Supplementary Agenda 1

Audit & Governance Committee

SURREY COUNTY COUNCIL

Date & time	Place	Contact	Chief Executive
Thursday, 5 November 2020 at 10.30 am	Remote	Joss Butler joss.butler@surreycc.gov.uk	Joanna Killian We're on Twitter: @SCCdemocracy

AGENDA

4 STATEMENT OF ACCOUNTS 2019/20 (Pages 1 - 242)

This supplementary agenda includes the following appendices:

A Statement of Accounts
B Audit Findings report
C Letter of Representation

Joanna Killian
Chief Executive
Published: 3 November 2020

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Surrey County Council

Statement of Accounts

2019/20
Revised Draft

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 2020 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, the Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies, and including the Firefighters' Pension Fund Financial Statements comprising the Firefighters' Pension Fund Account and the Net Asset Statement, and related notes. The notes to the financial statements include the notes to the Group Accounts. 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 2019/20.

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 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

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.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and the net pension liability

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's net pension liability as at 31 March 2020.

As disclosed in note 5 to the financial statements for property, plant and equipment valuations, the valuer has indicated that values are likely to fall but that it is not possible to predict the extent at this stage, given the unprecedented circumstances. Less weight can be attached to previous market evidence to inform valuation opinions of value. This will be kept under review and revised as appropriate.

As disclosed in Note 5 with respect to investment property valuations, the valuer has stated that Covid-19 has potentially had a major impact on the economy, with uncertainty over the impact of the crisis on investment property valuations. They have also stated that there have been major adverse effects on stock markets, growth forecasts and business confidence and that capital and rental values may change rapidly, especially in the retail sector. They have also stated that while there have been mitigations from central government empirical evidence of the impact is still relatively scarce concluding that there could be a material uncertainty in their 2019/20 valuations.

As disclosed in Note 5 with respect to the pension liability, due to considerable market volatility as at 31 March 2020 due to Covid-19, there has been additional uncertainty regarding the Fund's investment valuations, specifically relating to private equity and property fund assets. Market conditions would lead the Council's and group's actuaries to believe that this a material uncertainty.

Our opinion is not modified in respect of this matter.

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, the Firefighters pension fund and, our auditor's report thereon and our auditor's report on the Surrey Pension Fund Accounts 2019/20. 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 Edition' 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 2019/20, 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 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 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.

Qualified Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in 2019, except for the effects of the matters described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects Surrey County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for qualified conclusion

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. The inadequate rating has remained in place during 2019/20, and two further monitoring visits from inspectors took place in June and December 2019.

In December 2019, Inspectors concluded that Senior leaders and managers have made substantial progress in improving the response to children who are at risk of significant harm, and children who have subsequently become subject to child protection and child in need plans. The Authority was preparing for a follow up inspection towards the end of 2019/20 however the Covid-19 pandemic has meant that a number of expected inspections did not take place as planned.

Having considered the findings and conclusions of the above inspections, together with the results of our audit work, we have concluded that whilst there have been improvements in the quality of social work, management oversight and supervision, practice is not yet consistently strong for all children. 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.

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.

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 April 2020, 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 2020.

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 are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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 2020. 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 2020.

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 McLaughlin

Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

5 November 2020

Executive Director's Narrative Report

Surrey County Council took significant steps forward over the course of the financial year to 31st March 2020 in relation to service delivery, performance, financial management and sustainability. Despite being proud of our achievements, we recognise that there is much still to do. We have strengthened our resilience as an organisation through developing our financial competence and building reserves to tackle the challenges we know the future will bring.

The Narrative report provides context on how Surrey County Council uses its resources to provide services and deliver our Community Vision for Surrey in 2030. The report includes:

- **Context** - describing the county of Surrey and the scale and scope of Surrey County Council
- **Organisational Strategy** – explaining our Community Vision for 2030 and the core elements of our strategy
- **Service Performance –** highlighting achievements in 2019/20 and our plans for the future
- **Financial Performance –** summarising our income and expenditure for the year, the headlines from our Balance Sheet and our capital investment programme
- **Strategic Risks –** explaining our approach to risk management
- **Recent Events –** our response to COVID-19 in 2019/20 and looking ahead into 2020/21
- **Explaining our Accounting Statements –** a section describing the purpose of the main statements within our accounts.
- **Material Items and Group Accounts –** a summary of the material items our in our Statement of Accounts and explaining our Group Accounts

