Supplementary Agenda

Audit & Governance Committee

Date & time
Monday, 29 July 2019
at 10.30 am

Place
Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN

Contact
Amelia Christopher
Room 122, County Hall
Tel 0208 213 2838

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Chief Executive
Joanna Killian

We're on Twitter: @SCCdemocracy

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Amelia Christopher on 0208 213 2838.

Members

Mr David Harmer (Chairman), Mr Keith Witham (Vice-Chairman), Mr Edward Hawkins, Dr Peter Szanto, Mr Stephen Spence and Mr Stephen Cooksey

Ex Officio:

Mr Tim Oliver (Leader of the Council), Mr Colin Kemp (Deputy Leader), Mr Tony Samuels (Chairman of the Council) and Mrs Helyn Clack (Vice-Chairman of the Council)

SUPPLEMENTARY AGENDA

6 STATEMENT OF ACCOUNTS 2018/19 (Pages 1 - 224)

To inform the Committee of the result of the external audit of the council's 2018/19 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Executive Director of Resources.

An amended cover report with additional information is attached.

Annexes:

1. 2018/19 Statement of Accounts
2. 2018/19 Audit Findings Report
3. Executive Director of Resources' letter of representation.

8 SURREY PENSION FUND LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2018/19 AND GRANT THORNTON EXTERNAL AUDIT FINDINGS REPORT (Pages 225 - 252)

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2019, in light of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

There have been no material misstatements in the financial statements and the external auditor (Grant Thornton) has issued an unqualified opinion having completed their audit.

Grant Thornton, as the Council's external auditor, has completed its audit and the Pension Fund financial statements are presented to this Committee to be approved prior to publication.

An amended cover report with additional information is attached.

Annexes:

1. Pension Fund Accounts 2018/19 (amended page)
2. Audit report 2018/19
3. Draft letter of representation.

Joanna Killian
Chief Executive
Published: 25 July 2019

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Audit & Governance Committee
29 July 2019

SURREY COUNTY COUNCIL

Statement of Accounts 2018/19

Purpose of the report:
To inform the Committee of the result of the external audit of the council's 2018/19 Statement of Accounts, to receive the external auditor's Audit Findings Report and to approve the council's letter of representation from the Executive Director of Resources.

Recommendations:

It is recommended that the Committee:

1. Approve the 2018/19 Statement of Accounts, as attached in Annex 1, for publication on the council's website and in a limited number of hard copies;
2. Consider the contents of the 2018/19 Audit Findings Report in Annex 2;
3. Agree the officer response to recommendations of the external auditor;
4. Note the Executive Director of Resources' letter of representation, which is attached in Annex 3;
5. Determine if any issues in the Audit Findings Report should be referred to the Cabinet.
6. Note the revised Annual Governance Statement, as approved by Cabinet on 17 July.

Introduction:

7. The Executive Director of Resources has approved the statement of accounts for 2018/19 as presenting a true and fair view of the county council's financial position as at the 31 March 2019 and its income and expenditure for the year. The accounts are attached at Annex 1 to this report for Member debate and approval.

8. The auditor has provided a commentary and recommendations on the statement of accounts in their Audit Findings Report (attached as Annex 2).
9. The auditor anticipates issuing an unqualified opinion on the financial statements.

The Statement of Accounts 2018/19

10. The Local Audit and Accountability Act 2014 requires the Statement of Accounts for 2018/19 to be published by 31 July, and that they are approved, prior to this date, by a non-executive committee of the local authority.

11. The s151 officer is responsible for the preparation of Surrey County Council's single entity statement of accounts, the Surrey County Council group accounts, the pension fund statement of accounts and the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

12. The Code is a very prescriptive document, and determines not only the accounting policies to follow, but also the form and content of the statement of accounts. The Code is based on International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board. Local authorities have a legal obligation to follow "proper accounting practice", this therefore means that compliance is mandatory.

13. Any significant departure from The Code will normally result in a qualified audit opinion.

Accounting Changes 2018/19

14. The 2018/19 Code of Practice on Local Authority Accounting adopted IFRS9 – Financial instruments, which requires an assessment of likely impairment of loans and investments.

15. Annex 1 presents the 2018/19 Statement of Accounts. Draft accounts were produced and presented for audit by the end of May 2019.

2018/19 Audit Findings

16. The Audit Findings Report summarises the findings of the 2018/19 audit, which is now nearing completion. It includes the messages arising from the audit of the statement of accounts and the results of the external auditor's work undertaken to assess the council's arrangements to secure value for money in the use of resources.

17. The external auditor's 2018/19 report is presented in Annex 2 and sets out a summary of the work carried out during the audit of the accounts, the conclusions reached and recommendations.

18. At the beginning of the audit the auditors produce an audit plan, which was reported to the Audit & Governance Committee in April 2019. The audit plan identified areas of significant risk of material misstatement. The audit findings report summarises the work completed in relation to these risk areas.

19. Appendix 1 of the Audit Findings Report identifies changes to the Statement of Accounts. In summary these relate to the following:

    a. The Supreme Court has denied permission for the Government to appeal a ruling concerning age discrimination in judges and firefighter pension schemes. This ruling will impact all other pension funds, including the Local Government Pension Scheme. Following actuarial advice, the Council has amended its pension liabilities for both the LGPS and Firefighter pension schemes, which leads to changes in the Comprehensive Income and Expenditure Statement, the Balance sheet and pension notes.

b. The council has reclassified a government grant debtor in respect an overspending on the High Needs Block of the Dedicated Schools Grant. The impact of this is now off-set against schools balances.

c. Restatement of the Council's share of borough and district collection fund balances and debtors.

d. Changes to disclosure notes concerning Capital Commitments, Cash flow statement and Financial Instruments.

20. In addition, the council has amended the 1 April 2017 Opening balance in respect of land values for the group of schools that were revalued during 2018/19.

21. There are a small number of items still to be signed off by the auditors before the final opinion can be issued.

Conclusions:

22. Following the changes included above, and the results of the audit, the accounts are now presented to this Committee for approval.

Financial and value for money implications

23. There are no direct financial implications of this report, all financial implications in the accounts have been made in line with the Code of Practice and any impact on the 2018/19 budget has been considered in the outturn report to the Cabinet.

Equalities and Diversity Implications

24. There are no direct equalities implications of this report.

Risk Management Implications

25. There are no direct risk management implications of this report.

Next steps:

26. The statement of accounts will be published in line with the statutory deadline. The only changes made to the published version will be presentational, with the accounts typeset into a booklet style. A small number of hard copies will be produced. However, a version of the statements will also be posted on the council's website, and again some of the formatting may change to ensure it complies with the council's accessibility standards.

Report contacts: Kevin Kilburn, Strategic Finance Manager (Corporate)

Contact Details: kevin.kilburn@surreycc.gov.uk or Tel: 020 8541 9207

Sources/background papers:

2018/19 Financial Outturn Report – Cabinet 28 May 2019.

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 CIPFA

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Annex 1

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Surrey County Council

Statement of Accounts

2018/19

SURREY

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Surrey County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Authority and group financial statements and, our auditor's report thereon, and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with

the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view,

and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit & Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for adverse conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matters:

Children's Services

In June 2015 Ofsted published a report on services for children in need of help and protection, children looked after and care leavers in Surrey, based on their inspection visit in November 2014. The overall judgement was that children's services were inadequate.

Ofsted subsequently issued a follow-up report in May 2018 based on their February 2018 inspection visit, in which the inadequate rating remained in place. Ofsted stated in the report that "Senior leaders and elected members in Surrey have been far too slow to accept and act on the findings and recommendations of the 2014 inspection, and to respond with the required urgency to the findings of several subsequent monitoring visits. Too many of the most vulnerable children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken".

The findings of the monitoring visit to Surrey's children's services on 23 and 24 January 2019 were that the experiences and progress of children in care and achieving permanence were judged requires

improvement to be good. Overall, the effectiveness and timeliness of permanence planning for children who are unable to live with their parents had improved since the inspection. The understanding of permanence planning by social workers and the progress tracking of these plans by managers requires further strengthening. The Authority is implementing credible initiatives to consolidate the improvements that have been made.

However, overall, and in accordance with the Authority's own analysis, inspectors found continuing weaknesses and inconsistencies in services for children in care.

This matter is evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and planning, organising and developing the workforce effectively to deliver strategic priorities.

Sustainable resource deployment

The Authority engaged the Chartered Institute of Public Finance and Accountancy (CIPFA) to review the financial resilience of the Council and the effectiveness of its finance function in early 2018. CIPFA reported in July 2018 that the Authority would not have sufficient reserves to meet its expected budget gap in 2019/20 unless it took immediate action to transform its financial performance and financial management arrangements. In response the Authority produced and implemented a two year financial improvement programme. As at 31 March 2019 the Authority is halfway through the financial improvement programme which requires savings of c£200m to ensure its future financial viability. It has achieved savings of £106m made up of budgeted savings of £66m and an in year cost reductions of £40m. The savings achieved in 2018/19 has avoided the use of any reserves, which were budgeted to be £21.3m.

The revenue outturn for the year represented an underspend against the original budget of £21.8m, resulting in a contribution to usable reserves of £0.5m. This is against the original forecast drawdown from reserves of £21.3m. This is an important step towards financial resilience and stabilisation of the Authority's financial outlook. Despite the favourable outcome for the year further financial challenges should not be underestimated. The Authority continues to face uncertainties arising from, the still to be announced, "Fair Funding Review" and the continuing rise in demand for its services while achieving the second tranche of savings in its two year programme of £82m in 2019/20.

The Authority's Medium Term Financial Strategy published in January 2019 projects a savings gap of £133.8m to be closed by 2023-24. This assumes that the second tranche of planned savings in its financial improvement programme deliver a further £82m by the end of 2019/20. The financial challenge therefore remains acute.

The Council has delivered a strong financial performance in 2018/19 and has started the implementation of its transformation plans, which will put it in a sustainable financial position for the future. However as at 31 March 2019 they remain to be delivered. Further delivery of the transformation plans will be needed to demonstrate proper arrangements for securing sustainable resource deployment.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

NARRATIVE REPORT

This narrative report provides an overview of the Surrey County Council, its features, how it delivers services, main objectives and strategies and the principal risks that it faces, as well as how it has used its resources over the past year.

The second section focuses on the financial performance of the Council for the 2018/19 financial year and provides a general guide to the features in the Statement of Accounts, highlighting some of the significant factors that have determined this position.

Surrey Context

Surrey's population continues to grow and is predicted to age as time goes on. But the current population is largely healthy and active and comprised of a highly skilled workforce that is supported by good performing schools. Overall, educational attainment is positive however there are significant disparities for deprived children and those with additional needs. There are increasing demands on services for vulnerable adults and children, and children with additional needs. Pockets of deprivation exist across the county, and foodbank usage has risen.

Housing is increasingly expensive which exacerbates the challenge to respond to the growing need for affordable housing – especially for residents on low incomes. Surrey's economy is strong and is proving to be a popular place for businesses, which contributes to many residents' high and increasing earnings and disposable income. However, growth appears to be stagnating in some places. Our county is well regarded as a nice place to live, with good access to green spaces and woodland. But homelessness, fuel poverty and crime are increasing, and there is dissatisfaction with the county's road network.

The County Council embarked upon extensive engagement with its residents and partners during 2018/19 to find out what it was like to live in Surrey and what our residents wanted. Our residents told us that Surrey has many advantages as a location – it has:

- mix of urban and rural life, in particular the green spaces and countryside
- low levels of crime
- access to good quality public services
- strong sense of community spirit fostered by caring, supportive and friendly people
- strength of the economy, low unemployment and thriving independent local businesses

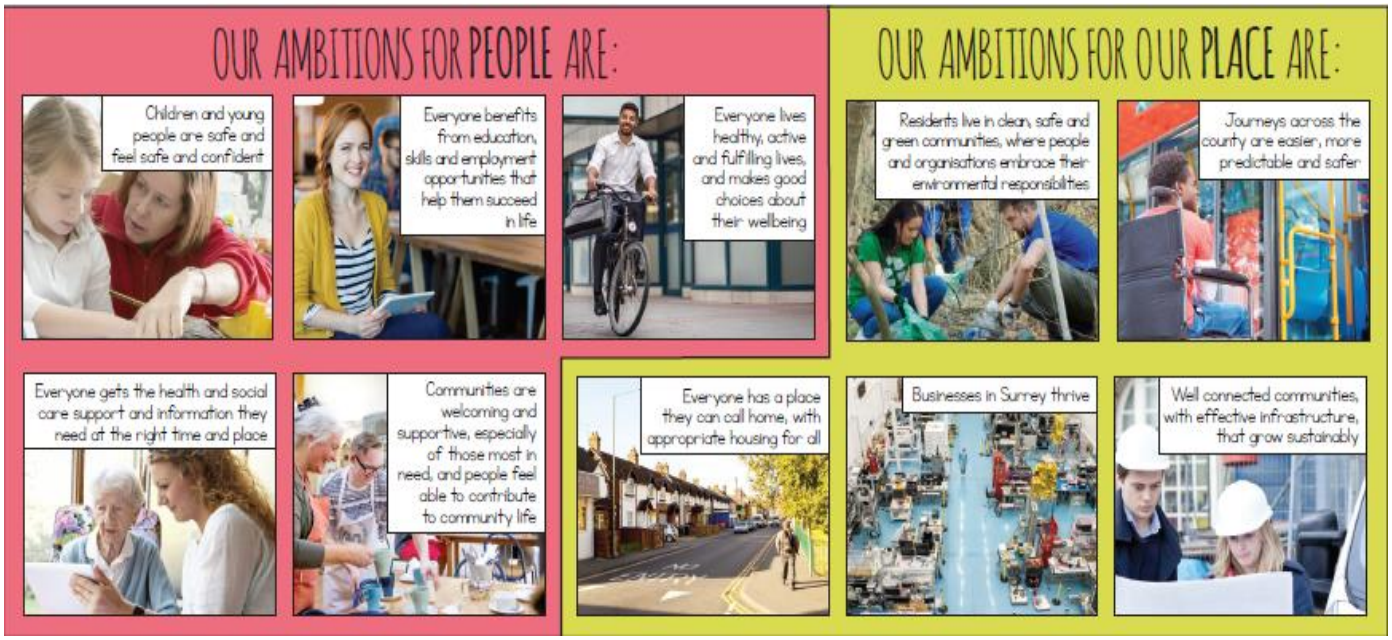
However, our residents had concerns about:

- the impact on the county's environment from increasing pollution and developments
- rising crime and a perceived lack of visible police presence
- a need for more affordable housing
- frustrations with public transport services, such as buses and trains
- reductions in public services and their ongoing financial viability
- differences in quality of life between wealthier and poorer residents

As a response to this, and through engagement with residents and partners, the County Council has developed a Vision for Surrey in 2030. This set out our ambitions.

By 2030 we want Surrey to be a uniquely special place where everyone has a great start to life, people live healthy and fulfilling lives, are enabled to achieve their full potential and contribute to their community, and no one is left behind.

We want our county's economy to be strong, vibrant and successful and Surrey to be a great place to live, work and learn. A place that capitalises on its location and natural assets, and where communities feel supported and people are able to support each other.



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THE COUNCIL'S ROLE AND PERFORMANCE

The County Council is responsible for representing residents and meeting their needs through the best possible delivery or commissioning of services and ensuring that council tax and business rate payers get value for money. The Council's has a wide range of responsibilities for the 1.2 million residents of Surrey including: social care for children older and disabled people; education and support to schools, in particular for children and young people with special educational needs and disabilities; public health; waste disposal, roads and local transport; libraries, arts and heritage; trading standards; planning; and fire and rescue services.

Organisation Strategy

The Council has started a journey to become a leading county authority by changing and improving what it does and how it delivers to reflect the changing way in which its residents and communities now live their lives and to ensure that vital services are delivered where they are needed most.

The Council has published its new Organisation Strategy for 2019 to 2023, and this sets out how we will work towards achieving the Community Vision and focus on making a real difference to residents' lives. The evidence we found in the Vision engagement tells us that while many residents and businesses thrive in Surrey, not everyone has the same opportunities to flourish. Surrey is an affluent county and this image often masks the problems that some residents face, such as domestic abuse, difficulty in finding housing or homelessness, and mental health issues.

In responding to these challenges, we will:

- **Focus on ensuring no one is left behind** – supporting the most vulnerable people in our communities, and those who do not have the means or resources to help themselves
- **Take a fresh approach to working in partnership** – With partners we will work together to articulate a renewed commitment and focus to delivering the best possible outcomes for people in Surrey.
- **Support people to help themselves and each other** – With partners, we will explore the idea of 'deals' to develop a shared sense of responsibility for delivering the vision and achieving the best outcomes for residents.
- **Involve and engage residents earlier and more often in designing and delivering services, and responding to challenges** – design services so that the right people, including residents, come together to first understand the issues and then work together to decide what we can do collectively to improve outcomes.

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Strategic Risks

A risk management strategy is in place to identify and manage risk. The Council's strategic risks are contained in the strategic risk register and are summarised below. Further details can be found in the regular risk management reports to both the Audit & Governance Committee and the Cabinet. The strategic risk register will continue to be refined and developed during 2019/20.

Financial Resilience
Failure to develop sustainable financial plans leads to increased levels of external censure and reactive service

Delivery of Savings Plans
Failure to deliver savings plans lowers the Council's financial resilience and leads to reactive service reductions

Brexit
Brexit impacts significantly on the ability of the Council and its partners to deliver services.

Transformation
Failure to deliver the intended outcomes of the Council's Transformation Programme engagement, leads to inability to generate service improvements.

Workforce
Insufficient capability and competency to deliver and cope with the change needed leads to reduction in staff capacity and resilience.

Partnership Working
Ineffective partnership working and lack of community resilience due to insufficient buy in, engagement or understanding leads to inability to generate planned outcomes.

Safeguarding
Failure to transform the provision of children's services and related support for vulnerable children and their families.

Provider Market
Lack of availability of provider market leads to inability to maintain services.

SEND
Lack of transformation of SEND services at scale and pace required leads to inability to control the Council's budget.

Governance

The Council has responsibility for putting in place a sound system of governance and appropriate internal controls to ensure that business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council's Code of Corporate Governance sets out the approach to good governance.

Details of the 2018/19 annual review of governance can be found in the Council's Annual Governance Statement, which is included in these accounts at page 114. The review has identified some key areas of focus and an improvement plan has been put in place to strengthen governance during 2019/20. Improvement areas include financial sustainability, organisational culture and Children's Services.

FINANCIAL PERFORMANCE

Financial Context

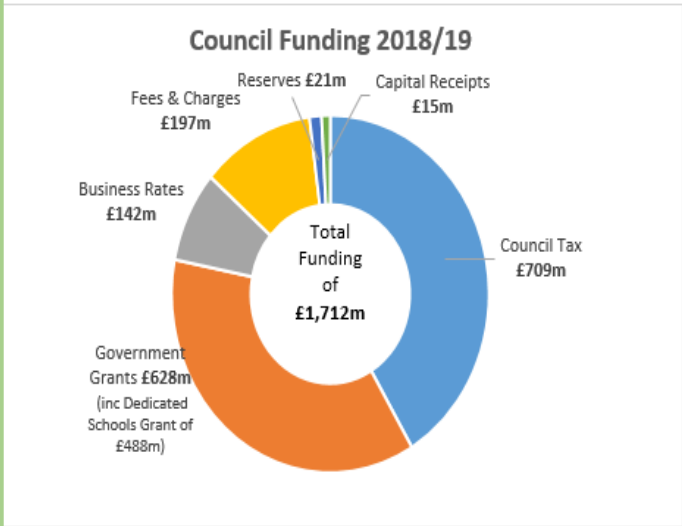
In common with the rest of local government, the Council has seen a continuing reduction in its core funding from central government, putting increased pressure on the council tax payer.

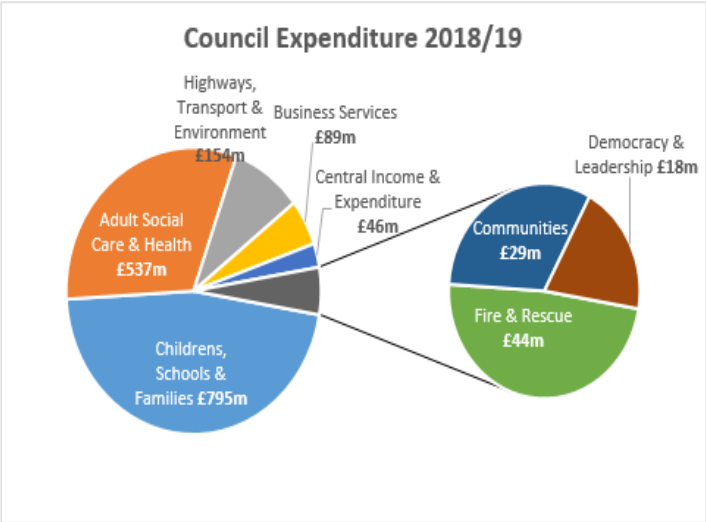
2018/19 commenced as a challenging financial year, including the initiation of a two year transformation programme and the need to deliver savings and efficiencies of £66m in-year. The Council's budget strategy included a £21.3m use of reserves to balance the revenue budget, and a further £35m in one-off sources of funding. The use of this level of reserves would have reduced the reserves available for any unforeseen events down to the minimum.

The revenue outturn position was positive, particularly given the way the year started, with a contribution to reserves of £0.5m, instead of the original expected drawdown. This is an important step towards financial resilience and stabilisation of the Council's financial outlook. However, further financial challenges that await should not be underestimated. The Council still face uncertainties arising from the Fair Funding Review and the continuing rise in demand for its services while achieving its stretching savings targets of £82m in 2019/20. The new-year must see the progress in financial resilience continue as the Council moves through its transformation journey.

2018/19 Revenue Budget

The Council has a legal duty to prepare a balanced and sustainable budget and to deliver statutory services to residents. The 2018/19 budget was set in a continuing climate of rising demand for services and continuing falls in Government funding. It was a difficult year to set a balanced budget and we relied heavily on one-off sources of funding - £21m from Reserves; £20m gain from being a pilot 100% Business Rates authority, and £15m from applying capital receipts to fund the reform of service provision. The revenue expenditure of £1,712m included £66m of savings. The diagram below shows our main sources of funding and how we used our resources in providing services





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2018/19 Revenue Outturn

Following the setting of the 2018/19 budget, the first quarter of the year highlighted significant forecast overspend on the budget, mostly on the Special Educational Needs & Disabilities, within Children, Families, Life Long Learning and Culture directorate (CFLC). As this trajectory was set to continue, the Council agreed additional cost reductions of £40m across all services. Since July 2018 the additional cost reductions have taken immediate effect with underspends being reported in Property Services and the People Directorates. This positive trend continued throughout the financial year, largely achieved through managing down costs on Adults Social Care packages and underspends emerging in Corporate and Central Services (Orbis and Property maintenance).

The Council ended the year with a small contribution to reserves of £0.5m, which was much more positive than how the year commenced. However, this still relied on the one-off funding from capital receipts and the business rates pilot which supported the financial result. The revenue outturn position provides a clearer indication of the Council's strides in ensuring financial stewardship during the year than is apparent from the accounting shortfall provided in the Comprehensive Income and Expenditure Statement, which takes a different view of financial performance. The outturn position records only those expenses which statute allows to be charged against the Council's annual budget and therefore provides a more appropriate reflection of the Council's financial performance to residents. Both the Expenditure and Funding Analysis (EFA) and the Movement in Reserves Statement help to provide an explanation of the differences between these two financial positions (see section on Statement of Accounts below).

Details of the outturn position by service area and further information on financial performance during the year can be found in the 'Financial Budget Outturn 2018/19' Report presented to Cabinet on 28 May 2019.

The revenue budget outturn position includes £4.5m approved carry forward of budget from 2018/19 into 2019/20. This is to ensure funding is available for schemes and commitments that need to be funded in the new financial year. This results in a residual contribution to reserves of £0.5m.

Since 2016, the government has empowered local authorities to use capital receipts to fund the revenue costs of service reform and transformation, providing a range of conditions are met. In 2018/19 the Council used this power for the first time as it embarked upon a programme restructure and service transformation. It was in compliance with the government's Flexible Use of Capital Receipts policy and guidance.

In May 2018 the Council approved the use of capital receipts under this policy to fund savings projects that were included in the budget for 2018/19. During the year, £8.2m was spent on this programme. In addition, the Council has a significant Transformation Programme to reconfigure services and how they are provided.

During 2018/19, £6.2m was spent on this programme. Capital receipts have been applied to both programmes.

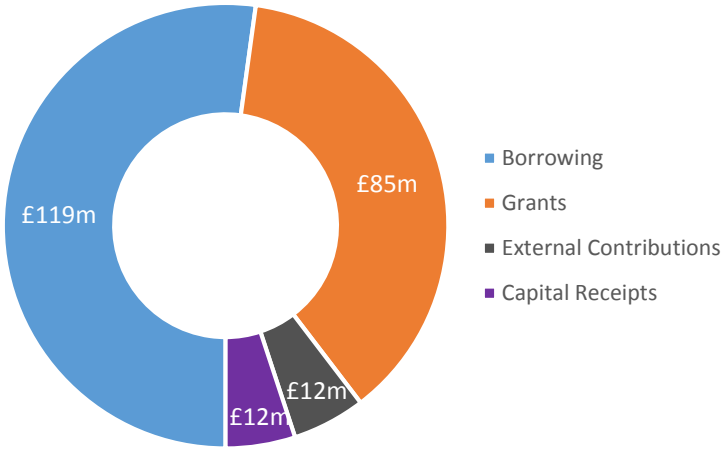
2018/19 Capital Outturn

The Council continued to demonstrate its long term commitment to supporting Surrey's infrastructure and investing in its service provision by committing to a £321m capital programme for 2018-21 in setting our Medium Term Financial Plan.

The capital budget for 2018/19 was £139m, after approved carry-forwards and an in-year 'deep-dive' review of the capital programme and budget. The total capital spend for 2018/19 was £117m resulting in an underspend of £22m, of which £19m has been approved to be re-profiled in to 2019/20 to support the completion of capital projects.

	Full year budget £m	**Full year outturn £m**	**Variance £m**
Schools Basic Need	27.1	23.9	(3.2)
Highways, Transportation & Environment	60.3	56.0	(4.3)
Property and IT & Digital	35.8	28.0	(7.8)
Other capital projects	15.5	8.8	(6.7)
Service capital programme	**138.7**	**116.7**	**(22.0)**

In addition, the Council has continued its programme of investment in revenue generating assets to improve its self-sufficiency and reduce reliance on government funding. During 2018/19 the Council invested a further £111m long-term income generating assets as a part of its approved investment strategy. This results in total capital expenditure of £228m, which was funded as follows:



In approving the 2019/20 budget, the Council was able to set a balanced budget without the need to use reserves, or one-off sources of funding, for the first time since 2010/11. This was achieved by a thorough review of all expenditure and was reflected in the in-year budget savings of £40m. Both the balanced outturn for 2018/19 and the balanced budget for 2019/20 are important steps in solidifying the Council's financial standing and resilience. However, the Council's services continue to face pressures from increasing demographic demands, and increasing uncertainty over the future of funding from government grants, business rates and council tax.

The level of savings required to produce a balanced budget in 2019/20 continue to be significant - £82m. The Council has a Transformation Steering Board (officer board) and a Change Management Board (Councillor and officer board) to provide key governance arrangements, overseeing this programme of change. This programme of transformation and savings delivery will be coordinated, tracked and supported through the Transformation Support Unit, while the Council continues to engage closely with partners to develop and then implement this service transformation This will focus closely on improved service outcomes for those in need of our services.

In addition, the Council will continue to try to influence strategy and raise awareness nationally of the demands on services and the challenges posed by this. Central Government is reviewing how it funds local government in England, and there are two elements to this – the Fair Funding Review and the 75% Business Rates Retention Scheme. Both of these will have a significant and critical impact on the future of the Council's funding and we are fully engaged in the consultation processes on both.

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In order to ensure the Council continues on its journey of building and enhancing its financial resilience it has already embarked on developing a Medium-Term Financial Strategy over the next five years to 2022/25. It has defined a set of principles and approach for the Council to work towards in setting the 2020/21 Revenue and Capital budgets.

Primary Statements

Surrey County Council is a large and diverse organisation and the information contained in these accounts is technical and complex. This section aims to provide a general guide to the items of interest and highlights some of the more significant matters that have determined the position for the financial year ended 31 March 2019.

The Council's Statement of Accounts is prepared in accordance with proper accounting practices as defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Accounting policies which have a material impact on the statement of accounts are detailed in note 3. There was one significant changes in accounting policies for 2018/19, which was the incorporation of International Financial Reporting Standard 9 (IFRS9) – the impairment of financial instruments. This included the Council's investment and loans to group companies.

Local Authorities are required to produce four primary statements, as a private sector company would. However, as tax raising bodies, local authorities are also required to produce an additional financial statement known as the movements in reserve statement. A brief explanation of the purpose of each of the four primary statements is provided below:

- Comprehensive Income & Expenditure Statement CIES (page 18) – shows the true accounting cost in year of providing services, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

  The 'deficit on the provision of services' for 2018/19 was £82m (£164m for 2017/18) represents an accounting shortfall on the provision of service, rather than spending being greater than funding raised. The main reasons for the deficit on the CIES are:
  - The writing off of £108m of assets in relation to schools which have transferred to academy status.
  - A £102m adjustment for the current and past service costs of pensions compared to actual employer pension contributions paid.

- Movement in Reserves Statement (page 20) – shows the movement in reserves held by the Council during 2018/19, analysed into usable and un-usable reserves. Usable reserves reflect where money is set aside to fund future expenditure plans, whereas un-useable reserves reflect the difference between the accounting cost of providing services and the statutory amounts required to be charged to the general fund balance for council tax setting purposes.

  The total decrease in the Council's useable and unusable reserves during 2018/19 is £115m (£46m in 2017/18). This is primarily caused by an increase in the pension liability and a reduction in the capital adjustment account for the de-recognition of academy schools, partially off-set by an increase in the value of the revaluation reserve.

- Balance Sheet (page 21) – shows the value of the assets and liabilities recognised by the Council as at 31 March 2019 as net liabilities of £379m (£265m as at 31 March 2018). This is matched by reserves, the movements in which are set out above.

- Cash Flow Statement (page 22) – shows the changes in cash and cash equivalents during the year. It identifies the inflows and outflows of cash and cash equivalents arising from the Council's revenue and capital transactions with external parties. The total increase in cash and cash equivalents during 2018/19 was £4m.

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Primary Statements

The Councils holds £2,226m of long term assets at 31 March 2019 (£2,123m as at 31 March 2018), these are primarily made up of the property, plant and equipment held by the Council. Details on these assets can be found in notes 13 and 14. In addition to these balances, the Council holds material balances relating to pension liabilities and borrowing.

- The pension liability recognised on the Council's balance sheet has a significant impact on the net worth of the Council. Pension benefits do not become payable until employees retire, however the Council is required to account for the future obligations at the same time as the employees earn their future entitlement. The pension liability for is calculated by an independent actuary, Hymans Robertson. The Local Government Pension Scheme liability is estimated to be £1,169m at the balance sheet date (£945m at 31 March 2018). The firefighters pension liability is also included within the Council's accounts and is estimated to be £606m, an decrease of £24m on the previous year. This increase in the valuation of liabilities is due mainly to rising real bond yields decreasing the net discount rate. This liability does not need to be met within the next year but over the working lifetime of the scheme members. The Council is making appropriate lump sum payments to the pension fund in addition to the contributions related to current employees. The accounting deficit is based on a snapshot in time and does not predict the funds financial condition or its ability to pay benefits in the future.

- The Council continues to pursue a strategy of temporarily borrowing using its internal resources to finance capital expenditure and using short term borrowing to cover short term cash flow requirements, rather than borrowing long term. This results in reduced interest payable costs and is considered a prudent strategy in an economic climate when interest rates achievable on holding large cash balances continue at historic lows. As a result of this strategy, no additional long term borrowing has been undertaken during 2018/19 and remains at £398m. Short term borrowing, mainly from other Local Authorities, has increased to £279 (from £212m at 31 March 2018).

In addition to these material balances, the Council holds £47m of provisions at 31 March 2019 (£22m at 31 March 2018). These are created when the Council has a liability to make future payments, but precise timing of the payment and the amounts are uncertain. Further details on provisions can be found in Note 21.

Material Balances

Details of specific material items of income and expenditure include:

- Expenditure on the Council's Private Finance Initiative Schemes (note 37),
- Government grant and Council Tax income (note 12)

De-recognition of academy schools – when a school changes status to an academy, the ownership of the land and buildings transfers from the Council to the school. The assets are written out of the balance sheet and an accounting adjustments is made in the CIES.

- The following material items of capital expenditure were incurred as part of the Council's investment strategy:
  - £55m of long-term loans to Halsey Garton Property Ltd, included as a long term debtor on the balance sheet.
  - £23m equity investment in Halsey Garton Property Ltd, included as a long term investments on the balance sheet.
  - £22m on property investments

Group Accounts

The Council considers all its relationships and interests in other entities and has concluded that it exercises control of significant influences over the economic activities of the following organisations:

- S E Business Services Ltd - a Local Authority Trading Company (LATC), wholly owned by the Council, set up for the provision of business services.
- Surrey Choices Ltd - a LATC, wholly owned by the Council, set up for the delivery of day services and community support options for people with disabilities and older people.
- Halsey Garton Property Ltd - a LATC, wholly owned by the Council, to make property investments.
- Henrietta Parker Trust – the Council exercises control over this trust fund, the income of which supports adult learning.

Group accounts are therefore prepared, combining the accounts of these organisations with those of the Council and excluding any intra-group transactions and balances, to give an overall group position. However, the economic activity of the trust fund is not deemed material and therefore has not been incorporated into the group accounts.

FURTHER INFORMATION

Additional information on the Council's overall revenue and capital outturn position and achieved savings for 2018/19 can be found in the 2018/19 Outturn report, considered by Cabinet on 30 may 2019. Further information on the financial statements presented in this document can be obtained from Kevin Kilburn (kevin.kilburn@surreycc.gov.uk)

Statement of Responsibilities

The council's responsibilities

The council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council that officer is the S151 Officer:
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The S151 Officer's responsibilities

The Executive Director for Finance is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (The Code).

In preparing this Statement of Accounts, the S151 Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The S151 Officer has:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification

I certify that the statement of accounts set out on pages 18 to 121 presents a true and fair view of the financial position of the council and of its expenditure and income for the year ended 31 March 2019; that the firefighter pension fund accounting statements on pages 134 to 136 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2019; that the statement of accounts on pages 137 to 179 presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2019 and its income and expenditure for the year then ended.

