Note 1 – Statement of Accounting Policies (DRAFT)

1. Introduction and Accounting Concepts

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts and the Accounts and Audit (England) Regulations 2015 require them to be prepared in accordance with proper accounting practices. This extends to group financial statements prepared where the Authority has any interests in subsidiaries, associates or joint ventures. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (The Code) supported by EU Adopted 'International Financial Reporting Standards' (IFRS) and statutory guidance issued under section 21 (2) of the Local Government Act 2003. Sections 3 and 20 of the Local Audit and Accountability Act 2014 establishes the Audit of the Accounts undertaken in accordance with the Statutory framework. Other codes of practice such as the Prudential code still apply.

The statutory override is to ensure that the Statement of Accounts for the Authority give a true and fair view of the financial position, financial performance and cash flows of the Authority including the Group Financial statements where applicable.

Following the changes introduced by the 2016/17 Code to reflect the 'Telling the Story Review of the Presentation of Local Authority Financial Statements', the Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. However the total cost model still applies in apportionment of overheads and particularly in the case of corporate and democratic costs, support service recharges should follow SeRCOP where costs have not already been included in the Authorities' operating segments for monthly management reporting.

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.

1.1 Accounting Concepts and qualitative characteristics

Section 2 of the Code confirms that it specifies many of the accounting policies and estimation techniques that will be used by local authorities when preparing and presenting their financial statements. These have been selected and drafted in accordance with the requirements of International Financial Reporting Standards (IFRS) and adapted where necessary for local government circumstances.

In presenting information in the financial statements, the Authority holds regard to the:

- objective of financial statements
- underlying assumption
- qualitative characteristics of financial statements
- elements of financial statements
- recognition of the elements of financial statements
- measurement of the elements of financial statements.

If financial information is to be useful, it must contain the following qualitative characteristics. In producing the financial statements, the Authority has given priority to:

- Relevance
- Faithful representation
- Materiality - To aid key decisions made by users, the information must be relevant and in setting the accounting policies, these need only be included if relevant and in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors. If information is not material in presenting a 'true and fair view' of the financial position of the Authority, then certain transactions or disclosures may be omitted from the financial statements. The Authority ensure that the Financial Information contained with the Statements are:

- Comparable – they are comparable to similar financial information provided by other Local

Authorities
- Understandable – the Accounts should be easy to understand by the reader with technical terms supported by the Glossary
- Verifiable – Information should faithfully represent the quantified informative assumptions that it purports to
- Completeness/timely – Information should have a degree of accuracy, completeness and adhere to statutory timelines within the Accounts and Audit Regulations (2015).

1.2 Going Concern concept

The Local Authority's financial statements shall be prepared on a going concern basis; that is, the accounts are prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

2. Accruals of Income and Expenditure/Revenue Recognition

The Authority adopts Accruals Accounting in accordance with the Code. Therefore, activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

2.1 Revenue Recognition

Revenue will be accounted for and recognised on the basis of its substance and not solely its legal form. The Code requires that revenue is measured at the fair value of the consideration received or receivable.

- Revenue from the sale of goods is recognised when the council transfers the significant risk 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 Council Tax and Business Rates is measured at the full amount receivable (net of impairment losses) as they are non-contractual, non-exchange transactions. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the council and the amount of revenue can be measured reliably.
- 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 on the basis of the effective interest rate method, in accordance with IFRS 13 at Level 1 quoted market prices for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Financial Assets and Liabilities, where IFRS 13 permits, will be measured in accordance with the standard.
- Dividends or equivalent should be recognised where the Authority's right to receive is established.
- 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 income that might not be collected.

3. Cash and Cash Equivalents

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 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 Authority's cash management.

4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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.
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 Authority'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. During 2016/17 the following accounting policies were amended:

5. Interests in Companies and Other Entities – change in accounting policy

The Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses. Additionally, the individual group accounting policies are at the end of this statement.

6. Joint Operations

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 arrangements. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of the joint operators. Our Building Control Shared Service Partnership will be administered by the joint operator 'Tandridge District Council'. Recognition is as follows:-

- Its assets and liabilities held jointly in its share
- Its revenue from the sale of its share of the output arising from the joint operation will be as per the agreed shares between the joint authorities
- Its expenses including its share incurred jointly as per agreed

7. Charges to Revenue for Non-current Assets and Minimum Revenue Provision (MRP)

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

The Authority 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 towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.
Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (minimum revenue provision or loans fund principal), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1. Employee Benefits

7.1 Benefits Payable during Employment

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 and sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. 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.