The foundations we have built in 2019/20 leave us in a stronger position to tackle the unique set of challenges brought by COVID-19. The organisation is working tirelessly to ensure that we face those challenges and emerge in a good position to continue our response to the pandemic but also drive forward recovery and continue to deliver our ambitions for the future. These statements primarily look back at the financial year ended 31st March 2020. Although March saw the first few weeks of the COVID-19 crisis, and our balance sheet recognises the initial impact, the full financial consequences will fall in 2020/21 and future years. In the Recent Events section of this narrative report we detail the likely future financial impact of the crisis and how the council is responding.

Leigh Whitehouse, Executive Director – Resources & Section 151 Officer

Surrey County Council

ABOUT THE COUNTY

Population: Surrey has a population of 1.19 million and is the twelfth most populous English county. The current population is largely healthy and active and has an upwards trend in life expectancy for men and women. By 2030 the population is expected to be 1.26 million, with more than 22% of residents aged 65 - 47% of whom are anticipated to be living in a residential care home setting.

Education and Skills: There are more than 380 schools in Surrey, collectively serving around 157,000 children and young people of compulsory school age. 94% of Surrey schools are rated good or outstanding.

About 50% of the working age population (16 – 64 year olds) hold a degree-level qualification. Over 50% of people leave for study and do not return for employment, which is significantly higher than the national average.

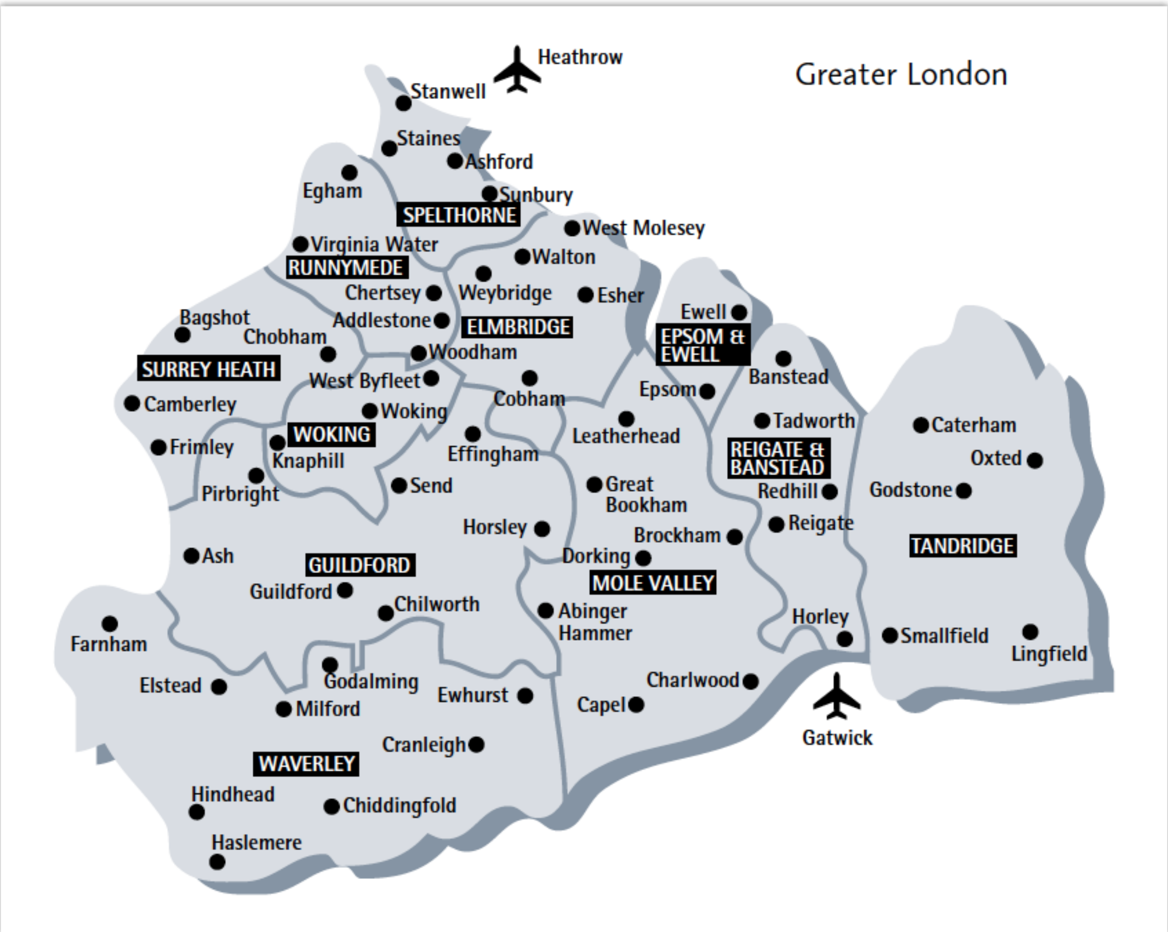
Health and Wellbeing: There has been an increase in demand for services for vulnerable adults and children. The county is affluent but with pockets of social deprivation that has increased between 2010 and 2015. The 25 most deprived neighbourhoods in Surrey are also within the third most deprived areas in the country. There has been increased food bank usage, and 2 in 5 emergency food supplies have been for children.