Leigh Whitehouse	David Harmer
Executive Director of Resources (S151 Officer)	Chairman of Audit & Governance Committee
July 2019	July 2019

Comprehensive Income & Expenditure Statement

Restated year ended 31 March 2018 (see Note 43)				Year ended 31 March 2019		
Gross Expenditure £000	Income £000	Net Expenditure £000	Gross Expenditure	Gross Expenditure £000	Income £000	Net Expenditure £000
363,939	**(351,281)**	**12,658**	**Delegated Schools**	**331,814**	**(331,672)**	**142**
373,436	(222,876)	150,560	Education, Lifelong Learning & Culture	367,624	(253,773)	**113,851**
56,075	(5,329)	50,746	Safeguarding & Family Resilience	47,209	(3,569)	**43,640**
94,453	(8,192)	86,261	Corporate Parenting	118,986	(15,008)	**103,978**
3,710	(122)	3,588	Quality Assurance	8,195	(1,393)	**6,802**
11,689	(4,250)	7,439	Commissioning	13,892	(1,056)	**12,836**
539,363	**(240,769)**	**298,594**	**Children, Families, Learning & Communities**	**555,906**	**(274,799)**	**281,107**
478,338	(110,938)	367,400	Adult Social Care	487,263	(123,448)	**363,815**
32,375	(31,626)	749	Public Health	30,487	(30,430)	**57**
510,713	**(142,564)**	**368,149**	**Health, Wellbeing & Adult Social Care**	**517,750**	**(153,878)**	**363,872**
81,417	(8,772)	72,645	Highways & Transport	113,389	(16,263)	**97,126**
96,058	(8,604)	87,454	Environment	50,580	(4,940)	**45,640**
31,558	(2,287)	29,271	Surrey Fire & Rescue Service	55,185	(854)	**54,331**
4,058	(1,681)	2,377	Trading Standards	4,103	(1,861)	**2,242**
803	(56)	747	Communities Support function	537		**537**
1,749	(111)	1,638	Economic Growth	839	(42)	**797**
215,643	**(21,511)**	**194,132**	**Highways, Transport & Environment**	**224,633**	**(23,960)**	**200,673**
978	(3)	975	Strategic Leadership	1,024	(2)	**1,022**
2,095	(268)	1,827	Strategy & Performance	3,329	(434)	**2,895**
1,889	(8)	1,881	Communications	1,754	(12)	**1,742**
2,147	(1)	2,146	Coroner	3,004	(636)	**2,368**
3,635	(88)	3,547	Customer Services	3,654	(155)	**3,499**
3,203	(83)	3,120	Human Resources & OD	3,438	(245)	**3,193**
13,327	(517)	12,810	Information Technology & Digital	13,934	(737)	**13,197**
38,284	(8,473)	29,811	Property	55,656	(9,082)	**46,574**
42,430	(48)	42,382	Joint Operating Budget ORBIS	40,187		**40,187**
107,988	**(9,489)**	**98,499**	**Customer, Digital & Transformation**	**125,980**	**(11,303)**	**114,677**
2,752	(1,804)	948	Finance	2,754	(1,610)	**1,144**
6,513	(729)	5,784	Democratic Services	4,397	(631)	**3,766**
4,980	(605)	4,375	Legal Services	5,468	(627)	**4,841**
14,245	**(3,138)**	**11,107**	**Finance, Law & Governance**	**12,619**	**(2,868)**	**9,751**
(1,678)	**(3,362)**	**(5,040)**	**Central Income & Expenditure**	**18,881**	**3,641**	**25,522**
1,750,213	**(772,114)**	**978,099**	**Cost of Services – continuing operations**	**1,787,583**	**(794,839)**	**992,744**

Comprehensive Income & Expenditure Statement

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Restated year ended 31 March 2018				Year ended 31 March 2019		
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,750,213	**(772,114)**	**978,099**	**Cost of Services - continuing operations**	**1,787,583**	**(794,839)**	**992,744**
31,146	(29,648)	**1,498**	Other Operating Income & Expenditure (note 10)	35,829	(25,711)	**10,118**
204,750	(62,635)	**142,115**	Financing & Investment Income & Expenditure (note 11)	242,545	(91,382)	**151,163**
	(714,740)	(714,740)	Local Taxation (Note 12)		(891,657)	**(891,657)**
	(243,210)	(243,210)	General grants & contributions (note 12 and note 32)		(180,143)	**(180,143)**
	(957,950)	**(957,950)**	Taxation, general grants & contributions		(1,071,800)	**(1,071,800)**
1,986,109	**(1,822,347)**	**163,762**	**(Surplus) or Deficit on Provision of Services**	**2,065,957**	**(1,983,732)**	**82,225**
		(60,808)	(Surplus) or deficit on revaluation of non-current assets			**(64,655)**
		(56,628)	Remeasurement of the net defined benefit liability			**96,977**
		(117,436)	**Other Comprehensive Income & Expenditure**			**(32,322)**
		46,326	**Total Comprehensive Income & Expenditure**			**114,547**

Movement in Reserves Statement

2018/19	General Fund and Earmarked Reserves* £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2018	**(160,508)**	**(92,504)**	**(77,137)**	**(330,149)**	**594,898**	**264,749**
Adjustment to Opening Balance	(1,370)			**(1,370)**	1,370	
Revised Opening Balance	**(161,878)**	**(92,504)**	**(77,137)**	**(331,519)**	**596,268**	**264,749**
(Surplus) or deficit on provision of services (accounting basis)	82,225			**82,225**		**82,225**
Other comprehensive income & expenditure					32,322	**32,332**
Total comprehensive income & expenditure	**82,225**			**82,225**	**32,332**	**114,547**
Adjustments between accounting basis & funding basis under regulations (note 8)	(133,320)	45,646	(33,473)	**(121,147)**	121,147	
Increase/decrease in year	**(51,095)**	**45,646**	**(33,473)**	**(38,922)**	**153,469**	**114,547**
Balance at 31 March 2019	**(212,973)**	**(46,858)**	**(110,610)**	**(370,441)**	**749,737**	**379,296**
2017/18						
Restated Balance at 31 March 2017	**(160,668)**	**(103,401)**	**(77,036)**	**(341,105)**	**559,528**	**218,423**
(Surplus) or deficit on provision of services (accounting basis)	163,762			**163,762**		**163,762**
Other comprehensive income & expenditure					(117,436)	**(117,436)**
Total comprehensive income & expenditure	**163,762**			**163,762**	**(117,436)**	**46,326**
Adjustments between accounting basis & funding basis under regulations (note 8)	(163,602)	10,897	(101)	**(152,806)**	152,806	
Increase/decrease in year	**160**	**10,897**	**(101)**	**10,956**	**35,370**	**46,326**
Balance at 31 March 2018	**(160,508)**	**(92,504)**	**(77,137)**	**(330,149)**	**594,898**	**264,749**

* See note 9 earmarked reserves and note 22 usable reserves

Balance Sheet

As at 01.04.2017 Restated (See Note 43) £000	As at 31.03.2018 Restated (See Note 43) £000		Note:	**As at 31.03.2019 £000**
1,811,741	1,782,521	Property, plant & equipment	13	1,750,724
1,024	1,024	Heritage assets		1,024
54,050	74,800	Investment property	14	138,225
7,016	7,879	Intangible assets		6,727
46,735	72,065	Long term investments	16	93,087
124,547	184,606	Long term debtors	16	235,949
2,045,113	**2,122,895**	**Long term assets**		**2,225,736**
		Short Term:		
785	613	Intangible assets		268
10,850	10,100	Assets held for sale	19	400
1,397	967	Inventories		1,165
144,710	136,936	Short term debtors	17	209,234
56,120	51,224	Cash & cash equivalents	18	55,471
213,862	**199,840**	**Current Assets**		**266,538**
		Short Term:		
(140,699)	(212,711)	Borrowing	16	(279,026)
(190,762)	(207,816)	Creditors	20	(226,373)
(4,277)	(3,105)	Provisions	21	(5,974)
(91)	(102)	Revenue grants receipts in advance		(11)
(9,152)	(19,762)	Capital grants receipts in advance		(105)
(13,281)	(17,938)	Other current liabilities	36	(16,938)
(358,262)	**(461,434)**	**Current liabilities**		**(528,427)**
(25,180)	(18,739)	Provisions	21	(40,862)
(397,786)	(397,786)	Long term borrowing	16	(397,786)
(1,696,170)	(1,709,525)	Other long term liabilities	36	(1,904,495)
(2,119,136)	**(2,126,050)**	**Long term liabilities**		**(2,343,143)**
(218,423)	**(264,749)**	**Net Assets/(Liabilities)**		**(379,296)**
(341,105)	(330,149)	Usable reserves	9,22	(370,441)
559,528	594,898	Unusable reserves	23	749,737
218,423	**264,749**	**Total Reserves**		**379,296**

Cash Flow Statement

2017/18 £000		Note	**2018/19 £000**
163,762	Net surplus (-) / deficit on the provision of services		82,225
(274,062)	Adjustments to net surplus / deficit on the provision of services for non-cash movements	41	(247,354)
(13,836)	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities		(28,936)
(124,136)	**Net cash inflow from operating activities**		**(194,065)**
127,715	Purchase of property, plant & equipment, and investment property	42	149,876
(16,728)	Proceeds from the sale of property, plant & equipment		(9,021)
25,330	Payments for short-term and long-term investments		23,255
0	Receipts of short-term and long-term investments		0
46,754	Other receipts & expenditure from investing activities		74,085
183,071	**Net cash outflow from investing activities**		**238,195**
17,973	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		17,938
401,246	Payments for short-term and long-term borrowing		750,502
(473,258)	Receipts of short-term and long-term borrowing		(816,817)
(54,039)	**Net cash inflow from financing activities**		**(48,377)**
4,896	**Net increase (-) / decrease in cash & cash equivalents**		(4,247)
(56,120)	Cash & cash equivalents at the beginning of the reporting period		(51,224)
(51,224)	Cash & cash equivalents at the end of the reporting period	18	(55,471)

The cash flows from operating activities in 2018/19 include interest received of £13.0m (2017/18, £9.5m) and interest paid of £31.7m (2017/18, £25.2 m).

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Note 1: Expenditure and Funding Analysis

2018/19	As reported for resource management in outturn report	Adjustments to arrive at the net amount chargeable to the General Fund	Net Expenditure Chargeable to the General Fund	Adjustments between the funding and accounting basis	Net Expenditure in the I&E Account
	£000	£000	£000	£000	£000
Delegated Schools*	0	(8,942)	(8,942)	9,084	142
Education, Lifelong Learning & Culture	86,060	5,784	91,844	22,007	113,851
Safeguarding & Family Resilience	42,427	(2,825)	39,602	4,038	43,640
Corporate Parenting	99,082	(28)	99,054	4,924	103,978
Quality Assurance	6,148	(210)	5,938	864	6,802
Commissioning	11,409	(20)	11,389	1,447	12,836
Adult Social Care	356,281	(243)	356,038	7,777	363,815
Public Health *	75	(41)	34	23	57
Highways & Transport	63,358	(2,566)	60,792	36,333	97,125
Environment	68,321	(17,876)	50,445	(4,805)	45,640
Surrey Fire & Rescue Service	31,802	1,047	32,849	21,482	54,331
Trading Standards	1,755	(35)	1,720	523	2,243
Communities Support function	470	0	470	67	537
Economic Growth	703	0	703	94	797
Strategic Leadership	944	0	944	78	1,022
Strategy & Performance	2,614	26	2,640	255	2,895
Communications	1,535	0	1,535	207	1,742
Coroner	2,217	0	2,217	151	2,368
Customer Services	3,029	0	3,029	469	3,498
Human Resources & OD	2,908	98	3,006	188	3,194
Information Technology & Digital	10,138	(680)	9,458	3,739	13,197
Property	16,396	0	16,396	30,178	46,574
Joint Operating Budget ORBIS	33,463	(411)	33,052	7,135	40,187
Finance	2,374	(1,230)	1,144	0	1,144
Democratic Services	3,474	(165)	3,309	457	3,766
Legal Services	4,384	188	4,572	269	4,841
Central Income & Expenditure **	46,638	(11,824)	34,814	(12,292)	22,522
	898,005	**(39,953)**	**858,052**	**136,692**	**992,744**
Other Income and Expenditure	(898,600)	(10,547)	(909,147)	(1,372)	(910,519)
Surplus (-) or deficit	**(595)**	**(50,500)**	**(51,095)**	**133,320**	**82,225**

Note 1: Expenditure and Funding Analysis

2017/18	As reported for resource management in outturn report	Adjustments to arrive at the net amount chargeable to the General Fund	Net Expenditure Chargeable to the General Fund	Adjustments between the funding and accounting basis	Net Expenditure in the I&E Account
	£000	£000	£000	£000	£000
Delegated Schools *	0	730	730	11,928	12,658
Education, Lifelong Learning & Culture	80,941	3,495	84,436	66,124	150,560
Safeguarding & Family Resilience	45,351	(268)	45,082	5,664	50,746
Corporate Parenting	81,782	14	81,795	4,466	86,261
Quality Assurance	3,073	10	3,083	505	3,588
Commissioning	5,779	603	6,381	1,057	7,439
Adult Social Care	359,359	234	359,593	7,807	367,400
Public Health *	741		741	8	749
Highways & Transport	45,185	95	45,280	27,365	72,645
Environment	83,013	(2,807)	80,206	7,248	87,454
Surrey Fire & Rescue Service	32,030	(227)	31,803	(2,532)	29,271
Trading Standards	1,807		1,807	570	2,377
Communities Support function	631		631	116	747
Economic Growth	1,515		1,515	123	1,638
Strategic Leadership	823	0	823	152	975
Strategy & Performance	1,396	41	1,437	390	1,827
Communications	1,625	0	1,625	256	1,881
Coroner	2,088	0	2,088	58	2,146
Customer Services	3,004	0	3,004	543	3,547
Human Resources & OD	2,800	75	2,875	245	3,120
Information Technology & Digital	11,033	(1,878)	9,155	3,655	12,810
Property	16,871	22	16,893	12,918	29,811
Joint Operating Budget ORBIS	33,856	32	33,888	8,494	42,382
Finance	2,387	(1,439)	948		948
Democratic Services	5,478	0	5,478	306	5,784
Legal Services	3,800	(7)	3,793	582	4,375
Central Income & Expenditure **	52,281	(19,445)	32,836	(37,876)	(5,040)
	878,649	**(20,722)**	**857,927**	**120,172**	**978,099**
Other Income and Expenditure	(868,194)	10,429	(857,765)	43,428	(814,337)
Surplus (-) or deficit	**10,454**	**(10,294)**	**160**	**163,602**	**163,762**

General fund balance (including earmarked) reserves reconciliation

2017/18 £000		2018/19 £000
(160,668)	Opening general fund balance (including earmarked reserves)	(160,508)
	Adjustment to opening balance for IFRS9	(1,370)
(160,668)	Revised Opening Balance	(161,878)
160	(Surplus)/Deficit on general fund	(51,095)
(160,508)	**Closing general fund balance (including earmarked reserves)**	(212,973)

*Delegated schools budget and Public Health expenditure is reported net of specific grants.

** For Central Income and Expenditure the adjustment to arrive at the general fund position is required to get from the outturn position reported to Cabinet to a position that is compliant with the Code for financial accounting purposes. For example, interest payable is reported within Central Income & Expenditure in the outturn report but reported under 'Other Income & Expenditure' in the accounts.

Note 1a: Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
2018/19	£000	£000	£000	£000
Delegated Schools	494	8,590		9,084
Education, Lifelong Learning & Culture	17,196	5,653	(842)	22,007
Safeguarding & Family Resilience	(3)	4,297	(256)	4,038
Corporate Parenting	398	4,371	155	4,924
Quality Assurance		867	(3)	864
Commissioning	3	1,535	(91)	1,447
Adult Social Care	(1,386)	9,161	2	7,777
Public Health		22	1	23
Highways & Transport	33,550	2,753	30	36,333
Environment	(5,761)	976	(20)	(4,805)
Surrey Fire & Rescue Service	1,322	20,139	21	21,482
Trading Standards	3	507	13	523
Communities Support function		63	4	67
Economic Growth		94		94
Strategic Leadership		77	1	78
Strategy & Performance	(20)	281	(6)	255
Communications		207		207
Coroner	3	143	5	151
Customer Services		469		469
Human Resources & OD		188		188
Information Technology & Digital	3,634	105		3,739
Property	30,100	78		30,178
Joint Operating Budget ORBIS		7,129	6	7,135
Finance				0
Democratic Services		468	(11)	457
Legal Services		260	9	269
Central Income & Expenditure	(836)	(11,478)	22	(12,292)
Net Cost of Service	78,697	56,955	(960)	134,692
Other Income and Expenditure	(13,891)	45,309	(32,790)	(1,372)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit	**64,806**	**102,264**	**(33,750)**	**133,320**

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Note 1a: Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
2017/18	£000	£000	£000	£000
Delegated Schools	219	11,709		11,928
Education, Lifelong Learning & Culture	61,114	7,875	(2,865)	66,124
Safeguarding & Family Resilience	225	5,452	(13)	5,664
Corporate Parenting	6	4,453	7	4,466
Quality Assurance	0	505	0	505
Commissioning	0	1,061	(4)	1,057
Adult Social Care	(2,459)	10,234	32	7,807
Public Health		8		8
Highways & Transport	24,919	2,455	(9)	27,365
Environment	5,321	1,918	9	7,248
Surrey Fire & Rescue Service	1,411	(3,934)	(9)	(2,532)
Trading Standards	3	567		570
Communities Support function		118	(2)	116
Economic Growth		123		123
Strategic Leadership		153	(1)	152
Strategy & Performance	173	219	(2)	390
Communications		256		256
Coroner		58		58
Customer Services		545	(2)	543
Human Resources & OD		245		245
Information Technology & Digital	3,533	122		3,655
Property	12,828	90		12,918
Joint Operating Budget ORBIS		8,494		8,494
Finance				0
Democratic Services		313	(7)	306
Legal Services		576	6	582
Central Income & Expenditure	(13,083)	(24,793)		(37,876)
Net Cost of Service	**94,210**	**28,822**	**(2,860)**	**120,172**
Other Income and Expenditure	(8,392)	43,462	8,358	43,428
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit	**85,818**	**72,284**	**5,498**	**163,600**

Note 1: Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure –

- Capital grants are adjusted for income not chargeable under generally accepted accounting practices.
- Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year.
- The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note 2: Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure - the net interest on the defined benefit liability is charged to the CIES.

Note 3: Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

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Note 1b: Customer income - segmental analysis

The table below provides a breakdown of income received from external customers broken down by service segments.

Restated 2017/18 £000	Service	2018/19 £000
(18,489)	Delegated Schools	(20,849)
(44,363)	Education, Lifelong Learning & Culture	(41,455)
(435)	Safeguarding & Family Resilience	(324)
(207)	Corporate Parenting	(43)
(453)	Quality Assurance	(239)
(66)	Commissioning	(4)
(58,931)	Adult Social Care	(62,632)
(8,294)	Highways & Transport	(10,998)
(3,801)	Environment	(1,572)
(296)	Surrey Fire & Rescue Service	(398)
(1,147)	Trading Standards	(1,272)
(56)	Communities Support function	0
(8)	Communications	(12)
(141)	Customer Services	(155)
(25)	Human Resources & OD	0
(48)	Information Technology & Digital	(75)
(2,426)	Property	(2,454)
(3,304)	Joint Operating Budget ORBIS	(3,435)
(1,722)	Finance	(1,382)
(199)	Democratic Services	(193)
(143)	Legal Services	(157)
	Central Income & Expenditure	(74)
(144,554)	**Total**	**(147,723)**

Note 2: Income and expenditure analysed by nature

The council's income and expenditure is analysed as follows:

2017/18 £000		2018/19 £000
	Expenditure	
492,106	Employee benefits expenses	515,896
193,632	Staff expenditure at Voluntary Aided and Foundation schools	180,192
194,618	Depreciation, amortisation and impairment	183,248
991,723	Other service expenses	1,061,434
112,941	Interest payments	124,088
1,089	Precepts and levies	1,099
1,986,109	**Total expenditure**	**2,065,957**
	Income	
(833,685)	Government grant and contributions	(779,413)
(211,544)	Fees, charges and other service income	(211,053)
257	(Gain) or loss on disposal of non-current assets	9,354
	Movements in fair value of investment properties	(19,581)
(714,740)	Income from council tax and business rates	(889,657)
(62,635)	Interest and investment income	(91,382)
(1,822,347)	**Total income**	**(1,983,732)**
163,762	Deficit on the provision of services	**82,225**

Note 3. Accounting policies

i. General principles

The statement of accounts summarises the council's transactions for the 2018/19 financial year and its position at the year ending 31 March 2019. The council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015. The Regulations require the statement of accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS).

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.

ii. Recognition of income and expenditure

The Council accounts for revenue recognition in accordance with IFRS 15 Revenue Recognition from Contracts with Customers and IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers).

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

- Revenue (income) from the sale of goods and provision of services is recognised when the council transfers the goods or completes the delivery of a service, rather than when income is received.
- 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 for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income 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 and provision is made for bad and doubtful debts. 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.

Council tax and business rates

The collection of council tax and business rates is an agency arrangement. Billing authorities (the Borough and District Councils) act as agents, collecting council tax and business rates (non-domestic rates) on behalf of the authority (and others). Billing authorities are required by statute to maintain a separate fund (known as the collection fund) for the collection and distribution of the amounts due.

Council tax and business rate income included in the Comprehensive Income and Expenditure Statement as local taxation is the total of the:

- Precept on the collection funds of each billing authority; and
- The council's share of the actual surplus / deficit on the collection funds of each billing authority at the end of the current year, adjusted for the council's share of the surplus/deficit on the funds at the preceding year end that has not been distributed or recovered in the current year.

Regulations then dictate that the amount credited to the general fund must be equal to the amount precepted as part of the annual budget process (ie the cash flow for the year). Therefore the difference between the income included in the Comprehensive Income and Expenditure Statement 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.

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 business rates collected could be less or more than predicted. Therefore, the Code requires that the council recognises on its balance sheet its share of arrears, impairment allowance for bad debts, overpayments, prepayments and collection fund surplus or deficit for both council tax and business rates. For business rates, an appeals provision has also been created to cover successful appeals by ratepayers against business rates.

iii. 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 mature within 24 hours of the date of acquisition (mainly Money Market Funds and overnight investments) as these are considered to be 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.

iv. Charges to revenue for non-current assets

Non-current assets are assets with physical substance that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used for more than one year.

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 council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. 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 council in accordance with statutory guidance. This contribution is known as the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisation 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.

v. 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, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits for current employees. These benefits are recognised as an expense for services in the year in which employees render service to the council. 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 the Surplus or Deficit on the Provision of Services but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account 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 and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement, at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

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 pension reserve to remove the notional debits and credits for pension enhancement termination benefits and are replaced 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 may be members of four separate pension schemes:

- the Local Government Pension Scheme, administered by Surrey County Council;
- the Firefighters' Pension Scheme, administered by Surrey County Council;
- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- the National Health Service (NHS) Pension Scheme, administered by the NHS.

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the council. The local government scheme is funded whereas the firefighter scheme is unfunded meaning that liabilities are recognised when awards are made and hence there are no investment assets; cash has to be built up to meet actual pension payments as they fall due (net of contributions from active members and government grant). Deficits on the Firefighters' Pension Scheme are covered by a government grant received each year from the Ministry for Housing, Communities & Local Government.

The teachers' pension scheme and the NHS pension scheme are administered nationally and arrangements mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. Therefore, both schemes are accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable in year.

The Local Government Pension Scheme (LGPS) & The Firefighters' Pension Scheme

The Local Government Pension Scheme and the Firefighters' Scheme are administered by Surrey County Council and are accounted for as a defined benefits scheme:

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

- liabilities are discounted to their value at current prices, using a discount rate of 2.4%.

The assets of the pension funds attributable to the council are included in the Balance Sheet at their fair value:

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

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

- Service cost comprising:
  - current service cost – The increase in the present value of the defined benefit obligation resulting from employee service in the current period. The cost to the employer of benefits accruing over the period are 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 are 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 defined benefit liability – the net interest expense for the council. 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 as a result of contribution and benefit payments.
- Re-measurements comprising:
  - return on plan assets – excluding amounts included in the net interest on the net defined liability are charged to the Pension 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 are charged to the Pensions Reserve as other comprehensive income and expenditure.
- Contributions paid to the pension funds – cash paid as employer's contributions to the pension fund in settlement of liabilities are not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards for retirement benefits. In the Movement in Reserves Statement, appropriations are made to and from the pension reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. 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 as benefits are earned by employees.

Discretionary benefits

The council does not make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to teachers 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.

vi. Events after the Balance Sheet date

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

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

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

vii. 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 liabilities 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 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 most of the borrowings that the council has 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.

The council entered into a Lender Option Borrower Option (LOBO) loan in 2003/04. The lender converted this into a fixed long-term loan during 2016/17. The loan is carried on the balance sheet at a higher amortised cost than the outstanding principal and interest is charged at a marginally higher effective rate of interest than the rate of interest payable to the lender. This is to smooth the effect of previous stepped interest rate changes over the life of the loan.

The council provides treasury management services to the Office of the Police and Crime Commissioner for Surrey. The cash belonging to the Police is held as short-term borrowing on the balance sheet as it is an arrangement with the substance of a loan. The balances held in the Police bank account are consolidated with the daily funds available for the Council and any surplus invested in accordance with the Council's treasury strategy. Interest is then paid to the Police and Crime Commissioner on their balances. These transactions are classified as short term as the Police can terminate the arrangement with 6 months' notice.

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 cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL)
- 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 (ie where the cash flows do not take the form of a basic debt instrument).

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 (CIES) 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 CIES is the amount receivable for the year in the loan agreement.

Where loans are made at less than market rates (soft loans), a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable, 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 County Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the County 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 on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

- **Level 1 inputs** – quoted prices (unadjusted) in active markets for identical assets that the Council 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.

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

Expected Credit Losses

The Council recognises expected credit losses (impairments) on all of its financial assets held at amortised cost or FVOCI either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. The expected credit loss model applies to financial assets measured at amortised cost and FVOCI, trade receivables, lease debtors, third party loans and financial guarantees.

A simplified approach is applied to trade receivables and lease debtors whereby consideration of changes in credit risk since initial recognition are not required and losses are automatically recognised on a lifetime basis. A collective assessment is made for groups of instruments where reasonable and supportable information is not available for individual instruments without undue cost or effort. The aim will be to approximate the result of recognising lifetime expected credit losses if significant increases in credit risk since recognition had been measurable for the individual instruments.

Loans have been grouped into three types for assessing loss allowances:

Group 1 – loans made to individual organisations. Loss allowances for these loans can be assessed on an individual basis.

Group 2 – loans supported by government funding. As the loan repayments are recycled and the contract allows for a level of default then no additional impairment loss is required.

Group 3 - car loans to employees. Loss allowances are based on a collective assessment.

Impairment losses are debited to the Financing and Investment Income and Expenditure line in the CIES. For assets carried at amortised cost, the credit entry is made against the carrying amount in the Balance Sheet. For assets carried at FVOCI, the credit entry is recognised in Other Comprehensive Income against the Financial Instruments Revaluation Reserve. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

Impairment losses are not applicable to FVPL assets as the future contractual cash flows are of lesser significance and instead current market prices are considered to be an appropriate reflection of credit risk, with all movements in fair value, including those relating to credit risk, impacting on the carrying amount and being posted to the Surplus or Deficit on the Provision of Services as they arise.

Impairment losses on loans supporting capital purposes, lease debtors and share capital are not a proper charge to the County Fund balance and any gains or losses can be reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

viii. Fair value measurement

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

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

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

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

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

ix. Government grants and 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 grants or contributions 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 result in the return of the grant or contribution to the grantor unless the specified use for the grant or contribution is met.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied (i.e. will be expended as intended) 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.

x. Interests in companies and joint operations

Where the council has the power to exercise significant control or influence over another economic entity, the relationship with that organisation will be assessed to determine if that organisation should be part of the Surrey County Council group for accounting purposes. The requirement to produce group accounts will be based on qualitative factors as well as materiality levels based on the level of transactions between the council and all the organisations in the group.

The council has determined that it exerts significant control over S.E. Business Services Limited, Surrey Choices Limited and Halsey Garton Property Limited as these are all Local Authority Trading Companies wholly owned by the council. In 2018/19 group accounts have been produced due to material balances held by subsidiary companies.

In the council's own single entity accounts, the value of shares in subsidiary companies are recorded as long-term investments, long-term loans provided to the subsidiaries are held as long-term loans and any debtor and creditor balances between the council and the subsidiaries are also included within the relevant balance. In the group accounts, the single entity county council accounts are combined with the accounts of the subsidiary companies and any intra-group transactions and balances are excluded as part of the consolidation process to give the overall group position.

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the council in conjunction with other joint operators involve the use of the assets and resources of those joint operators.

In relation to its interest in a joint operation, the council as a joint operator recognises:

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

In April 2015 the Surrey Better Care Fund was established. This is a joint operation between the council and seven NHS Clinical Commissioning Groups to provide integrated healthcare and support within the area. The council is the lead partner in the fund but shares control with each partner and as such will account for its share of assets, liabilities, revenue and expenditure in the accounts.

The council is also part of five other minor pooled budget arrangements with NHS bodies to provide services in the local area.

In addition, the council is part of a partnership with East Sussex County Council and Brighton & Hove City Council that aims to provide business services to the public sector. The partnership is established under a Joint Committee. The Joint Committee is responsible for delivering services from a Joint Operating budget. During 2018/19 Surrey County Council, East Sussex County Council and Brighton & Hove City Council contributed to the Joint Operating budget in proportion to their service delivery requirements, which were 55%, 24% and 21% respectively.

xi. 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 otherwise 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.

The council does not have any material finance leases.

The council as lessee

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 (e.g. there is a rent free period at the commencement of the lease).

The council as lessor

Operating leases

Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to 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.

xii. Overheads and support services

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance. As support services are included as service lines in management reporting arrangements they also appear on the face of the Income and Expenditure Statement rather than being recharged over front line services, except for a small proportion which are charged to Public Health and Commercial Services.

xiii. Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment owned by the council. The amounts payable to the PFI operators each year are analysed into five elements:

- **fair value of the services received during the year** is debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- **finance cost** is an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **contingent rent** is an increase in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **payment towards liability** is applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);

- **lifecycle replacement costs** reflect a proportion of the amounts payable to be posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

The council currently has three PFI contracts and one similar long-term contract, namely:

- Anchor Homes;
- Waste;
- Street Lighting;
- Care UK.

xiv. Property, plant and equipment (including assets held for sale)

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 are expected to be used during more than one financial year are classified as property, plant and equipment.

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) 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 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). 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 on the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction are held at depreciated historical cost;
- school buildings and fire stations are held at current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets are held at current value which is fair value estimated at highest and best use from a market participant's perspective;
- all other assets are held at current value determined as the amount that would be paid for the asset in its existing use.

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

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

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 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 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 determinable finite useful life (i.e. freehold land, community assets and heritage assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- buildings use a straight-line allocation over the useful life of the property as estimated by the valuer; usually up to 40 years.
- vehicles, plant, furniture and equipment use a straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer. This can be between 3 and 15 years depending on the type of asset.
- infrastructure assets use a straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer. This can be 7 years for minor works and up to 40 years for bridge strengthening.

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.

Disposals and non-current assets held for sale

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 re-valued 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.

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

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 charged as an impairment to the Other Operating Income & Expenditure line in the Comprehensive Income and Expenditure Statement. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement 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). The asset is then derecognised at zero value. 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, are credited to the Capital Receipts Reserve and can then only be used for new capital investment. 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 non-current 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.

For schools that have attained Academy status and disengaged from the council, the net book value of the land and building is de-recognised from the Balance Sheet through a charge to the Financing & Investment Income & Expenditure line of the Comprehensive Income & Expenditure Statement and then reversed out to the Capital Adjustment Account through the Movement in Reserve Statement to ensure there is no impact on the General Fund.

xv. Investment properties

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

Investment properties are measured initially at cost and subsequently at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Investment properties are not depreciated but are re-valued annually according to market conditions at year end with gains and losses on revaluation being posted to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement; the same treatment is applied to gains and losses on disposals.

Net rental income received is 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. These 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 Unapplied Capital Receipts Reserve.

xvi. 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, ie 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 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.

xvii. Provisions, contingent liabilities and contingent assets

Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line 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 recognised as income for the relevant service only if it is certain that reimbursement will be received if the council settles the obligation.

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 within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

xviii. 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. 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 council; these reserves are explained in the relevant policies.

xix. Revenue expenditure funded from capital under statute

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 is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xx. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the Schools Standard Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and do not result in a requirement to produce Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were transactions, cash flows and balances of the authority.

xxi. Value Added Tax (VAT)

VAT 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, unless it is a rebate from previous years.

Note 3a: Accounting policies issued but not adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the UK.

- **IFRS 16 Leases:** This standard will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.
- **IAS 40 Investment Property:** Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This is likely to have little impact on the Council as it already complies.
- **IFRIC 23 Uncertainty over Income Tax Treatments:** This standard provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the single entity accounts and minimal impact on the group accounts.
- **IFRS 9 Financial instruments - Prepayment features with negative compensation:** Amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. This is not expected to have a material impact on the Council's accounts.

Note 4: Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 3, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are outlined below:

Issue	Judgement
Local government funding	There is a high degree of uncertainty about future levels of funding for local government due to the dely in the government's Fair Funding Review. However, the council has determined that this uncertainty is not sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.
Grant conditions	The council reviews its grants and contributions annually and where the contributions are conditional upon the money being expended in a specific way and the council is satisfied initially that the money could be expended as intended it is set aside in usable reserves (either earmarked revenue or capital unapplied) to be drawn down at a future date. Should circumstances change whereby the council decides that money can no longer be deployed as specified it would be transferred to receipts in advance prior to being refunded.
Fair value measurement of surplus assets	The surplus asset portfolio is made up of 166 separate assets. Of these, 54 made up 98% of the value on the balance sheet as at 31 March 15. During 2015/16 the council's valuers, Bruton Knowles LLP, valued these 54 assets, in line with the fair value measurement requirements of IAS13, as part of the rolling valuation programme. It is judged that this method provides the council with a materially accurate valuation of the surplus asset portfolio without the expense of having to value every individual, small asset within the portfolio.
Carrying value of assets not revalued in 2018/19	The council revalues its land & buildings assets on a 5 year rolling programme. This is permitted under the Code provided that the carrying value of the assets on the balance sheet is not materially different to the current value at the balance sheet date. In consultation with the council's valuers, the council has determined that whilst there have been inflationary pressures in the market that would increase the value of assets valued at Depreciated Replacement Cost, such as schools, these increases would be mitigated by deprecation to the asset over the relevant period. This means that the values are unlikely to be materially different at the balance sheet date.
Schools accounting	The Code specifies that, under accounting definitions, local authority maintained schools (community, foundation, voluntary aided and voluntary controlled, but not academies or free schools) are separate entities under the control of local authorities for financial reporting purposes and meet the criteria for producing group accounts. However, in order to simplify the consolidation process and to avoid consolidating a considerable number of smaller entities the Code of Practice also confirms that the definition of the single entity financial statements includes all transactions of local authority schools (income, expenditure, assets, liabilities, reserves and cash flows) so instead of being

consolidated in group accounts they are consolidated in the main council accounts.

The school as an entity means the management of the school ie the governing body, including the headteacher, and the resources it controls rather than the physical fabric of the buildings and grounds. Whether the school as an entity includes the premises and land that the schools operate from will depend on whether these assets are controlled by the school management using the relevant recognition tests for non-current assets included in the Code.

In line with guidance produced by CIPFA for recognising school non-current assets, the council has determined that all foundation schools meet the recognition requirements in the code for Property, Plant and Equipment and has recognised these assets on the balance sheet.

The council has also determined, in line with the CIPFA guidance, that the voluntary aided schools in the county do not need to be recognised on the balance sheet. This is because, theoretically, the religious body could take away the right of the council to use the asset and therefore it does not meet the recognition requirements of the code. The council has reviewed the voluntary aided arrangements in the county with the relevant Dioceses and has not come across any examples that contradict this view.

The non-current assets of Foundation schools that convert to academy status are impaired to nil and an impairment charge is made against the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement. The impairment charge is then reserved out of the general fund and applied against the capital adjustment account (CAA) through the movement in reserves statement. This ensures that the taxpayer is not double charged for the same asset and is consistent with the statutory accounting regulations for charges against the general fund.

PFI and similar contracts

The council is deemed to control the services provided under outsourcing agreements, and has an interest in the assets at the end of the agreement, for four contracts:

- In 1998 the council entered into a long-term contract with Anchor Trust for the purchase of residential and day care for the elderly in 17 homes previously operated by the council.
- In 2002 the council entered into a further long-term contract for the provision of 7 residential and day care homes with Care UK.
- In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management.
- In 2010 the council entered into a long term contract with Skanska John Laing for street lighting services, the contracts includes the replacement or refurbishment of all street lights in Surrey and continued maintenance of the lights for the duration of the contract.

The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the assets are recognised as property, plant and equipment on the council's Balance Sheet (see note 37 for additional details).

The waste disposal PFI includes investment in a number of waste disposal assets. These have all been recognised on the council's balance sheet including an asset

under construction of £87.4m for the Eco Park as at 31 March 2019 (£74.3m as at 31 March 2018).

Interests in other entities

The council has considered all its relationships and interests in other entities and has determined that it has the ability to control or significant influence the economic activities of following organisations:

- S.E. Business Services Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the provision of business services and was incorporated on 20 June 2013. The economic activity of this company has been incorporated into the group accounts.
- Surrey Choices Ltd - is a Local Authority Trading Company wholly owned by the council. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014. The economic activity of this company has been incorporated into the group accounts.
- Halsey Garton Property Ltd – is a Local Authority Trading Company wholly owned by the council to make property investments. It is a holding company and has three subsidiaries; Halsey Garton Property Investments Ltd, Halsey Garton Property Developments Ltd and Halsey Garton Residential Ltd. To date, only the holding company and Halsey Garton Property Investments Ltd have commenced trading and therefore only the economic activity of these companies has been incorporated into the group accounts.
- Henrietta Parker Trust - the council does exercise control over the Henrietta Parker Trust, the income of which supports adult learning. However, the economic activity of this trust fund is not deemed material and therefore the trust has not been incorporated into the group accounts.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures based on assumptions about the future or that are otherwise uncertain. Estimates take into account historical experience, current trends and other relevant factors. In addition, contingent assets and liabilities, which are not reflected in the statements, are assessed and disclosed in Note 40, and any material items are disclosed in note 6.

The items in the council's Balance Sheet at 31 March 2019 for which significant assumptions have been made are set out in the table that follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain whether authorities will be able to sustain spending on repairs and maintenance, bringing into question the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by around £1.2m for every year that useful lives had to be reduced.
Pensions Liability	The council's actuary advises on the sensitivity analysis to be applied to the calculation for estimating the net pension liability. The calculation is dependent upon a number of complex judgements relating to: the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a decrease of 0.5% in the real discount rate would result in an increase in the pension liability of £331m for the LGPS and £57m for the firefighters' pension fund. A 1 year increase in member life expectancy would potentially result in an increase in the pension liability of up to £157m for the LGPS and £18m for the firefighters' pension fund.
Debtors	At 31 March 2019, the council had a balance of £223m on short term debtors (including government grants, receipts in advance and the council's share of Council Tax and Business Rates debtors). A credit risk review suggested that an impairment level of £24m for doubtful debts was sufficient.	Debtors are monitored regularly and should general debtors rise in 2019/20 the council may consider raising its provision for bad and doubtful debt. This provision is reviewed quarterly.

Fair value measurements	When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets.	The council uses a combination of valuation techniques to measure the fair value of some of its investment properties and surplus assets. These include comparable open market value, floor areas, tenancies, rent reviews, planning and all other ongoing management issues.
	Where Level 1 inputs are not available, the council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example the investment properties and surplus asset valuations are done by expert firms).	Significant changes in any of the observable inputs would result in a significantly lower or higher fair value measurement for the investment properties and surplus assets

Note 6: Material items of income and expenditure

Included in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement (CIES) is an impairment charge of £107.5m related to the derecognition of academy schools (£89.3m in 2017/18). When a school changes status to an academy, the ownership of the land and buildings transfers from the council to the school. The assets are written out of the balance sheet and an accounting adjustment is made against the Financing and Investment line in the CIES. During 2018/19, 22 schools transferred to academy status (20 in 2017/18).

