 7 days, and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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.

### 1.5 Charges to revenue for non-current assets

Services, support services and trading accounts are charged with the following amounts to record the cost of holding fixed 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 fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, the Council is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. This contribution is known as the Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP 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.

### 1.6 Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly in the control of the Council. Contingent assets are not recognised in the balance sheet but are disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### 1.7 Contingent liabilities

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 in 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. Contingent liabilities are not recognised in the balance sheet, but are disclosed in a note to the accounts.

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### 1.8 Council Tax and Non Domestic Rates (NDR)

Billing authorities act as agents, collecting Council Tax and 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 (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. 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.

#### Accounting for Council Tax and NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority'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. The Balance Sheet includes the authority'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.

Where debtor balances for the above are identified as impaired (i.e. a potential bad debt), the asset is written down and a charge made to the Taxation and Non-Specific Grant line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

### 1.9 Employee benefits

#### Benefits payable during employment

Short-term employee benefits are those due to be settled 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 services to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi leave) 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 pay rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### Termination benefits

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 line in the CIES, at the earlier of when the authority can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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.

#### Post-employment benefits

Employees of the Council can be members of the Local Government Pensions Scheme, administered by Surrey County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees whilst working for the Council.

#### The Local Government Pension Scheme

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The Local Government Scheme is accounted for as a defined benefit scheme. The liabilities of the Surrey 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, and projections of earnings for current employees etc.,.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high-quality corporate bond.

The assets of the Surrey Pension fund attributable to Runnymede Borough Council are included in the Balance Sheet at their fair value as set out in the following table:

<b>Asset class</b>	<b>Valuation method used</b>
Quoted securities	Current bid price
Unquoted securities	Professional estimate
Unitised securities	Current bid price
Property	Market value

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 Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the service segments; net interest on the net defined benefit liability, i.e. net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – 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 at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

### Re-measurements comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – 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 – debited to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- Contributions paid to the Surrey Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities to the extent not accounted for as an expense.

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 in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the pensions reserve to remove the accounting debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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### Discretionary benefits

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

### Final-year pension enhancements

The Council has an obligation to pay the pension of certain former staff that received a final-year salary enhancement. This enhancement increased their pension but does not form part of the Local Government Pension Scheme. The valuation of the estimated pension liabilities is made in the same manner as for pensions under the Local Government Pension Scheme.

The statutory accounting arrangements for these local pensions are different to those for the Local Government Pension Scheme. Therefore, changes in pension liabilities in respect of the local scheme are recognised directly in the General Fund.

### **1.10 Exceptional items, prior period adjustments, Changes in Accounting Policies and Estimates and Errors**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the comprehensive income and expenditure statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

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

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. 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.

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

### **1.11 Financial instruments**

#### Financial liabilities

Financial liabilities are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument. Initially these are 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.

#### Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets which are measured as either:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI)

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).

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### Financial assets measured at amortised cost

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

The Council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the comprehensive income and expenditure statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the loan, resulting in a lower amortised cost than the outstanding principal. Where there is no fixed life of the loan, an estimate of the life of the loan is made. Interest is credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement at an effective rate of interest that recognises the commercial rate that would apply on an equivalent loan, less the rate actually receivable on the loan, to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the general fund balance is the interest receivable in the year. The reconciliation of the amounts in the comprehensive income and expenditure statement 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.

Any gains and losses that arise following the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### Financial assets measured at fair value through profit and loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority 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.

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

- Instruments with quoted market prices – the market place
- Other instruments with fixed and determinable payments – discounted cash flow analysis

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

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

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 Comprehensive Income and Expenditure Statement.

### Expected credit loss model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets.

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 the instrument was initially recognised, losses are assessed on

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a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 months of expected losses.

The Council has some loans to local organisations. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime expected losses on an individual instrument basis. It will therefore assess losses for the portfolio on a collective basis.

### 1.12 Foreign currency

When the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable at the date the transaction was effective. Where amounts in a foreign currency are outstanding at the year end, they are converted at the exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

### 1.13 Government Grants & Contributions

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 monies will be received

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 acquired using 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.

Monies advanced as grants or 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 (for attributable revenue grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

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 capital grant or contribution has been received and no conditions remain outstanding at the balance sheet date and it 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.

Where a capital grant or contribution has been received and the conditions remain outstanding at the balance sheet date, the grant or contribution is held in the capital grants receipts in advance account.

### 1.14 Heritage assets

A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Where the cost of obtaining valuation information is not commensurate with the benefits, the Council will not recognise these assets in the Balance Sheet.

#### Museum exhibits

The Council's heritage assets are predominantly the museum exhibits that are held at the Chertsey Museum. The museum collections include local archaeology and the history of Chertsey Abbey, fine and decorative art, social history items, a large collection of documents and photographs. The council maintains an inventory of this collection and those items not being displayed can be seen by prior appointment.

There is no readily available valuation held by the council for the museum exhibits. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost



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given the specialised nature of this archive. As such the council has not recognised these items on the balance sheet.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at insurance valuation if the value is over £5,000.

The Council's policy is not to charge depreciation on heritage assets where it believes any such assets have a useful life of such length that any depreciation charge would be negligible and can be ignored on the basis of materiality.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment.