Housing: Housing in Surrey is increasingly expensive, with the average house price £430,000. The national average house price to wages ratio is 7.7 times. Surrey is nearly double (13 times). There is proportionally less affordable housing than other areas in the South East, and consequently a growing need for affordable housing especially for residents on low incomes. There are signs of increasing homelessness and fuel poverty.

Crime: In the recent years, Surrey has had the second highest increase in recorded crime in the South East. There are increases in recorded burglary, criminal damage and drug offences, and significant increases in robbery and violent crime. Domestic abuse is a growing problem (8,459 cases in 2018/19) and domestic abuse factors in a third of child protection plans.

Environment and Infrastructure: The county of Surrey is about 1,663 km^2 (650 m^2). Surrey's 3,452 mile road network is a high priority topic for residents. Surrey has one of the busiest road networks in the country, which carries double the national average of traffic and has the greatest average delay on the roads out of all counties at 46 seconds per vehicle per mile. CO_2 levels across the whole of Surrey's road network have been falling year-on-year since 2005. Over 500,000 tonnes of waste is disposed of each year, with over 54% of it being recycled or reused. Residents have good access to woodland spaces with over a quarter of the population living with 500 metres of accessible woodland.

Economy: A strong economy worth £40 billion, which grew by 23% between 2010 and 2017 - in line with economic growth in the South. Surrey has high and increasing earnings with a high disposable household income of £28,416 per head per year. The county is an attractive and popular place for businesses with the number of business per 10,000 population in Surrey increasing by c.37% between 2010 and 2017. Surrey has had an unemployment rate lower than the average for the South East since 2004.



The day-to-day costs (£2,064m annually) of running the council is made up of £741m of staff costs (2018/19 £696m), and £1,323m on non-staff service expenditure (2018/19 £1,370m). This is funded from council tax, business rates, central government funding, and fees and charges.

Our services to the people of Surrey include: education, supporting and protecting vulnerable people through social services, managing the amount of waste Surrey people produce, maintaining and managing roads and public transport networks, libraries, strategic planning, consumer protection, public health; and fire and rescue services. Occasionally, delivery of services involves using facilities beyond our boundaries as a county, for example: care homes, fire stations and primary, secondary and special needs schools.

Population increases are due to birth rates and immigration, improvements in lifestyle, and medication to help people live fuller lives. Since 1889, we have had the responsibility to meet our local people's needs and ensure that council tax and business rate payers get value for money. This is recognised through transparency, information and public accountability.

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ORGANISATION STRATEGY 2020-2025

Surrey County Council's Organisation Strategy, agreed by Cabinet in October 2018, defined how it would contribute to the Community Vision for Surrey in 2030. The external environment has been fast moving, very challenging and subject to much uncertainty: from Britain's departure from the EU to (the not unrelated) delays in Whitehall's announcement of financial reforms to Local Government funding such as the Fair Funding Review, coupled with increasing expectations and requirements of our residents. We strive as a Council to be increasingly adaptable and flexible, supported by a workforce which is responsive and agile.

The Medium Term Financial Strategy 2019 – 2024 sets out how we would direct our financial resources to deliver against the Organisation Strategy and the 2030 Vision. A refreshed Organisation Strategy has been produced to take account of the new landscape and to address emerging challenges and opportunities, which includes our prevailing thinking for the Council's next phase of transformation to support its delivery. The report was presented and agreed by Cabinet on 29th October 2019.