7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority 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 or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority is unable to withdraw the offer of those benefits or when the Authority recognises restructuring costs.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority 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.

7.3 Post-employment Benefits

The Authority provides for the payment of pensions and other defined benefits to its employees by making contributions to the Surrey County Council Pension Fund. The contributions are based on rates determined by the Fund's actuary that in turn are based on triennial valuations of the Fund. The most recent valuation took place December 2013 (retrospective 31st March 2013). The next triennial valuation is due 1 April 2017.

The Fund is accounted for as a defined benefit scheme:

- The liabilities of the Fund which are attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the cost of future payments made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected future earnings for current employees)
- Liabilities are discounted to give their value at current prices using a discount rate based on the indicative rate of return on high quality corporate bonds.
- The assets of the Pension Fund that are attributable to the Authority 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)

Changes in the net pensions liability is analysed into the components, Service Cost comprising:

- Current service cost - the increase in liabilities as a result 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 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 Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- Net interest on the net defined liability, ie net interest expense for the authority – the change during the period in the net defined liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement – calculated by applying a discount rate used to measure the defined benefit obligation to the net defined liability at the beginning of the period taking into account any changes in the net defined liability as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in the net interest on the net defined liability charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pension's 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 County Council Pension Fund - cash paid as employers' contributions to the Pension Fund in settlement of liabilities; 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 Authority to the pension fund or directly to pensioners 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 notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners any such amounts payable but unpaid at the year-end.
The negative balance that arises on the Pension 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 benefits are earned by employees.

7.4 Discretionary Benefits

The Authority 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.

8 Events After the Reporting Period

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 Statements are 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.

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

9 Financial Instruments

Fair Value measurement - 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. IFRS 13 uses valuation techniques based on a hierarchy which gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

9.1 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority 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 Comprehensive Income and Expenditure Statement 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.

For any borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of purchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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 Authority 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.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement 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.

9.2 Financial Assets

Financial assets will be measured in accordance with IFRS 13, where the standard permits. 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. Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price or do not have fixed or determinable payments.

9.2.1 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority 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 loans that the Authority has made, 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.

However, the Authority has made a number of loans to voluntary organisations and individuals 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 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 Comprehensive Income and Expenditure Statement 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. 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 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.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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 Comprehensive Income and Expenditure Statement.

9.2.2 Available for Sale Assets

Available for Sale Assets are recognised on the Balance Sheet and measured at fair value. Dividends are recognised in the Comprehensive Income and Expenditure Statement within the Financing Investment Income and Expenditure category as incurred. An Available for Sale Reserve shows the accumulation of gains and losses for the year in respect of the number of units held multiplied by its published 'bid' selling price. Inputs to this measurement technique will be categorised in accordance with the 3 levels as follows:

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

10 Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot 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.

11 Government Grants and Contributions (change in accounting policies)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that the Authority will comply with the conditions attached to the payments, and the grants or contributions will be received. Amounts recognised as due to the Authority 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.
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 (non-ring fenced 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 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.

11.1 Business Improvement Districts (New accounting policy to be adopted from 2017/18)

A Business Improvement District (BID) scheme applies across the whole of the Authority. The scheme is funded by a BID Levy paid by non-domestic ratepayers. The Authority acts as principal under the scheme, and accounts for income and expenditure, including contributions to the BID project, within the relevant services in the Comprehensive Income and Expenditure Statement.

11.2 Community Infrastructure Levy (New Accounting policy)

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The levy will be charged on new builds with appropriate planning consent. The Authority charges for and collects the levy, which is a planning charge. The levy income will be used to fund a number of infrastructure projects to support the development of the area. CIL received is limited by regulations. It is therefore recognised at the commencement date of the development in the Comprehensive Income and Expenditure Statement in accordance with the above core accounting policy for grants and contributions. CIL charges will be largely to fund capital expenditure with a small proportion used to fund revenue. For large developments there is a stage payment schedule available. An Annual statement of CIL income and expenditure will be produced.