During the year the council incurred the following capital expenditure as part of its investment strategy:

- £55m in long-term loans to Halsey Garton Property Ltd. Included as a long term debtor on the balance sheet;
- £23m equity investment in Halsey Garton Property Ltd. Included as a long term investment on the balance sheet;
- £18.9m on property at Gatwick Diamond Crawley and £3.2m on property at Park Lodge, Dorking.

Note 7: Events after the balance sheet date

The statement of accounts is adjusted to reflect events after the Balance Sheet date, 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 that provide evidence of conditions that existed at the end of the reporting period, unless deemed insignificant to the true and fair view of the council's assets and liabilities.

Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

Note 8: Adjustments between accounting basis and funding basis under regulations

This note sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the 2018/19 financial year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which until 2016/17 were restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

From 2016/17, under the Flexible Use of Capital Receipts strategy, local authorities were given the power to use capital receipts from the disposal of property, plant and equipment assets, to spend on the revenue costs of reform projects. Any expenditure must be on projects that are designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2018/19	General Fund and Earmarked Reserves £000	Capital Receipts Reserve £000	Capital grant & contributions unapplied reserve £000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs (transferred to Pension Reserve)	(102,264)		
Council tax and business rates (transfers to Collection Fund)	32,792		
Holiday pay (transferred to the Accumulated Absences Reserve)	958		
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):			
Charges for depreciation and impairment of non-current assets	(74,491)		
Revaluation gain on property, plant & equipment	51		
Other movements in valuation on property, plant and equipment			
Movement on fair value on investment property	19,581		
Amortisation of intangible assets	(1,200)		
IFRS9 Capital Impairments	(293)		
Disposal of academies	(107,507)		
Revenue expenditure funded from capital under statute	(28,936)		
Deferred Income in respect of PFI schemes	220		
Reversal of donated asset adjustment	67		
Net book value of disposals	(9,354)		
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	130,752		(130,752)
Total Adjustments to the Revenue Resources	**(139,624)**		**(130,752)**
Adjustments between Revenue & Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve		(9,021)	
Transfer of asset sale proceeds from the Deferred Capital Receipts Reserve			
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	19,913		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	714		
Total Adjustments between Revenue & Capital Resources	**20,627**	**(9,021)**	
Adjustments to Capital Resources			
Application of capital grants to finance capital expenditure			97,279
Application of capital receipts to reduce capital financing requirement		40,344	
Use of Capital Receipts to fund Revenue Expenditure	(14,323)	14,323	
Total Adjustments to capital resources	**(14,323)**	**54,667**	**97,279**
Total Adjustments	**(133,320)**	**45,646**	**(33,473)**

2017/18	General Fund and Earmarked Reserves £000	Capital Receipts Reserve £000	Capital grant & contributions unapplied reserve £000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs (transferred to Pension Reserve)	(72,282)		
Council tax and business rates (transfers to Collection Fund)	(8,358)		
Holiday pay (transferred to the Accumulated Absences Reserve)	2,856		
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):			
Charges for depreciation and impairment of non-current assets	(77,740)		
Revaluation losses on property, plant & equipment	(26,466)		
Other movements in valuation on property, plant and equipment			
Movement on fair value on investment property	(1,248)		
Amortisation of intangible assets	(1,117)		
Disposal of academies	(89,295)		
Revenue expenditure funded from capital under statute	(13,836)		
Deferred Income in respect of PFI schemes	205		
Reversal of donated asset adjustment	116		
Net book value of disposals	(4,872)		
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	97,946		(97,946)
Total Adjustments to the Revenue Resources	**(194,091)**		**(97,946)**
Adjustments between Revenue & Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	4,615	(4,615)	
Transfer of asset sale proceeds from the Deferred Capital Receipts Reserve		(12,113)	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	24,458		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,416		
Total Adjustments between Revenue & Capital Resources	**30,489**	**(16,728)**	
Adjustments to Capital Resources			
Application of capital grants to finance capital expenditure			97,845
Application of capital receipts to reduce capital financing requirement		27,625	
Total Adjustments to capital resources		**27,625**	**97,845**

Total Adjustments	**(163,602)**	**10,897**	**(101)**

Note 9: Transfers to / from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves, to provide financing for future expenditure plans, commitments and possible liabilities and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

	Balance at 31/03/17	Transfers In	Transfers Out	**Balance at 31/03/18**	Transfers In	Transfers Out	**Balance at 31/03/19**
	£000	£000	£000	**£000**	£000	£000	**£000**
Schools Balances	**41,589**	5,468	(5,071)	**41,986**	5,399	(22,828)	**24,557**
Transfer of Schools Balances to Academies	**5,736**		(5,736)		2,991	(2,991)	**0**
Investment Renewals	**4,955**	485	(396)	**5,044**	319	(134)	**5,229**
Equipment Replacement	**669**	1,875	(297)	**2,247**	761	(65)	**2,943**
Budget Equalisation	**26,197**	16,310	(19,931)	**22,576**	9,781	(356)	**32,001**
Private Finance Initiative	**4,392**		(657)	**3,735**		(637)	**3,098**
Insurance	**7,746**	1,439		**9,185**	1,229		**10,414**
Eco Park Sinking Fund	**4,403**	2,294		**6,697**	17,717	(8,000)	**16,414**
Child Protection	**120**			**120**		(120)	**0**
Revenue Grants Unapplied	**13,089**	15,249	(13,089)	**15,249**	16,067	(10,361)	**20,995**
General Capital	**5,264**	179	(636)	**4,807**	68		**4,875**
Interest Rate	**1,000**			**1,000**			**1,000**
Economic Downturn	**9,239**			**9,239**			**9,239**
Revolving Investment & Infrastructure Fund	**11,139**			**11,139**			**11,139**
Pension Stabilisation	**39**			**39**		(39)	**0**
Business Rate Appeals	**1,258**	2,354		**3,612**	28,575	(3,586)	**28,601**
SEND High Needs Block					18,675		**18,675**
Economic Prosperity	**2,505**			**2,505**			**2,505**
	139,340	45,653	(45,813)	**139,180**	101,582	(49,117)	**191,645**

School balances: Balances related to delegated school budgets. The statutory authority to commit the resources rests with school governors.

Investment renewals reserve: Enables investment in service developments. The reserve makes loans to services for invest to save projects, which may be repayable. The recovery of the loan is tailored to the requirements of each business case, which is subject to robust challenge before approval as a part of the council's governance arrangements.

Equipment replacement reserve: Enables services to set aside revenue budgets to meet future replacement costs of large equipment items. Services make annual revenue contributions to the reserve and make withdrawals to fund purchases.

Budget equalisation reserve: The budget equalisation reserve was set up to support future years' revenue budgets from unapplied income and budget carry forwards. The balance includes £4.1m

service budget carry forwards into 2019/20 and a further £3.7m which has been agreed to support the 2019/20 budget.

PFI reserve (Street Lighting PFI sinking fund): This reserve holds the balance of the street lighting PFI grant income over and above that used to finance the PFI to date. The balance in this reserve will be used in future years when the expenditure in year will exceed the grant income due to be received in the same year.

Insurance reserve: This reserve holds the balance resulting from a temporary surplus or deficit on the council's self insurance fund and is assessed by an actuary for the possible liabilities the council may face. It specifically holds £4.2m to cover potential losses from the financial failure of Municipal Mutual Insurance (MMI) in 1992. The company had limited funds to meet its liabilities, consequently, future claims against policy years covered by MMI may not be fully paid, so would be funded from this reserve. The balance on this reserve represents the latest assessed possible liability.

Eco park sinking fund: To fund the future of the council's waste disposal project from surpluses in the initial years. This has increased in 2018/19 due to the delay in the PFI scheme leading to a budget underspending.

Child protection reserve: This reserve was created to provide funding for additional staffing costs as a result of the increased number of children subject to a child protection order and was fully drawn down in 2019/20

Revenue Grants Unapplied reserve: This reserve holds government revenue grants received in previous financial years which will be used to fund expenditure in the future.

General capital reserve: The general capital reserve holds capital resources, other than capital receipts, available to fund future capital expenditure.

Interest rate reserve: This reserve is to enable the council to fund its capital programme from borrowing in the event of an expected change in interest rates or other borrowing conditions.

Economic downturn reserve: This reserve is to allay the risks of erosion in the council's tax base due to the impact of the localisation of council tax benefit and a down turn in the economy.

Revolving investment & infrastructure fund: The revolving infrastructure & investment fund was established in the 2013-18 Medium Term Financial Plan in order to provide the revenue costs of funding infrastructure and investment initiatives that will deliver savings and enhance income in the longer term.

Pension stabilisation reserve: This reserve is to help fund potential future increases in pension contributions paid by the council.

Business rate appeals reserve: As part of the localisation of business rates the council is liable to refund businesses for its share of business rates if it is determined that a business has been overcharged rates. This reserve will be used to fund any successful appeals. As a pilot authority for the 100% Business Rates Retention Scheme the Council received additional benefits from the collecting authorities releasing provisions for appeals.

SEND High Needs Block reserve: Expenditure on High Needs Block should be covered by DSG (Dedicated School Grant). Until this funding is confirmed and received from the Department for Education, the Council has created an earmarked reserve, funded from the revenue budget, to mitigate this risk. A corresponding credit entry has been made under the school reserves line.

Economic prosperity reserve: This reserve will be used to fund projects that will increase economic development in the county.

Note 10: Other operating income and expenditure

Net Expenditure 2017/18 £000		Gross Expenditure 2018/19 £000	Income 2018/19 £000	**Net Expenditure 2018/19 £000**
1,089	Land Drainage Precept	1,099		**1,099**
152	Contributions from Trading Services (note 24)	25,376	(25,711)	**(335)**
257	(Gain) or Loss on disposal of non-current assets	9,354		**9,354**
1,498		**35,829**	**(25,711)**	**10,118**

Note 11: Financing and investment income and expenditure

The council earns income in the form of interest on its cash balances and lending and incurs interest charges on its outstanding debt and leases. In addition, it pays interest to third parties on the balances held on their behalf, including Surrey Police and Crime Commissioner and various trust funds.

The table below shows the interest paid, interest received and other similar charges during the year.

Net Expenditure 2017/18 £000		Gross Expenditure 2018/19	Income 2018/19	**Net Expenditure 2018/19 £000**
25,233	Interest payable and similar charges	31,626		**31,626**
40,750	Net interest on the net defined benefit liability (Note 39)	92,902	(49,674)	**43,228**
(10,787)	Interest receivable and similar income		(16,485)	**(16,485)**
	Net (gains)/losses on financial assets at fair value through profit and loss	1,893		**1,893**
(2,376)	Income & expenditure in relation to investment properties (Note 14)	8,617	(25,223)	**(16,606)**
89,295	Disposal charge for the derecognition of schools that transfer to Academy status	107,507		**107,507**
142,115		**242,545**	**(91,382)**	**151,163**

Note 12: Council tax and general grants & contributions

2017/18 £000		2018/19 £000
	Local taxation:	
(661,576)	- Council tax income	**(704,417)**
(53,164)	- Business rate income	**(187,240)**
	Grants and contributions:	
(86,633)	- Formula grant	**0**
(58,631)	- Non ring-fenced government grants	**(49,391)**
(97,946)	- Capital grants and contributions	**(130,752)**
(957,950)		**(1,071,800)**

The Council did not receive any Formula Grant in 2018/19 as it is part of the 100% Business Rates Retention Pilot, which is reflected in the increase Business rate income shown above.

Note 13: Property, plant & equipment

	Land and Buildings £000	Vehicle, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant & Equipment £000
Cost (revalued)							
Balance at 1 April 2018	**1,221,463**	**75,070**	**951,159**	**6,688**	**39,510**	**190,272**	**2,484,162**
Additions*	15,217	3,844	52,969	293	1,608	40,587	**114,518**
Donations		67					**67**
Revaluations increases recognised in the Revaluation Reserve	41,508	55			3,169		**44,732**
Revaluations decreases recognised in the Revaluation Reserve	(4,443)				(2,633)		**(7,076)**
Revaluation increases (reversal of previous losses) recognised in the deficit on the CIES	2,009						**2,009**
Revaluation decreases recognised in the deficit on CIES	(1,929)	(349)			(1,100)		**(3,378)**
Transfers within PPE	58,680	622	16,782		2,984	(100,815)	**(21,747)**
Derecognition - Disposals	(14,493)	(7,249)					**(21,742)**
Derecognition - academies	(113,911)						**(113,911)**
Assets reclassified from Assets Held for Sale					9,486		**9,486**
At 31 March 2019	**1,204,101**	**72,060**	**1,020,910**	**6,981**	**53,024**	**130,044**	**2,487,120**
Accumulated Depreciation and Impairment							
at 1 April 2018	**(63,938)**	**(47,297)**	**(590,212)**		**(196)**		**(701,643)**
Depreciation charge	(28,669)	(5,474)	(40,347)				**(74,490)**
Depreciation written out to the Revaluation Reserve	23,955				377		**24,332**
Revaluation losses recognised in the Surplus/Deficit on CIES	415						**415**
Revaluation increases (reversal of previous losses) recognised in the deficit on the CIES	1,005						**1,005**
Assets reclassified - Held for Sale					(286)		**(286)**
Transfers within PPE	377				(377)		**0**
Derecognition - Disposals	649	7,218					**7,867**
Derecognition - academies	6,404						**6,404**
At 31 March 2019	**(59,802)**	**(45,553)**	**(630,559)**		**(482)**		**(736,396)**
Net Book Value							
at 31 March 2018	**1,157,525**	**27,773**	**360,947**	**6,688**	**39,314**	**190,272**	**1,782,519**
at 31 March 2019	**1,144,299**	**26,507**	**390,351**	**6,981**	**52,542**	**130,044**	**1,750,724**

	Land and Buildings	Vehicle, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000
Restated Cost (revalued)							
Balance at 1 April 2017	**1,307,612**	**73,786**	**921,900**	**6,272**	**33,292**	**142,284**	**2,485,146**
Additions*	24,071	4,259	27,633	306	42	71,674	**127,985**
Donations		116					**116**
Revaluations recognised in the Revaluation Reserve	13,051	229			855		**14,135**
Disposals	(3,923)	(3,516)					**(7,439)**
Derecognition - academies	(120,063)						**(120,063)**
Assets reclassified to Assets Held for Sale	(499)						**(499)**
Reclassifications from Assets Under Construction	131	196	1,626		1,669	(23,686)	**(20,064)**
Other Movements in assets and valuation	1,083			110	3,652		**4,845**
At 31 March 2018	**1,221,463**	**75,070**	**951,159**	**6,688**	**39,510**	**190,272**	**2,484,162**
Restated Accumulated Depreciation and Impairment							
at 1 April 2017	**(76,507)**	**(45,409)**	**(551,486)**		**(4)**		**(673,406)**
Depreciation charge	(33,749)	(5,265)	(38,726)				**(77,740)**
Depreciation written out to the Revaluation Reserve	59,743						**59,743**
Impairment losses recognised in the Revaluation Reserve	(19,709)						**(19,709)**
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(25,916)						**(25,916)**
Disposals	1,240	3,377					**4,617**
Derecognition - academies	30,768						**30,768**
Reclassifications	192				(192)		
At 31 March 2018	**(63,938)**	**(47,297)**	**(590,212)**		**(196)**		**(701,643)**
Net Book Value							
at 31 March 2017	**1,231,105**	**28,377**	**370,414**	**6,272**	**33,288**	**142,284**	**1,811,740**
at 31 March 2018	**1,157,525**	**27,773**	**360,947**	**6,688**	**39,314**	**190,272**	**1,782,519**

* These amounts include assets acquired under PFI schemes (see note 37), but excludes £28.9 revenue expenditure funded from capital under statute (£16.4m in 2017/18).

Revaluations

The council carries out a rolling programme that ensures that all Land and Buildings, except a small proportion of the portfolio for school's tied accommodation, required to be measured at fair value is revalued at least every five years. Valuations of land and buildings were carried out by Bruton Knowles LLP, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

	Land and Buildings
	£'000
Carried at historical cost	249
Carried at current value	12,741
Carried at current value. Last revalued as at:	
31 March 2015	188,995
31 March 2016	254,536
31 March 2017	163,624
31 March 2018	251,378
31 March 2019	272,776
Total	**1,144,299**

Surplus assets are held at fair value and are excluded from the table above.

Revaluation losses

During 2018/19 the council has recognised a revaluation loss of £9.2m in total. The land and building assets are re-valued based on existing use value, as part of the five year rolling programme by external valuers. The result was a revaluation loss of £4.13m charged to the Comprehensive Income and Expenditure Statement and £5.11 offset from the balance in the revaluation reserve in relation to these assets.

Capital commitments

At 31 March 2019, the council has entered into a number of contracts for the acquisition/enhancement of Property, Plant & Equipment in 2019/20 and future years. The majority of these contracts are Schools Basic Need capital projects - total cost £21.6m (£25.9m as at 31 March 2018).

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Note 14: Investment properties

The council has several properties purchased for future service needs or for the purposes of economic development which are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2019, under the code of practice they are classed as investment properties.

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (see note 11):

2017/18 £000		**2018/19 £000**
4,890	Rental income from investment property	**5,642**
(1,266)	Direct operating expenses arising from investment property	**(8,617)**
3,624	**Net gain/(loss)**	**(2,975)**
(1,248)	**Net gain/(loss) on fair value adjustments**	19,581
2,376	**Income & expenditure in relation to investment properties**	**16,606**

The following table summarises the movement in the fair value of investment properties over the year:

2017/18 £000		**2018/19 £000**	Offices £000	Retail £000	Leisure £000	Fair Value Hierarchy
54,050	Balance at start of the year	**74,800**	68,900	4,750	1,150	Level 2
2,114	Additions	**22,097**	22,097			
19,884	Reclassification	**21,747**	21,747			
(1,248)	Net loss/gain from fair value adjustments*	**19,581**	19,956	(375)		
74,800	**Balance at end of the year**	**138,225**	132,700	4,375	1,150	Level 2

*the valuation of Investment Properties is based on prevailing market conditions and existing lease agreements as at 31 March 2019.

The fair value of the council's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The fair value calculation takes into account the prevailing market conditions and lease agreements in place as at 31 March 2019.

The revaluation exercise has resulted in an overall increase in asset values of £19.6m. The majority of the assets have increased in value compared to the original purchase price and compared to the March 2018 valuation. This includes a substantial increase in value for the Nexus 2 site at Gatwick which has been independently valued for the first time since completion

The revaluation gain or loss does not impact upon the general fund of the council – there are no adverse implications for the tax payer of any loss since financial adjustments of this nature are excluded from the calculation of the revenue requirements of the council by statute. Any gain or loss is unrealised and it would only become a realised gain or loss if the council decided to sell the asset at the time of the revaluation and at the revaluation value. The Investment Board, on behalf of the

council, is however able to determine whether to continue to hold the asset or whether to sell at a time of its choosing and as this is the case it is unlikely that there will be a realised loss since assets will generally only be sold when it is beneficial to do so.

Note 15: Foundation, voluntary aided and voluntary controlled schools and academies

A number of balances relating to schools are included within the council's Statement of Accounts. However, certain types of schools are excluded from the council's balance sheet.

Local authority maintained schools (community, foundation, voluntary aided and voluntary controlled, but not academies or free schools) are separate entities under the control of local authorities for financial reporting purposes and meet the criteria for producing group accounts. However, in order to simplify the consolidation process and to avoid consolidating a considerable number of smaller entities, the Code confirms that the definition of the single entity financial statements includes all transactions of local authority schools (income, expenditure, assets, liabilities, reserves and cash flows) so instead of being consolidated in group accounts they are consolidated in the main county council accounts.

The school as an entity means the management of the school ie the governing body including the headteacher and the resources it controls rather than the physical fabric of the buildings and grounds. Whether the school as an entity includes the premises and land that the schools operate from will depend on whether these assets are controlled by the school management using the relevant recognition tests for non-current assets included in the Code.

Foundation

Foundation schools are owned by a trust and the local council have a significant control over the school through funding arrangements, representation on the governing body of the school and legal rights around the disposal of assets. SCC has significant control over the resources inherent in an asset as a result of substantive and enforceable rights, therefore SCC has recognised foundation school assets on the balance sheet since 2014/15.

Voluntary aided

Voluntary aided schools are endowed by a trust and the Schools Standards Framework Act determines that the trustees own the school buildings and the governing bodies are responsible for the provision of premises and all capital work to school buildings. The council is statutorily responsible for the land, consequently, values for the buildings have not been consolidated in this balance sheet, but values for the playing fields have been included as non-current assets.

Voluntary controlled

Voluntary controlled schools are owned by a charity but the local council runs the schools and employs the staff. The council is normally the freeholder of the non-current assets and accordingly the school premises have been recognised as property, plant and equipment in this balance sheet.

Academies

During 2018/19, 22 schools had transferred to academy status (16 Community Schools, 2 Voluntary Aided Schools, 3 Voluntary Controlled Schools and 1 Foundation School). Academy schools are owned and managed completely independently of the local authority and therefore the non-current assets have been excluded from this balance sheet.

Note 16: Financial instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets	1 April 2018	31 March 2019
Fair value through profit or loss		
Long Term Investments	72,064	93,074
Cash	43,000	30,720
Total	**115,064**	**123,794**

	£000	£000
Amortised Cost		
Long Term Investments		13
Long Term Debtors	184,606	235,949
Short Term Investments		
Short Term Debtors	126,269	125,785
Cash	8,224	24,751
Total	**319,099**	**386,498**
Total Financial Assets	434,163	510,292
Non-Financial Assets	1,888,572	1,976,669
Total	**2,322,735**	**2,486,961**

Financial Liabilities	1 April 2018 £000	31 March 2019 £000
Amortised Cost		
Long Term Borrowings	397,786	397,786
Short Term Borrowings	212,711	279,026
Short Term Creditors	157,243	155,234
PFI, Lease	140,038	134,986
Total Financial Liabilities	**907,778**	**967,032**
Non-Financial Liabilities	1,679,559	1,866,563
Total	**2,587,337**	**2,833,595**

Financial Instruments Designated at Fair Value through Profit or Loss

The balance of financial assets at 31 March 2019 was £510m an increase of £76m from the opening balance at 1 April 2018.

At 1 April there was £24.8m invested in variable money market funds (VNAV) which matured during the year. The constant net asset value (CNAV) money market funds were reclassified as LVNAV under European Money Market reform.

There were no financial liabilities designated at fair value through profit or loss.

Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income

No financial assets or liabilities were classed as fair value through other comprehensive income.

Reclassifications

No financial assets or liabilities were re-classified during the year.

Income, Expense, Gains and Losses

	2017/18		2018/19	
	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
	£000	£000	£000	£000
Net gains/(losses) on:				
Financial assets measured at fair value through profit or loss – fair value			(225)	
Financial assets measured at fair value through profit or loss – dividend			(230)	
Total net gains /(losses)			**(455)**	
Interest revenue:				
Financial assets measured at amortised cost	(9,476)		(14,528)	
Interest expense:				
Financial assets measured at amortised cost	25,233		31,626	

Fair Value

Basis for recurring fair value measurements:

- Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities 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 or liability, either directly or indirectly.
- Level 3 Inputs – unobservable inputs for the asset or liability.

Fair Value of Financial Assets

Some of the authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31/3/18 £000	As at 31/3/19 £000
Fair Value through Profit or Loss				
Cash (Money Market Funds)	Level 1	Unadjusted quoted prices in active markets for identical shares	43,000	30,720
Other financial instruments	Level 1	Unadjusted quoted prices in active markets for identical shares	72,064	93,074

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between levels 1 and 2 during the year.

Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

Reconciliation of Fair Value Measurements for Financial Assets Carried at Fair Value Categorised within Level 3 of the Fair Value Hierarchy for Financial Assets

There were no instruments, measured at fair value, that were at level 3 in the hierarchy.

Fair Values of Financial Assets and Financial Liabilities that are not measured at fair value but for which fair value disclosures are required

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB payable, PWLB prevailing market rates (have been applied to provide the fair value under PWLB debt redemption procedures.
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;

- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities	**31 March 2018**		**31 March 2019**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£000	**£000**	**£000**	**£000**
Long Term Borrowings	397,786	571,950	397,786	562,839
Short Term Borrowings	212,711	212,711	279,026	279,026
Short Term Creditors	157,243	157,243	155,234	155,234
PFI, Lease	140,038	140,038	134,986	134,986
Total	**907,778**	**1,081,942**	**967,032**	**1,132,085**

The fair value of borrowings is higher than the carrying amount because the portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss, based on economic conditions at 31 March 2019, arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	**31 March 2018**		**31 March 2019**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£000	**£000**	**£000**	**£000**
Long Term Investments				
Long Term Debtors	184,606	184,606	235,949	235,949
Short Term Debtors	126,269	126,269	125,785	125,785
Cash	8,224	8,224	24,751	24,751
Total	**319,099**	**319,099**	**386,485**	**386,485**

The fair value of the financial assets is higher than the carrying amount because the portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain, based on economic conditions at 31 March 2019, attributable to the commitment to receive interest below current market rates.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value. Long term debtors are mainly made up of loans to the Council's investment property vehicle, Halsey Garton Property Ltd.

Fair value hierarchy of financial assets and financial liabilities that are not measured at fair value

	31 March 2019			
Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1)**	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	£000	**£000**	**£000**	**£000**
Financial liabilities				
Long Term Borrowings		(562,839)		(562,839)
Short Term Borrowings		(279,026)		(279,026)
Short Term Creditors		(155,234)		(155,234)
PFI, Lease			(134,986)	(134,986)
Total		**(997,099)**	**(134,986)**	**(1,132,085)**
Financial assets				
Long Term Debtors		235,949		235,949
Short Term Debtors		125,785		125,785
Cash		24,751		24,751
Total		**386,485**		**386,485**

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a discounted cash flow analysis, with the most significant inputs being the discount rate.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions.

Financial Assets

- early repayment or impairment is recognised;
- average rate of interest rates at 31 March 2019 of 0.63% for loans receivable, based on new lending rates for equivalent loans at that date;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial Liabilities

- no early repayment is recognised;
- average rate of interest rates at 31 March 2019 of 2.35% for loans payable based on new lending rates for equivalent.

Nature and extent of risks arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk -** the possibility that other parties might fail to pay amounts due to the Council;

- **Liquidity risk** - the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Re-financing risk -** the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **Market risk** -the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

Overall procedures for managing risk

The Council's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its management of interest rate exposure:
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 6 February 2018 and is available on the Council website.

The key issues within the strategy were:

- The Authorised Limit for 2018/19 was set at £1,481m. This is the maximum limit of external borrowings or other long-term liabilities;
- The Operational Boundary was set at £1,059m. This is the expected level of debt and other long-term liabilities during the year;
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 25% based on the Council's net debt;
- The maximum and minimum exposures to the maturity structure of debt.

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. This risk is minimised through the Annual Investment Strategy, which is available on the authority's website.

Credit Risk Management Practices

The Council's credit risk management practices are set out in the Annual Investment Strategy. With particular regard to determining whether the credit risk of financial instruments has increased significantly since initial recognition.

The Annual Investment Strategy requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The credit criteria in respect of financial assets held by the Council are detailed below:

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2018/19 was approved by Full Council on 6 February 2018 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in financial institutions of £238m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments.
A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise.

Amounts Arising from Expected Credit Losses (ECL)
The changes in loss allowance during the year are as follows:

	12 Month ECL	Lifetime ECL	Lifetime ECL – Simplified Aprroach	Total
	£000	£000	£000	£000
Opening balance 1 April 2018	1,384	0	8,356	9,740
Change in credit loss	284	0	1,075	1,359
Closing balance 31 March 2019	1,668	0	9,431	11,099

12 Month ECL includes some third party loans. Lifetime ECL includes some third party loans, treasury investments and non-debtor system invoices. Lifetime ECL simplified includes debtor system invoices (previously presented as provision for bad debt).

Collateral – During the reporting period the council held no collateral as security.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets, including sums due from customers, is as follows:

	31 March 2018	31 March 2019
	£000	£000
Less than one year	78,118	54,555
Between one and two years	0	0
Total	**78,118**	**54,555**

Refinancing and Maturity risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer-term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy:

	Approved Minimum Limit	Approved Maximum Limit	31 March 2018	31 March 2019
	%	%	%	%
Less than one year	0%	50%	35	41
Between one and two years	0%	50%	0	0
Between two and five years	0%	50%	2	0
Between five and ten years	0%	75%	0	0
More than ten years	25%	100%	63	59

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

Price risk

The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Note 17: Short term debtors

31/03/2018 £000		31/03/2019 £000
16,882	HMRC Debtors	6,171
13,038	Accounts Receivable Debtors	21,828
32,572	Collection Fund Debtors	104,032
17,235	Adult Social Care Debtors	18,006
17,672	Payments in Advance	19,092
39,537	Other Debtors	40,105
136,936	**Total**	**209,234**

Note 18: Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

31/03/18 £000		31/03/19 £000
8,224	General account	24,751
43,000	Money market funds	30,720
51,224	**Total cash and cash equivalents**	**55,471**

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Note 19: Assets held for sale

Assets held for sale (current) 31/03/2018 £000		**Assets held for sale (current) 31/03/2019 £000**
10,850	**Balance outstanding at 1 April**	**10,100**
	Assets newly classified as held for sale:	
499	- Property, plant and equipment	**0**
0	Assets de-classifieds as held for sale	**(9,200)**
1,351	Revaluation gain	**0**
(550)	Revaluation loss	**0**
(2,050)	Assets sold*	**(500)**
10,100	**Balance outstanding at 31 March**	**400**

* Of the total assets sold in 2018/19, all relates to land and property included in the opening balance.

Note 20: Creditors

31/03/18 £000		**31/03/19 £000**
(16,322)	HMRC Creditors	**(16,537)**
(40,226)	Accounts Payable Creditors	**(38,900)**
(4,407)	Collection Fund Creditors	**(12,301)**
(42,282)	Receipts in Advance	**(51,190)**
(104,579)	Other Creditors	**(107,445)**
(207,816)	**Total**	**(226,373)**

Note 21: Provisions

	Business Rates Appeals	Insurance liabilities	Equal pay	Fire fighters Pensions Fund	Redundancy	Other provisions	Total provisions
	£000	£000	£000	£000	£000	£000	**£000**
Balance at 1 April 2018	8,559	5,462	3,500	0	2,451	1,872	**21,844**
Additional provisions made in 2018/19	19,204			3,000	5,914	79	**28,197**
Amounts used in 2018/19		(300)			(2,452)		**(2,752)**
Unused amounts reversed in 2018/19						(453)	**(453)**
Balance at 31 March 2019	27,763	5,162	3,500	3,000	5,913	1,498	**46,836**
Current Provisions					5,913	61	**5,974**
Non-Current Provisions	27,763	5,162	3,500	3,000		1,437	**40,862**
	27,763	5,162	3,500	3,000	5,913	1,498	**46,836**

	Business Rates Appeals	Insurance liabilities	Equal pay	Fire fighters Pensions Fund	Redundancy	Other provisions	Total provisions
	£000	£000	£000	£000	£000	£000	**£000**
Balance at 1 April 2017	8,069	5,162	2,000	8,949	2,729	2,548	**29,457**
Additional provisions made in 2017/18	490	300	1,500		1,960	354	**4,604**
Amounts used in 2017/18				(8,910)	(2,238)	(833)	**(11,981)**
Unused amounts reversed in 2017/18				(39)		(197)	**(236)**
Balance at 31 March 2018	8,559	5,462	3,500	0	2,451	1,872	**21,844**
Current Provisions		300			2,451	354	**3,105**
Non-Current Provisions	8,559	5,162	3,500			1,518	**18,739**
	8,559	5,462	3,500	0	2,451	1,872	**21,844**

Business rates

Since the introduction of Business Rates Retention Scheme, local authorities have been liable for successful appeals against business rates charged to businesses in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have

been overcharged up to 31 March 2019. The council's provision for the business rates appeals is based on our share of the provision calculated by each of the 11 borough and district councils in Surrey.

Insurance

The provision for insurance liabilities represents the assessed future claims on the county council's self-insurance fund. The fund was established to enable the county council to move towards self-insurance and is now considered to fully cover service risks. The fund and its liabilities are subject to review by the council's actuaries and the last review took place during 2015/16. The council has an earmarked reserve to cover any unknown future liabilities. In May 2016, a levy payment of £695,000 in relation to Municipal Mutual Insurance (MMI) was drawn down from this provision.

Unequal pay claim

The balance on the unequal pay provision is to fund any potential liability resulting from a potential breach of national minimum wage requirements for 'on call' payments to sleepover carers.

Firefighters Pensions

Historically retained (on-call) firefighters were precluded from membership of the Fire Pension Scheme. Since 6th April 2006 they have been entitled to join the modified 2006 Fire pension scheme. An exercise is currently underway to identify those staff who are eligible to join the scheme. Should those identified decide to take up that option, then the County Council will be required to make back-dated pension contributions.

Redundancy costs

As at 31 March 2019 there is a provision of £5.9m to cover the cost of redundancies agreed during 2018/19 but for which the expenditure will not be incurred until 2019/20.

Other provisions

A number of other smaller provisions have been identified.

Note 22: Usable reserves

Movements in the council's usable reserves are summarised in the table below (see Movement in Reserves Statement and notes 8 and 9 for detail).

	Balance at 1 April 2018	Transfers In	Transfers Out	**Balance at 31 March 2019**
	£000	£000	£000	**£000**
Revenue				
General Fund Balance	21,328			**21,328**
Earmarked Reserves	139,180	101,582	(49,117)	**191,645**
Total revenue reserves	160,508	101,582	(49,117)	**212,973**
Capital				
Capital Grant Unapplied	77,137	130,752	(97,279)	**110,610**
Capital Receipts Reserve	92,504	9,021	(54,667)	**46,858**
Total capital reserves	169,641	139,773	(151,946)	**157,468**
Total usable reserves	330,149	241,355	(201,063)	**370,441**

Note 23: Unusable reserves

Unusable reserves are kept to manage the accounting processes for items such as non-current assets, financial instruments, retirement and employee benefits. They do not represent usable resources for the council and are not backed by cash balances.

31/03/18	Restated 31/03/18		**31/03/19**
£000	£000		**£000**
(833,209)	(550,175)	Revaluation Reserve	(563,317)
(96,661)	(439,143)	Capital Adjustment Account	(436,655)
19	19	Financial Instruments Adjustment Account	19
1,575,845	1,575,845	Pensions Reserve	1,775,087
777	777	Collection Fund Adjustment Account	(32,015)
7,575	7,575	Accumulated Absences Account	6,618
654,346	**594,898**		**749,737**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation;
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31/03/18	Restated 31/03/18		31/03/19	
£000	£000		£000	£000
(787,477)	(557,994)	**Balance at 1 April**		**(550,175)**
(75,230)	(75,230)	Upward revaluation of assets	(67,095)	
19,709	19,709	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	5,107	
		Asset reclassification		
		Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the Provision of Services		(61,988)
9,789	9,789	Difference between fair value depreciation and historical cost depreciation	9,134	
	53,551	Accumulated gains on assets sold or scrapped	39,712	
		Amount written off to the Capital Adjustment Account		48,846
(833,209)	**(550,175)**	**Balance at 31 March**		**(563,317)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

31/03/18 £000	Restated 31/03/18 £000		31/03/19 £000	31/03/19 £000
(144,494)	**(433,425)**	**Balance at 1 April**		**(439,143)**
		Adjustment to opening balance for IFRS9		**1,370**
		Revised opening balance		**(437,773)**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
77,740	77,740	Charges for depreciation and impairment of non-current assets	74,491	
		Impairment or fair value adjustments under IFRS 9	293	
26,466	26,466	Revaluation losses/(gains) on Property, Plant and Equipment	(51)	
(5,287)	(5,287)	Other movements in valuation on Property, Plant and Equipment	(2,670)	
1,248	1,248	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(19,581)	
1,117	1,117	Amortisation of intangible assets	1,200	
13,836	13,836	Revenue expenditure funded from capital under statute	28,936	
(205)	(205)	Deferred Income	(220)	
(116)	(116)	Donated Assets credited to the Comprehensive Income and Expenditure Statement	(67)	
94,167	40,616	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	86,170	
208,966	155,415			168,501
(9,789)	(9,789)	Adjusting amounts written out of the Revaluation Reserve		(9,134)
199,177	145,626	Net written out amount of the cost of non-current assets consumed in the year		159,367
		Capital financing applied in the year:		
(27,625)	(27,625)	Use of the Capital Receipts Reserve to finance capital expenditure		(40,345)
		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing		(12,123)
(97,845)	(97,845)	Application of grants to capital financing from the Capital Grants Unapplied Account		(85,155)
(24,458)	(24,458)	Statutory provision for the financing of capital investment charged against the General Fund		(19,913)
(1,416)	(1,416)	Capital expenditure charged against the General Fund		(713)
(96,661)	**(439,143)**	**Balance at 31 March**		**(436,655)**

Financial Instrument Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The balance on the financial instrument adjustment account at the 31 March 2018 is for to the loss of interest on a soft loans issued by the council in 2007/08 to Painshill Park Trust Ltd. There were no movements during 2018/19.