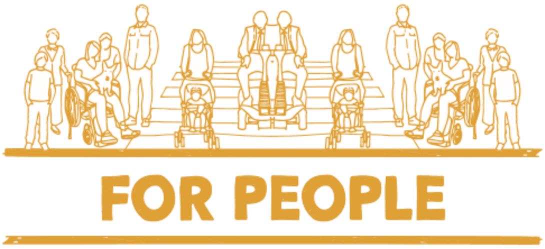
Over the last 12 months significant strides have been made towards improving the quality of our performance to secure better outcomes for our residents, supported by robust finances. Whilst we have come a long way, we still have much more to do to achieve the financial resilience and the financial sustainability that we have targeted.

This underlying context has been pivotal to informing our refreshed Organisation Strategy with a number of the core elements unchanged which emphasise:

The strategy outlines how we aim to deliver our ambitious agenda and sets a course for the next phase of our transformation journey, whilst ensuring financial sustainability.

THE COUNCIL’S PERFORMANCE ACHIEVEMENTS 2019/20

We are creating a solid foundation on which to build a prosperous and exciting future for Surrey by ensuring that we as a council are as efficient and effective as we can be and are transforming our services so they can be in the best place to deliver our 2030 ambitions. Here are some examples of our work and highlights that are beginning to make a positive impact on Surrey - the people and the place.



We are supporting children and young people in Surrey to be safe and feel safe and confident by improving and strengthening our support for those that are vulnerable, at risk or in care. This was confirmed by a positive Ofsted monitoring report in June 2019.

We are developing more education, skills and employment opportunities closer to home for children and young people with special educational needs and disabilities by agreeing plans to create 883 additional specialist school places over the next four years.

We have supported more people to get the right health and social care at the right time and place by cutting waiting times by almost 11% over the past year for older people being discharged from hospital.

We have also agreed plans to deliver 725 specially adapted homes so more older people can live independently. This will mean that by 2028, we aim to have over 1,150 of these properties available.

We are ensuring this council achieves value for money for residents and is sustainable and fit for the future, having delivered £106m in efficiencies in 2018/19 and £72m in 2019/20 with no call on our limited reserves.

We are creating cleaner, greener communities in Surrey and aim to exceed our current ranking as the 3rd best council in the UK for recycling. We have kept all of our community recycling facilities open to help residents contribute.

We are supporting more residents to feel safe in their communities, having carried out nearly 5,000 Safe and Well Visits to reduce the risk of fire in the homes of Surrey’s more vulnerable residents.

We have also saved them around £776,000 by tackling unfair trading practices, scams, rogue traders and serious organised crime across the county.

We continue to work on making journeys easier, more predictable and safer in Surrey having carried out more than 50,000 road repairs over the past year and supporting residents to make over 7.5 million bus journeys in 2018/19.

We are helping businesses in Surrey thrive by securing hundreds of millions of pounds from government and other stakeholders for infrastructure across the county, including £95 million for Woking town centre.

We are supporting more residents have a place to call home by making over 14.6 hectares of land on our estate – equivalent to just over 17 football pitches - available for building new homes.

We are supporting our communities to have the infrastructure they need by connecting properties across the county to faster broadband.

We received £7k from London Marathon Charitable Trust towards an all weather pitch at a Surrey school.

We are making swift and effective progress, enabling us to deliver great quality services, support and value for money for Surrey residents now and well into the future. But we know there is more to be done if we are to achieve our ambitions. In the coming weeks and months we will be bringing forward initiatives, setting out plans and agreeing budgets to support them.

We will:

- commit hundreds of millions of pounds to protecting homes from flooding as we start the Surrey Flood alleviation scheme next year
- invest even more in our 3,000 miles of roads and pavements to ensure people can get around smoothly and safely
- help tackle the climate emergency and protect our environment for future generations, becoming a carbon-neutral council as soon as possible
- plant at least one tree for every one of our 1.2 million residents
- boost our local economy by setting up a £50m community grant fund to improve our high streets
- provide surplus space in Surrey County Council buildings for free use by voluntary organisations
- consider conversion of any surplus council owned land to public allotments to produce food for foodbanks

We are creating a solid foundation on which to build a prosperous and exciting future for Surrey and the county council by ensuring that we are as efficient and effective as possible and transform our services so they can be in the best place to deliver our 2030 ambitions.