Disposals of any heritage assets are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

### 1.15 Intangible assets

The Council recognises intangible assets for purchased computer software systems and licences only. Expenditure on computer software that is not an integral part of a related item of computer hardware is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Capitalised software costs include external direct costs of material and services associated with the project. The amounts are not revalued but are carried at amortised cost. The depreciable amount of the intangible asset is amortised over its useful life (usually the lives of the individual contracts with the relevant computer suppliers) on a straight-line basis to the relevant service lines in the comprehensive income and expenditure statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired, and any losses are posted to the relevant service lines in the CIES. 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.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal losses are not permitted to have an impact on the General Fund balance. The losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

### 1.16 Interests in companies and other entities

Group accounts are prepared for the Council and its interest in its subsidiaries, associates and joint ventures. Inclusion in the Council group is dependent upon the extent of the Council's interest and power to influence an entity. The determining factor for assessing the extent of interest and power to influence is either through ownership of an entity, a shareholding in an entity or representation on an entity's board of directors. An assessment of all the Council's interests is carried out in accordance with the Code of Practice, to determine the relationships that exist and whether they should be included in the Council's group accounts. In the Council's single-entity accounts the Council's interest in companies and other entities are recorded as financial assets at cost less any impairment. Any impairment gains or losses are recognised in the Comprehensive Income and Expenditure Statement.

### 1.17 Inventories and long term contracts

Inventories are stated at cost price. Although this does not comply with the code, which states that stock should be valued at the lower of cost or net realisable value, the sums held as inventories is not significant and the differences between cost and net realisable value are not material.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

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### 1.18 Investment property

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.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Investment 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.

Rentals received in relation to investment properties are credited to the financing and investment income and expenditure line and result in a gain to 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.

### 1.19 Leases

Leases are treated as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant and equipment from the lessor to the lessee. All other leases are treated as operating leases. Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

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 when fulfilment of the arrangement is dependent on the use of specific assets.

#### Finance leases (council as lessee)

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated total useful life.

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.

#### Operating leases (council as lessee)

Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefitting from the use of the leased item of property, plant and equipment. Charges are made on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable (on an accruals basis).

#### Finance leases (council as lessor)

The Council currently grants no leases of property, plant and equipment that count as finance leases.

#### Operating leases (council as lessor)

Where the Council grants an operating lease over a property, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the comprehensive income and

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expenditure statement for non-investment property assets, and to the Financing and Investment Income and Expenditure line for income from leases of investment properties.

### 1.20 Overheads and support services

The cost of overheads and support services are charged to services that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Accounting Code of Practice (SerCOP)*.

### 1.21 Property, plant and equipment

Assets that have physical substance and are held for use in the provision of services, for rental to others, or for administration purposes on a continuing basis are classified as property, plant and equipment. For accounting purposes, the Council has an individual de-minimis level of £10,000 for capitalising assets, however groups of smaller similarly classed assets, such as computer laptops which are brought in bulk, can be grouped together and included.

#### Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that 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) charged as an expense when it is incurred.

#### Measurement

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 Council does not capitalise borrowing costs incurred whilst assets are under construction.

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.

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 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.

Assets are then carried in the balance sheet using the following measurement basis:

- Infrastructure assets and community assets and assets under construction - depreciated historical cost
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH) as provided for in government guidance.
- Surplus assets – current value which is fair value estimated at highest and best use from a market participant's perspective, and
- All other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use – EUV)

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

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.

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Assets are included in the balance sheet at current value and are formally 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 as part of a four-year rolling programme. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service revenue account.

Where decreases in value are identified, they are accounted for as follows:

- 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 the 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 (or that part in excess of the balance in the Revaluation Reserve) is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

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.

### Impairment

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.

Where an impairment loss is identified, it is accounted for in the same way as for a revaluation loss.

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.

### Depreciation

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 determinate 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).

Depreciation is calculated on the following bases:

- Dwellings – the charge for depreciation is prepared in accordance with “Stock Valuation for Resource Accounting: Guidance for Valuers 2016” published by the government in November 2016. Under this guidance, the major repairs allowance charge to the Housing Revenue account is used as a proxy for component accounting and depreciation.
- Other buildings - straight-line allocation over the useful life of the property as estimated by the valuer
- Vehicles, plant, furniture and equipment - straight-line allocation over the estimated useful life of the asset

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.

### Componentisation

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item and with different estimated useful lives, the components are depreciated separately. For the purpose of assessing whether a component is significant, our policy is that the cost of a component must normally be greater than £50,000 and be greater than 20% of the cost of the asset. In addition, the component must have a useful life (for depreciation purposes) that is significantly different from that of the main structure.

### Disposals and non-current assets held for sale

Assets where a disposal is highly probable within the next 12 months and the asset is available for sale in its present condition are classified as Assets Held for Sale. Management must be committed to the sale within

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one year from the date of classification and the sale must be highly probable. Depreciation is not charged on assets held for sale. Assets that the Council intends to sell at some point, but which do not meet the criteria are treated as surplus assets.

When an asset is disposed of or decommissioned, the value 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 the 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 the disposal (i.e. netted off the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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 assets held for sale - and the recoverable amount at the date of the decision not to sell.

Receipts from disposals in excess of £10,000 are categorised as capital receipts. The net loss or gain on disposal is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

A pre-determined proportion of receipts relating to housing right-to-buy sales are payable to the government with the balance split in accordance with a government formula to repay HRA loans or to fund the re-provision of additional social housing. Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

### 1.22 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation likely to require settlement by a transfer of economic benefit or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service in the Comprehensive Income and Expenditure statement in the year that the Council becomes aware of the 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

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.

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.

### 1.23 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement. 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 services in the comprehensive income and expenditure statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and employment and retirement benefits that do not represent usable resources for the Council – these reserves are explained in the statements.

### 1.24 Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service account 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, 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.

### 1.25 Valuations – fair value

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 share holdings, 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:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

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.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can assess 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.

### 1.26 Value added tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income. The net amount due to or from HM Revenue and Customs is included in the balance sheet as part of debtors or creditors.