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as benefits are earned by employees through accruing years of service. Liabilities recognised on the Balance Sheet are updated to reflect inflation, changed assumptions and investment returns on any resources set aside to meet the costs. Statutory arrangements require benefits earned to be financed as the council makes employer contributions to pension funds or when it eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31/03/18		**31/03/19**
£000		**£000**
1,560,191	**Balance at 1 April**	**1,575,845**
(56,628)	Actuarial (gains)/losses on pensions assets and liabilities	**96,977**
151,596	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Account	**181,062**
(79,314)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(78,797)**
1,575,845	**Balance at 31 March**	**1,775,087**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. There has been a significant increase in 2018/19 due to the Council being part of the 100 Business Rates Retention Pilot.

31/03/18 £000		31/03/19 £000
(7,581)	**Balance at 1 April**	**777**
8,358	Amount by which local taxation income credited to the Comprehensive Income and Expenditure Statement is different from local taxation income calculated for the year in accordance with statutory requirements	**(32,792)**
777	**Balance at 31 March**	**(32,015)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31/03/18 £000		31/03/19 £000	31/03/19 £000
10,431	**Balance at 1 April**		**7,575**
(10,431)	Settlement or cancellation of accrual made at the end of the preceding year	(7,575)	
7,575	Amounts accrued at the end of the current year	6,618	
(2,856)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**(957)**
7,575	**Balance at 31 March**		**6,618**

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Note 24: Trading operations

Surrey Commercial Services is the in-house contractor for the county council's catering (school meals and staff restaurants including county hall), cleaning (schools, offices and operational buildings), and a maintenance service for sports, craft and design equipment in schools. Nearly all work is won under formal tendering procedures.

The table below shows the income and expenditure for 2018/19

2017/18 £000		**2018/19 £000**
(29,648)	Turnover	**(25,711)**
28,805	Expenditure	**24,493**
(843)	(Surplus)	**(1,219)**
995	Support services recharged to Expenditure of Continuing Operations	**883**
152	**Net deficit/(surplus) debited to other Operating Expenditure**	**(335)**

Note 25: Pooled budgets

Section 75 of the National Health Service Act 2006 enables health and local authorities to work together for a common objective. This may involve a pooled budget where all partners make a contribution. The main section 75 arrangement in Surrey is the Better Care Fund which was set up during 2015/16.

Better Care Fund

The Better Care Fund was announced in June 2013 to drive the transformation of local Adult Social Services to ensure that people receive better and more integrated care and support. The fund is deployed locally on health and social care through pooled budget arrangements between the council and the local Clinical Commissioning Group (CCG).

The council entered into seven pooled budget arrangements in 2015/16, each representing a different CCG and area within Surrey. Each of the pooled budgets represents a joint arrangement with an equal proportion of ownership. The fund is managed by a Local Joint Commissioning Group (LJCG) which is a partnership between the council, the local CCG and other key partners in the area involved in the provision of Adult Social Care.

The council acts as the 'host' authority for all these pooled budgets. The table below summarises the financial position of each pooled budget arrangement for 2018/19. The council recognises its share of income, expenditure, assets and liabilities in its accounts.

2018/19

	North West Surrey LJCG	Surrey Downs LJCG	Guildford & Waverley LJCG	East Surrey LJCG	Surrey Heath LJCG	North East Hampshire & Farnham LJCG	Windsor, Ascot & Maidenhead LJCG	Total
Funding provided to the pooled budget								
- Surrey County Council	(163)	(81)	(56)	(72)	(30)	(9)	(7)	**(418)**
- North West Surrey CCG	(20,458)							**(20,458)**
- Surrey Downs CCG		(17,010)						**(17,010)**
- Guildford & Waverley CCG			(11,920)					**(11,920)**
- East Surrey CCG				(10,532)				**(10,532)**
- Surrey Heath CCG					(5,597)			**(5,597)**
- North East Hampshire & Farnham CCG						(2,579)		**(2,579)**
- East Berkshire CCG							(684)	**(684)**
	(20,621)	(17,091)	(11,976)	(10,604)	(5,627)	(2,588)	(691)	**(69,198)**
Expenditure met from the pooled budget	20,764	16,970	11,522	10,668	5,634	2,484	592	**68,634**
(Surplus) or deficit	143	(121)	(454)	64	7	(104)	(99)	**(564)**
SCC Share	72	(61)	(227)	32	3	(52)	(49)	**(282)**

2017/18

	North West Surrey LJCG	Surrey Downs LJCG	Guildford & Waverley LJCG	East Surrey LJCG	Surrey Heath LJCG	North East Hampshire & Farnham LJCG	Windsor, Ascot & Maidenhead LJCG	Total
Funding provided to the pooled budget								
- Surrey County Council	(163)	(81)	(56)	(72)	(30)	(9)	(7)	**(418)**
- North West Surrey CCG	(20,100)							**(20,100)**
- Surrey Downs CCG		(16,693)						**(16,693)**
- Guildford & Waverley CCG			(11,698)					**(11,698)**
- East Surrey CCG				(10,215)				**(10,215)**
- Surrey Heath CCG					(5,597)			**(5,597)**
- North East Hampshire & Farnham CCG						(2,531)		**(2,531)**
- Windsor, Ascot & Maidenhead CCG							(672)	**(672)**
	(20,263)	(16,775)	(11,754)	(10,287)	(5,627)	(2,540)	(679)	**(67,925)**
Expenditure met from the pooled budget	20,290	16,393	11,508	9,790	5,608	2,497	607	**66,695**
Surplus or deficit (-)	27	(381)	(246)	(497)	(19)	(43)	(72)	**(1,230)**
SCC Share	14	(191)	(123)	(248)	(9)	(21)	(36)	**(615)**

Orbis Joint Operating Budget

Orbis is a partnership between Surrey County Council, East Sussex County Councils and Brighton & Hove City Council that aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers. This decision is built on the successful collaboration between Surrey and East Sussex County Councils, established through a joint procurement function in 2012, and the provision of transactional shared services since April 2013. Brighton & Hove joined the partnership in October 2016.

The Orbis Partnership in 2018/19 incorporated the following services: Human Resources and Organisational Development, Property, IT and Digital, Procurement, Finance (including Internal Audit), Revenues and Benefits and Business Operations (Shared Services).

During 2018/19 Surrey, East Sussex and Brighton & Hove Councils operated a joint operating budget to fund business services.

2017/18 £000		2018/19 £000
	Funding provided to the pooled budget	
(33,586)	- Surrey County Council	(32,931)
(14,580)	- East Sussex County Council	(14,112)
	- Brighton and Hove City Council	(12,776)
(48,166)		(59,819)
48,166	Expenditure met from the pooled budget	59,819
	Net surplus on the pooled budget	

The council is also part of the following pooled budgets arrangements;

- Surrey integrated community equipment service for the supply of equipment to enable people with physical disabilities to live at home;
- Child and adolescent mental health service offering support and advice to young people experiencing mental health, emotional and behavioural problems;
- HOPE is a partnership that provides intensive support for young people with serious mental health needs;
- Surrey safeguarding children's board is a key statutory mechanism for agreeing how agencies in Surrey will cooperate to safeguard and promote the welfare of children in Surrey;

The financial performance of these budgets has been excluded from this note to the account on the basis of materiality.

Note 26: Member allowances

2017/18 £000		**2018/19 £000**
1,641	Member Allowances*	**1,659**
65	Member Expenses	**60**
1,706		**1,719**

*Includes the employer's contributions for national insurance £118k (2017/18, £132k).

Note 27: Officer remuneration – senior officers

Senior officers are specified as: all employees whose annualised salary is £150,000 or more; the head of paid services and any (non secretarial/clerical) person for whom the head of paid services is directly responsible, the directors of children and adult social services, the chief education officer, chief officer of a fire brigade, the section 151 officer and any other individuals who are directly accountable to the council (committee or subcommittee) and earn £50,000 or more.

Remuneration includes salary/wages, bonuses, expenses, allowances and benefits (chargeable to United Kingdom income tax), compensation for loss of office and employer pension contributions paid in 2019/19. Compensation for loss of office is included even though this is excluded from the general definition of remuneration. Costs for interim senior officers are also included in the salary column, these include the fees payable to employment agencies

Individuals whose remuneration is £150,000 or more per year must be named whereas those earning below £150,000 must be identified by way of job title alone. The remuneration of the council's senior officers is disclosed in the table below:

Post	Year	Salary	Expense allowance	Compens-ation for Loss of Earnings	Total remuneration excluding pension contributions	Pension contribut-ions	Total remuneration including pension contributions
		£	£		£	£	£
Chief Executive (1) – Joanna Killian	18/19	219,409			219,409	(2,363)	217,046
	17/18	15,968			15,968	2,363	18,331
Executive Director for Children, Families Lifelong Learning and Culture (2) – Dave Hill	18/19	174,694			174,694	23,511	198,206
	17/18						
Deputy Chief Executive and Strategic Director of Children, Schools & Families (2) – Julie Fisher	18/19	4,935			4,935	730	5,666
	17/18	180,884			180,884	26,970	207,854
Executive Director for Public Health (3)	18/19	134,595			134,595	19,355	153,950
	17/18	134,595			134,595	19,355	153,950
Executive Director, Adults Social Care (3) – Simon White *	18/19	163,374	119		163,494		163,494
	17/18						
Executive Director for Highways, Transport and Environment (4)	18/19	105,057			105,057	15,548	120,606
	17/18						
Strategic Director of Environment & Infrastructure (4)	18/19	16,797		118,943	135,739	10,117	145,856
	17/18	119,479			119,479	17,627	137,106
Executive Director for Finance (5) – Leigh Whitehouse *	18/19	168,900	143		169,043		169,043
	17/18						
Strategic Director of Finance (6)	18/19	33,669	1,113	93,750	128,532	11,090	139,622
	17/18	127,924	1,948		129,872	18,933	148,805
Executive Director for Customers, Digital and Transformation (7)	18/19	130,780			130,780	19,355	150,135
	17/18						
Chief Fire Officer	18/19	121,573			121,573	12,480	134,053
	17/18	122,498			122,498	15,573	138,071
Executive Director for Economy, Growth and Commercial (8)	18/19	82,608		41,250	123,858		123,858
	17/18						
Total 2018/19		**1,356,391**	**1,375**	**253,943**	**1,611,709**	**109,823**	**1,721,535**
Total 2017/18 (9)		701,348	1,948		703,296	100,821	804,117

*Salary includes agency fees

Notes to Senior Officer's Remuneration table:

1. Joanna Killian started as Chief Executive Officer in March 2018. David McNulty left his post in September 2017, his 2017/18 total remuneration was £140,131.

2 The Executive Director for Children, Families Lifelong Learning and Culture post replaces the Strategic Director for Children, Schools and Families. Julie Fisher was in this post until April 2018 and was also acting Chief Executive officer from October 2017 to March 2018.

3. The Executive Director of Public Health was the Strategic Director for Adult Social Care and Public Health until September 2018. This post was then split out with the Executive Director of Adult Social Care starting September 2018

   The Executive Director of Adult Social Care post is filled on an interim basis. The amount shown in the salary column is the cost of this post including agency fees.

4. The current Executive Director for Highways, Transport and Environment started in May 2018. This post was previously called the Strategic Director Environment & Infrastructure, and the previous post holder left May 2018.

5. This post (formerly Director of Finance) is the Director of Finance for the Orbis partnership and therefore their salary is paid from the Orbis joint operating budget. This means it is ultimately paid 55% by Surrey County Council, 24% by East Sussex County Council and 21% by Brighton and Hove Council. The full salary is shown in the table for the purposes of this note.

   This post is filled on an interim basis. The amount shown in the salary column is the cost of this post including agency fees.

6 This post was replaced by the Executive Director for Finance.

7 This is a new post from 24 April 2018. 10% of the cost of this post is paid for from the Orbis joint operating budget and is split as per note 5. The full salary is shown in the table for the purposes of this note.

8 This post was created in 2018/19 but has now been deleted.

9 This line includes the 2017/18 costs for the posts in the table. The total senior officer remuneration for 2017/18, including those who left in 2017/18 was £1,070,131.

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Note 28: Officers' remuneration

2017/18				2018/19		
Non school numbers	Schools numbers	Total numbers	**Remuneration (£)**	**Non-schools numbers**	**Schools numbers**	**Total numbers**
141	**77**	**218**	50,000 - 54,999	**176**	**89**	**265**
139	**67**	**206**	55,000 - 59,999	**131**	**69**	**200**
62	**52**	**114**	60,000 - 64,999	**75**	**49**	**124**
45	**31**	**76**	65,000 - 69,999	**40**	**21**	**61**
23	**28**	**51**	70,000 - 74,999	**22**	**39**	**61**
22	**9**	**31**	75,000 - 79,999	**14**	**8**	**22**
23	**9**	**32**	80,000 - 84,999	**17**	**7**	**24**
6	**3**	**9**	85,000 - 89,999	**6**	**4**	**10**
5	**2**	**7**	90,000 - 94,999	**6**	**3**	**9**
3	**3**	**6**	95,000 - 99,999	**2**	**1**	**3**
2		**2**	100,000 - 104,999	**5**	**2**	**7**
			105,000 - 109,999	**1**		**1**
3		**3**	110,000 - 114,999	**2**		**2**
1		**1**	115,000 - 119,999			
3		**3**	120,000 – 124,999	**3**		**3**
1		**1**	125,000 - 129,999	**1**		**1**
1		**1**	130,000 - 134,999	**2**		**2**
	1	**1**	135,000 - 139,999			
			140,000 - 144,999	**1**		**1**
			145,000 – 149,999			
			150,000 – 154,999			
			155,000 – 159,999	**1**		**1**
			160,000 – 164,999	**1**		**1**
			165,000 – 169,999			
1		**1**	180,000 – 184,999			
			220,000 - 224,999			
			235,000 – 239,999			
481	**282**	**763**		**506**	**292**	**798**

The table above includes 100 staff (102 in 2017/18) whose salary costs are paid from the Orbis joint operating budget and are therefore split 55% Surrey County Council, 24% East Sussex County Council and 21% Brighton and Hove City Council.

There are an additional 32 staff (32 in 2017/18) at East Sussex County Council and 21 staff at Brighton and Hove City Council that earned over £50,000 in 2018/19. They are not included in the above table, and were paid from the Orbis joint operating budget and are therefore also split 55% Surrey County Council, 24% East Sussex County Council and 21% Brighton and Hove City Council.

Note 29: Exit packages

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

2017/18					2018/19			
Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band	Exit package cost band (including special payments)	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Total cost of exit packages in each band***
			£000	**Cost (£)**				**£000**
26	16	42	389	0-20,000	**24**	**7**	**31**	**210**
6	4	10	299	20,001-40,000	**3**	**3**	**6**	**153**
3	7	10	493	40,001-60,000	**2**	**4**	**6**	**288**
1	2	3	193	60,001-80,000	**1**	**0**	**1**	**61**
1	3	4	350	80,001-100,000	**0**	**0**	**0**	**0**
1	1	2	229	100,001-150,000	**3**	**2**	**5**	**633**
				150,001 – 200,000	**0**	**0**	**0**	**0**
				200,001 – 250,000	**1**	**0**	**1**	**215**
38	33	71	1,953	**Total cost included in bandings**	**34**	**16**	**50**	**1,560**
28	101	129	1,916	ADD: Amounts provided for in CIES not yet paid**	**36**	**252**	**288**	**6,290**
66	134	200	3,869	**Total cost included in CIES**	**70**	**268**	**338**	**7,850**

* Includes cost of pension fund strain where applicable

** Included in the total cost charged to the CIES are movements in the redundancy provision for redundancies that had been approved in 2018/19 but for which no payment had yet been made.

Note 30: External audit costs

The council has incurred the following costs in relation to the statutory auditors;

2017/18 £000		2018/19 £000
142	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	**109**
4	Fees payable to the external auditors for the certification of grant claims and returns for the year	**4**
146	**Total**	**113**

Note 31: Dedicated Schools Grant

The council's expenditure on schools in 2018/19 was funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools' budget, as defined in the School and Early Years Finance (England) Regulations 2018. The school budget includes elements for a range of educational services provided on a council-wide basis and for the individual school's budget, which is divided into a budget share for each maintained school, plus allocations for private nursery providers.

In total there was a £6m deficit on DSG for 2018/19. This is the net amount from an overspend on the High Needs Block of £18.7m, less unspent balances on the other blocks of £12.8m. The High Needs Block overspend is covered by a new ear marked reserve (see Note 9).

Details of the deployment of DSG receivable for 2018/19 are shown on the table below:

Ref:	2017/18 £000s				2018/19 £000s
A	804,410	Final DSG 2018/19 before academy recoupment (ESFA gross allocation)			**837,579**
A1	(13,198)	Less deducted by ESFA for high needs place funding			**(15,520)**
B	(294,275)	Academy figure recouped			**(334,236)**
C	496,937	Total DSG after academy recoupment			**487,823**
D	3,477	Brought forward from 2017/18			**4,043**
D1	603	Early years adjustment in 2018/19 in respect of 2017/18			**(1,972)**
E1	3,869	Less estimated early years sum to be recovered by DfE in 2019/20			
E2	(3,102)	DSG amount used to repay council reserves which funded high needs block overspend in previous year			
E3	1,910	Carry forward agreed in advance			**2,845**
	492,136				**487,049**
			Central	ISB*	
F	491,513	Agreed initial budgeted distribution	132,134	354,915	**487,049**
G	623	In year adjustments	(759)	759	
H	492,136	**Final distribution**	131,375	355,674	**487,049**
I	(133,919)	Actual central expenditure	(142,332)		**(142,332)**
J	(361,801)	Actual Individual Schools Budget (ISB)		(355,674)	**(355,674)**
K	1,848	Local authority contribution	2,142		**2,142**
	(493,872)	**Total funded by DSG**	(140,190)	(355,674)	**(495,864)**
L	(1,736)	DSG spent less budgeted distribution 2018/19	(8815)		**(8,815)**
M	4,043	**Total amount carried forward to 2019/20**			**(5,970)**

*Individual Schools Budget

Reference:

A Final DSG figure before deducting academy recoupment and funding for high needs places directly funded by the ESFA, and before the January 2019 early years block adjustment (which will be made in summer 2019).

A1 Figure deducted by ESFA from gross DSG in respect of funding for places in non maintained special schools, special academies, SEN units and resources in mainstream academies and post 16 SEN places in maintained schools, for which funding is paid directly to the academy or school by the Education and Skills

Funding Agency.

B Figure recouped from the authority in 2018/19 by the DfE for the conversion of maintained schools into academies.

C Total DSG after final ESFA academy recoupment and place funding deductions.

D Figure brought forward from 2017/18 as agreed with the Department.

D1 Deduction made by the DfE in 2018/19 in respect of 2017/18 because the number of 2, 3 and 4 year olds taking up their free entitlement in Jan 2018 was lower than in Jan 2017.

E1 Estimated DSG adjustment to be made in 2019/20 because take up of the 2,3 and 4 year old free entitlement in Jan 2018 differed from previously estimated by the DfE.

E2 High needs block overspend in 2016/17 which was temporarily funded from council reserves in 2016/17 and repaid from DSG in 2017/18 (nil for 2018/19).

E3 Any amounts which the authority decided after consultation with the Schools Forum, to carry forward to 2019/20 rather than distribute in 2018/19.

F Initial budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum .

G Changes to DSG after the initial distribution comprise adjustments to budgets for maintained and private early years providers , adjustments for permanently excluded pupils, reductions in de-delegated budgets for central services as more schools convert to academies and additional DSG brought forward.

H Budgeted distribution of DSG as at the end of the financial year.

I Actual amount of central expenditure items in 2018/19.

J Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares). Includes final budget shares for private nursery providers.

K Contribution from LA which has the effect of substituting for DSG in 2018/19

L Carry-forward to 2019/20, ie:
For central expenditure, difference between final budgeted distribution of DSG and actual expenditure , plus any local authority contribution.
For ISB, difference between amount allocated to individual providers and funding budgeted for that purpose.

M Sum carried forward to 2019/20 (a negative figure=deficit) This is the total of the underspend against the final 2018/19 budget (L) plus the sum agreed with Schools Forum in advance to be carried forward (E3).

Note 32: Grants and contributions

The council credited the following grants, contributions and donations to the Surplus on the Provision of Services in the Comprehensive Income & Expenditure Statement. The amounts credited to general grants and contributions are listed in the table below:

2017/18 £000		2018/19 £000
	General grants & contributions	
86,633	Formula Grant*	
10,917	Private Finance Initiative Grant	**7,998**
	Business Rate Grants	**20,457**
6,242	Public Health**	**6,757**
12,174	RSG Transitional Funding	
4,756	New Homes Bonus	**2,890**
11,391	Dedicated Schools Grant** (non ring-fenced)	**8,471**
13,151	Other Revenue Grants	**2,818**
45,643	Education Funding Agency (Schools Basic Need & Schools Condition Allocation)	**63,703**
23,354	Highways Maintenance & Integrated Transport Grant	**31,327**
3,801	Capital developer contributions	**12,716**
9,914	Local Growth Deal	**13,548**
8,151	Capital contributions from schools	**4,562**
3,451	National Productivity Grant	
3,632	Other Capital grants & Contributions	**4,896**
243,210		**180,143**

* The Council no longer receives formula grant as it is part of the 100% Business Rate Retention Pilot.

**These grants are ring-fenced but these figures represent where expenditure outside of the service to which they apply is funded from these grants in accordance with the conditions of the grant.

Grants credited to services are analysed in the following table:

2017/18 £000		2018/19 £000
486,145	Dedicated Schools Grant	**489,535**
31,262	Public Health Grant	**29,783**
10,894	Young People Learning Agency	**10,603**
15,046	Pupil Premium	**14,380**
10,781	Universal Infant Free School Meals	**9,404**
36,346	Other revenue grants	**36,903**
590,474	**Total**	**590,608**

Note 33: Related parties

In accordance with IAS 24 the County Council is required to disclose material transactions with related parties – defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.

Central government has effective control over the general operations of the council: it is responsible for providing the majority of its funding in the form of grants, and prescribes the terms of significant transactions with other parties (e.g. council tax precepts on district councils). Details of transaction with central government are contained within the accounts and accompanying notes in this statement of accounts.

Elected Members of the council have direct control over the council's financial and operating policies. As required by Section 81 of the Local Government Act 2000, Members' outside interests are recorded in a formal Register and the Code of Conduct operated by the council requires members to disclose any related interests they have and to take no part in decisions on issues concerning those related interests.

The total of members' allowances paid in 2018/19 is shown in Note 26.

In addition, a survey of the related party interests of members in office during the 2018/19 financial year and their immediate family members was carried out in preparing this statement of accounts. There were responses from 78 of 81 members. The council had transactions with 36 bodies that members declared an interest in, with a total value of £11.6m. Of this, payments of £3.7m were to Kings International College, in which 1 member declared an interest, £2.8m were to Young Epilepsy in which 1 member declared an interest, £1.6m to St. John the Baptist School in Woking in which 1 member declared an interest, £0.9m to London Care Partnership in which 1 member declared an interest, £0.6m was to Surrey Wildlife Trust in which 4 members declared an interest.

Senior Officers are deemed to include all officers earning over £66,976. The council had transactions with 8 other bodies in which an interest was declared totalling £5.4m.

Entities controlled or significantly influenced by the council

The council wholly owns the following companies

- S.E. Business Services Ltd - The company was set up for the provision of business services and was incorporated on 20 June 2013.
- Surrey Choices Ltd -. The company was set up for the delivery of day services and community support options for people with disabilities and older people. The company was incorporated on 10 March 2014 but did not begin trading until August 2014.
- Halsey Garton Property Ltd – is a property investment company. It is a holding company with three subsidiaries; Halsey Garton Property Investments Ltd, Halsey Garton Property Developments Ltd and Halsey Garton Residential Ltd. The latter two companies are not yet active or trading.
- BSDL (Fire Station) Ltd – This company is a special purpose vehicle established for the transfer of the new fire station in Woking. The company does not trade and is now being wound up as the fire station has been transferred back to Council ownership.

The council also has significant influence and control over one trust fund, the Henrietta Parker Trust.

Group accounts for 2018/19 have been prepared and are presented in these accounts to show the combined financial performance and position of the county council, SE Business Services, Surrey Choices, and Halsey Garton Property Ltd.

During 2018/19 the council purchased £23.3m of shares in Halsey Garton Ltd (£25.3m 2017/18) and provided long-terms of £55.0m (£60.2m 2017/18). It received £12.2m in interest payments from Halsey Garton Property Ltd (£9.0m 2017/18) and £0.5m in recharges from the company for services provided in year (£0.5m 2017/18).

The council purchased £12.4m of Adult Social Care services from Surrey Choices Ltd (£12.8m 2017/18). It received £2.5m in recharges from the company for services provided in year (£2.7m in 2017/18).

The council received £0.4m in recharges from SE Business Services for services provided in year (£0.5m in 2017/18).

Other public bodies *(*subject to common control by central government)

The council is subject to a number of pooled budget arrangements for the provision of health services and these are detailed in note 25.

Surrey Pension Fund

The fee payable by the Surrey Pension Fund to the county council for services provided in 2018/19 was £2.1m (£1.8m in 2017/18). This is split into the fee for providing pension administration services £1.8m (£1.6m in 2018/19) and £0.3m (£0.2m in 2017/18) for treasury management, accounting and managerial services.

During 2018/19 the council paid employer pension contributions of £64.0m (£62.8m in 2017/18).

Net amounts owed by the council to the fund as at 31 March 2019 were £4.6m (£5.2m at 31 March 2018).

Orbis

Orbis is a partnership between Surrey County Council, East Sussex County Council and Brighton & Hove City Council that aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers. During 2018/19 Surrey, East Sussex, and Brighton & Hove operated a joint operating budget to fund business services at each council. (See note 25 for more information).

Note 34: Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

The CFR is analysed in the following table:

2017/18 £000		2018/19 £000
	Capital Financing	
1,063,058	Opening Capital Financing Requirement	1,151,877
(2,516)	Adjustment for loans	
1,060,542	**Restated Opening Capital Financing Requirement**	**1,151,877**
	Capital investment:	
127,543	Property, Plant and Equipment	111,847
2,114	Investment Properties	22,097
1,800	Intangible Assets	48
13,836	Revenue Expenditure Funded from Capital Under Statute	28,936
85,591	Long Term Debtor	78,300
	Sources of Finance	
	Capital receipts	(11,491)
(97,845)	Government grants and other contributions	(97,279)
(843)	Sums set aside from revenue	
(573)	Direct revenue contributions	(714)
	Application of capital receipts to prior year capital expenditure	(28,854)
	Capital payment for waste PFI	
(24,458)	Minimum Revenue Provision	(19,913)
(205)	PFI Deferred Income	(220)
1,151,877	**Closing Capital Financing Requirement**	**1,234,634**
	Explanation of movements in year	
111,523	Increase in underlying need to borrowing (unsupported by government financial assistance)	118,692
(27,625)	Application of capital receipts	(28,854)
12,000	Capital payment for waste PFI	
(24,458)	Minimum Revenue Provision	(19,913)
20,100	Assets acquired under finance leases	13,052
(205)	PFI Deferred Income	(220)
91,335	**Increase / (decrease) in Capital Financing Requirement**	**82,757**

Note 35: Leases

Council as lessee

Operating leases:

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2018 £000		**31 March 2019 £000**
	Operating lease liabilities - land and buildings	
2,674	Not later than one year	2,366
9,151	Later than one year but not later than five years	8,411
14,613	Later than five years	9,401
26,438		**20,178**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2017/18 £000	**Amounts charged to the Comprehensive Income and Expenditure Statement during the year** **Operating leases - land and buildings**	**2018/19 £000**
3,304	Minimum lease payments for the year	3,168

Council as lessor

Operating leases:

The council leases out property under operating leases for the following purposes:

- the provision of services such as community services, training centres and social care;
- the economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2018 Restated £000		**31 March 2019 £000**
	Lease liabilities - land and buildings:	
6,306	Not later than one year	9,162
16,698	Later than one year but not later than five years	25,610
21,728	Later than five year	64,776
44,732		**99,548**

In addition, the council leases a number of buses to bus operators as part of contracts with them to operate certain bus routes on the council's behalf. A nominal amount is received in consideration for these buses, however, the council receives a reduced charge from the operators to provide these services due to the provision of these vehicles. The significant increase in 2018/19 is due to the Gatwick Nexus 2 site becoming operational.

Note 36: Other short-term and long-term liabilities

31 March 2018 Other liabilities				31 March 2019 Other liabilities		
Short term	Long-term	Total		**Short term**	**Long-term**	**Total**
£000	£000	£000		**£000**	**£000**	**£000**
17,938	119,711	137,649	PFI finance lease liabilities (Note 37)	16,938	115,826	**132,764**
	11,580	11,580	Deferred income liabilities (Note 37)		11,360	**11,360**
	1,575,845	1,575,845	Pension liabilities (Note 39)		1,775,087	**1,775,087**
	2,389	2,389	Balances held for third parties		2,222	**2,222**
17,938	1,709,525	1,727,463		**16,938**	**1,904,495**	**1,921,433**

Note 37: Private finance initiatives and similar contracts

In 1999 the council entered into a 25-year contract for waste disposal with Surrey Waste Management. The annual payments under the contract are in part dependent upon the tonnage of waste sent for disposal so that the contractor manages demand risk at higher tonnage levels whereas this risk falls on the council if tonnages fall. A large proportion of the investment remains to be delivered. As a result the council faces a contingent liability as described in note 40.

In 1998 the council entered into a long-term contract with Anchor Trust for the purchase of residential and day care for the elderly in 17 homes previously operated by the council. Whilst the council is committed to purchasing the majority of beds in the homes the contractor is able to manage the remaining capacity for their own benefit. The council is committed to purchasing 71% of the beds available and day care facilities irrespective of whether these are used for the county's clients. Of the 17 homes nine return to council management after 21 years. The remaining eight homes remain under the control of Anchor Trust for a further nine years although the county will no longer be obliged to purchase beds under the terms of the original contract.

The ability of Anchor to exploit some of the capacity of the homes has been recognised as a deferred income liability.

In 2002 the council entered into a further long-term contract for the provision of residential and day care with Care UK. The contract has similar terms to that with Anchor Trust. The council is committed to purchasing 77% of the beds as well as day care facilities. All of the homes return to Surrey's management at the end of the 25-year contract at nil cost with the exception of one home where the council has the option to terminate the lease under the project agreement at advantageous terms.

In 2010 the council entered into a long term contract with Skanska John Laing for street lighting services. The contract, which is expected to last 25 years, will include the replacement or refurbishment of street lights in Surrey during the first five years, and continued maintenance of lights for the remainder of the contract term. At the end of the contract all equipment will return to the county's management.

Property plant and equipment

The assets used to provide services in relation to these arrangements are recognised on the Balance Sheet along with their corresponding liability. Movements in their value over the year are included in the analysis of the movement on the Property, Plant and Equipment balance in Note 13.

Assets in relation to Anchor Homes, Care UK and the Waste contract are recognised as land and buildings and those assets in relation to the street lighting contract are recognised as infrastructure assets.

The table below summarises the movement:

2017/18				2018/19		
Land & Buildings £000	Infra-structure £000	Asset Under Construction £000		**Land & Buildings £000**	**Infra-structure £000**	**Asset Under Construction £000**
100,928	76,653	53,757	**Gross cost at 1 April**	100,928	76,653	74,299
		16,757	Additions			13,052
100,928	76,653	74,299	**Gross Cost at 31 March**	100,928	76,653	87,351
(27,667)	(12,551)		**Accumulated Depreciation and Impairment at 1 April**	(29,752)	(14,467)	
(2,085)	(1,917)		Depreciation charge for the year	(2,048)	(1,916)	
			Impairment losses recognised in the Surplus/Deficit on the Provision of Services			
(29,752)	(14,468)		**Accumulated Depreciation and Impairment at 31 March**	(31,800)	(16,383)	
73,261	64,102	53,757	**Net book Value at 1 April**	71,176	62,185	74,299
71,176	62,185	74,299	**Net book Value at 31 March**	69,128	60,270	87,351

Payments made to the contractor are described as unitary payments. Unitary payments have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The value of any capital works are matched in the balance sheet by recognising a liability, either a finance lease liability or a deferred income liability where the contractor is able to exploit the assets for their own business.

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Payments remaining to be made under the PFI contract at 31 March 2018 (based on 2017/18 prices, excluding any estimation of inflation and availability/performance deductions) are as follows:

Payable in 2018/19 £000		Payable in 2019/20 £000	Payable within two to five years £000	Payable within six to ten years £000	Payable within 11 to 15 years £000	Payable within 16 to 20 years £000	**Total £000**
	Payment for Services						
43,582	- Waste	50,480	229,276	22,447			**302,203**
16,299	- Anchor Trust						
7,731	- Care UK	7,731	30,924	23,193			**61,848**
2,897	- Street Lighting	2,900	11,675	14,990	15,818	3,889	**49,272**
70,509		61,111	271,875	60,630	15,818	3,889	**413,323**
	Reimbursement of Capital Expenditure						
13,782	- Waste	14,688	59,394	14,985			**89,067**
2,040	- Anchor Trust						
101	- Care UK	107	498	459			**1,064**
2,015	- Street Lighting	2,143	10,081	17,099	24,532	5,644	**59,499**
17,938		16,938	69,973	32,543	24,532	5,644	**149,630**
	Interest						
6,505	- Waste	7,118	14,692				**21,809**
124	- Anchor Trust	0					**0**
71	- Care UK	65	190	57			**312**
6,388	- Street Lighting	6,257	23,443	24,411	16,150	1,767	**72,028**
13,088		13,440	38,325	24,468	16,150	1,767	**94,149**
101,535	**Total**	**91,488**	**380,173**	**117,641**	**56,500**	**11,300**	**657,102**

The movement on PFI liabilities for the year is set out in the table that follows:

2017/18 Finance Lease Liability £000	2017/18 Deferred Income Liability £000		**2018/19 Finance Lease Liability £000**	**2018/19 Deferred Income Liability £000**
(135,080)	(11,785)	**Balance outstanding at 1 April**	(137,649)	(11,580)
17,973		Payments during the year	17,937	
(20,542)		Capital expenditure incurred in the year	(13,052)	
	205	Amortisation of deferred income		220
(137,649)	(11,580)	**Balance outstanding at 31 March**	**(132,764)**	**(11,360)**

The Street lighting contingent rent profile is analysed over the remaining life of the project below:

31 March 2018 £000		**31 March 2019 £000**
65	not later than one year	64
250	later than one year but not later than 5 years	246
525	later than 5 years	467
840		**777**

Note 38: Pension schemes accounted for as defined contribution schemes

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every 4 years. The scheme has in excess of 3,700 employers and consequently the council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2018/19, the council paid £38m to teachers' pensions in respect of retirement benefits, representing 16.48% of pensionable pay. The figures for 2017/18 were £41m and 16.48%. The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and the council is not liable to the scheme for any other entities' obligations under the scheme.

On 1 April 2014 the council inherited responsibility for certain aspect of public health work from the NHS. As part of the transition some staff moved from the NHS to the council under Transfer of Undertakings (Protection of Employment) regulations (TUPE) arrangements and therefore these members of staff remain members of the NHS pension scheme. New recruits to the public heath directorate and members of staff that accept new roles are employed on standard Surrey County Council terms and conditions and therefore become members of the LGPS scheme.

The NHS pension scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the council of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period. The Public Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to NHS pensions in the year

In 2018/19 the council paid £676k to NHS pensions representing 14.38% of pensionable pay (2017/18, £514k, 14.38%).

Note 39: Defined benefit pension schemes

Participation in pension schemes

The council is obliged to make contributions towards the cost of post employment benefits under its terms and conditions of employment. These benefits will not become payable until employees retire but the council needs to account for the commitment at the time that employees earn their future entitlement.

Surrey County Council contributes to two defined benefit schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Surrey County Council, is a funded defined benefit scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets in the long term.
- The Firefighters' Pension Scheme is an unfunded defined benefit scheme meaning that because no investment assets have been built up to meet these pension liabilities cash, net of contributions from active members and government grants, has to be generated to meet pension payments as they fall due. Deficits on the Firefighters' Pension Scheme are covered by a government grant received each year from the Ministry of Housing, Communities and Local Government.

The scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pension Fund Committee of Surrey County Council. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the Fund are appointed by the Committee and consist of 11 investment fund managers plus private equity fund managers.