FINANCIAL PERFORMANCE

CORE FUNDING

In common with the rest of local government, the Council has seen a steady reduction in its core funding over the last ten years. The Government's aim is to phase out non-specific grant funding altogether, instead allowing local authorities to retain a higher proportion of business rates collected locally.

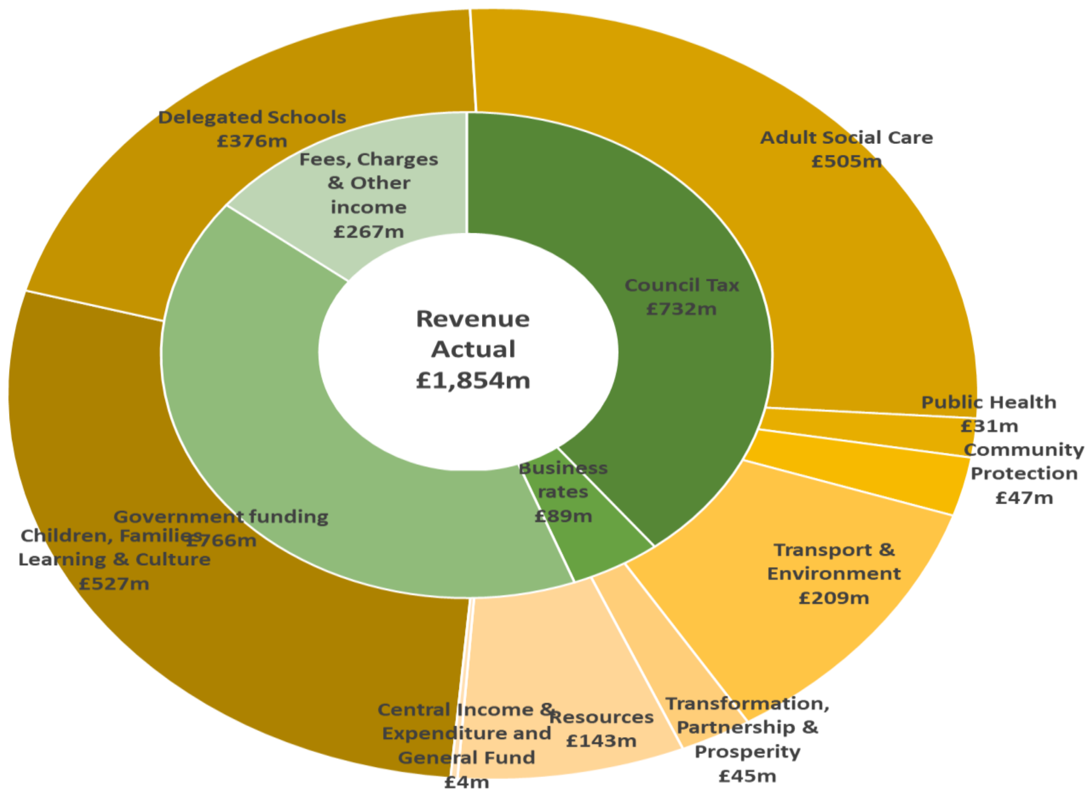
ADDRESSING FUTURE CHALLENGES

The Medium Term Financial Strategy has recently been updated, indicating that in addition to reductions in government funding the Council also expects to see increasing demand for services over the next ten years. Population growth will put pressure on both adult social care and services for children. Anticipated changes to the Better Care Fund and New Homes Bonus will also affect the Council's finances together with more general economic changes brought about by Brexit and COVID-19. To balance the budget there will be a continuing need for service transformation, efficiencies and other savings initiatives for the foreseeable future.

2019/20 COUNCIL TAX AND REVENUE SPENDING

To achieve a balanced budget for the year a programme of efficiencies including transformation activities totalling £82m was established. The Council achieved £72m (c88%) of the £82m target. As in previous years, these efficiencies have come from measures which avoid service reductions such as income generation, improved efficiency and procurement activities.

The below chart highlights the Revenue Income in green against expenditure in yellow.