12. Heritage Assets

Tangible Heritage Assets

Financial Reporting Standard 102 (FRS 102) contains the accounting requirements for the separate recognition and depreciation of Heritage Assets. 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.
Heritage assets include historical buildings, historic motor vehicles, Civic Regalia, museum and gallery collections and works of art.

Recognition and Measurement:

Where the Council has information on the cost or value of a Heritage Asset the Council will include that value in its 2016/17 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-minimus level will be set in accordance with our policy for Capitalisation of assets currently set at £10,000.
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).
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.

Depreciation, Amortisation and Impairment:

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 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.

13 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result 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 Authority.
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 Authority 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).
Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.
Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority 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) in the Comprehensive Income and Expenditure Statement. 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 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.

14 Inventories and Long-term Contracts

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

15 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. 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 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. A Fair Value hierarchy within the Statement of Accounts will demonstrate the Investment Property's highest and best use category (as per the inputs in policy 9.2.2).

16 Leases

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 operating leases. Where a lease covers both land and buildings, the land and buildings 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 where fulfilment of the arrangement is dependent on the use of specific assets. IFRS 13 'Fair Value

Measurement' is only applicable where permitted. Finance Leases have been measured using IAS 17. (Leases)

16.1 The Authority as Lessee

Finance Leases
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. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability and a finance charge debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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 useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Authority 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
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting 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 (eg there is a rent-free period at the commencement of the lease).

16.2 The Authority as Lessor

Finance Leases
Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain, representing the Authority's net investment in the lease, is 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), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts.

When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.
The written-off value of disposals is not a charge against council tax, as the cost of noncurrent assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority 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.

16.3 Sale and Leaseback

For properties that are determined as a sale and leaseback arrangement, the following treatment shall apply:

- it de-recognises the existing property, plant and equipment asset
- it recognises the leased asset measured in accordance with the Code, ie at the lower of the fair value of the asset or the present value of the minimum lease payments
- it recognises a corresponding finance lease liability, and
- any gain on disposal of the asset is deferred and recognised over the life of the lease
- Subsequent lease payments are split between a finance charge and repayment of the liability.

Although one part of the transaction is accounted for as a sale, it is not considered to represent a sale in substance. This has two important consequences:

- prior to disposal, the asset does not qualify for reclassification into Assets Held for Sale per Section 4.9 of the Code and
- any existing balance in the Revaluation Reserve in respect of the asset is retained in that reserve and is not transferred to the Capital Adjustment Account balance when the disposal is recognised – the transfer will not take place until the 'new' asset is eventually derecognised.

17 Overheads and Support Services (Change in Accounting Policy)

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

18 Property, Plant and Equipment

In accordance with the 2016/17 Code's adoption of IFRS 13 (Fair value measurement) the Authority will apply the concept of current value measurement for property, plant and equipment. Fair Value for Property Plant and Equipment will be 'Existing use Value', with the exception of Surplus Assets will now be measured at fair value following the adoption of the standard and stated at their IFRS 13 Category. 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 for accounting purposes, the Council has a de minimus threshold of £10,000.

Recognition

Expenditure on the acquisition, creation or subsequent expenditure 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 Authority 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.

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

The Authority 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 (ie it will not lead to a variation in the cash flows of the Authority). 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 Authority.

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 bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

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 fair 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 fair value. Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair 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. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

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.

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.

19 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 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.

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.

20 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 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).

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.

- financed leased assets - vehicles, plant, furniture and equipment or Buildings - the lower of the estimated useful life or the lease term

- infrastructure – straight-line allocation over 25 years or as appropriate to the relevant asset.

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. 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.

21 Disposals and Non-current Assets Held for Sale (Amended policy)

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.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. 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 (ie 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.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement).Receipts are appropriated to the 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 noncurrent 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.

22 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority 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 Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority 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 Authority settles the obligation.

23 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority 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 Authority. 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 disclosed in a note to the accounts.

24 Contingent Assets

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. 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.

25 Reserves

The Authority 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 the Provision of 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. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

26 Revenue Expenditure Funded from Capital under Statute (REFCUS)

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 Authority 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.