The principal risks to the council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of equity investments held by the scheme. These are mitigated to certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. There is a decrease in 2018/19 cost of services caused by a change in a discount rate from 2.6% to 2.4%. The discount rate is published a year ahead and used by the actuary to calculate the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

The charge required to be made against council tax is based on the cash payable in the year so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2017/18 £000	**2018/19 £000**	2017/18 £000	**2018/19 £000**
Comprehensive Income & Expenditure Statement				
Cost of Services:				
- current service cost	113,056	**108,056**	9,400	**8,600**
- past service cost	(634)	**11,318**		**21,500**
- (gain)/loss on settlements	(10,976)	**(7,113)**		
Financing & Investment Income & Expenditure				
- net interest on the net defined benefit liability	24,250	**25,928**	16,500	**17,300**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	125,696	**138,189**	25,900	**47,400**
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
- return on plan assets (excluding the amount included in the net interest expense)	(15,649)	**83,147**		
- actuarial gains and losses arising on changes in demographic assumptions			6,600	**(46,200)**
- actuarial gains and losses arising on changes in financial assumptions	54,085	**(238,981)**	11,400	**45,600**
- other experience	192	**(743)**		**(59,000)**
Total remeasurement of the net defined benefit liability	38,628	**(156,577)**	18,000	**(59,600)**
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	164,324	**(18,388)**	43,900	**(12,200)**
Movement in Reserves Statement				
- reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	(125,696)	**(138,189)**	(25,900)	**(47,400)**
Actual amount charged against the General Fund Balance for pensions in the year:				
- employers' contributions to the scheme/ retirement benefits paid direct to pensioners	65,160	**64,997**	14,154	**13,800**

Pension assets and liabilities recognised in the balance sheet

The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2017/18 £000	**2018/19 £000**	2017/18 £000	**2018/19 £000**
Present value of the defined benefit obligation	(2,786,837)	**(3,148,375)**	(630,459)	**(605,800)**
Fair value of plan assets	1,841,449	**1,979,088**		
Net liability arising from defined benefit obligation	(945,388)	**(1,169,287)**	(630,459)	**(605,800)**

Assets and liabilities in relation to post-employment benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded Liabilities Local Government Pension Scheme		Unfunded Liabilities Firefighters' pension scheme	
	2017/18 £000	**2018/19 £000**	2017/18 £000	**2018/19 £000**
Opening Balance at 1 April	(2,730,828)	**(2,786,837)**	(636,713)	**(630,459)**
Current service cost	(113,056)	**(108,056)**	(9,400)	**(8,600)**
Interest cost	(71,208)	**(75,602)**	(16,500)	**(17,300)**
Contributions by scheme participants	(18,177)	**(20,028)**	(2,300)	**(2,200)**
Remeasurements:				
- Actuarial gains and losses arising on changes in demographic assumptions			6,600	**46,200**
- Actuarial gains and losses arising on changes in financial assumptions	54,085	**(238,981)**	11,400	**(45,600)**
- Other experience	192	**(743)**		**59,000**
Pensions and lump sum expenditure			15,200	**16,000**
Benefits paid	67,165	**70,422**		
Past service costs (including curtailments)	634	**(11,318)**		**(21,500)**
Settlements	24,436	**16,897**		
Employer contributions adjustment*	(80)	**5,871**	1,254	**(1,341)**
Closing balance at 31 March	(2,786,837)	**(3,148,375)**	(630,459)	**(605,800)**

Curtailments include pension fund strain contributions to compensate the pension fund for the loss of contributions from staff that retire early and added years costs for staff that have increased years of service.

Reconciliation of the movements in the fair value of the scheme (plan) assets:

	Local Government Pension Scheme		Firefighters' pension scheme	
	2017/18 £000	**2018/19 £000**	2017/18 £000	**2018/19 £000**
Opening fair value of scheme assets at 1 April	1,807,348	**1,841,448**		
Interest income	46,958	**49,674**		
Remeasurement:				
Return on assets excluding amounts included in net interest	(15,649)	**83,147**		
Employer Contributions	65,160	**64,997**		
Employer contributions adjustment*	80			
Contributions by scheme participants	18,177	**20,028**		
Benefits paid	(67,165)	**(70,422)**		
Settlements	(13,460)	**(9,784)**		
Closing fair value of scheme assets at 31 March	1,841,449	**1,979,088**		

***** difference between actuary estimate of employer contributions and actual contributions paid

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total net liability of £1,775m has a substantial impact on the net worth of the council as recorded in the Balance Sheet. The statutory arrangements for funding the deficit, however, mean that the financial position of the council remains stable:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid;
- The council is making lump sum payments to the pension fund in addition to the contributions related to current employees. This has the aim of eliminating the council's share of the pension fund deficit by 2033.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and the Firefighters' Pension Scheme have been assessed by the council's actuaries, Hymans Robertson using the latest full valuation of the scheme as at 31 March 2016.

The value placed on the firefighters' IAS19 liability in respect of future injury benefits is subject to the same volatility as the liabilities in respect of pension benefits. The liability is calculated as a percentage of the pension liability in respect to active members. As the active liability changes, the value placed on the liability in respect of future injury benefits will change also. For example, a 0.1% decrease in the real discount rate will increase the value placed on the contingent injury liability by around 2-3%

depending on the duration of the active members' pension liabilities. The liability will also be subject to change as life expectancy changes.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2017/18	**2018/19**	2017/18	**2018/19**
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	22.5 years	22.5 years	29.5 years	27.3 years
- Women	24.6 years	24.6 years	31.5 years	29.4 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	24.1 years	24.1 years	30.8 years	28.4 years
- Women	26.4 years	26.4 years	32.8 years	30.6 years
Rate of inflation	3.4%	3.5%	3.4%	3.5%
Rate of increase in salaries	2.7%	2.8%	3.4%	3.5%
Rate of increase in pensions	2.4%	2.5%	2.4%	2.5%
Rate for discounting scheme liabilities	2.7%	2.4%	2.7%	2.4%

The Firefighters' Pension Scheme does not hold assets to cover its liabilities which are met by the government for Ministry of Housing, Communities and Local Government.

Sensitivity analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	Approximate % increase to employer liability	Approximate monetary amount	Approximate % increase to employer liability	Approximate monetary amount
		£000		£000
0.5% decrease in real discount rate	11%	330,987	9%	57,290
1 year increase in member life expectancy*	3-5%	157,419	3%	18,174
0.5% increase in the salary increase rate	1%	39,512	1%	7,157
0.5% increase in the pension increase rate	9%	286,677	8%	46,352

*the cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

Investment assets

The Local Government Pension Scheme assets consist of the following investments:

31 March 2018 Quoted prices in active markets £000			**31 March 2019 Quoted prices in active markets £000**	
		Quoted prices in active markets		
		Equity securities		
149,395	8%	Consumer	53,590	3%
135,425	7%	Manufacturing	34,388	2%
74,240	4%	Energy & utilities	30,498	2%
130,268	7%	Financial institutions	30,701	2%
49,206	3%	Health & care	26,222	1%
103,715	6%	Information technology	58,597	3%
3,750	0%	Other	5,225	0%
645,999			**239,221**	
		Debt securities		
63,925	3%	Corporate bonds (investment grade)		0%
4,036	0%	Corporate bonds (non-investment grade)		0%
3,752	0%	UK government		0%
8,441	0%	Other		0%
80,154				
		Real estate		
104,704	6%	UK property	93,870	5%
681	0%	Overseas property	34,338	2%
105,385			**128,208**	
		Investment funds & unit trusts		
510,639	28%	Equities	1,084,819	54%
201,285	11%	Bonds	330,587	16%
	0%	Other		
711,924			**1,415,406**	
		Derivatives		
(55)	0%	Interest rate		
2,610	0%	Foreign exchange	11,550	1%
2,555			**11,550**	
218,144	12%	Cash & cash equivalents	67,392	3%
			1,861,777	**94%**
1,764,161	96%	Sub-total		
		Quoted prices in non-active markets		
77,287	4%	Private Equity	117,311	6%
1,841,448	100%	**Total**	**1,979,088**	**100%**

Asset and liability matching strategy

The LGPS assets are administered by Surrey County Council though the Surrey Pension Fund. The fund does not have an explicit asset and liability matching strategy as the current funding level necessitates an investment strategy that is expected to provide long term investment returns in excess of the anticipated rise in liabilities.

Liabilities are considered when determining the overall investment strategy and the fund holds assets that are highly correlated with the movement in liabilities, including fixed rate and index-linked gilts, as well as absolute return investments that seek to generate positive returns regardless of market conditions.

Investment risk is monitored regularly both in absolute terms and relative to the Fund's liabilities, with regular scrutiny by the Surrey Pension Fund Committee and its external advisors.

Impact on the council's cash flows

The council has a stabilisation strategy in place to keep employer contributions at a consistent rate as possible. The council has agreed a strategy with the fund's actuary to achieve 100% funding over the next 15-20 years. The council's employer contribution rate is set at a level to help achieve this objective. The contribution level is periodically reviewed as part of the triennial valuation to ensure it is appropriate. The most recent review was as at the 31 March 2016 and the next review will take place during 2018/19 with a valuation date of 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The council expects to make employer contributions of £51.99m to the LGPS in 2019/20.

Defined benefit obligation

The table below shows the LGPS and firefighters' pension liability split by member type and the weighted average duration for each category. The weighted average duration is the weighted average time in years until payment of all expected future discounted cashflows, determined based on membership and the financial and demographic assumptions as at the most recent actuarial valuation. The shorter the duration, the more 'mature' the employer. Between 17 years and 23 years is considered 'medium' by the actuary with anything below and above those durations 'short' and 'long' respectively.

Local Government Pension Scheme

2017/18			2018/19	
Liability split (%)	**Weighted average duration (years)**		**Liability split (%)**	**Weighted average duration (years)**
44.2	23.3	Active members	47.9%	22.3
23.9	22.6	Deferred members	23.5%	22.6
31.9	11.1	Pensioner members	28.5%	11.1
100.0	**17.9**	**Total**	**100.0**	**17.9**

Firefighters' Pension Scheme

2017/18 Liability split (%)	2017/18 Weighted average duration (years)		2018/19 Liability split (%)	2018/19 Weighted average duration (years)
43.8	25.0	Active members	44.2	24.9
2.9	26.6	Deferred members	3.1	26.0
53.3	12.0	Pensioner members	52.7	11.9
100.0	**18.1**	**Total**	**100.0**	**17.8**

Note 40: Contingent liabilities

Potential liabilities are not required to be incorporated within the accounts where there is no certainty that an actual liability will arise or where the extent of an obligation cannot be measured with sufficient reliability. At 31 March 2019 the council had the following contingent liabilities:

The council embarked upon a PFI for waste disposal in 1999. By the end of 2018/19 £152.1m has been received in PFI credits. In return, the council has an obligation to invest in waste disposal infrastructure. A proportion of this obligation is still to be delivered. If these obligations are not met then a liability may arise to repay some or the entire PFI grant received to date.

In 2001, the county council arranged for consultants to undertake a desk review of the potential liabilities at a number of closed landfill sites where some responsibility for the impact of the waste remained with the council. During 2013/14 a review of this assessment was carried out to ascertain how investigation strategies have developed since the initial report was issued and update potential remedial works and possible costs should a site be found to be contaminated. These liabilities would occur if the local District and Borough Councils, who are the enforcing authorities, investigate the sites and oblige the council to take action under the provisions of Part IIA of the Environment Protection Act 1990. The review concluded that the likelihood of remedial work being required in relation to one closed landfill site was high and the estimated cost of these works (£700,000) has been included as a provision. The potential costs identified in relation to the other sites range from between £2.8m to £3.3m. These costs are considered to be less likely to be incurred and to date very few investigations have taken place. The council would seek to share any eventual liabilities with those in ownership of the sites when they were landfilled.

For 2018/19, the Council and Surrey Boroughs & Districts successfully bid to become a pilot area for 100% Businesses Rates Retention. Boroughs & Districts, as collection authorities, have released some provisions held for Business rates appeals built up in prior years in relation to a court case involving NHS Acute Trusts. If this case is settled in favour of the Trusts, then the council would reimburse some or all of this amount.

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Note 41: Cash flow statement- adjustments for non-cash movements

2017/18 £000		2018/19 £000
(151,596)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	**(182,302)**
79,314	Employer's pensions contributions and direct payments to pensioners payable in the year	**80,038**
205	Deferred Income in respect of PFI schemes	**220**
(77,740)	Charges for depreciation & impairment of non-current assets	**(74,491)**
(1,117)	Amortisation of intangible assets	**(1,200)**
(26,466)	Revaluation (losses)/gains on property, plant & equipment	**51**
(1,248)	Change in fair value of investment properties	**19,581**
	IFRS9 Capital Impairments	**(1,663)**
(89,295)	Disposals of academies	**(107,507)**
7,613	Contributions to provisions	**(24,992)**
(257)	Net gain/(loss) on sale disposal of property, plant & equipment	**(9,354)**
	Net gain/(loss) on sale disposal of investment property	
(19,774)	Movement in creditors	**(19,571)**
(436)	Movement in third party balances	**167**
(430)	Movement in inventories	**198**
4,192	Movement in debtors	**72,446**
2,857	Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**958**
116	Donated asset adjustment	**67**
(274,062)		**(247,354)**

Note 42: Cash flow statement - purchase of property, plant & equipment

2017/18 £000		**2018/19 £000**
107,443	Purchase of Property, Plant & Equipment	**98,795**
2,114	Purchase of Investment Property	**22,097**
1,800	Purchase of Intangible Assets	**48**
16,358	Revenue Expenditure Funded from Capital Under Statute	**28,936**
127,715		**149,876**

Note 42a: Reconciliation of liabailities arising from Financing Activities

	Balance at 1 April 2018	Financing Cash Flows	Non Cash Changes	Balance at 31 March 2019
Long Term Borrowings	(397,786)			(397,786)
Short Term Borrowings	(212,711)	(66,315)		(279,026)
PFI Liabilities	(137,649)	17,938	(13,052)	(132,763)
Net cash outflow from financing activities	**(748,146)**	**(48,377)**	**(13,052)**	**(809,575)**

	Balance at 1 April 2017	**Financing Cash Flows**	**Non Cash Changes**	**Balance at 31 March 2018**
Long Term Borrowings	(397,786)			(397,786)
Short Term Borrowings	(140,699)	(72,012)		(212,711)
PFI Liabilities	(135,080)	17,973	(20,542)	(137,649)
Net cash outflow from financing activities	**(673,565)**	**(54,039)**	**(20,542)**	**(748,146)**

Note 43: Prior period adjustments

This note summarises the adjustments made to the 2017/18 comparators in these accounts from the figures in the 2017/18 Statement of Accounts for

a) The comprehensive income and expenditure statement change in structure for Children, Families, Lifelong Learning and Culture directorate

2017/18	Gross Expenditure £000	Income £000	Net expenditure £000
Children's Services	132,735	(12,252)	120,483
Commissioning & Prevention	109,022	(67,005)	42,017
Schools & SEND	272,653	(147,821)	124,832
Cultural Services	24,953	(13,691)	11,262
Total	539,363	(240,769)	298,594
Restated 2017/18			
Education, Lifelong Learning & Culture	373,436	(222,876)	150,560
Safeguarding & Family Resilience	56,075	(5,329)	50,746
Corporate Parenting	94,453	(8,192)	86,261
Quality Assurance	3,710	(122)	3,588
Commissioning	11,689	(4,250)	7,439
	539,363	(240,769)	298,594

These changes are also reflected in Note 1 and Note 1a, Expenditure Funding Analysis

b) A prior period adjustment was carried out between the Revaluation Reserve and the Capital Adjustment Account in respect of revaluation balances held in the Reserve for assets that had been disposed of in prior years. This adjustment was a realignment between two unusable reserves and therefore had no impact on any Primary Statement.

	Capital Adjustment Account £000	Revaluation Reserve £000
Opening Balance 1 April 2017	(144,494)	(787,477)
Closing Balance 31 March 2018	(96,661)	(833,209)
Adjustment to Opening Balance	(288,931)	288,931
2017/18 In- year adjustment for assets disposed	(53,551)	53,551
Restated Opening Balance 1 April 2017	(433,425)	(498,546)
Restated Closing Balance 31 March 2018	(439,143)	(490,727)

c) Property Plant & Equipment (note 13) restated opening 2017/18 land values for a group of schools last valued in 2014/2015 to reflect a different valuation method used in 2018/19

	Property Plant and Equipment £000	Unusable Reserves £000
Opening Balance 1 April 2017	1,752,293	618,976
Adjustment to Opening Balance	59,448	(59,448)
Restated Opening Balance 1 April 2017	1,811,740	559,528

These changes are shown on the balance sheet and are also reflected in the Movement In Reserves Statement, and the Property Plant and Equipment and Unusable Reserves Notes

Group Accounts

In order to provide a full picture of the council's economic activities and financial position, the accounting statements of the council and its wholly owned Local Authority Trading Companies, SE Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd have been consolidated.

Halsey Garton Property Ltd has three subsidiaries, of which only one was active and trading as at 31 March 2019. The economic activities and financial position of the Halsey Garton Property Group is included within these group accounts.

The group accounts are presented in addition to the council's 'single entity' financial statements and comprise:

- Group Comprehensive Income and Expenditure Statement;
- Group Movement in Reserves Statement;
- Group Balance Sheet; and
- Group Cash Flow Statement.

These statements (*the purposes of which are explained in the narrative report*), together with those explanatory notes that are considered necessary in addition to those accompanying the council's 'single entity' accounts, and accounting policies, are set out in the following pages.

Group Comprehensive Income & Expenditure Statement

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Restated year ended 31 March 2018				Year ended 31 March 2019		
Gross Expenditure £000	Income £000	Net Expenditure £000	Gross Expenditure	Gross Expenditure £000	Income £000	Net Expenditure £000
363,939	**(351,281)**	**12,658**	**Delegated Schools**	**331,814**	**(331,672)**	**142**
314,805	(164,243)	150,560	Education, Lifelong Learning & Culture	367,624	(253,773)	**113,851**
56,075	(5,329)	50,746	Safeguarding & Family Resilience	47,209	(3,569)	**43,640**
94,453	(8,192)	86,261	Corporate Parenting	118,986	(15,008)	**103,978**
3,710	(122)	3,588	Quality Assurance	8,195	(1,393)	**6,802**
70,320	(62,881)	7,439	Commissioning	13,892	(1,056)	**12,836**
539,363	**(240,769)**	**298,594**	**Children, Families, Learning & Communities**	**555,906**	**(274,799)**	**281,107**
476,653	(112,490)	364,163	Adult Social Care	484,890	(125,047)	**359,843**
32,375	(31,626)	749	Public Health	30,487	(30,430)	**57**
510,713	**(142,564)**	**368,149**	**Health, Wellbeing & Adult Social Care**	**515,377**	**(155,477)**	**359,900**
81,417	(7,566)	73,851	Highways & Transport	113,389	(14,822)	**98,567**
96,058	(8,604)	87,454	Environment	50,580	(4,940)	**45,640**
31,707	(2,945)	28,762	Surrey Fire & Rescue Service	55,200	(1,979)	**53,221**
4,058	(1,679)	2,379	Trading Standards	4,103	(1,861)	**2,242**
803	(56)	747	Communities Support function	537	0	**537**
1,749	(111)	1,638	Economic Growth	839	(17)	**822**
215,643	**(21,511)**	**194,132**	**Highways, Transport & Environment**	**224,648**	**(23,619)**	**201,029**
978	(0)	978	Strategic Leadership	1,024	(2)	**1,022**
2,095	(268)	1,827	Strategy & Performance	3,329	(434)	**2,895**
1,889	(7)	1,882	Communications	1,754	(12)	**1,742**
2,147	(1)	2,146	Coroner	3,004	(636)	**2,368**
3,635	(88)	3,547	Customer Services	3,654	(155)	**3,499**
3,203	(83)	3,120	Human Resources & OD	3,438	(243)	**3,195**
14,215	(1,543)	12,672	Information Technology & Digital	14,853	(1,424)	**13,429**
38,284	(6,864)	31,420	Property	55,656	(7,563)	**48,093**
42,430	(44)	42,386	Joint Operating Budget ORBIS	40,187		**40,187**
107,988	**(9,489)**	**98,499**	**Customer, Digital & Transformation**	**126,899**	**(10,469)**	**116,430**
2,752	(1,314)	1,438	Finance	2,754	(1,098)	**1,656**
6,513	(729)	5,784	Democratic Services	4,397	(631)	**3,766**
4,980	(541)	4,439	Legal Services	5,468	(595)	**4,873**
14,245	**(3,138)**	**11,107**	**Finance, Law & Governance**	**12,619**	**(2,324)**	**10,295**
(1,678)	**(1,762)**	**(3,440)**	**Central Income & Expenditure**	**18,881**	**3,641**	**22,522**
1,749,564	**(770,369)**	**979,195**	**Total services' revenue expenditure**	**1,786,144**	**(794,719)**	**991,425**

Group Comprehensive Income & Expenditure Statement

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Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	**Net Expenditure £000**
1,749,564	**(770,369)**	**979,195**	**Cost of Services - continuing operations**	**1,786,144**	**(794,719)**	**991,425**
31,146	(29,648)	**1,498**	Other Operating Income & Expenditure	35,829	(25,711)	**10,118**
206,451	(65,916)	**140,535**	Financing & Investment Income & Expenditure	261,549	(95,452)	**166,097**
	(714,740)	**(714,740)**	Local Taxation		(891,657)	**(891,657)**
	(243,210)	**(243,210)**	General grants & contributions		(180,143)	**(180,143)**
1,987,161	**(1,823,883)**	**163,278**	**Deficit on Provision of Services**	**2,083.522**	**(1,987,682)**	**95,840**
		437	Tax expense of subsidiaries			**708**
		163,715	**Group deficit**			**96,548**
		(60,808)	(Surplus) or deficit on revaluation of non-current assets			**(64,655)**
		(56,767)	Remeasurement of the net defined benefit liability			**96,977**
		(117,575)	**Other Comprehensive Income & Expenditure**			**(32,322)**
		46,140	**Total Comprehensive Income & Expenditure**			**128,870**

Group Movement in Reserves Statement

2018/19	General Fund and Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Profit and Loss Reserve £000	Pension Reserve of Subsidiary £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2018	**(160,508)**	**(92,504)**	**(77,137)**	**10,405**	**1,962**	**(317,782)**	**594,898**	**278,716**
Adjustment to Opening Balance	(1,370)					**(1,370)**	1,370	
Revised Opening Balance	**(161,878)**	**(92,504)**	**(77,137)**	**10,405**	**1,962**	**(319,152)**	**596,268**	**278,716**
(Surplus) or deficit on provision of services (accounting basis)	82,225			16,816		**99,041**		**99,041**
Other comprehensive income & expenditure						**0**	32,322	**32,322**
Total comprehensive income & expenditure	**82,225**	**0**	**0**	**16,816**	**0**	**99,041**	**32,322**	**131,363**
Adjustments between accounting basis & funding basis under regulations	(133,320)	45,646	(33,473)			**(121,147)**	121,147	
Increase/decrease in year	**(51,095)**	**45,646**	**(33,473)**	**16,816**	**0**	**(22,106)**	**153,469**	**131,363**
Balance at 31 March 2019	**(212,973)**	**(46,858)**	**(110,610)**	**27,221**	**1,962**	**(341,258)**	**749,737**	**408,479**

2017/18	General Fund and Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants & Contributions Unapplied £000	Profit and Loss Reserve £000	Pension Reserve of Subsidiary £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2017 (Restated)	**(160,668)**	**(103,401)**	**(77,036)**	**11,071**	**1,719**	**(328,315)**	**559,528**	**231,213**
(Surplus) or deficit on provision of services (accounting basis)	165,362			**(666)**		**164,696**		**164,696**
Other comprehensive income & expenditure					**243**	**243**	(117,436)	**(117,193)**
Total comprehensive income & expenditure	**165,362**			**(666)**	**243**	**164,939**	**(117,436)**	**47,503**
Adjustments between accounting basis & funding basis under regulations	(163,602)	10,897	(101)			**(152,806)**	152,806	
Increase/decrease in year	**1,760**	**10,897**	**(101)**	**(666)**	**243**	**12,133**	**35,370**	**47,503**
Balance at 31 March 2018	**(158,908)**	**(92,504)**	**(77,137)**	**10,405**	**1,962**	**(316,182)**	**594,898**	**278,716**

Group Balance Sheet

As at 31.03.2018 (Restated) £000		Note:	As at 31.03.2019 £000
1,782,672	Property, plant & equipment		1,750,856
1,024	Heritage assets		1,024
319,425	Investment property	5	440,225
7,879	Intangible assets		6,727
2,639	Long term investments	6	401
4,160	Long term debtors	6	683
2,117,799	**Long term assets**		**2,199,916**
	Short Term:		
613	Intangible assets		268
10,100	Assets held for sale		400
967	Inventories		1,165
135,330	Short term debtors		208,782
56,021	Cash & cash equivalents		61,480
203,031	**Current Assets**		**272,095**
	Short Term:		
(212,711)	Borrowing		(279,026)
(217,916)	Creditors		(233,331)
(3,105)	Provisions		(5,974)
(102)	Revenue grants receipts in advance		(11)
(19,762)	Capital grants receipts in advance		(105)
(17,938)	Other current liabilities		(16,938)
(471,534)	**Current liabilities**		**(535,385)**
(18,739)	Provisions		(40,862)
(397,786)	Long term borrowing		(397,786)
(1,711,487)	Other long term liabilities		(1,906,457)
(2,128,012)	**Long term liabilities**		**(2,345,105)**
(278,716)	**Net assets/liabilities(-)**		**(408,479)**
(316,182)	Usable reserves		(341,258)
594,898	Unusable reserves		749,737
278,716	**Total Reserves**		**408,479**

Group Cash Flow Statement

2017/18 £000		2018/19 £000
163,715	Net surplus (-) / deficit on the provision of services	67,903
(276,187)	Adjustments to net surplus / deficit on the provision of services for non-cash movements	(80,939)
(13,836)	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities	(28,936)
(126,308)	**Net cash inflows from operating activities**	**(41,972)**
213,252	Purchase of property, plant & equipment, and investment property	74,871
(16,728)	Proceeds from the sale of property, plant & equipment	(9,021)
(202)	Payments for short-term and long-term investments	5,014
	Receipts of short-term and long-term investments	0
(13,305)	Other receipts & expenditure from investing activities	14,025
183,017	**Net cash outflows from investing activities**	**84,889**
17,973	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	17,938
401,246	Payments for short-term and long-term borrowing	750,502
(473,258)	Receipts of short-term and long-term borrowing	(816,817)
(54,039)	**Net cash inflows from financing activities**	**(48,377)**
2,670	**Net increase (-) / decrease in cash & cash equivalents**	5,460
(58,691)	Cash & cash equivalents at the beginning of the reporting period	(56,021)
(56,021)	Cash & cash equivalents at the end of the reporting period	**(61,480)**

The cash flows from operating activities in 2018/19 include interest received of £13.0m (2017/18, £9.5m) and interest paid of £31.7m (2017/18, £25.2m).

Note 1: General

The Group Accounts should be read in conjunction with the Surrey County Council single entity accounts on pages 17 to 113. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

Note 2: Group boundary

The council has an interest in a number of entities, the most significant of which are the wholly owned Local Authority Trading Companies SE Business Services Ltd, Surrey Choices Ltd and Halsey Garton Property Ltd which are consolidated into these accounts. The paragraphs at the end of this section provide information on the nature of risks associated with each company.

- S.E. Business Services Ltd – Provides business services such as IT data storage and Fire support services.
- Surrey Choices Ltd - The company delivers day services and community support options for people with disabilities and older people.
- Halsey Garton Property Ltd – is a property investment company. It acts as a holding company for three subsidiaries; Halsey Garton Property Investments Ltd, Halsey Garton Property Developments Ltd and Halsey Garton Residential Ltd. At 31/03/2019 only the holding company and Halsey Garton Property Investments Ltd were active and trading and therefore only the economic activity of these companies has been incorporated into the group accounts.

None of the other entities in which the Council has an interest are considered material enough, either when considered individually or in aggregate, to merit consolidation into the council's Group Accounts.

The overall impact of the companies on the financial performance, financial position and cash flows of the group is relatively low. However, there are some significant differences between classifications of assets in the balance sheet and in the headings on the cash flow statement. These differences result from the significant capital investment the council has made in investment property during 2018/19 through its property investment company Halsey Garton Property Ltd. These investments have been funded by the council providing long-terms loans and equity investments to Halsey Garton Property Ltd, which is why these headings have increased significantly in the single entity accounts. When the group accounts are consolidated these balances are removed and the additional investment properties purchased by Halsey Garton Property Ltd are added into the group accounts as investment properties on the balance sheet.

The main risk for the county council associated with the investment in each subsidiary is as follows:

S.E Business Services Ltd – The council has provided parental guarantees to two IT clients that should the company not be able to fulfil the terms of the contract the council will be obliged to provide the required service.

Surrey Choices Ltd – The company provides some services that are part of the council's statutory duties for Adult Social Care, if the company was not be able to fulfil these duties the council would be required to.

Halsey Garton Property Ltd – As a property investment company, the company is exposed to risk in market movements in terms of the capital value of properties and in the level of income that can be generated through rent charges.

Note 3: Accounting policies

In preparing the Group Accounts the council has aligned the accounting policies of the company with those of the council and made consolidation adjustments where necessary; has consolidated the financial statements of the company with those of the council on a line by line basis; and has eliminated in full balances, transactions, income and expenses between the council and its subsidiaries.

Note 4: Material Items of income & expenditure

During 2018/19 the group purchased the following material assets:

- £46m retail park investment property
- £15m office park investment property
- £13m leisure property

Note 5: Investment properties

The group has a portfolio of properties purchased for future service needs, for the purposes of economic development or as part of a long-term capital strategy to generate investment returns. These properties are currently being leased to private tenants, producing rental income. As the properties were solely being used to generate income at the 31 March 2019, under the code of practice they are classed as investment properties.

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2017/18 £000		**2018/19 £000**
16,963	Rental income from investment property	**20,986**
(2,437)	Direct operating expenses arising from investment property	**(9,709)**
14,526	**Net gain**	**11,277**
	Gain on sale of investment property	
(2,170)	Net (loss)/gain on fair value adjustments	**1,858**
12,356	**Income & expenditure in relation to investment properties**	**13,135**

The following table summarises the movement in the fair value of investment properties over the year:

2017/18		2018/19	Office	Indust-rial	Retail	Leisure	Mixed	Fair Value Hierarchy
£000		£000	£000	£000	£000	£000	£000	
209,425	Balance 01/04/2018	319,425	88,740	53,100	155,435	1,150	21,000	Level 2
92,268	Purchases	97,194	37,429	167	46,540	13,058		
19,884	Reclassifications	21,747	21,747					
	Disposal							
(2,170)	Net loss from fair value adjustments	1,857	18,984	3,083	(19,800)	(808)	400	
319,425	**Balance at 31/03/19**	**440,225**	**166,900**	**56,350**	**182,175**	**13,400**	**21,400**	Level 2

The fair value of the council's investment property is measured annually at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation methodology used to determine fair value incorporates some estimation techniques which mean the valuations are categorised as being level two in the fair value hierarchy (see Note 5 of the Surrey accounts for more information).

Note 6: Financial instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets	**1 April 2018**	**31 March 2019**
Fair value through profit or loss		
Long Term Investments	2,638	388
Cash	43,000	30,720
Total	**45,638**	**31,108**

	£000	**£000**
Amortised Cost		
Long Term Investments	0	13
Long Term Debtors	3,941	575
Short Term Investments		
Short Term Debtors	124,663	125,333
Cash	8,224	30,760
Total	**136,828**	**156,681**
Total Financial Assets	**182,466**	**187,789**
Non Financial Assets	**2,138,364**	**2,284,222**
Total	**2,320,830**	**2,472,011**

Note 7: External audit costs

The group has incurred the following costs in relation to the statutory auditors;

2017/18 £000		**2018/19 £000**
183	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	**150**
8	Fees payable to the external auditors for the certification of grant claims and returns for the year	**8**
191	**Total**	**158**

Surrey County Council has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, that there is a sound system of governance, appropriate controls are in place and that public money is safeguarded and properly accounted for. This Annual Governance Statement describes the key activities during 2018/19, progress against key issues raised in last year's governance review, summarises the main elements of the council's governance framework and identifies key areas of focus for 2019/20.

Context

In early 2018 the council appointed a new Chief Executive, Joanna Killian, who put in place a new leadership structure and appointed to a number of new Executive Director roles during the year, adding much needed senior capacity and capabilities. A new leader, Councillor Tim Oliver, was elected later in the year, and he put in place a new Cabinet, creating a new role of Cabinet Member for Finance.

Recognising the need for a different organisational culture, which is open and honest about where improvements are required, the priority for the new leadership team is to put in place and deliver a significant programme of transformational change. Over the next 3-5 years, the focus is to address a number of performance and financial issues. There is a need to develop a more sustainable, effective organisation and ensure the council can deliver improved outcomes for residents, with a focus on prevention and earlier intervention. The scale of the challenge requires a new vision, revised priorities and robust control mechanisms, including significant change capacity alongside a deep culture change programme.

Transforming outcomes for children and families in Surrey is an absolute priority, with new leadership arrangements having been put in place during the year with the aim of strengthening professional practice, management oversight and providing robust assurance.

The scale and pace of the council's change programme is extremely challenging and covers all aspects of the council: how we provide services, how we operate and how we engage with our residents and partners. The key elements of the change programme include:

- An updated ***vision and strategy*** to reflect the changing needs and expectations of our residents;
- A council-wide ***transformation programme*** to reform the function, form and focus of the organisation to help deliver on our shared ambitions;
- Ensuring ongoing ***financial sustainability*** by minimising the use of one-off funding sources and ensuring we operate within available resources; and
- A review of our ***organisational culture*** to ensure that we are well equipped to deliver the scale of change required.

Vision & Strategy

A lack of clear direction and uncertainty about the future, coupled with an historic tendency to not look outside of the organisation and learn from others, meant that there was a clear need to develop a new vision, and this work was a priority in the early part of 2018/19. A new Community Vision for Surrey in 2030 (the Vision) has been endorsed, which was informed by extensive stakeholder engagement. The Vision recognises the need for, and value of, a shared set of priority outcomes across all our partners, as we collectively strive to improve the lives of everyone who lives in the county.

The council has developed an integrated suite of plans to support its vision:

- An ***Organisation Strategy*** that sets out how the council will work with residents and partners and direct resources to where they will have the most impact.
- A ***Financial Strategy*** that sets out the overall framework within which the council will manage its financial resources.
- The '***Our People 2021***' strategy sets out how we will develop our capacity and capability, drive transformational change and create a high performance culture.

Transformation

The council also agreed a Transformation Programme, shaped around six thematic areas, which will reform the function, form and focus of the organisation to help us deliver the Vision.

At the heart of the transformation programme is the need to develop very different service models and approaches that can help prevent problems escalating and better support residents and communities to be independent. In addition the transformation programme includes a number of projects which are critical to embedding the Target Operating Model (TOM) design principles, which are guiding how we develop and change our services and ways of working to ensure we become a responsive, modern and effective organisation.

Transformation on this scale represents a complex challenge for the council and it is vital that our residents and stakeholders have their say on proposed changes. Proposals for the re-design of the first phase of service transformation have been developed and extensive consultation and engagement has been carried out with a range of stakeholders using public consultations, surveys and face to face discussions.

It is vital that the governance arrangements in place to monitor the effectiveness and track delivery of the transformation programme are robust. Two boards have been established, a member-led Change Management Board which sets the overall direction and priorities, and an officer-led Transformation Steering Board, which monitors delivery and ensures alignment across the wider change agenda. These Boards will collectively work together to deliver the change and ensure the council continues to evolve and develop over time.

Whilst there is a current defined set of projects and programmes to deliver, we will need to keep reviewing our progress and re-assessing our plans and priorities, responding to the new opportunities that will emerge through closer working with our partners and residents, new legislation, and technological advances. A Director of Transformation has recently been appointed to lead the Transformation Support Unit and work with the Corporate Leadership Team and Cabinet on the transformation agenda. As one of her early actions she has carried out a lessons learnt review to identify actions to strengthen programme management. The outcome from this review will be used by the Leadership Team to shape future transformation projects.

Financial Sustainability

During the year, the strength of the council's finances, and the arrangements for managing them, were highlighted as areas of concern in external reviews.

The council's External Auditors' 2017/18 report on value for money, published in December 2018, gave a qualified conclusion: *'We are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018'.* This was due to the continued rating of the council's Children's Services as 'Inadequate' by Ofsted and a failure to demonstrate sustainable deployment of resources, as evidenced by a continued use of reserves to balance the budget in successive years.

In May 2018 the council commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a review of the council's finances and finance function. The review concluded that the council faced a significant budget shortfall and needed to fundamentally reengineer its financial management arrangements, both within the Finance function and across the organisation. The Finance function needed to reform its impact, capacity and capability as well as introduce new practices across the organisation. In order to enable the organisation to achieve transformational efficiencies, the Finance function recognised that it first needed to modernise itself.

A new interim Executive Director of Finance commenced in September 2018 and set up a two year Finance Improvement Programme. This included the review of the Finance function TOM and the enablement of a culture of financial discipline and accountability across the organisation that will meet the future needs of the council. An enhanced learning and development programme aimed at increasing financial management capability both within Finance and across the organisation, will be introduced during 2019/20.

Early in 2018/19, the council's finances were placed under significant strain as a result of an increasing level of overspend in relation to Special Educational Needs. It also became clear that pressure was beginning to grow in other services. Against this challenging backdrop, there was also a recognition that there needed to be a strategy that reduced the reliance on reserves. As a result, in September 2018, Cabinet agreed additional in-year savings of £40m, bringing the target in the year to £106m.

Responding to the worsening in-year position and the findings from CIPFA's review, during the summer, the council restated its fundamental principles of strategic budget setting and financial management accountability. This included a change in approach to setting the budget for 2019/20. In November 2018, the council published the draft budget strategy, the 'Preliminary Financial Strategy'. This set out, much earlier than in previous years, the council's plans to achieve financial sustainability and without relying on reserves to balance the budget.

The Preliminary Financial Strategy included a set of guiding principles and priorities and the use of a 'budget envelope' approach to strengthen financial management and focus accountability on budget holders. This 'budget envelope' framework emphasised the fundamental importance of budget managers' responsibility of delivering within available resources whilst identifying solutions to financial challenges. These principles include a move away from one-off funding sources to setting a balanced budget as well as removing the use of reserves.