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The final outturn for the year is a small surplus of £0.2m. We have contributed £2.8m to General Fund Reserves (including the £0.2m surplus). This is shown in Central Income and Expenditure.

There are accounting adjustments for capital, pensions and reserves that lead to a deficit of £173m (deficit £82m 2018/19) in the Comprehensive Income and Expenditure Statement.

BALANCE SHEET

The Council holds £2,200m of long-term assets at 31 March 2020 (£2,226m as at 31 March 2019), which is 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 is calculated by an independent actuary, Hymans Robertson. The Local Government Pension Scheme liability is estimated to be £1,096m at the balance sheet date (£1,192m at 31 March 2019). The firefighters pension liability is also included within the Council's accounts and is estimated to be £546m, a decrease of £60m on the previous year. 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. In September, when rates were at an all-time low rate, we agreed to borrow an extra £45m from Public Works Loan Board. As a result of this strategy, long term borrowing is now £442m (2018/19 £397m). Short term borrowing, mainly from other Local Authorities, has decreased to £240m (from £279m at 31 March 2019).

In addition to these material balances, the Council holds £22m of provisions at 31 March 2020 (£47m at 31 March 2019). 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.

Balance Sheet

As at 31 March 2019

Total Assets £2,492m

Long Term Assets £2,225m				Current Assets £267m	
Property, Plant & Equipment £1,751m	Other Long term Assets £8m	Investment Property £138m	Long Term Debtors and Investments £329m	Debtors & Payments in Advance £209m	Cash & cash equivalents and others £57m

Offset by:

Total Liabilities £2,895m

Current Liabilities £528m			Long Term Liabilities £2,366m		
Short term borrowing £279m	Creditors £226m	Other Liabilties and Provisions £23m	Long term Borrowing (loans) and provisions £439m	Pension Fund Liabilities £1798m	Other long term liabilities (Lease liabilities etc) £94m

Makes:

Total net liabilities £402m

Surrey County Council Assets £1,396m	Surrey Pension Fund Liabilities £1,798m

Funded by:

Total Reserves (£402m)

Useable Reserves £370m				Unuseable Reserves (£773m)	
General Fund £21m	Revenue Reserves £163m	Capital Reserves £162m	Schools Reserves £24m	Pension Reserve (£1798m)	Other Reserves £1,025m

Balance Sheet

As at 31 March 2020

Total Assets £2,396m

Long Term Assets £2,200m				Current Assets £196m	
Property, Plant & Equipment £1,729m	Other Long term Assets £9m	Investment Property £134m	Long Term Debtors and Investments £328m	Debtors & Payments in Advance £138m	Cash & cash equivalents and others £58m

Offset by:

Total Liabilities £2,673m

Current Liabilities £474m			Long Term Liabilities £2,199m		
Short term borrowing £240m	Creditors £217m	Other Liabilities and Provisions £18m	Long term Borrowing (loans) and provisions £463m	Pension Fund Liabilities £1642m	Other long term liabilities (Lease liabilities etc) £94m

Total net liabilities £278m

Surrey County Council Assets £1,364m	Surrey Pension Fund Liabilities £1,642m

Total Reserves (£278m)