27 VAT

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

MEMORANDUM NOTES ARISING FROM STATUTORY OBLIGATIONS – ACCOUNTING PRINCIPLES:

28 Collection Fund (England)

The Collection Fund Statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund in accordance with Section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992). The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies i.e. major preceptors (Surrey County Council and Surrey Police Authority), the billing Authority and the Government, on behalf of which the billing Authority collects these taxes. As a result of the Local Government Finance Act 2012, and the introduction of the Business Rate Retention Scheme, the Authority will maintain separate surpluses and deficits for Council Tax and Business Rates.

29 Tax Income (Council Tax Income) – Recognition and Measurement

Council Tax income is recognised in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. Council Tax is, in substance, an Agency arrangement, therefore cash collected from Council Tax Debtors belongs to Mole Valley as the billing Authority and major preceptors 'Surrey County Council' and the 'Police Authority'. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.
The amount by which Council Tax income is credited to the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation will be posted to the Collection Fund Account via the Movement in Reserves Statement. Revenue relating to Council tax will be measured at the full amount receivable.

30 Accounting for National Non Domestic Rates (NNDR) and Business Rate Retention schemes – Recognition and Measurement

Billing authorities collect NNDR under what is in substance an Agency Arrangement with the Government and major preceptors.

- NNDR income will be allocated between the billing Authority 'Mole Valley', major preceptors 'Surrey County Council' and the government 'Department for Communities and Local Government' (DCLG) applying the Agency/Principal treatments as necessary.
- NNDR income shall be recognised in its Comprehensive Income and Expenditure Statement as accrued income.
- A debtor/creditor position will be shared between the Authority and its major preceptors for cash paid/cash collected.
- Separate surpluses/deficits will be calculated in relation to Council tax and NNDR on the Authority's Collection Fund Account.
- A pooling levy will be calculated between the preceptor Surrey County Council and the net benefits from the pool will be shared at 50% between the Billing Authority and the County Council
- Bad debt write-offs or movements in the provision will be share proportionately between the billing authority, major preceptors and Central Government (Mole Valley District Council, Surrey County Council and the Department for Communities and Local Government).
- For NNDR, tariffs and top-ups, safety net and levy payments will be made to/from the General Fund. These transactions will be recognised in the Comprehensive Income and Expenditure Statement (CIES) on an accruals basis. The cost of collection allowance is income of the authority and shall be included in this statement.
- The Cashflow Statement for the Authority will include in 'Operating activities' the share of NNDR net cash collection from Debtors and amounts paid shall exclude the amounts paid over to the DCLG and Surrey County Council (SCC). Differences between cash collected/paid to/from the DCLG and SCC from the previous years surplus or deficits shall be included within financing activities in the Cash Flow Statement.
- The Movement in Reserves Statement will include a reconciling transaction for the timing difference between the prior and current year, with the Collection Fund Adjustment Account, for the difference between the amounts credited to the CIES under statutory provisions in the proportionate shares.

Additional items to be considered regarding policies before year end:-

DRAFT Statement of Accounting Policies – Group Accounts

1. Basis of Consolidation

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Authority and its subsidiaries namely MOVA Holdings Ltd and MOVA Property Ltd. Any gains and losses arising from this company 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, Cashflow Statement and associated disclosure notes. Where the Local Authority has investments in associates and/or jointly controlled entities but no interests in subsidiaries, Group Accounts will be prepared if their interest is considered material.

2. Investment Properties

Group Accounts are prepared using consistent accounting policies, aligning the Authority's Financial Statements more closely with IFRS (where material) by requiring the figures for subsidiaries, associates and joint ventures to include valuations for Investment Properties. Associated disclosures will be prepared for investment properties.

3. Value Added Tax (VAT)

VAT will be set up on an intra-Group VAT arrangement for the holding company and subsidiary.

4. Internal Charges against the Group Comprehensive Income and Expenditure Reserve/Intra group charges

There are Intra-group charges which will be eliminated via the consolidation such as Members Expense transfer charges, SLA Recharge income, Loan interest and fee set up costs, and other ancillary intra-group charges as per agreed between the Group and Subsidiary Directors.

5. Taxation

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

6. Going Concern

Accounts will be prepared on a going concern basis and reviewed by an independent Auditor. Under the going concern basis it is foreseeable that a company will continue in operation and will report any material uncertainties by way of disclosure.