Starting the budget process earlier enabled us to better plan for the future and carry out extensive engagement and consultation with residents and stakeholders. The outcomes of the consultation was considered by Cabinet in January 2019 in a draft budget, in advance of setting the final budget and council tax which was approved by County Council in February 2019.

For 2019/20, all of the council's budget managers are required to sign a Budget Accountability Statement (BAS), confirming acceptance of their budget management responsibilities and the requirement to deliver service objectives within their envelope. The Financial Regulations were also reviewed and updated to reflect the council's financial environment and the requirements of the BAS. A number of budget meetings have been established to kick-off the financial year with the Cabinet Member for Finance, his Cabinet colleagues and senior officers, focussing on key areas of council spend to ensure everyone is aware of their budgetary responsibilities. Discussing the deliverability of the savings plan in each Service is a cornerstone of these meetings.

The positive change in the financial performance of the council in 2018/19, as a result of the identification and delivery of in-year management actions, gives greater confidence in the ability to deliver significant savings targets in 2019/20 than has been the case in previous years. It also demonstrates the ability of the council to be flexible and react to changing circumstances to protect its financial position. Whilst these are positive developments, the level of risk contained in the 2019/20 budget proposals should not be underestimated and the target of £82m will be challenging to deliver. The council is developing a mechanism to ensure it closely tracks, monitors and reports the actions to achieve the required £82m of ongoing savings and monitor and manage the risks.

Budget planning for the medium-term continues to require significant savings to be identified and delivered. Financial sustainability continues to be both a challenge and a focus for the council. The level of transformation required to achieve ongoing resilience is achievable, but does require the council to make some rapid and tough decisions.

Organisational Culture

In recognition that the council's culture is central to the transformation agenda, a fundamental review was led by organisational consultants, Linguistic Landscapes, which focused on discovering our 'unwritten rules'. Their work identified a series of cultural characteristics that could, if left unchecked, make it more difficult to achieve the council's ambitions and to operate in the interests of our residents.

Some of the negative characteristics identified included poor cross team working, a lack of willingness to learn or seek best practice from elsewhere, as well as a need to address perceptions by others that

we are difficult to work with. Linguistic Landscapes helped us become more aware of our culture and has given us some practical working principles to help us consciously align our culture to our strategy.

We continue to engage with colleagues across the organisation to develop our organisational culture, behaviours and values, supported by revised pay and reward mechanisms and a new style of performance reviews.

Service specific governance considerations:

In addition to the organisation wide areas discussed above, there are some service specific governance arrangements to consider:

Children's Services

The council, with its partners, is going through a process of major change in response to two consecutive Ofsted ratings of 'Inadequate' and the organisation's own acknowledgement that improving outcomes for our most vulnerable children had not been prioritised in the past. The Department for Education appointed an external Commissioner in June 2018 and his final recommendations will be published in September 2019. Services for children and families are being transformed at pace with a much needed focus on quality and consistency of practice and the first stage of the improvement programme will conclude in April 2019. A new organisational structure, underpinned by reformed practice models, focussed use of resources, early intervention principles and leadership from an experienced group of professionals, are key components of our new, best practice approach.

The biggest single challenge will be recruiting quality front line staff in sufficient numbers. There are advanced plans in place to develop recruitment strategies that will deliver a permanent workforce. These are underpinned by the Surrey Children's Services Academy, launched in January 2019, which will support colleagues who work with families to drive up standards of practice and partnership working. The Academy is something of a national first in terms of the scale of partnership involved, bringing together all the learning and development across all the services and agencies working with children and young people. The improvement journey is likely to take three to four years.

Key initiatives to achieving a sustainable model for our Children's Services also include a strategy to reduce costly out-of-county placements for children in care and the Special Educational Needs and Disability (SEND) programme which places a much greater emphasis on early intervention and prevention.

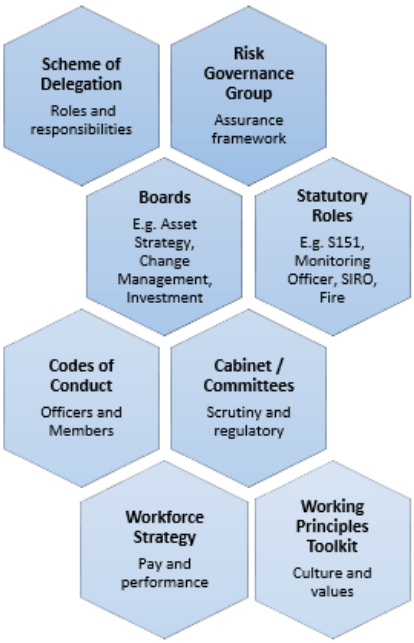
Health

The health and care system in Surrey is complex, with a complicated governance architecture across multiple NHS partnership boundaries, (and a resultant large number of meetings needing attendance and servicing) which have contributed to making working towards closer integration between the County and the NHS challenging.

However, during 2018/19 the council has continued to progress work with NHS partners to integrate health and social care. Commissioning arrangements established under the Surrey Heartlands devolution agreement (Joint Commissioning Committee) have evolved with a Surrey-wide decision-making forum being established and due to meet for the first time in June 2019. A review of the Surrey Health and Wellbeing Board has also been concluded in 2018/19, aligned to the new Surrey Health and Wellbeing Strategy, resulting in a revised membership drawn from a wider range of organisations to reflect a stronger focus on the wider determinants of health and improving health outcomes for residents.

Waste Private Finance Initiative (PFI)

The council has a waste PFI contract through which it manages the recycling and disposal of waste, and develops and operates waste infrastructure. The contract attracts government grant (PFI credits) over its 25 year term, currently £2m per year, and due to increase once the Eco Park has been delivered. Completion of the Eco Park is currently delayed, which has a number of implications including changes in the timing and level of costs. The council is currently assessing available options on the future of the waste contract to allow an informed decision to be made.



Governance Framework

The diagram shows some of the key parts of the council's governance framework that support good governance and help to us to do things in the right way, for the right people in a timely, open, honest and accountable way.

A review of the council's key democratic decision making processes and scrutiny arrangements is taking place that will ensure there is transparency and strong engagement on key issues and decisions that impact residents and communities

The project will make changes that strengthen the role and impact of all Members and ensure that decision making within the council is based on effective engagement with residents and partners

Compliance & Risk

The council's financial management arrangements during 2018/19 fully complied with CIPFA's Statement on the Role of the Chief Finance Officer (CIPFA, 2010). The previous Director of Finance

and the current interim Executive Director of Finance met their financial responsibilities during the year and ensured financial management arrangements were in place. They reported directly to the Chief Executive and had regular contact with the Leader and key Members, Monitoring Officer, Chief Internal Auditor, External Auditor and other Executive Directors.

The council's strategic risk arrangements have now been refreshed and a new Strategic risk register is in place, which will be continually developed and form part of the overall performance monitoring framework.

The Chief Internal Auditor has provided partial assurance that the council had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019. In reaching that view he has explained that the results of internal audit activities during the year resulted in a number of partial or minimal audit opinions being issued, some of which are potentially significant. Where the need for improvements in control have been identified, Internal Audit has not always seen sufficient evidence that management have taken appropriate remedial action in a timely manner.

The Chief Internal Auditor has, however, recognised that significant effort is now being made by the organisation to strengthen governance, risk management and internal control, with major transformational programmes commenced during the year. Whilst these are still in development, with the major impacts likely to begin materialising during 2019/20, he has seen clear evidence of a commitment from management and Members to secure improvement. The direction of travel is therefore positive and something which internal audit will monitor over the year ahead.

Performance Reporting

An effective corporate performance monitoring system has not been in place for a number of years. Our Business Planning and Performance Management Framework is being updated to ensure we can track and understand the impact of our people, projects and programmes for our residents. A new system is being put in place during 2019/20 and will include:

- A new Vital Signs Report – quarterly reporting to the Corporate Leadership Team and Cabinet on key performance indicators;
- Reporting to residents – covering high level outcome measures on Surrey County Council's contribution to the Surrey 2030 Community Vision;
- Outcome Delivery Plans – these will be short documents covering critical activity and delivery against the 10 strategic outcomes in the Organisation Strategy;
- A new approach to staff performance management in the shape of "Performance Conversations", designed to create a strong positive performance culture across the organisation. This is supplemented by more robust accountability arrangements for the Chief Executive and Corporate Leadership Team in the form of "performance contracts", which clearly set out the role each individual has in achieving the council's priorities;
- A new scrutiny model.

A new corporate Insight, Analytics and Intelligence team was formed at the end of 2018/19 which will provide greater leadership around the council's performance management framework, and is leading on the development of a community of practice for business intelligence across the council.

A new Performance Intelligence Service has also been established within the Children's, Families, Education and Lifelong Learning directorate. A significant number of dashboards have been developed through a visualisation tool (Tableau) that enables 'near live' performance reporting and gives managers access to information that can be viewed at an individual child level, as well as by team, services, area and countywide performance. This will enable the service to intervene and take any

appropriate action on a timely basis. Some specific examples of performance improvement include the timeliness of Initial Child Protection Conferences, Health Assessments for Looked after Children and the recording of management oversight and case supervision. These are key indicators to help provide an overview that the 'pulse' of the directorate is healthy and that outcomes for children are at the heart of the work undertaken.

Conclusion

This past year has seen an intense period of change for the council. Whilst we will see further progress on our transformation plans we have stabilised the organisation and now need to move into an intensive phase of operational delivery, with confidence that our plans will translate into better outcomes as well as offering good financial value for our residents. We recognise that robust governance must be in place to ensure that public money is safeguarded and services are delivered effectively to residents. We will continue to strengthen arrangements to deliver our Vision that Surrey residents' money is being spent, wisely and securely, and that no one is left behind.

The challenges ahead are not to be underestimated, however the work to date has embedded the foundations for longer term change and continuous improvement in the best interests of our residents.

2017/18 Annual Governance Statement Action Plan – Follow Up

Issue identified in 2017/18	Action taken during 2018/19
Budget Accountability Increasing financial challenge requires a stronger and more robust control framework of tracking and monitoring savings, pressures and the overall budget throughout the year.	Budget Accountability Statements have been put in place for all accountable budget holders. The need for in year management actions was identified and appropriate action taken to reduce the projected overspend and negate the need for the use of reserves to balance the budget. Despite this, the council continues to face significant financial challenges.
Financial Sustainability Significant levels of savings to be achieved and ongoing use of reserves to balance to budget.	2019/20 budget was set without use of reserves. Major transformation programme initiated with governance Boards in place. Need to develop more robust savings monitoring process to ensure cost drivers and impact of activity is understood.
Children's Services Governance arrangements have not had sufficient impact or provided sufficient oversight	Ofsted Priority Action Board established in September 2018 to oversee delivery of the Children's Improvement Plan, now independently chaired with representatives

Issue identified in 2017/18	Action taken during 2018/19
to deliver safe outcomes for children and families.	from the Department for Education, Children's Commissioner, police, health, education and 3rd sector. Regular reporting to Cabinet on the improvements to children's services.
Learning Disability Services Ensuring that ways of working are improved to manage demand and enable better outcomes.	All Age Learning Disabilities transformation project in place across Children's and Adults.
Assessing and approving care packages Internal audit to carry out a review of mechanisms and controls in place for assessing and approving care packages and accurately forecasting future costs, in both Children's and Adults Services.	***Children's Services:*** The audit provided an opinion of Minimal Assurance and identified a significant number of control weaknesses across the process for care package assessment and approval. A detailed set of actions were agreed with management, and a follow-up audit is due in Q1 of 2019/20 in order to assess progress made. The audit has been called in for scrutiny by the Children and Education Select Committee, which will also receive a copy of the follow-up review. ***Adults:*** The audit identified appropriate controls and processes were in place and operating as expected for care package assessments in Adult Services. Whilst a number of lower priority actions were agreed, the overall opinion given was Reasonable Assurance. Progress against agreed actions will be monitored by Internal Audit through ongoing action tracking.
Compliance culture Need to reinforce and support a culture of compliance through appropriate information, communication and training.	A Financial Management Partnership Agreement, including roles and responsibilities, and a supporting learning and development plan is being developed as part of the Finance Improvement Programme.
Financial Regulations Fundamental review of Financial Regulations is required.	Financial Regulations were reviewed and updated in October 2018.

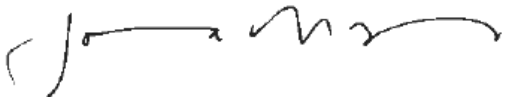
Issue identified in 2017/18	Action taken during 2018/19
Risk Management Leadership risk register requires a review.	A new strategic risk register is in place.
Financial Management CIPFA has been commissioned to carry out a review of the financial capacity and capability of the finance function across the organisation.	The conclusions of the CIPFA review have been used to develop and implement a 2 year Finance Improvement Programme targeted at improving the financial management capabilities across the organisation and ensuring the finance service is fit to meet the future requirements of the organisation.
Head of Legal and Democratic Services vacancy Following the retirement of the Head of Legal and Democratic Services, the role needs to be appointed to permanently.	An interim Director of Law and Governance is in place following unsuccessful permanent recruitment.

2018/19 Improvement Plan

Issue identified during 2018/19	Action being taken during 2019/20
Financial Sustainability Significant level of risk in the 2019/20 budget, including challenging savings targets.	We have established a balanced budget for 2019/20 including £82M of savings to be delivered by services. To ensure their delivery, all plans are being underpinned by detailed activities, costs and benefits. This information will be reported monthly to the Corporate Leadership Team and Cabinet, with remedial actions where off plan. There are also a series of meetings which the Cabinet Member for Finance will be leading across all service areas, including his Cabinet colleagues and senior officers, to undertake a detailed review of all 19/20 budgets and associated risks. All budget holders have been asked to sign-off their budgets and savings targets for 2019/20, most of which have now been signed with the rest to be completed by the end of the April.

Issue identified during 2018/19	Action being taken during 2019/20
Organisational Culture Ensure the organisational culture is aligned to our strategy.	Embed the Linguistic Landscape toolkit, supported by our values.
Children's Services Major change in response to two consecutive Ofsted ratings of 'Inadequate.'	Continue to deliver against the Children's Improvement Plan with regular progress reports to Cabinet and the Ofsted Priority Action Board. Transition from Local Safeguarding Children's Board to Safeguarding Partnership from September 2019. Priorities for the 2019-2020 year include; developing our managers with greater investment in training and support; improve supervision and focus on staff wellbeing; improve frontline outcome-focussed practice; develop deep and productive relationships with partners; ensure technology, resources and systems support the work of practitioners.
Decision Making Ensure transparency and strong engagement on key issues and decisions.	Review and update the council's key democratic decision making processes and scrutiny arrangements.
Performance Reporting Lack of council performance monitoring.	Ensure we have the data and insight required to drive effective decision making, improvement, service design, through a new performance reporting framework.
Partnerships Progressing the Vision for Surrey ambition of closer working with our partners	Strengthen partnership working across the county and streamline partnership governance to make it easier to navigate. Work with our districts and boroughs to create new locality partnerships. Strengthen relationships with partners through the Executive Director of Transformation, Partnerships and Prosperity.
Property & Assets Improve capacity and capability of property services in line with recommendations from external review.	An Asset & Place Strategy is being developed to address the Council's failing to optimise the use of its Land assets. The Property function is being revamped with the introduction of new leadership, a new structure and ways of working

Issue identified during 2018/19	Action being taken during 2019/20
Corporate Resource Capacity Recognise the need for more/improved corporate resources to support the organisation through period of significant change?	The Council has been hampered by a back office which is ineffective and not fully fit for purpose. As well as embarking on a transformation journey for the Council's front-line services, improvements are also being undertaken to all the corporate areas and these are at varying stages of implementation.
Agile Workforce Need to ensure clear contribution of the Agile workforce transformation project to deliver core business objectives and to the savings they could enable.	Re-define the scope of the Agile Workforce transformation project to ensure alignment with the Closer to Residents project, recognising the dependency of this project on an agile workforce. Need to utilise the opportunity to maximise potential savings opportunities.



Tim Oliver

Leader of the Council

June 2019

Joanna Killian

Chief Executive

June 2019

Firefighters Pension Fund

Narrative Report

Legal status

The Firefighters' Pension Fund is administered by Surrey County Council; it falls within the jurisdiction of the council's chief finance officer for certification and is subject to the council's statutory audit report prior to being submitted for approval to the Audit and Governance Committee. Since 1st April 2006, the council has administered (the 1992, 2006 and 2015 firefighters' pension) schemes from a separate local fire-fighter pension fund and therefore the firefighters' pension fund does not form part of the council's balance sheet.

Fund operations

Employee contributions, new employer's contributions and transfer values received are paid into the pension fund, from which pension payments and other benefits are paid. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments with any surplus recouped by the Ministry of Housing, Communities and Local Government and in that way the fund is balanced to nil each year. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees while Central Government will meet the costs of retirement pensions in payment, net of employee and employer contributions.

As there are not any investment assets built up to meet these pension liabilities, cash, net of contributions from active members and government grants, has to be generated to meet pension payments as they fall due. When accounting for the cost of retirement benefits the liability is recognised and reported in the council's cost of services when pensions are earned by employees, rather than when the benefits are eventually paid as pensions. The council's actuary based their calculations on future pension increases being linked to the consumer prices index (see note 39 of the council's statement of accounts for details of these amounts).

Estimating the net liability to pay pensions depends upon a number of complex judgements relating to salary increase projections, changes in retirement ages and mortality, expected returns on pension fund assets and the discount rate used for financial modelling. A sensitivity analysis carried out by the actuary revealed that a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £54m.

Significant accounting policies

The firefighters' pension fund account is prepared in accordance with the accounting policies as set out in the Chartered Institute Public Finance and Accountancy Code of Practice on Local Authority Accounting in the United Kingdom. The account summarises the transactions of the scheme and the net assets. Normal contributions, both from the members and from the employer which are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. The firefighters' schemes are prescribed by statute as unfunded defined benefit final salary schemes, the benefits of which are defined and guaranteed in law in accordance with the concept of the council as a going concern.

The fund accounts set out below do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

6

2017/18 £000	Ref: Note	Firefighters' pension fund account	2018/19 £000
		Contributions Receivable:	
(2,933)	1	Contributions receivable from employer (normal)	**(2,813)**
(2,275)	1	Contributions receivable from employees	**(2,277)**
	3	Individual transfers in from other schemes	
(5,208)			**(5,090)**
		Benefits payable	
12,914	2	Pensions	**13,297**
2,177	2	Commutations and lump sum retirement benefits	**2,160**
95	2	Lump sum death benefits	
	3	Individual transfers out to other schemes	
15,186		Total amounts payable	**15,457**
9,978		**Net amount receivable for the year before top-up grant**	**10,367**
(6,784)	4	Top-up grant received from DCLG	**(8,350)**
(3,194)	4	Top-up grant still owing from DCLG	**(2,017)**
(9,978)		**Net amount payable / receivable for the year**	**(10,367)**

Net Asset Statement

31 March 2018 £000		31 March 2019 £000
	Current assets:	
3,194	Pension top-up grant receivable from Central Government	**2,017**
3,194		**2,017**
	Current liabilities:	
(3,194)	Cash overdrawn	**(2,017)**
(3,194)		**(2,017)**

Note 1 - Contributions receivable

Contributions represent the total amounts receivable from the council and the pensionable employees. The employer's contributions are made at the rates determined by the Government Actuaries Department, at a nationally applied rate of 21.7% for the 1992 Firefighter' Pension Scheme, 11.9% for the 2006 Scheme and 14.3% for the 2015 Scheme. The council is required to make payments into the pension fund in respect of ill health retirements, when they are granted. No provision is been made for employee and employer contributions for sums due on pay awards not settled.

Note 2 - Benefits and refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

Note 3 - Transfer values

Transfer values are those sums paid to or received from other pension schemes and the firefighters' pension scheme outside England for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

Note 4 – Top up grant

The fund was topped up by Government grant of £10.4m in 2018/19 (£10.0m in 2017/18) as contributions were insufficient to meet the cost of pension payments due for the year. £8.4m was received in year leaving an outstanding balance of £2.0m due from government (£3.2m 2017/18).

SURREY PENSION FUND ACCOUNTS 2018/2019

Surrey Pension Fund - Fund account

2017/2018 £000		Note	2018/2019 £000
	Contributions and benefits		
178,283	Contributions receivable	7	**176,776**
12,881	Transfers in	8	**14,954**
191,164			**191,730**
-144,146	Benefits payable	9	**-149,832**
-9,527	Payments to and on account of leavers	10	**-10,946**
-12,222	Investment and governance expenses	14	**-13,641**
-1,626	Administration expenses		**-1,829**
-167,521			**-176,248**
	Net additions from dealings		
23,643	**with members**		**15,482**
	Return on investments		
65,751	Investment income	16	**59,055**
-1,032	Taxes on income	15	**-785**
98,662	Change in market value of investments	17	**185,965**
163,381	**Net return on investments**		**244,213**
	Net increase in the fund		
187,024	**during the year**		**259,695**
	Net assets of the fund		
3,868,859	**At 1 April**		**4,055,883**
4,055,883	**At 31 March**		**4,315,578**

Surrey Pension Fund - Net asset statement

31 Mar 2018 £000		Note	31 Mar 2019 £000
	Investment assets	17	
601,208	Bonds		**706,529**
2,413,734	Equities		**2,489,806**
321,737	Property unit trusts		**283,240**
394,288	Diversified growth		**402,589**
155,782	Private equity		**255,964**
	Derivatives	17c	
	- Futures		
1,327	- Foreign exchange contracts		**1,329**
80,636	Cash		**150,680**
60,000	Other short term investments		**0**
4,740	Other investment balances	17b	**3,407**
	Investment liabilities		
	Derivatives	17c	
0	- Futures		**0**
-1	- Foreign exchange contracts		**-1,452**
-3,393	Other investment balances	17b	**-3,445**
0	Borrowings		**0**
4,030,058	**Net investment assets**		**4,288,647**
7,260	**Long-term debtors**	12	**5,450**
29,861	**Current assets**	11	**30,635**
-11,296	**Current liabilities**	13	**-9,154**
4,055,883	**Net assets of the fund at 31 March**		**4,315,578**

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts. Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

Note 1: Description of the fund

The Surrey Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Surrey County Council. The Surrey Pension Fund is the reporting entity.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over two hundred and fifty other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply. The fund is overseen by the Surrey Pension Fund Committee, which is a committee of Surrey County Council.

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Surrey County Council to provide pensions and other benefits for pensionable employees of Surrey County Council, the borough and district councils in Surrey and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

a) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Surrey Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.
- The number of employees in the fund and the number of pensioners as at 31 March 2018 and 31 March 2019 are:

Surrey Pension Fund	**31 Mar 2018**	**31 Mar 2019**
Total Number of Employers	**251**	**271**
Employees in the Scheme		
Surrey County Council	18,148	17,151
Other Employers	17,654	17,141
Total	**35,802**	**34,292**
Pensioners		
Surrey County Council	12,105	12,721
Other Employers	13,030	13,208
Total	**25,135**	**25,929**
Deferred Pensioners		
Surrey County Council	28,678	31,342
Other Employers	16,401	18,632
Total	**45,079**	**49,974**
Total Number of Members	**106,016**	**110,195**

b) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 and new rates applied from April 2017. Currently employer contribution rates range from 13.4% to 33.2% of pensionable pay.

c) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

	Service pre 1 April 2008	**Service 1 April 2008 until 31 March 2014**
Basis of pension	1/80th of final salary	1/60th of final salary
Lump sum	Automatic lump sum 3 x pension Trade £1 of annual pension for £12 lump sum	No automatic lump sum Trade £1 of annual pension for £12 lump sum

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org).

	Service 1 April 2008 until 31 March 2014	**LGPS 2014 scheme**
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60th of salary	1/49th of salary
Revaluation rate	No revaluation: based on final salary	Inflation rate: consumer prices index (CPI)
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Employee contribution	See below table	See below table
Normal pension age	65	Equal to the individual member's State Pension Age
Lump sum trade off	Trade £1 of annual pension for £12 lump sum	Trade £1 of annual pension for £12 lump sum
Death in service lump sum	3x pensionable payroll	3x pensionable payroll
Death in service survivor benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years
Indexation of pension in payment	Inflation rate: CPI (RPI for pre-2011 increases)	Inflation rate: CPI

Pre 2014 employee contribution rates	
Pensionable payroll banding	Contribution rate
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%
Estimated overall LGPS average	6.5%

LGPS 2014 employee contribution rates for 2018/19	
Pensionable payroll banding	Contribution rate
Up to £14,100	5.5%
£14,101 to £22,000	5.8%
£22,001 to £35,700	6.5%
£35,701 to £45,200	6.8%
£45,201 to £63,100	8.5%
£63,101 to £89,400	9.9%
£89,401 to £105,200	10.5%
£105,201 to £157,800	11.4%
More than £157,801	12.5%
Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org) or the LGPS 2014 scheme website (http://www.lgps2014.org).

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at the year end at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 25 of these accounts.

These accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

Note 3: Summary of significant accounting policies

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs.

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Contributions due for forthcoming periods are not represented within the financial statements.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Transfers in/leavers are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included within transfers in.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

d) Private equity

Distributions and drawdowns from private equity partnerships are accounted for according to guidance from the private equity manager as to the nature of the distribution or drawdown. Income and purchases and sales are recognised at the date the capital call or distribution falls due.

Fund account – expense items

e) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

f) Taxation

The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2019 is reported as a current liability.

g) Management expenses

Administrative expenses

Pension administrative expenses reflect the costs incurred in the payment of pensions and other benefits, the maintenance of member records and provision of scheme and entitlement information. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts.

All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pension administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Governance expenses

Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an

accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

Net assets statement

h) Financial assets

Investments in Border to Coast Pensions Partnership are valued at transaction price i.e. cost. The pool's main trading company, Border to Coast Pensions Partnership Limited, only became licensed to trade on 1 August 2018 and no reliable trading results or profit forecasts are as yet available. Consequently, the pension fund's view is that the market value of this investment at 31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other financial assets are included in the financial statements on a fair value basis as at the reporting date, with the exception of loans and receivables which are held at amortised cost. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

iv) Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

v) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

vi) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if singularly priced, at the closing single price.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot rate on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculation purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contacts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

l) Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

m) Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

o) Additional voluntary contributions

Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are

specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 26).

Note 4: Critical judgements in applying accounting polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2019 was £256 million (£155.8 million at 31 March 2018).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

No allowance has been made for the recent McCloud judgement which relates to age discrimination within the New Judicial Pension Scheme. It is currently unclear how this judgement may affect LGPS members' past or future service benefits. Discussions are ongoing between the governing bodies and the LGPS to understand how this may affect mechanisms within the scheme, however, at the time of producing the report no guidance or indication of the likely impact of this ruling has been provided.

Investment in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership only became licensed to trade on 1 August 2018
- no dividend to shareholders has as yet been declared
- no published trading results are as yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement or subsequent notes as at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. a +0.5% increase in Pensions Increase Rate will increase liabilities by £574m a +0.5% increase in Salary Increase Rate will increase liabilities by £87m a +0.5% increase in the Discount Rate will increase liabilities by £674m a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.
Private equity	Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £256 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £99.7 million. There is a risk that asset or investment transaction misclassification may occur.

Note 6: Events after the balance sheet date

The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

Note 7: Contributions receivable

By category

2017/2018		2018/2019
£0		£0
38,121	**Total Employees' Contributions**	**38,502**
	Employers' Contributions	
97,181	Normal Contributions	95,662
0	Augmentation Contributions	0
42,981	Employers deficit	42,612
140,162	**Total Employers' Contributions**	**138,274**
178,283		**176,776**

2017/2018		2018/2019
£000		£000
83,861	Administering authority	80,839
86,022	Scheduled bodies	87,698
8,400	Admitted bodies	8,239
178,283		**176,776**

The latest actuarial valuation carried out as at 31 March 2016, set contribution rates for fund employers with effect from April 2017. The financial year 2017/2018 is the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

2017/2018		2018/2019
£000		£000
12,881	Individual transfers in from other schemes	**14,954**
12,881		**14,954**

Note 9: Benefits payable

By category

2017/18 £000		2018/19 £000
119,064	Pensions	126,014
21,606	Commutation and lump sum retirement benefits	19,571
3,399	Lump sum death benefits	4,146
77	Interest on late payment of benefits	101
144,146		**149,832**

By employer

2017/2018 £000		2018/2019 £000
69,429	Administering Authority	70,690
63,619	Scheduled Bodies	67,001
11,098	Admitted Bodies	12,141
144,146		**149,832**

Note 10: Payments to and on account of leavers

2017/2018 £000		2018/2019 £000
9,257	Group transfers to other schemes	10,732
283	Refunds of contributions	217
-13	Payments for members joining state schemes	-3
9,527		**10,946**

Note 11: Current assets

2017/2018 £000		2018/2019 £000
3,215	Contributions - employees	2,391
9,838	Contributions - employer	10,847
16,808	Sundry debtors	17,397
29,861		**30,635**

Analysis of current assets

2017/2018 £000		2018/2019 £000
5,612	Central government bodies	2,535
19,122	Other local authorities	23,435
5,128	Other entities and individuals	4,665
29,861		**30,635**

Note 12: Long term debtors

2017/2018 £000		2018/2019 £000
7,260	Central government bodies	5,450
7,260		**5,450**

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and that a balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2019 is £7.260m but £1.815m was due in 2018/19, leaving a long term debtor of £5.450m.

Note 13: Current liabilities

2017/2018 £000		2018/2019 £000
11,094	Sundry creditors	8,885
202	Benefits payable	269
11,296		**9,154**

Analysis of current liabilities

2017/2018 £000		2018/2019 £000
1,418	Central government bodies	1,345
6,254	Other local authorities	4,424
3,624	Other entities and individuals	3,385
11,296		**9,154**

Note 14: Investment and governance expenses

2017/2018 £000		2018/2019 £000
11,262	Investment management fees	10,256
239	Investment custody fees	171
721	Oversight and governance costs	3,214
12,222		**13,641**

The investment management fees includes £569k in respect of transaction costs (2017/18: £1.1million).

As part of its oversight and governance costs in 2018/19, the fund had also spent £2m in respect of pooling costs as part of Surrey Pension Fund's transition into the Border to Coast Pensions Partnership (BCPP)

Note 15: External Audit Costs

2017/2018 £000		2018/2019 £000
31	Payable in respect of external audit	21
31		**21**

Note 16: Investment income

2017/2018 £000		2018/2019 £000
	Bonds	
3,667	UK	**0**
7,468	Overseas	**5,491**
	Equities	
24,959	UK	**23,526**
11,260	Overseas	**13,733**
9,062	**Property unit trusts**	**11,101**
1,052	**Diversified growth**	**1,693**
2,315	**Private equity**	**2,821**
4,807	**Interest on cash deposits**	**519**
1,161	**Other**	**171**
65,751		**59,055**

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2018	Reclassified Asset	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2019
	£000	£000	£000	£000	£000	£000
Bonds	**601,208**		100,492	0	4,829	**706,529**
Equities	**2,413,734**		4,008,340	-4,070,705	138,437	**2,489,806**
Property unit trusts	**321,737**	-60,000	81,225	-65,569	5,847	**283,240**
Diversified growth	**394,288**		12,111	0	-3,810	**402,589**
Private equity	**155,782**	60,000	80,374	-91,286	51,094	**255,964**
Derivatives						
- Futures						
- Forex contracts	**1,326**		66,507	-37,130	-30,826	**-123**
	3,888,075	**0**	**4,349,049**	**-4,264,690**	**165,571**	**4,138,005**
Cash	**80,636**					**150,680**
Other Short Term Investments	**60,000**					
Other investment balances	**1,347**					**-38**
					20,372	
	4,030,058				**185,943**	**4,288,647**

Having taken advice from its fund manager, the Fund had chosen to reclassify its two Darwin assets from Property Funds to Private Equity in 2018/19.

	Market value at 31 Mar 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2018
	£000	£000	£000	£000	£000
Bonds	**583,327**	304,323	-283,524	-2,918	**601,208**
Equities	**2,288,136**	1,938,482	-1,845,436	32,552	**2,413,734**
Property unit trusts	**275,367**	88,284	-54,202	12,288	**321,737**
Diversified growth	**390,257**	2,327	0	1,704	**394,288**
Private equity	**145,228**	53,184	-50,680	8,050	**155,782**
Derivatives					
- Futures		311	-406	95	
- Forex contracts	**-45**	28,423	-68,141	41,089	**1,326**
	3,682,270	**2,415,334**	**-2,302,389**	**92,860**	**3,888,075**
Cash	**117,498**				**80,636**
Other Short Term Investments	**42,000**				**60,000**
Other investment balances	**3,344**				**1,347**
				5,802	
	3,845,112			**98,662**	**4,030,058**

Note 17b: Analysis of investments

	31 Mar 2018	31 Mar 2019	
Fixed interest securities	**£000s**	**£000s**	
UK public sector & quoted	205,115	211,246	Level 2
Overseas pooled fund	396,093	495,283	Level 1
	601,208	**706,529**	
Equities			
UK quoted	605,423	219,113	Level 1
UK pooled funds	418,042	492,713	Level 1
Overseas quoted	320,896	309,803	Level 1
Overseas pooled funds	1,069,373	1,468,177	Level 1/2
	2,413,734	**2,489,806**	
Property unit trusts			
UK property funds	279,879	206,301	Level 2/3
Overseas property funds	41,858	76,939	Level 2/3
	321,737	**283,240**	
Diversified growth			
Overseas diversified growth funds	394,288	402,589	Level 1
	394,288	**402,589**	
Private equity			
UK limited partnerships	22,717	104,877	Level 3
Overseas limited partnerships	41,411	51,366	Level 3
Overseas fund of funds	91,654	99,721	Level 3
	155,782	**255,964**	
Derivatives			
FX forward contracts	1,326	-123	Level 2
	1,326	**-123**	
Cash deposits	**80,636**	**150,680**	Level 1
Other short term investments	**60,000**	**0**	
Other investment balances			
Outstanding sales	357	1,137	Level 2
Outstanding purchases	-3,393	-3,444	Level 2
Accrued income - dividends and interest	4,383	2,269	Level 2
	1,347	**-38**	
Total investments	**4,030,058**	**4,288,647**	

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. As at 31 March 2019 the fund had no future contracts in place. At 31 March 2018 the fund had no future contracts in place

Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2019 the Fund had forward currency contracts in place with a net unrealised loss of -£123k (net unrealised gain of £1,327k at 31 March 2018).

2018/19

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
1	One Month	GBP	JPY	143	-20,803	0	-1
2	One Month	JPY	GBP	99,626	-685	6	0
3	Three Months	GBP	JPY	77,360	-11,150	0	-78
3	Three Months	GBP	EUR	149,652	-171,767	1,323	0
7	Three Months	GBP	USD	442,232	579,813	0	-1,373
						1,329	**-1,452**

2017/18

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
1	One Month	GBP	JPY	137	-20,650	0	0
5	Two Months	GBP	EUR	118450	-134,064	702	0
5	Two Months	GBP	JPY	66,837	-9,954,387	19	0
8	Two Months	GBP	USD	374,615	-525,891	606	0
						1,327	**0**

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2018/19 the fund operated a stock lending programme in partnership with the fund custodian. As at 29 March 2019 (the last working day) the value of quoted securities on loan was £53.8 million in exchange for collateral held by the fund custodian at fair value of £57.9 million

Note 17d: Investments analysed by fund manager

Following on from Central Government's proposal for Local Authorities to pool their pension assets into regional asset pools, Border to Coast Pensions Partnership (BCPP) was established in 2018, of which Surrey is a partner fund. Surrey Pension Fund had transitioned its first asset into the BCPP UK Equity Alpha Fund in November 2018, and will continue to transition more of its active assets over the coming years.

Investments managed within Border to Coast Pensions Partnership Ltd;

Market value 31 March 2018		Manager	Market value 31 March 2019	
£000	**%**		**£000**	**%**
0	0.0	Border to Coast UK Equity Alpha	464,200	11.1
0			**464,200**	

Investments managed outside of Border to Coast Pensions Partnership Ltd;

£000	%		£000	%
1,151,591	28.6	Legal & General Investment Management (LGIM)	1,190,723	28.3
373,811	9.3	Majedie Asset Management	243,621	5.8
311,993	7.7	UBS Asset Management	0	0
498,553	12.4	Marathon Asset Management	505,222	12.0
317,106	7.9	Newton Investment Management	333,760	7.9
322,509	8.0	Western Multi Asset Credit	422,967	10.1
73,663	1.8	Franklin Templeton Investments	72,316	1.7
150,596	3.7	Baillie Gifford Life Limited	161,151	3.8
260,170	6.5	CBRE Global Multi-Manager	287,636	6.8
122,576	3.0	Ruffer	121,748	2.9
121,117	3.0	Aviva	119,691	2.8
3,703,685			**3,458,835**	
3,703,685			**3,923,035**	

The table above excludes the private equity portfolio as well as internal cash held within the Fund.

The following investments represent more than 5% of the net assets of the fund

Market value 31 March 2018		Security	Market value 31 March 2019	
£000	**%**		**£000**	**%**
494,553	12.2	Marathon Global Contractual Fund	501,089	11.6
114,467	2.8	LGIM - TLCV Bespoke (34048)	492,637	11.4
0	0	Border to Coast UK Equity Alpha	464,200	10.8
322,431	8.0	Western Multi-Asset Credit EUR AC	422,967	9.8
0	0	LGIM – MSCI World Low Carbon	352,109	8.2
0	0	LGIM – Rafi Multi Factor	345,977	8.0
496,453	12.2	LGIM World Developed Equity Index	0	0
376,553	9.3	Legal & General UK Equity Index	0	0
1,804,457			**2,578,979**	

Note 18: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierachy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled Investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Not required
Pooled Investments - Hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Unquoted Equities	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Note 18a: Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed Valuation Range (+/-) %	**Value at 31 March 2019 £000**	**Value on Increase £000**	**Value on Decrease £000**
Private Equity	10%	255,964	281,560	230,368
Property funds	10%	142,704	156,974	128,433
Total		**398,668**	**438,434**	**358,801**

a) All movements in the assessed valuation range derive from changes to the value of the financial instrument being hedged against.

b) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%
- Discount rates +/-1%

c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 16 above) produce different price results

Note 18b: Reconciliation of Fair Value Measurements within Level 3

	Market value at 31 Mar 2018	Transfers in/ out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2019
	£000	£000	£000	£000	£000	£000
Equities	**2,904**	132	0	-2,591	-445	**0**
Property unit trusts	**64,859**	68,913	18,813	-20,416	10,535	**142,704**
Private equity	**155,782**	60,000	38,418	-51,286	53,050	**255,964**
	223,545	**129,045**	**57,231**	**-74,293**	**63,140**	**398,668**

Note 18c: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2018				As at 31 March 2019		
Designated as fair value though profit and loss	Financial assets at amortised cost	Financial liabilities at amortised costs		Designated as fair value though profit and loss	Financial assets at amortised cost	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial assets			
601,208			Bonds	706,529		
2,413,734			Equities	2,489,806		
321,737			Property unit trusts	283,240		
394,288			Diversified growth	402,589		
155,782			Private equity	255,964		
1,327			Derivatives	1,329		
	80,636		Cash		150,680	
	60,000		Other short term investments			
4,740			Other investment bals	3,407		
	37,121		Debtors		36,085	
3,892,816	**177,757**		**Total financial assets**	**4,142,864**	**186,765**	

			Financial liabilities				
-1			Derivatives		-1,452		
-3,393			Other investment balances		-3,445		
		-11,296	Creditors				-9,154
			Borrowings				
-3,394		**-11,296**	**Total financial liabilities**		**-4,897**		**-9,154**
3,889,422	**177,757**	**-11,296**			**4,137,967**	**186,765**	**-9,154**

Note 18d: Net gains and losses on financial instruments

31 March 2018 £000		**31 March 2019 £000**
	Financial Assets	
92,860	Designated at Fair Value through profit and loss	196,397
5,802	Loans and Receivables	20,210
	Financial Liabilities	
0	Fair Value through profit and loss	-30,826
0	Financial liabilities at amortised cost	
98,662	**Total**	**185,781**

Note 18e: Fair Value Hierarchy

31 March 2019	**Quoted market price**	**Using observable inputs**	**With significant unobservable inputs**	**Total**
	Level 1	**Level 2**	**Level 3**	
	£000	£000	£000	£000
Financial assets at Fair Value	2,420,590	1,332,588	398,668	4,151,846
Loans and Receivables	52,520	1,230	0	53,750
Financial Liabilities at Fair Value	0	-4,897	0	-4,897
Net financial assets	**2,473,110**	**1,328,921**	**398,668**	**4,200,699**

As per the advice of Legal & General Investment Management (LGIM), The Fund had chosen to reclassify its passive assets held as at 31 March 2019, from Level 1 to Level 2 investments. The value of the Fund's passive assets as at 31 March 2019 was £1.191bn, which had all been reclassified as Level 2.

31 March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at Fair Value	3,462,847	206,021	223,545	3,892,413
Loans and Receivables	48,061	3,367	0	51,428
Financial Liabilities at Fair Value	0	-3,393	0	-3,393
Net financial assets	**3,510,908**	**205,995**	**223,545**	**3,940,448**

Note 18f: Book cost

The book cost of all investments at 31 March 2019 is £3,164million (£3,055million at 31 March 2018).

Note 19: Outstanding commitments

At 31 March 2019 the Fund held part paid investments on which the liability for future calls amounted to £195.1million (£127million as at 31 March 2018)

Note 20: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Fund. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) **Market risk**

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment

guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

Other price risk – Sensitivity Analysis
PIRC Ltd has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2018/19 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2019	Change	Value on increase	Value on decrease
	£000		£000	£000
UK equities	711,826	9.90%	782,308	641,344
Overseas equities	1,777,980	9.28%	1,942,938	1,613,022
Bonds	495,283	4.06%	515,368	475,198
Index-linked	211,246	9.81%	231,966	190,526
Cash	150,680	0.50%	151,433	149,927
Other short term investments	0	0.50%	0	0
Property	283,240	4.33%	295,504	270,976
Alternatives	255,964	6.01%	271,348	240,580
Diversified growth fund	402,589	4.14%	419,244	385,934
Other assets	-161	0.50%	-162	-160
Total Investment Assets	4,288,647	4.60%	4,485,771	4,091,523

Asset type	Value at 31 March 2018	Change	Value on increase	Value on decrease
	£000		£000	£000
UK equities	1,023,466	9.35%	1,119,188	927,744
Overseas equities	1,390,269	9.54%	1,522,927	1,257,611
Bonds	396,093	4.38%	413,439	378,747
Index-linked	205,115	10.00%	225,627	184,604
Cash	80,636	0.03%	80,663	80,609
Other short term investments	60,000	0.03%	60,020	59,980
Property	321,737	3.46%	332,866	310,608
Alternatives	155,782	6.61%	166,079	145,485
Diversified growth fund	394,288	3.74%	409,037	379,539
Other assets	2,625	0.03%	2,626	2,624
Total Investment Assets	4,030,011	6.01%	4,272,248	3,787,774

(1) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2018		As at 31 March 2019
£000		£000
80,636	Cash & cash equivalents	150,680
60,000	Other short term investments	0
396,093	Fixed interest securities	495,283
536,729	**Total**	**645,963**

Interest rate risk sensitivity analysis
The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

Asset type	Carrying amount as at 31 March 2019	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	150,680	1,507	-1,507
Other short term investments	0	0	0
Fixed interest securities	495,283	4,953	-4,953
Total	**645,963**	**6,460**	**-6,460**

Asset type	Carrying amount as at 31 March 2018	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	80,636	806	-806
Other short term investments	60,000	600	-600
Fixed interest securities	396,093	3,961	-3,961
Total	**536,729**	**5,367**	**-5,367**

An adjustment has been made for the 2018 Interest rate sensitivity analysis to show the monetary changes as 100bps as opposed to 10bps.

Currency risk
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

Currency risk – sensitivity analysis

PIRC Ltd has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2018/19 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2019 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,479,276	11.54%	1,649,999	1,308,553
Fixed interest	495,283	11.54%	552,443	438,123
Property and Private Equity	228,026	11.54%	254,342	201,710
Diversified Growth	402,589	11.54%	449,052	356,126
Cash and Other Assets	14,026	11.54%	15,645	12,407
Total	2,619,200	11.54%	2,921,481	2,316,919

Asset type	Value at 31 March 2018 £000	% Change	Value on increase £000	Value on decrease £000
Equities	877,881	4.93%	921,173	834,589
Fixed interest	396,093	4.93%	415,626	376,560
Property and Private Equity	174,923	4.93%	183,549	166,297
Diversified Growth	394,288	4.93%	413,732	374,844
Cash and Other Assets	7,397	4.93%	7,762	7,032
Total	1,850,582	4.93%	1,941,842	1,759,322

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund held no fixed term deposits with other Local Authorities as at 31 March 2019.

Fixed Term Deposits	No. of days	Balance at 31 March 2019 £000
Other short term investments		**0**

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund has a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

Balance at 31 March 2018 £000		Balance at 31 March 2019 £000
	Call account	
20,000	Lloyds	19,000
	Money market fund	
4,000	Goldman Sachs	25,000
5,500	Aberdeen MMF	25,000
	Current account	
64	HSBC	18,948
29,564	**Internally Managed Cash**	**87,948**
51,072	Externally Managed Cash	62,732
80,636	**Total Cash**	**150,680**

The fund's cash holding under its treasury management arrangements as at 31 March 2019 was £87.9million (£29.6million at 31 March 2018).

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2017/18 or 2018/19

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. Cash flow surpluses are invested with fund managers, given that the fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing exercises take place, which involves assessing the level of internal cash available to be invested with managers.

d) Derivative risk

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2018/19 amounted to £63,982k (£62,796k in 2017/18).

2017/2018 £000		2018/2019 £000
41,031	Employers' current service contributions	41,466
21,286	Lump sum payments to recover the deficit in respect of past service	21,299
479	Payments into the fund to recover the additional cost of early retirement liabilities	1,217
62,796		**63,982**

ii) Surrey Pension Fund paid Surrey County Council £2,136k for services provided in 2018/19 (£1,847k in 2017/18).

2017/2018 £000		2018/2019 £000
221	Treasury management, accounting and managerial services	307
1,626	Pension administration services	1,829
1,847		**2,136**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2019 were £4,619k (£5,218k at 31 March 2018).

Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions that can be attributed to the fund.

2017/18 £	Position	2018/19 £	
0	Director of Resources	25,356	1
24,109	Director of Corporate Finance	26,485	1
80,681	Head of Pensions	91,202	2
25,398	Senior Specialist Advisor	23,599	2
49,059	Senior Accountant	54,956	2
179,247		**221,598**	

2018/19

1. 15% of time allocated to pension fund
2. 100% of time allocated to pension fund

Note 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

Private Equity Manager	Custody Provider
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York Mellon
Livingbridge (Formerly ISIS)	Lloyds Banking Group
SL Capital	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America
Pantheon	State Street Bank & Trust Co. NA New York
Glennmont Partners	Augentius (Luxembourg) S.A.

Note 24: Actuarial statement for 2018/19 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the scheme, so far as relating to the pension fund;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £679 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	**31 March 2016**
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current Pensioners	22.5 years	24.6 years
Future Pensioners*	24.1 years	26.4 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

2 May 2019

Hymans Robertson LLP

20 Waterloo Street, Glasgow, G2 6DB

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	**31/03/2019**	**31/03/2018**
Active members (£m)	3,148	2,559
Deferred members (£m)	1,523	1,359
Pensioners (£m)	1,923	1,921
	6,594	**5,839**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. The figures also include an approximate allowance for the impact of GMP equalisation.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £491m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.8%	2.7%
Discount Rate	2.4%	2.7%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 Years	24.6 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 Years	26.4 Years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	549
0.5% p.a. increase in the Salary Increase Rate	1%	87
0.5% p.a. decrease in the Real Discount Rate	10%	676

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies our covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions. This replaces our paper dated 30 April 2019, as this now includes allowance for the "McCloud ruling" and GMP equalisation.

Gemma Sefton FFA (For and on behalf of Hymans Robertson LLP) 9 July 2019

Note 26: Additional Voluntary Contributions

Market Value 2017/18 £000	Position	Market Value 2018/19 £000
13,621	Prudential	14,520
13,621		**14,520**

Additional Voluntary Contributions, net of returned payments, of £2.6million were paid directly to Prudential during the year (£2.8million during 2017/18).

Note 27: Investment Strategy Statement

Full details of the fund's investment policy are documented in the Investment Strategy Statement. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

Note 28: Annual report

The Surrey Pension Fund Annual Report 2018/2019 provides further details on the management, investment performance and governance of the Fund.

Accruals
An accounting concept that recognises income when it is earned and expenditure when it is incurred, and not when cash is transferred. The inclusion of debtors, creditors and depreciation are examples of accruals.

Amortisation
The process of writing down the value of an intangible asset over time in order to spread the cost of the asset over the period of its useful economic life.

Assets held for sale
Properties that are being actively marketed and sale is expected in the next 12 months.

Assets under construction
Assets not yet ready for use. This could be new building works or road construction.

Balances
Balances are maintained for future years' budgets and to provide a cushion against expenditure being higher or income lower than expected. Contributions to balances can either be a planned contribution from the revenue budget or a transfer of any revenue surplus at the year-end. The maintenance of an appropriate level of balances is a fundamental part of prudent financial management.

Business Rates
See Non-Domestic Rates (NDR).

Capital expenditure
Expenditure on the acquisition or enhancement of a non-current asset. The cost of maintaining an asset at its current value is revenue expenditure.

Capital adjustment account
A balance sheet item, unique to local authority accounting, that is central to the capital accounting regime. The balance on the account cannot be used, but reflects the extent to which, to date, capital funding of assets has preceded depreciation of those assets.

Capital financing requirement
This represents the council's underlying need to borrow for capital purposes. The year on year change will be influenced by capital expenditure in each year.

Capital receipts
Proceeds from the sale of non-current assets. The council earmarks capital receipts to finance future capital expenditure, except when they are utilised under the capital receipt flexibilities to fund transformation expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)
The professional accountancy institute that sets the standards for the public sector. CIPFA publishes the accounting codes of practice for local government.

The Code of Practice on Local Authority Accounting (The Code)
The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority. It is based on International Financial Reporting Standards (IFRS), and has been developed by CIPFA/LASAAC under the oversight of the Financial Reporting Advisory Board.

Community assets
Assets that the local authority intends to hold in perpetuity which have no determinable useful life and which may have restrictions on their disposal. Examples include the countryside estate and historic assets that are not used in service delivery.

Contingent Assets / Liabilities
Possible assets / liabilities, which may arise in the future if certain events, not wholly within the control of the authority, take place. Contingent assets / liabilities are not recognised in the accounts but are disclosed by way of a note if it is probable that an inflow / outflow of economic benefits will occur.

Glossary of Terms

Creditors
Money owed by the council that is due immediately or in the short term. Creditors are an example of the concept of accruals.

Current service cost (pensions)
The increase in the present value of local government and firefighters' pension scheme's liabilities expected to arise from employee service in the current period.

Curtailment costs (pensions)
For a defined benefit scheme (such as LGPS and firefighters') an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Debtors
Money that is due to the council but which has not yet been received. Debtors are an example of the concept of accruals.

Defined benefit scheme (pensions)
A pension or other retirement benefit scheme that defines the employees benefits and is independent of contributions and investment performance. Defined benefit schemes may be funded (local government pension scheme) or un-funded (firefighters' pension scheme).

Depreciation
A charge to the revenue account to reflect the consumption or use of a tangible non-current asset in service delivery. There is a corresponding reduction in the value of the non-current asset.

Discounting
The process of determining the present value of a payment or a stream of payments that is to be received in the future. Given the time value of money, a pound is worth more today than it would be worth tomorrow given its capacity to earn interest. Discounting is the method used to figure out how much these future payments are worth today.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial instruments
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial year
The year of account, which runs from 1 April to 31 March.

Government grants
Financial assistance from central government, or its agents, in the form of cash transfers, often in return for compliance with certain conditions. These grants may be capital or revenue in nature.

Historic cost
The estimated value of an asset on the balance sheet based upon its original purchase cost less depreciation to date.

Impairment loss
The reduction in an asset's value due to physical deterioration or other factors beyond usual wear and tear.

Infrastructure assets
Non-current assets that cannot be taken away or transferred and from which benefit can only be derived through continued use. Examples of infrastructure assets are roads, bridges and footpaths.

Intangible assets
Intangible assets yield benefits to the council for more than one year but are without physical form. For example software licences and the development of website technology. Intangible assets are recorded at cost and amortised over their estimated useful economic life.

Interest cost (pensions)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment properties
Any property (land or buildings) held solely for rental income or for capital appreciation or both. Investment properties are not used to support the strategy or service obligations of the local authority.

Leasing
This facility is a means to obtain the use of vehicles, plant and computer equipment without physically owning these items. Leases may be either operational, where the asset reverts to the lessor at contract end; or finance leases, where the assets passes to the lessee.

Lessee
A party to a lease agreement who makes payment to use an asset owned by another party.

Lessor
A party to a lease agreement who receives payment, from another party, for the use of an asset which they own.

Material
Information is said to be material if its omission or misstatement could influence the decisions users take on the basis of the financial statements. Materiality therefore relates to the importance or significance of an amount, transaction, or discrepancy. The assessment of what is material is a matter of professional judgment; the size and nature of the item under consideration must be taken into account in making this judgement.

Minimum revenue provision (MRP)
A statutory provision to set aside for the repayment of external debt, equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Net current replacement cost
A method of valuation that estimates the cost of replacing or recreating an asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net realisable value
A method of valuation that estimates the open market value of an asset in its existing use (or open market value in the case of non-operational asset), less the expenses required realising the asset.

Non-Domestic Rates (NDR)
The rates paid by businesses. The amount paid is based on the rateable value of the premises they occupy (set by the Inland Revenue) multiplied by a national rate in the pound set by the government. The rates are collected by local authorities and paid over to the government. They are then redistributed to local authorities on the basis of the relevant population. Under the Business Rates Retention Scheme, locally collected business rates are shared between local and central government.

Past service cost (pensions)
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept
An amount levied on another public body in respect of the council tax. The county council collects its council tax share from district councils through a precept, and pays the Environment Agency for land drainage.

Provisions
Amounts set aside for any liabilities or losses that are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

Prudential Code for Capital Finance in Local Authorities
The Prudential Code is a professional code of practice that supports local authorities in taking capital investment decisions. The code requires local authorities to set their own borrowing limits based upon affordability, sustainability and prudence.

Glossary of Terms

Public Works Loan Board
A government agency providing long term loans to Local Authorities to finance part of their Capital Expenditure.

Reserves
These are amounts set aside for specific purposes. The council has discretion on whether it wishes to set aside these amounts as distinct from sums set aside in provisions. Movements on reserves are therefore charged or credited to the revenue account after the net cost of service provision has been determined. Revenue reserves are classified as earmarked reserves or as unallocated reserves or balances.

Revenue expenditure
Expenditure incurred on day to day running costs and confined to accounts within one financial year.

Revenue Expenditure Funded by Capital under Statute (REFCUS)
REFCUS is capital expenditure which does not give rise to an asset owned by the council. Examples include capital expenditure on foundation and voluntary aided schools.

Revenue Support Grant (RSG)
This grant is non-specific and is based upon the government's assessment of how much a local authority should spend to provide a common level of service.

Soft Loans
Loans made by the authority at less than the prevailing market rate of interest.

Useful life
The period over which the council will benefit from the use of a non-current asset.

Grant Thornton

Annex 2

Audit Findings Report for Surrey County Council

For the Year ended 31 March 2019

29 July 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Surrey County Council ('the Council') and the Group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July 2019. Our findings are summarised on pages 4 to 15. We have identified several adjustments to the financial statements that have resulted in a net £30m adjustment to the Council's Comprehensive Income and Expenditure Statement, with no impact on the Council's usable reserves. Audit adjustments are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix C) or any further material changes to the financial statements, subject to the outstanding matters detailed on page 4, which include; - receipt of a number of responses to outstanding audit queries (see page 4); - receipt of management representation letter; and - review of the final set of amended financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. **Our anticipated audit report opinion will be unmodified.**
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk-based review of the Council's value for money arrangements. While progress has been made during the year to address both the performance of Children's Services and the Council's financial resilience we have concluded that Surrey County Council does not yet have proper arrangements to secure economy, efficiency and effectiveness in its use of resources. More details on the significant risks identified and work carried out are set out on pages 16-22. **We therefore anticipate issuing an adverse value for money conclusion, as detailed in pages 16-22 and Appendix C.**
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to formally issue our completion certificate until we have completed the work necessary to issue our Whole of Government Accounts assurance statement and our consistency opinion in relation to the Pension Fund Annual Report for 2018/19.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with [management and the Audit & Governance Committee.

As auditor we are responsible for performing the audit in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group and Council's business and is risk-based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

The only change in our audit approach since we communicated our Audit Plan to you on 8 April 2019 has been the addition of a third Value for Money significant risk in relation to the completion of Eco Park as part of the Council's Waste PFI scheme.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding items being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 29 March 2019, as detailed in Appendix C. These outstanding items include:

- receipt of management's signed letter of representation;
- receipt and evaluation of external advice relating to the valuation of the Council's PPE Land & Buildings;
- response to an audit query on accounting treatment of entries relating to receipts in advance;
- receipt of an investment statement relating to a year-end money market fund;
- receipt of an analysis of a prior period error relating to PPE Land & Buildings valuations;
- receipt of a number of sample items relating to grant income, journals, other income, operating expenses, payroll expenses, assets under construction, and year-end payables and receivables;
- review of the final set of financial statements taking into account the impact of the McCloud judgment and GMP equalisation as per advice from the Council's actuarial specialist;
- completion of audit assessment of the PFI Eco Park asset based on responses to audit queries;
- review and approval of the final set of accounts; and
- completion of internal quality review arrangements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the following table below our determination of materiality for Surrey County Council and the Group financial statements.

	Value (£) Single Entity	Value (£) Group
Materiality for the financial statements	30.0 million	30.1 million
Performance materiality	21.0 million	21.1 million
Trivial matters	1.5 million	1.5 million

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
1 **Fraud in revenue recognition** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. This risk was reported in our audit plan.	**Auditor commentary** As set out in our audit plan, having considered the risk factors set out in ISA240 and the nature of the revenue streams at the council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities including Surrey County Council mean that all forms of fraud are seen as unacceptable. There are no changes to the above assessment from our audit plan, and revenue transactions and related balances have been subject to our standard suite of audit tests including sample testing. Our audit work to date has not identified any issues in respect of fraud in revenue recognition.
2 **Management override of controls** Under ISA (UK) 240 there is non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the group/Authority and Fund, which was one of the most significant assessed risks of material misstatement. This risk was reported in our audit plan.	**Auditor commentary** We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration by appropriate evidence; • gained an understanding of the accounting estimates and critical judgements applied by management in preparation of the accounts and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our audit work to date has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 Valuation of land and buildings The Council revalues its land and buildings on a rolling basis to ensure that carrying value of assets is not materially different from current value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.09 billion in the prior year) and the sensitivity of the estimate to changes in key assumptions. Additionally, management are required to address the risk that the carrying value of assets not revalued as at 31 March 2019 in the Council financial statements may be materially different from the current value at the financial statements date, where a rolling programme is used. We identified the valuation of land and buildings revaluations and impairments as a significant risk, which was one of the most significant assessed risks of material misstatement. This risk was reported in our audit plan.	**Auditor commentary** We have: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts ad the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register, • reviewed significant asset valuation movements against movements in indices relating to land and building values since the most recent previous valuation for reasonableness, and challenged these when necessary; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value, including evaluation of management's paper on assets not revalued against the requirements of the CIPFA code; • engaged our own external auditor's expert to support our assessment of the valuer's work in preparation of valuation figures for the purposes of the financial statements as at 31 March 2019; and • challenged management to support the valuation of the Eco Park PFI development in assets under construction. As identified above, it was determined through analysis of the significant movements in valuation of land and buildings this year that it was necessary for the audit team to engage their own external valuer to assist in reviewing the valuation methodology and assumptions employed by the Council's external valuer. The results of this work are expected to be received in the week commencing 22 July and will be evaluated alongside our other work on this significant risk area to date. Subject to resolution of outstanding items, we can conclude that our audit work has not identified any issues in respect of valuation of land and buildings.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore have identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. This risk was reported in our audit plan.	**Auditor commentary** We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by managements to their management expert for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members. The Government's application to the Supreme Court for permission to appeal was rejected in June 2019. The legal ruling around age discrimination also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits, including the Local Government Pension Scheme (LGPS). In addition, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements have had on members benefits. GMPs must be equalised between men and women and past underpayments must be corrected. This will lead to increased costs for sponsors of defined benefit schemes (ie the LGPS) that were contracted out of the State Second Pension in the period from 17 May 1990 to 5 April 1997. These matters have been considered by the audit team and our response is set out on page 8. An adjusted misstatement has been detailed in Appendix A relating to each pension scheme (LGPS and Firefighters). Management have agreed to adjust the accounts based on the revised IAS19 valuation report from the Actuary. Subject to receipt of a revised set of financial statements we can conclude that our audit work has not identified any issues in respect of valuation of the pension fund liability.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	**Potential impact of the McCloud judgement and GMP Equalisation – LGPS and Firefighters' Pension Schemes** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling and GMP equalisation. The actuary's estimate, taking into account movements on actual return of assets now available for the final months of 2018/19, was of an increase in pension liabilities of £58.3m, and an increase of costs charged to the Surplus or Deficit on Provision of Services of £32.3m.	We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable. We are of the view that there is sufficient evidence to indicate that a liability is probable, and therefore have asked the council to amend their reporting of figures relating to the IAS 19 liabilities under the LGPS and Firefighters' Pension Schemes to match the revised actuary's reports. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability. An adjusted misstatement has been detailed in Appendix A relating to each pension scheme.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £24.9m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management rely on information provided by Surrey district councils to calculate the level of provision required. The Council obtains annual Collection Fund returns which details information such as Council Tax and Business rates precepts to Surrey County Council, along with Surrey County's share of the surplus from different Collection Funds and entries from the Districts/Borough Council's Collection Fund Statements.	We reviewed: • appropriateness of the underlying information used to determine the estimate; • impact of any changes to valuation method; • consistency of estimate against peers/industry practice; • reasonableness of decrease in estimate; and • adequacy of disclosure of estimate in the financial statements. Our audit work is complete. Our work has not identified any issue in the key judgements and estimates applied by Surrey County Council. Due to an error in information provided by Elmbridge District Council, the provision was understated by £2.8m. This error has been included in Appendix A as an adjusted misstatement.	Green
Minimum Revenue Provision - £19.2m	The Council are responsible for determining a reasonable and prudent methodology for charging of an annual Minimum Revenue Provision, with reference to relevant statutory guidance. The Council charge MRP: • For investment properties: Over a 100 year life • For equity investments: Over a 100 year life • For loans to subsidiaries: No MRP charges • For pre-2008 capital expenditure: 4% per year • For post-2008 capital expenditure: Over life of asset • For assets under PFI schemes: Over life of the scheme The MRP policy for 2018/19 was approved by the full County Council at their meeting in February 2018. The MRP policy for 2019/20 was approved by the full County Council at their meeting in February 2019.	We have: • reviewed the MRP policy for 2018/19 • reviewed management's workings, and • challenged the MRP assumptions for prudence It is our view that the estimate is unlikely to be materially misstated, however management's estimation process contains assumptions we consider optimistic, as the revised guidance for 2019/20 onwards states that MRP should be charged on the following basis: • For equity investments: Over a maximum economic life of 20 years • For investment properties: Over a maximum economic life of 50 years • For loans to subsidiaries: Over the life of assets purchased using the loans Management should review the appropriateness and prudence of the policy and ensure that the charge to revenue remains prudent to cover the council's capital financing requirement in future years.	Amber

Assessment
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £1,144m	Land and buildings comprises £1,144m of assets and includes assets such as schools and libraries, which are required to be valued on a variety of different valuation bases at year end. The Council has engaged Bruton Knowles LLP to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 24% of total land and buildings assets were revalued during 2018/19. The valuation of properties valued by the valuer in 2018/19 has resulted in a net increase of £121m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2019, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the value of these properties.	We considered and completed the following in the course of our testing: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts ad the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; • reviewed significant asset valuation movements against movements in indices relating to land and building values since the most recent previous valuation for reasonableness, and challenged these when necessary; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value, including evaluation of management's paper on assets not revalued against the requirements of the CIPFA code; and • engaged our own external auditor's expert to support our assessment of the valuer's work in preparation of valuation figures for the purposes of the financial statements as at 31 March 2019. Our work is substantially complete, however it was determined through analysis of the significant movements in valuation of land and buildings this year that it was necessary for the audit team to engage their own external valuer to assess this movement and the valuation methodology and assumptions employed by the Council's external valuer. The results of this work are expected to be received in the week commencing 22 July and will be evaluated alongside our other work on this significant risk area to date.	● **Incomplete**

Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgments and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £1,739m	The Council's total net pension liability at 31 March 2019 is £1,886m as per the draft financial statements, (PY £1,576m) comprising the Local Government Pension and Firefighters' Pension schemes. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £94m net actuarial loss during 2018/19.	We considered and completed the following in the course of our testing: • assessment of management's expert; • assessment of actuary's approach taken, with detailed work undertaken to confirm reasonableness of approach including comparison of actuarial assumptions to accepted ranges (below);	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% - 2.5%	Green
Pension increase rate	2.5%	2.5% - 2.4%	Green
Salary growth	2.8%	2.2% - 3.2%	Green
Life expectancy – Males currently aged 45	24.1	23.7 – 24.4	Green
Life expectancy – Females currently aged 45	26.4	26.2 – 26.9	Green

- considered completeness and accuracy of the underlying information used to determine the estimate;
- Considered reasonableness of the Council's share of LGPS pension assets;
- assessed the impact of Guaranteed Minimum Pension benefits between males & females; and
- assessed adequacy of disclosure of estimate in the financial statements.

Our audit work has not identified any significant issues in relation to the pensions disclosure. The actuarial assumptions made by Hymans Robertson and accepted by the Council were reviewed by the audit team. Our review concluded that the assumptions made by Hymans Robertson LLP were reasonable following discussions with the Council.

In respect of the assumptions, we continue to recommend that management keeps these under review for future periods in order to ensure that they remain appropriate to the Council's circumstances.

Additionally, the Council's net liability has been materially affected by the outcome of the Court of Appeal judgements made in respect of pensions (McCloud ruling re age discrimination). See page 8 for further details of the effect this has had on the audit and the financial statements.

Assessment
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgments and estimates

	Summary of management's policy	Audit Comments	Assessment
Fair value of investments	The Council hold an investment in its subsidiary Halsey Garton that is valued on the balance sheet as at 31 March 2019 at £93m. The investment is not traded on an open exchange or market and the valuation of the investment is subjective. Management have judged that the fair value of this asset is the same or not materially different to the value of cash invested in the subsidiary. The value of the investment has increased by £21m in 2018/19 due to additional investment by the Council.	We have: • challenged management to support the assertion that the investment is held at a materially appropriate value at year-end, and reviewed their assessment against supporting information; and • confirmed that the basis of valuation is in line with the requirements of applicable accounting standards. Our audit work is complete. Our work has not identified any issue in the key judgements and estimates applied by Surrey County Council.	Green
Valuation of asset under construction – Eco Park PFI	Management capitalise costs in relation to the Eco Park energy from waste asset as they are incurred. The asset was due to become operational on 7 November 2017 and is therefore significantly delayed. The Eco Park asset technology has yet to be tested. We are aware that there have been reliability issues for similar energy from waste plants in the UK. If it does not meet the required standards as set out in the contract between the Council and its external partners it may be impaired.	We have: • challenged management to provide an assessment from a suitably qualified person supporting their judgment that the asset value is not impaired, and reviewed that assessment; • gained an understanding of the costs capitalised for the Eco Park asset and the basis for recording these in the Council's financial statements; • reviewed professional advice provided to the Council in respect of the Eco Park assets; and • reviewed relevant schedules from the Council's external partners and advisors relating to the operational status of the asset. Our work on this matter is not yet complete.	Incomplete

Assessment
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings - Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management provided the audit team with their assessment of the appropriateness of the use of the going concern basis of accounting. The consideration and assessment of the relevance of the going concern basis of accounting was linked to the 2019/20 budget and financial strategy, covering the period from 2019-24.	• Management's formal assessment of the use of the going concern basis of accounting covers the period from 1 April 2019 to 31 March 2020. We consider Management's process in reaching its judgements to be reasonable. Furthermore, the Council has a robust financial plan in place which provides assurance that the Council will continue to deliver services for a period of greater than 12 months after the anticipated date of issue of the auditor's opinion.

Work performed	Auditor commentary
We: • held regular discussions with officers about the financial standing of the Council; • reviewed management's assessment of going concern assumptions and supporting information, including the Budget 2019/20 and Medium Term Financial Strategy; and • reviewed the completeness and accuracy of going concern disclosures in the financial statements.	• As at 31 March 2019 the Authority is halfway through the financial improvement programme, which was originally designed to deliver c£200m of savings, to ensure its future financial viability. It has achieved savings of £106m made up of budgeted savings of £66m and an in year cost reductions of £40m. The savings achieved in 2018/19 has avoided the use of any reserves, which were budgeted to be £21.3m. • The revenue outturn for the year represented an underspend against the original budget of £21.8m, resulting in a contribution to usable reserves of £0.5m. This is against the original forecast drawdown from reserves of £21.3m. This is an important step towards financial resilience and stabilisation of the Authority's financial outlook. Despite the favourable outcome for the year further financial challenges should not be underestimated. The Authority continues to face uncertainties arising from, the still to be announced, "Fair Funding Review" and the continuing rise in demand for its services while achieving the second tranche of savings in its two year programme of £82m in 2019/20. • The Authority's Medium Term Financial Strategy published in January 2019 projects a savings gap of £133.8m to be closed by 2023-24. This assumes that the second tranche of planned savings in its financial improvement programme deliver a further £82m by the end of 2019/20. The financial challenge therefore remains acute. • Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future based on setting a medium term financial strategy to 2023/24. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Concluding comments

We have reviewed management's assessment and are satisfied that the going concern basis is appropriate for the 2018/19 financial statements.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit & Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any such incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is appended to this report. • Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for: – The Council's land and buildings valuations – The Council's Minimum Revenue Provision Policy – The Council's assessment that the Eco Park asset under construction is not impaired – Prior period adjustments
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to HSBC UK in respect of bank balances at 31 March 2019, and to a number of debt counterparties including other local authorities in respect of short-term borrowings at 31 March 2019. This permission was granted and the requests were sent. • The majority of these requests were returned with positive confirmation, however where responses were not received we undertook alternative procedures, including review of alternative evidence such as broker's certificates and transaction statements around year-end.
6	**Disclosures**	• Our review identified a number of disclosure amendments to be made to the draft financial statements. See appendix B for details.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management have been provided, however some of the items requested during our interim audit in February/March were not provided until our final audit visit in June/July. • The Council's accounts production team has changed significantly for 2018/19 with a number of key individuals leaving the team. This has resulted in a slower audit process than in previous years, with more areas of the audit outstanding at the report-drafting stage than in previous years. We have been reporting our list of outstanding items daily to management, who are also able to monitor their delivery on the secure online portal used to share information for the audit. Management and the Audit & Governance Committee should continue to ensure that they appropriately resource the financial accounting function of the Council to ensure that high-quality financial statements can be produced prior to the external audit, and that experienced staff are available to support the external audit throughout June and July.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix C.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting thresholds of £500m (assets, liabilities, income, and expenditure) we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work has not been completed and will be completed in August 2019 following conclusion of our external audit. This timeline for completion is consistent with previous years.
4	**Certification of the closure of the audit**	We are unable to certify the closure of the 2018/19 audit of Surrey County Council in the audit opinion, as detailed in Appendix C. We have completed the majority of work under the Code but are unable to formally issue our completion certificate until we have completed the work necessary to issue our Whole of Government Accounts assurance statement and out consistent with opinion in relation to the Pension Fund Annual Report.

Value for Money

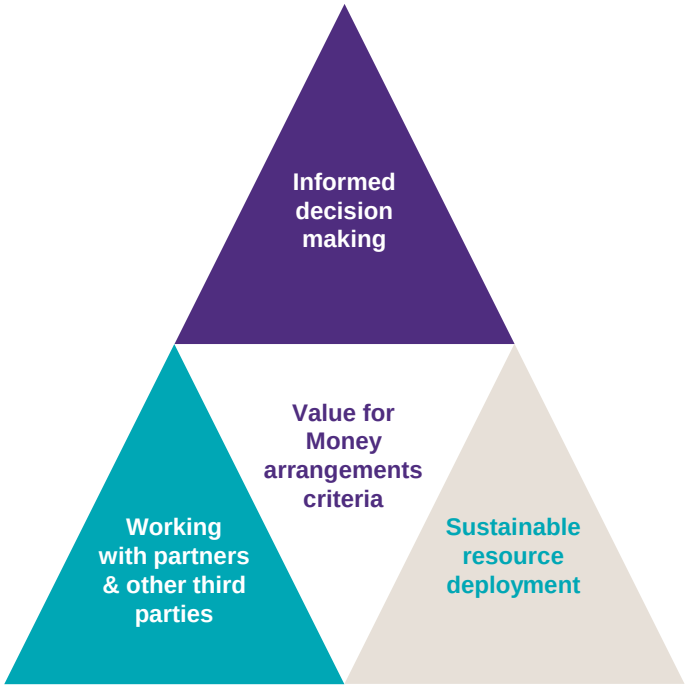
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 8 April 2019.

We have continued our review of relevant documents up to the date of giving our report, and identified a significant risk in relation to the completion of the energy from waste facility at the Eco Park, developed as part of the Council's Waste PFI project.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

The three significant risks we have addressed as part of our work are as follows:

1 Childrens Services

2 Financial Health

3 Eco Park – Waste PFI

Value for Money – Childrens Services

Overview

In June 2015 Ofsted published a report on services for children in need of help and protection, children looked after and care leavers in Surrey, based on their inspection visit in November 2014. The overall judgement was that children's services were inadequate.

Ofsted subsequently issued a follow-up inspection report in May 2018 based on their February 2018 inspection visit, in which the inadequate rating remained in place. Ofsted stated in the report that "Senior leaders and elected members in Surrey have been far too slow to accept and act on the findings and recommendations of the 2014 inspection, and to respond with the required urgency to the findings of several subsequent monitoring visits. Too many of the most vulnerable children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken".

2018/19 Monitoring visits

Following the 2018 inspection report the Council had two monitoring visits from inspectors in September 2018 and January 2019.

In September 2018 the inspectors found that too many children were removed from child protection plans before there was substantial evidence that the risks they were facing had reduced or their circumstances had improved. Inspectors found that many social workers, frontline managers, child protection conference chairs and partner agencies had insufficient knowledge and understanding of the impact of cumulative neglect, exposure to domestic abuse and other adult difficulties on children.

Inspectors reported that a new, highly experienced senior management team, formed since the inspection, understood the scale of poor practice and outcomes for these highly vulnerable children. A systemic review of the practice system and service structure was in progress.

It was rightly recognised that measures to achieve wide scale practice improvements will take time to implement, and senior leaders advised inspectors that the standard of interventions and outcomes for children considered during the visit was unlikely to have significantly changed since the inspection.

The findings of the second monitoring visit to Surrey's children's services on 23 and 24 January 2019 were that the experiences and progress of children in care and achieving permanence were judged requires improvement to be good. Overall, the effectiveness and timeliness of permanence planning for children who are unable to live with their parents had improved since the inspection. The understanding of permanence planning by social workers and the progress tracking of these plans by managers requires further strengthening. The Authority is implementing credible initiatives to consolidate the improvements that have been made.

However, overall, and in accordance with the Authority's own analysis, inspectors found continuing weaknesses and inconsistencies in services for children in care.

Conclusion

Overall during 2018/19 there remains evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and planning, organising and developing the workforce effectively to deliver strategic priorities.

Value for Money – Financial Resilience

Overview

In November 2018 we provided a report to the Council on Review of financial Health Arrangements. This review summarised the additional work we undertook to support our delayed VfM conclusion for 2017/18, specifically in regard to the Council's financial health. The review considered the significant financial challenges facing the Council and the implications for financial sustainability in the short to medium term.

As noted in that report, the Council has taken robust steps to address the significant financial challenge that it faces. The Council's new senior management team acted promptly and effectively to strengthen arrangements to manage and deliver the planned savings. However, at the time of review further work was underway to develop savings and transformation plans to full business case stage so they could be implemented. We indicated that it would be important to track progress on delivering these over the medium term.

For the 2018/19 VfM conclusion, we have reviewed the progress made towards restoring financial sustainability since November 2018. We found that significant progress has been made and financial resilience has been improved, but there remains significant further work to do to achieve a sustainable financial position.

Financial performance 2018/19

The Council performed well in delivering it's ambitious 2018/19 budget and savings targets. This is an important marker of the Council's ability to implement deliver its financial recovery plans. The outturn included better than expected performance on the £40m additional saving requirement that was implemented part way through the year. This led to a £0.5m contribution to reserves compared to a £21.3m drawdown that had been originally planned in the MTFS. The initiative has been successful in protecting reserves that can now be used as a buffer against financial risk in future years.

Within this position, net underspends against budget of £47.5 were able to compensate for a £19m overspend on Special Educational Needs and Disability services which remains an area of significant challenge for the Council. The position was also supported by the use of £14.4m of capital receipts from the sale of Council assets which were used to fund transformation, making use of government guidance issued in 2016.

The financial outturn included the delivery of £66m of MTFP savings which together with the additional £40m, resulted in a £106m reduction in net Council spending in 2018/19. We note that this included £6m of non-recurrent savings that will need to be backfilled on a permanent basis in 2019/20. This should be recognised as a significant achievement and provides some assurance that the new financial improvement process is capable of delivering ambitious targets.

The financial outturn was due in large part to an improvement in control of demand pressures in Adult Social Care, including through exercising greater discipline on access to services and the cost of care packages. Note that, these demand management initiatives were in addition to the revised savings programme and provided the justification reducing the projected funding gap for 2019/20 to £82m from the £136m that had originally been projected.

Financial planning (MTFP) 2019/20 to 2023/24

The Council's MTFS published in January 2019 projects a savings gap of £133.8m to be closed by 2023-24. This assumes that the second tranche of planned savings in its financial improvement programme deliver a further £82m by the end of 2019/20. The financial challenge therefore remains acute and it will be important that the momentum gained in 2018/19 is maintained. We will continue to monitor progress against savings target for 2019/20.

Value for Money – Financial Resilience

Strengthening financial governance

A new governance structure is being established to support transformation in the first few months of 2019/20. The Council has set up a TSU (Transformation Support Unit) that provides the functions of a PMO and the newly appointed Transformation Director is in post to provide strategic leadership. The TSU organises monthly reporting of progress on savings to the Transformation Delivery Board, which includes Corporate Leadership Team members. This process then feeds into the Change Management Board, which includes Cabinet members. The form of reporting is evolving as the work of the TSU embeds.

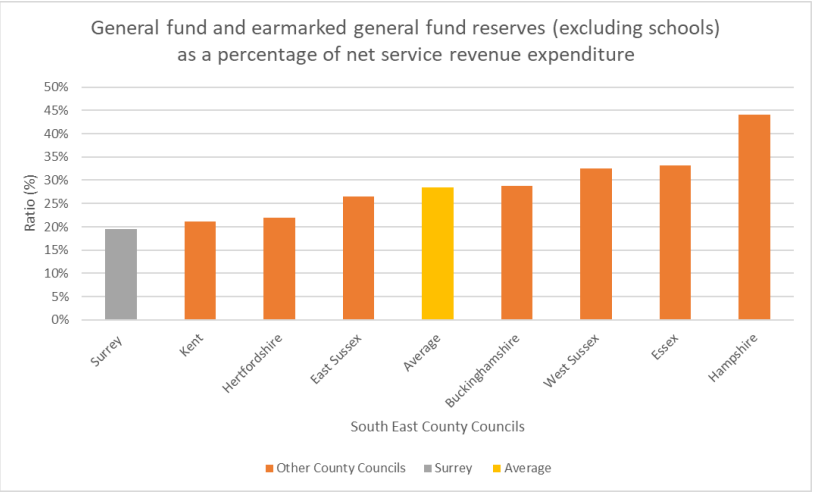
Financial management has also been strengthened through restructuring in the finance department. Finance Managers moving to a full business partner role and additional training is being laid on for members and budget holders, during 2019/20.

The final business cases (FBC) for savings and income proposals to address the £82m savings requirement for 2019/20 were signed off in November 2018. However, the Council has been updating them, including improved clarity on what each FBC is achieving and what has been delivered to date. For example, the phasing on the libraries FBC has changed since the original FBC was signed off, so the phasing and value of benefits needed to be reviewed. The higher level of challenge and scrutiny that the FBCs are now subject to is an indication of the strengthened procedures.

Reserves and contingencies

The Council's reserves provide a temporary buffer against financial risk, for example if savings could not be delivered to target in line with the MTFS projections.

As a result of the delivery of additional savings in year, the Council's reserves position is significantly better than had been originally projected. However, as at 31 March 2019, Surrey continues to hold a comparatively low level of reserves compared to other county councils in the South of England.



The revised MTFS 2019/24 sets out a balanced budget for 2019/20, without the general use of reserves and assumes that the achievement of savings targets will avoid the need to subsidise revenue from reserves in future years. The Council have also established a £10m budgeted contingency for 2019/20, as a further means of protecting reserves.

Conclusion

The Council has delivered a strong financial performance in 2018/19 and has started the implementation of its transformation plans, which will put it in a sustainable financial position for the future. However as at 31 March 2019 they remain to be delivered. Further delivery of the transformation plans will be needed to demonstrate proper arrangements for securing sustainable resource deployment.

Value for Money – Financial Resilience

Progress on Recommendations

In our report to the in November 2018, we included a number of high level recommendations which would help us to monitor the Council's progress in delivering financial sustainability. Overall progress against these has been promising and we will continue to monitor these during 2019/20. In most cases, the new processes need time to embed before their effectiveness can be fully assessed.

Recommendation	GT assessment of progress	GT Comment
Embed the new programme and project management arrangements and provide close support and scrutiny over the activity of service directors and budget holders on an ongoing basis.	**On track**	The new TSU and accompanying governance arrangements continue to embed but should provide a stronger platform for financial governance.
Monitor progress against planned savings on a regular basis, at least monthly recognising that in some circumstance, weekly updates may be required at critical stages.	**On track**	Monthly reporting to the Transformation Steering Board is part of the new governance arrangements.
Ensure that the Council has the capacity and skills to manage the change and bring in additional external support as required.	**On track**	The council has restructured its finance team and has used external support to strengthen its Turnaround capability.
Embed a culture of ownership of financial management across the organisation.	**On track**	Additional training for budget holders and members, and the transfer of finance managers into a business partnering role should help embed a strong culture. The Council have also introduced budget accountability statements for budget managers, and an agreed partnership protocol to support finance business partnering.
Ensure that the impact of transformational changes to services is fully understood and analysed in terms of benefits and risks to communities.	**On track**	The impact on service outcomes is part of the business case development process and the intention is to monitor this alongside the realisation of benefits.
Make sure that efforts to expedite and implement aspects of transformation prior to the full business cases being finalised, do not risk overlap or conflict with the overall transformation programme.	**On track**	While the FBCs continue to be finessed and updated, work had been undertaken to eliminate duplication and understand the interdependencies.
While the Council has identified an additional £40m of savings in 2018/19 to reduce the use of reserves, it should consider whether a pipeline of additional plans can be developed to mitigate risks which may arise during the implementation of the transformation programme	**Complete**	The £40m additional savings was successfully delivered.

Value for Money – Eco Park

Overview

The Councils Waste PFI project (the Project) originally reached financial close in 1999. The Project involved the Operator designing, building, financing and operating newly created assets in the form of two energy from waste plants ("EFW"); four in vessel composters ("IVC"); and one civic amenity site ("CA"). The cost of the capital for the Project was estimated at around £250million, for which the Council had obtained HM Treasury PFI credits of approximately £80million.

Eco Park Development

After the 1999 financial close, the Operator was unsuccessful in obtaining the necessary planning permission to build the new EFWs. As a result the Operator and the Council entered a stage of arbitration and the Project was delayed, though waste disposal activities continued.

In October 2013 the Council signed a deed of variation to the Project to deliver and Eco Park solution comprising a Gasification facility and an Anaerobic Digestor facility. Following receipt of revised costs in January and February 2015 the Council updated its VfM analysis for presentation to the Cabinet in April 2015. Throughout the period there were regular reports to Committee setting out the progress made or explaining the delays encountered. The Council has been advised throughout the process by its financial advisors, Deloitte LLP, technical advisors, Mott Macdonald LLP and legal advisors.

Value for Money Assessment

The value for money analysis undertaken by the Council in October 2013 considered both the quantitative and qualitative aspects of proceeding with the contract variation for the development for the Eco Park. Taking into account significant legislative, strategic, contractual and economic factors it was considered that the delivery of the Council's Waste Strategy through the development of the Eco Park represented the best overall value to the public.

Following delays the Council updated its VfM assessment in April 2015. This assessment confirmed the earlier assessment that the development of the Eco Park remained the best value solution for the public.

Current Position

Construction of the Eco Park, while progressing, is delayed. To date the Council has recognised payments totalling £87m as an asset under construction on the Balance Sheet. Under the terms of the Council's waste contract with Suez, the Council does not start to pay in full for the Eco Park until the facility is operational.

The Gasification facility was due to be operational by 7 November 2017 and so is significantly delayed. The facility has to pass acceptance testing to ensure the facility is working to the agreed standard. The Gasification Facility is due to undergo hot commissioning within the next two months, which will determine whether the plant is able to meet the agreed acceptance tests.

The Council is paying a reduced unitary payment at present recognising that the facility is not available to use. The PFI provider is currently disposing of the waste in one of its other energy from waste facilities. The financial risks to the Council from the contract appear to have been managed, provided the facility is completed and functions as intended.

Conclusion

Our work in respect of this risk is not yet complete.

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, and managers). In this context, we disclose the following to you:

- Marcus Ward was the audit manager for Surrey County Council up until May 2019. In May 2019, Marcus' father was appointed Leader of Waverley Borough Council. As discussed and agreed with PSAA, Grant Thornton UK LLP rotated Marcus Ward off the audit of Surrey County Council prior to the commencement of the final accounts audit of Surrey County Council in order to mitigate against any perceived or actual threat to the independence of the audit team as regards the financial statements of Surrey County Council for the year ended 31 March 2019.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	£	Threats	Safeguards
Audit related			
Certification of Teacher's Pensions return	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £109,415 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teacher's Pension return – Surrey Choices Limited	3,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,500 in comparison to the total fee for the audit of £109,415 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights subscription	12,500	None	None

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	**Provisions for business rate appeals are understated:** Due to an error in Elmbridge's NNDR3 return, the NNDR rateable value appeals provision is understated for this authority by £2.8m.	2,840	(2,840)	2,840
2	**Accounting for DSG overspend is incorrect:** The entity has raised a debtor and corresponding reserve for DSG overspend of £18.7m. This accounting treatment is incorrect and the impact should be offset against schools balances.	-	18,675 reclassification	-
3	**Impact of McCloud and GMP Equalisation: Firefighters' Pension Fund**	21,800	(24,600)	24,600
4	**Impact of McCloud and GMP Equalisation: LGPS** This adjustment also takes into account movements in actual return on scheme assts compared to the estimated value in the previous actuary's report.	10,516	(33,731)	33,731
5	**Understatement of Collection Fund Debtors in respect of Surrey Districts**	(5,253)	5,253	(5,253)
	Overall impact	**29,903**	**(55,918)**	**55,918**

Misclassification and disclosure changes

The table below provides details of major misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. A number of minor disclosure amendments have also been recommended but are not set out here on the basis of immateriality.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Capital Commitments	The Council has a number of material capital commitments which should be disclosed in the accounts under the code (ref 4.1.4.3(2)).	• Management should consider adding an additional note to the financial statements for Capital Commitments .	✓
IAS 7 Cash Flow Disclosures	The Council should disclose a reconciliation of Cash Flows from Financing Activities under IAS 7/ the code (ref 3.4.2.83 (2)).	• Management should consider adding an additional disclosure to the cash flow statement notes to the financial statements.	✓
Allowance for Credit Losses	The financial instruments disclosure for Allowance for Credit Losses omitted to include the £24m allowance for doubtful debts.	• Management should amend the relevant financial instruments disclosure.	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee (£)	Final fee (£)
Surrey County Council Audit	109,415	119,415
Total audit fees (excluding VAT)	**£109,415**	**£119,415**

Note: The above fee table does not include fees for Surrey County Council Pension Fund and the subsidiary companies as these are not covered by the contents of this Audit Findings Report.

The above variations in the Council's audit fee are as a result of the following:

- Additional work performed by the audit team in respect of valuation of land and buildings assets, including engagement of an external valuer by the audit team: £5,000
- Additional work performed by the external audit team in respect of the IAS 19 Pensions Liabilities including the impact of McCloud ad GMP equalisation: £3,000
- Additional work performed by the external audit team in respect of the Eco Park PFI scheme asset: £2,000

The above fee variations have been discussed with management. All fees are quoted excluding VAT. Fees are subject to agreement with PSAA.

Non Audit Fees

Service	Final fee (£)
Audit related	
Certification of Teacher's Pensions return	4,000
Certification of Teacher's Pension return – Surrey Choices Limited	3,500
Non-audit related	
CFO Insights subscription	12,500
Total group non audit fees (excluding VAT)	**£20,000**

Audit opinion

We anticipate we will provide the Group with an unmodified audit opinion.

Independent auditor's report to the members of Surrey County Council
Report on the Audit of the Financial Statements
Opinion
We have audited the financial statements of Surrey County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.
In our opinion, the financial statements:
give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.
Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.
Other information
The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Authority and group financial statements and, our auditor's report thereon, and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on

Audit opinion

the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:
we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion**.**
of the audit; or;
we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.
We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Executive Director of Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.
The Audit & Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the

Audit opinion

Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are not satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for adverse conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matters:

Children's Services

In June 2015 Ofsted published a report on services for children in need of help and protection, children looked after and care leavers in Surrey, based on their inspection visit in November 2014. The overall judgement was that children's services were inadequate.

Ofsted subsequently issued a follow-up report in May 2018 based on their February 2018 inspection visit, in which the inadequate rating remained in place. Ofsted stated in the report that "Senior leaders and elected members in Surrey have been far too slow to accept and act on the findings and recommendations of the 2014 inspection, and to respond with the required urgency to the findings of several subsequent monitoring visits. Too many of the most vulnerable children in the county are being left exposed to continuing harm for long periods of time before decisive protective actions are taken".

The findings of the monitoring visit to Surrey's children's services on 23 and 24 January 2019 were that the experiences and progress of children in care and achieving permanence were judged requires improvement to be good. Overall, the effectiveness and timeliness of permanence planning for children who are unable to live with their parents had improved since the inspection. The understanding of permanence planning by social workers and the progress tracking of these plans by managers requires further strengthening. The Authority is implementing credible initiatives to consolidate the improvements that have been made.

However, overall, and in accordance with the Authority's own analysis, inspectors found continuing weaknesses and inconsistencies in services for children in care.

This matter is evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and planning, organising and developing the workforce effectively to deliver strategic priorities.

Sustainable resource deployment

The Authority engaged the Chartered Institute of Public Finance and

Audit opinion

Accountancy (CIPFA) to review the financial resilience of the Council and the effectiveness of its finance function in early 2018. CIPFA reported in July 2018 that the Authority would not have sufficient reserves to meet its expected budget gap in 2019/20 unless it took immediate action to transform its financial performance and financial management arrangements. In response the Authority produced and implemented a two year financial improvement programme.

As at 31 March the Authority is halfway through the financial improvement programme which requires savings of c£200m to ensure its future financial viability. It has achieved savings of £106m made up of budgeted savings of £66m and an in year cost reductions of £40m. The savings achieved in 2018/19 has avoided the use of any reserves, which were budgeted to be £21.3m. The revenue outturn for the year represented an underspend against the original budget of £21.8m, resulting in a contribution to usable reserves of £0.5m. This is against the original forecast drawdown from reserves of £21.3m. This is an important step towards financial resilience and stabilisation of the Authority's financial outlook. Despite the favourable outcome for the year further financial challenges should not be underestimated. The Authority continues to face uncertainties arising from, the still to be announced, “Fair Funding Review” and the continuing rise in demand for its services while achieving the second tranche of savings in its two year programme of £82m in 2019/20.

The Authority’s Medium Term Financial Strategy published in January 2019 projects a savings gap of £133.8m to be closed by 2023-24. This assumes that the second tranche of planned savings in its financial improvement programme deliver a further £82m by the end of 2019/20. The financial challenge therefore remains acute.

The Council has delivered a strong financial performance in 2018/19 and has started the implementation of its transformation plans, which will put it in a sustainable financial position for the future. However as at 31 March 2019 they remain to be delivered. Further delivery of the transformation plans will be needed to demonstrate proper arrangements for securing sustainable resource deployment.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the

Audit opinion

the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ciaran T McLaughlin, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

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Grant Thornton

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29 July 2019

SURREY
COUNTY COUNCIL

Dear Sirs

Surrey County Council - Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Surrey County Council and its group financial statements for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

i. We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/19 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgagedthere are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent

with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

The group and parent Council financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.

xiii. We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

xiv. The restatements in respect of comparative information for prior periods recorded in the financial statements are fairly stated in all material respects and related disclosures appropriately reflect the underlying restatements.

xv. Land and buildings at 31 March 2019 are fairly stated in respect of their valuation and we are satisfied that these valuations are estimated on an appropriate basis. Non-current assets which were not revalued at 31 March 2019 in accordance with the Council's rolling revaluation programme are not materially misstated with regard to their current value at the balance sheet date.

xvi. We have considered the need to impair the valuation of the asset under construction in relation to the PFI Eco Park and are satisfied having reviewed the available information that the valuation of the asset represents the recoverable amount of the asset's value in line with IAS 36.

xvii. The Council's Minimum Revenue Provision policy for the year ended 31 March 2019 and related calculation methodology represent an appropriate and prudent provision for the repayment of debt. The policy has been prepared with reference to relevant statutory guidance, and the policy ensures that MRP is charged over a period which is commensurate with the period over which the Council's capital expenditure provides benefits.

Information Provided

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the group and parent Council financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit & Governance Committee at its meeting on 29 July 2019.

Yours faithfully

6

Name LEIGH WHITEHOUSE

Position EXECUTIVE DIRECTOR OF RESOURCES.

Date 24/7/2019

Name.....

Position.....

Date.....

Signed on behalf of the Governing Body

Audit & Governance Committee
29 July 2019

SURREY PENSION FUND
LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2018/19
AND
GRANT THORNTON EXTERNAL AUDIT FINDINGS REPORT

SUMMARY AND PURPOSE:

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2019, in light of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

There have been no material misstatements in the financial statements and the external auditor (Grant Thornton) has issued an unqualified opinion having completed their audit.

Grant Thornton, as the Council's external auditor, has completed its audit and the Pension Fund financial statements are presented to this Committee to be approved prior to publication.

Annex 1 represents the primary statements and accompanying notes to the accounts.

The result of the external audit is reported in the Audit Findings for Surrey Pension Fund Report, which is presented at Annex 2.

RECOMMENDATIONS:

The Committee is asked to:

(i) Approve the Pension Fund Accounts 2018/19 in Annex 1.
(ii) Consider the content of the Audit Findings for Surrey Pension Fund Report in Annex 2.
(iii) Determine any issues that need to be referred to Cabinet in relation to the external auditor's conclusions and recommendations.
(iv) Consider the content of the draft representation letter as set out in Annex 3 and authorise the Deputy Chief Finance Officer to sign it on the Council's behalf.

2018/19 PENSION FUND ACCOUNTS

1. Grant Thornton audits both the County Council and Pension Fund accounts and is required to present separate audit opinions on each.

2. During the audit, Grant Thornton identified a few minor issues, which have led to a number of minor, non-material amendments being made to the 2018/19 draft financial statements and related notes to the accounts.

3. Annex 1 represents the Pension Fund Accounts 2018/19.

4. The Pension Fund Draft Accounts 2018/19 were presented to and approved by the Pension Fund Committee on 7 June 2019 and the Fund expects to present the Pension Fund Draft Annual Report 2018/19 (which include the audited Pension Fund Accounts 2018/19) on 13 September 2019 for the Committee, subject to audit approval

5. As part of Central Government's proposal to pool Local Government Pension Scheme assets into regional asset pools, Surrey Pension Fund is now a partner fund of Border to Coast Pensions Partnership (BCPP) and had completed its first transition of UK Equities onto BCPP in Autumn 2018. The Fund has made commitments to BCPP's Private Markets and Infrastructure Funds and also expects to transition its Global Equities and Fixed Income to the pool in 2019/20.

2018/19 AUDIT FINDINGS REPORT

6. The external auditor is required to report on the Pension Fund financial statements. The Audit Findings for Surrey Pension Fund Report 18/19 is presented at Annex 2 and sets out a summary of the work carried out, the conclusions reached and recommendations made.

7. The Committee will note that the auditor is anticipating issuing an unqualified opinion on the financial statements

MANAGEMENT REPRESENTATION LETTER

8. It is considered good practice for those charged with governance to provide the external auditor with a letter of representation in respect of matters that are material to the financial statements, but appropriate audit evidence cannot reasonably be expected to exist.

IMPLICATIONS:

A) Financial
There are no direct financial implications.

B) Equalities
There are no direct equality implications.

C) Risk management and value for money
Pension Fund risks are proactively monitored by officers and the Surrey Pension Fund Committee.

REPORT AUTHOR:
Mamon Zaman, Senior Accountant

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Annexes:

1. Pension Fund Accounts 2018/19
2. Audit report 2018/19
3. Draft letter of representation

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SURREY PENSION FUND ACCOUNTS 2018/2019

As at 31 March 2018 £000		As at 31 March 2019 £000
80,636	Cash & cash equivalents	150,680
60,000	Other short term investments	0
396,093	Fixed interest securities	495,283
536,729	**Total**	**645,963**

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

Asset type	Carrying amount as at 31 March 2019	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	150,680	1,507	-1,507
Other short term investments	0	0	0
Fixed interest securities	495,283	4,953	-4,953
Total	**645,963**	**6,460**	**-6,460**

Asset type	Carrying amount as at 31 March 2018	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	80,636	806	-806
Other short term investments	60,000	600	-600
Fixed interest securities	396,093	3,961	-3,961
Total	**536,729**	**5,367**	**-5,367**

An adjustment has been made for the 2018 Interest rate sensitivity analysis to show the monetary changes as 100bps as opposed to 10bps.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency

Grant Thornton

Annex 2

The Audit Findings for Surrey Pension Fund

Year ended 31 March 2019

July 2019

Contents

Your key Grant Thornton team members are:

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Surrey Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 10. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix D) or material changes to the financial statements, subject to the following outstanding matters; *Outstanding items include the following matters where we are awaiting information as at the date of writing this report in order to complete our work:* • A sample for our testing of benefits payables; and • A small number of fund manager confirmations *We are still completing work in the following areas, in addition to those areas above where we are awaiting information:* • Complete our review of the IAS 26 actuarial valuation including the impact of McCloud and our work on the management and auditor's expert; • Complete our review of financial Instruments; • For a sample of level 3 investments check a sample back to audited accounts for the funds and review the nature and basis of estimated values; • Processing the response to a sample of contributions receivable; and • Processing the responses to our journals testing. *We are still to complete the following closing procedures, which are concluded at the end of the audit:* • Receipt of management representation letter; • Receipt of confirmation whether there are no reportable post balance sheet events; and • Review of the final set of financial statements. Our anticipated audit report opinion will be unmodified.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in April 2019

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 July 2019, as detailed in Appendix D.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Pension Fund Amount (£)
Materiality for the financial statements	40,000,000
Performance materiality	24,000,000
Trivial matters	2,000,000

Materiality calculations remain the same as reported in our audit plan. Whilst net assets have increased by £259.7 million when compared with the 2017/18 figures that we used as a basis of our calculation of materiality in the audit plan, we felt it was prudent to keep materiality at the same level. We detail in the table below our determination of materiality for Surrey Pension Fund.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** During our risk assessment, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because; • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Surrey County Council as the Administering Authority of Surrey Pension Fund, mean that all forms of fraud are see as unacceptable. Therefore we did not consider this to be a significant risk for Surrey Pension Fund. We have not made any changes to this assessment reported to you in the Audit Plan. We have performed our usual procedures on contributions and investment income and have not identified any issues to report.
2	**Management override of controls** Under ISA (UK) 240 there is non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the group/Authority and Fund, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • Evaluated the design effectiveness of management controls over journals • Analysed the journals listing and determine the criteria for selecting high risk unusual journals • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • Evaluated the rationale for any changes in accounting policies or significant unusual transactions. Based on the work completed to date, we have not identified any issues in respect of the risk of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**The valuation of Level 3 investments** Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We have identified the valuation of Level 3 investments as a risk requiring special audit consideration.	**Auditor commentary** We have: • gained an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; and • for all investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2019 with reference to known cash movements in the intervening period. Based on the work completed to date, we have not identified any issues in respect of the valuation of Level 3 investments.

Significant findings - Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management have reviewed the Fund's funding position and cash flows.	• The Pension Fund has sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council and Admitted and Scheduled bodies contributions. • There are no known plans for the Ministry of Housing, Communities and Local Government to wind up the Surrey Pension Fund. • Next triennial valuation of the Fund is due to be completed in 2019 as at 31 March 2019 by the fund's actuary and review of communications between the Council , Surrey PF and Actuary has not identified any going concern issues or difficulties. • The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.
Work performed	**Auditor commentary**
Detail audit work performed on management's assessment	• We have reviewed management's assessment that the financial statements are prepared on a going concern basis. • We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation as at 31 March 2016 showed the funding level of 83% with a plan to achieve 100% solvency over the 20 years from that valuation. • The fund continues to operate as usual.
Concluding comments	**Auditor commentary**
	• We are satisfied that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	**Potential impact of the McCloud and GMP judgements** The Court of Appeal has ruled that there was age discrimination in the judicial and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. **Guaranteed Minimum Pension (GMP)** The High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. This will lead to increased costs for sponsors of defined benefit schemes (ie the LGPS) that were contracted out of the State Second Pension in the period from 17 May 1990 to 5 April 1997.	Discussions are ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government Pension Schemes. The Council requested an estimate from its actuary of the potential impact of the McCloud and GMP ruling. The actuary's estimate was of a possible increase in pension liabilities of £22m. This increase also includes the impact of GMP equalisation. Management's view is that the impact of the ruling is material for Surrey Pension Fund so the disclosure of the present value of future retirement benefits will be updated in Note 25 to reflect the position including the impact of the McCloud judgement.	We have reviewed the analysis performed by the actuary, and considered whether the approach that has been taken to arrive at this estimate is reasonable. We are of the view that there is sufficient evidence to indicate that any liability related to the McCloud and GMP judgements is probable. Whilst the impact of the McCloud and GMP judgements is below our performance materiality, management have opted to update the disclosure to reflect it. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability. We have included this as a disclosure change within Appendix B.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in hedge funds and unquoted equities that in total are valued on the balance sheet as at 31 March 2019 at £398,668k. These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management adjust the value of the hedge fund at their last audited financial statements for cashflows and use comparable valuation of similar companies for unquoted equities. The value of the investment has increased by £175,123k in 2018/19, largely due to market movements..	We have assessed management's estimate by considering: • An assessment of management's expert • The appropriateness of the underlying information used to determine the estimate • The consistency of estimate against peers/industry practice • The reasonableness of increase in estimate • The adequacy of disclosure of estimate in the financial statements	●
Level 2 Investment	The Pension Fund have investments in unquoted bonds, foreign exchange derivatives, overseas bond options and pooled investments, that in total are valued on the balance sheet as at 31 March 2019 at £1,332,588k. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management use the average of broker prices, market forward exchange rates at year end, option price modelling, closing bid or single price. The value of the investment has decreased by £25,025k in 2018/19 due to market movements.	We have assessed management's estimate by considering: • An assessment of management's expert • The appropriateness of the underlying information used to determine the estimate • The consistency of estimate against peers/industry practice • The reasonableness of increase in estimate • The adequacy of disclosure of estimate in the financial statements	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• Surrey County Council, as the administrating authority of the Surrey Pension Fund voluntarily reported itself to the Pension Regulator for failing to provide all of their active and deferred members with annual benefit statements by the 31st August 2018 deadline..
4	**Written representations**	• A letter of representation has been requested from the Pension Fund, which is included in the Audit and Governance Committee papers. We have included a specific representation about the minimal assurance report from Internal Audit on Pensions Administration.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to your custodian, investment fund managers and banks. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however one request for controls gap letter for a fund manager has not been received so we have chased with management's support.
6	**Disclosures**	• Our review found material omissions in the financial statements. These are detailed in Appendix C.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.
8	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2019 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

- Marcus Ward was the audit manager for Surrey Pension Fund up until May 2019. In May 2019, Marcus' father was appointed Leader of Waverley Borough Council. As discussed and agreed with PSAA, Grant Thornton UK LLP rotated Marcus Ward off the audit of Surrey County Council prior to the commencement of the final accounts audit of Surrey Pension Fund in order to mitigate against any perceived or actual threat to the independence of the audit team as regards the financial statements of Surrey Pension Fund for the year ended 31 March 2019.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed below.

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Fees

We set out below our fees charged for the audit. We confirm there were no fees for the provision of non-audit or audit-related services. We have incurred additional fees during the year, from the consideration of the McCloud and GMP judgements and have been asked by auditors of the 11 Surrey districts to provide IAS 19 assurance letters, for which we charge £3,000 for doing the work and £500 for each assurance letter requested. We will confirm the final audit fee with management in August 2019 once the audit has been completed.

Audit Fees

	Proposed fee (£)	Final fee (£)
Pension Fund Audit	20,871	TBC
Total audit fees (excluding VAT)	**20,871**	**TBC**

Action plan

We have identified one of recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	• We completed our interim testing of member data of new starters in March 2019. We found that supporting documents such as evidence of sending out the welcome pack were not available due to a backlog of sending them out. When we returned to finalise our testing in July 2019 these were available. However, this shows that there has been delay of up to 4-6 months for supporting documentation to be uploaded to Altair. This supports the findings of an Internal Audit Report during 2018/19 into the pension fund administration which provided a minimal assurance opinion. Part of this was due to a large backlog of tasks that were incomplete.	• Supporting evidence for changes to member data should be uploaded as soon as practically possible and a plan put in place to clear the back log of tasks. **Management response** • New Starter records are up to date on the pensions system and the New Starter process has been improved so that the risk of backlog is mitigated through improved reporting to management. The backlog found in fieldwork relates to welcome letters that are generated. A plan is in place to remove the backlog and is well progressed.

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Surrey Pension Fund's 2017/18 financial statements, which resulted in 2 recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	**New starter members** Not all members received letters to inform them of their enrolment to their pension scheme. This has been an issue since approximately July 2017. This process is to be started again due to new processes and procedures being in place. We recommended that the Pension Fund should Ensure new starters receive notification of their enrolment into the scheme.	**Management Response** The Trainee Team are now working through the backlog of new starter notifications. All those for whom we hold a postal address are being written to. For those we hold an e-mail address we are working with Heywoods to develop a bulk e-mail functionality out of the system. It should be noted that the majority of employers send out pensions correspondence with contracts that we don't necessarily have sight of. For members who joined prior to 31 March 2018 they would have received an ABS in August 2018 confirming their membership of the scheme and detailing their service history. We have a robust process now in place for any new joiners so a backlog will not build up again. Statutory Notifications are no longer supported by the system provider so are no longer sent.
2	✓	**Leavers (members)** Only 10 of the 25 leavers sampled had the expected documents (equite form and LG5.24 form) attached to their profiles. Therefore 15 people had no clear audit trail as to why they had been set as a leaver on the system. There should be a clear protocol to be followed by pension operations colleagues to ensure there is a clear audit trails as to why a member has been set as a leaver	**Management Response** Leaver tasks are created either by a leaver form being received or a bulk extract being received. Individual leaver forms will be saved to records but bulk extract cannot be as they contain data for multiple members so will be stored centrally. There are records that have leaver tasks set up due to being interfaced as a status 2 at year end but the employer has not sent in a leaver form yet.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusted misstatements with an impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
McCloud, GMP and IAS 26 disclosure	As detailed in the Significant findings - other issues section on page 8, there may be a change in the disclosure of the IAS 26 Actuarial present value of promised retirement benefits in Note 25 due to an updated estimate from your actuary following the McCloud Adjustment.	• Management should use the updated estimate of the IAS 26 Actuarial present value of promised retirement benefits as at 31 March 2019 taking into account the findings from the McCloud judgement to update this disclosure.	✓
Outstanding commitments	The disclosure of the outstanding commitments as at 31 March 2019 (note 19) was incorrect by £34m.	• The outstanding commitments note should be updated.	✓
Investments greater than 5% of net assets	The calculation for the disclosure of the Investments greater than 5% of net assets (note 17 d)) was calculated on the percentage of net *investment* assets rather than net assets. The disclosure to be adjusted to 'net assets' rather than net investment assets, percentages to be recalculated on this basis.	• The disclosure should be corrected.	✓
IFRS 9 disclosures	Some of the disclosures relating to investments and financial instruments had not been updated for the new terminology of IFRS 9 which was applicable for the first time this year.	• Management should review the disclosure requirements for new financial reporting standards and ensure draft accounts include all required disclosures and terminology.	✓
Assumptions made about the future and other major sources of estimation uncertainty	A sensitivity analysis showing the impact of a 1% change on value of pension promise should be shown.	• Sensitivity analysis should be included in the statement of accounts	✓
Split of benefits	The draft accounts did not include a split of benefits between normal, deficit, augmentation and additional classes.	• The benefits note should show analysis of benefits split between the different types/	✓
Borders to Coast Equity Alpha	Further narrative explaining the nature of the Borders to Nature Equity Alpha is required.	• Further narrative should be added to the statement of accounts.	✓

Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Prior year figures	A number of the 2017/18 figures for investment balances had been changed to match mapping that had changed for 2018/19. the prior year figures in the accounts should always match the audited financial statements unless there has been a prior period adjustment and restatement.	• 2017/18 figures should match those in the audited 2017/18 accounts.	✓

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
1	**Level 3 investments overstated**				Not considered material
	DR Change in market value of investments	3,564			
	CR Investment Assets		(3,564)	(3,564)	
	Overall impact	**3,654**	**(3,654)**	**(3,654)**	

Impact of prior year unadjusted misstatements

We have not identified any adjustments relating to the prior year audit which had not been made within the final set of 2017/18 financial statements.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Surrey County Council on the pension fund financial statements of Surrey Pension Fund

Opinion

We have audited the financial statements of Surrey Pension Fund (the 'pension fund') administered by Surrey County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Executive Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Audit opinion

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Ciaran McLaughlin, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

SURREY
COUNTY COUNCIL

Grant Thornton UK LLP
110 Bishopsgate
London
EC2N 4AY

29th July 2019

Dear Sirs

Surrey Pension Fund
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Surrey Pension Fund ('the Fund) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was

necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end

The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We believe that the Fund’s financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund’s needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

xv. We have taken actions to address the findings of the ‘Minimal Assurance’ Internal Audit review of Surrey Pension Fund Administration and offer assurance that the backlog of tasks identified do not have a material impact on the actuarial valuation.

Information Provided

xvi. We have provided you with:

   a. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have drawn to your attention all correspondence and notes of meetings with regulators.

xxiv. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors**.**

xxv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by Audit and Governance Committee at its meeting on 29th July 2019.

Yours faithfully

Name……

Position…….

Date…….

Name……

Position…….

Date…….

Signed on behalf of Surrey County Council as administering body of the Surrey Pension Fund