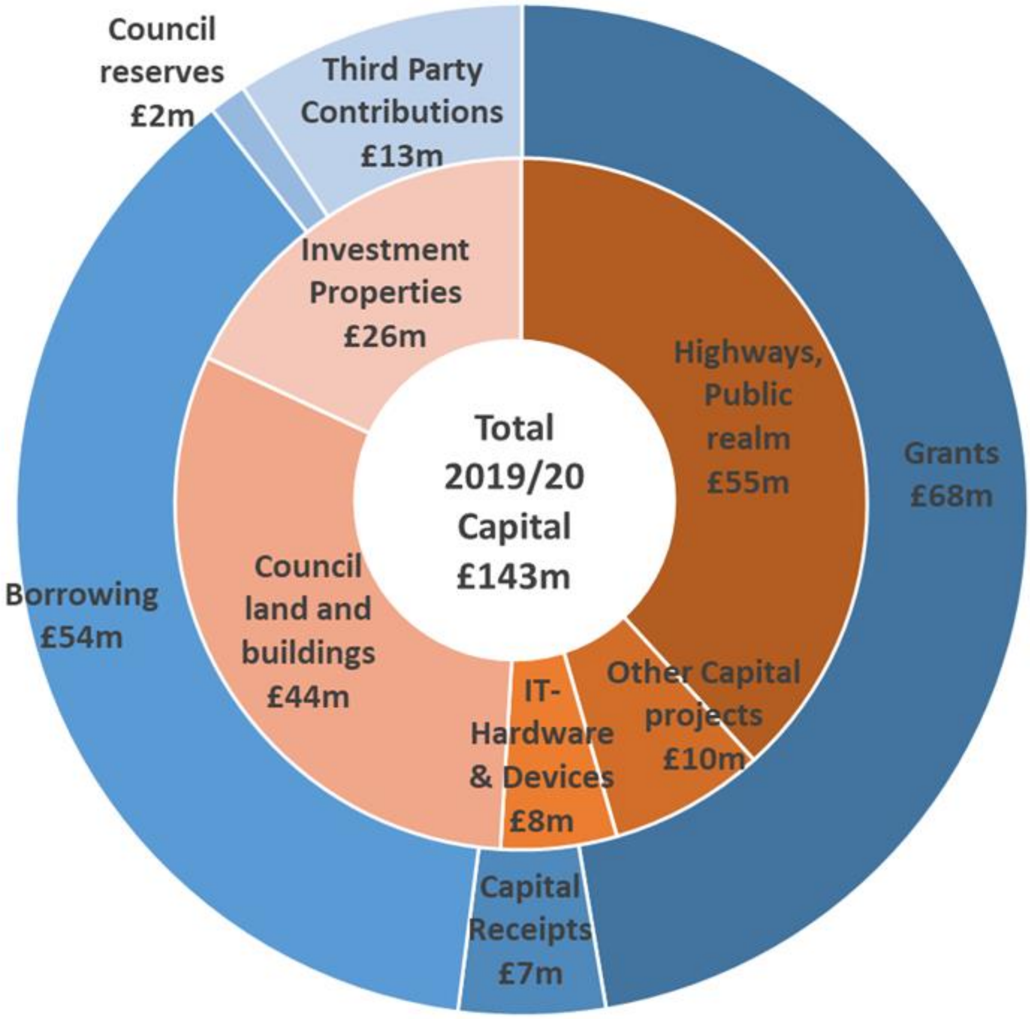
Useable Reserves £405m				Unuseable Reserves (£683m)	
General Fund £24m	Revenue Reserves £246m	Capital Reserves £143m	Schools Reserves £8m	Pension Reserve (£1642m)	Other Reserves £959m

CAPITAL

The Council set a capital budget for 2019/20 of £129.2m in February 2019. The capital position was reprofiled twice during the year (in M2 and M7) to accurately reflect the delivery of the programme. As a result, the current 2019/20 capital budget was revised to £126.7m. Capital Programme spend for the year against this budget is £117.2m, which has resulted in £9.5m (7.5%) slippage of the programme.

The Council entered into a Sale & Leaseback arrangement with Surrey and Borders National Health Trust in March 2020, requiring a capital investment from the Council of £25.4m (£24.9m in 2019/20 with fees to be confirmed) in return for an initial annual rental income at a cost neutral position. There was also £0.9m further spend on the investment property portfolio. Further details can be found within the Cabinet outturn report for 2019/20 on the Council's website.

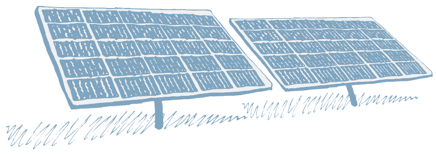
The below chart highlights the capital funding (blue segments) against expenditure (brown segments).



The Council has an ambitious five year capital investment programme totalling £650m making Surrey a place fit for the future.

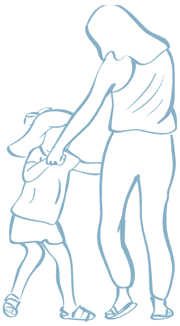
Highways - Further **£92M** of spend to improve and maintain our highway network which includes 3000 miles of road, over 3000 miles of pavements; from a deteriorating to steady state.

Greener Futures – Various projects including Solar Farms; EV charging point pilot; ULEV purchases and electrification of various transport services, including. Total spend c**£84M.**



Improved Access to the Countryside – Maintenance and improvements to the rights of way network and visitor improvements totalling **£3M.**

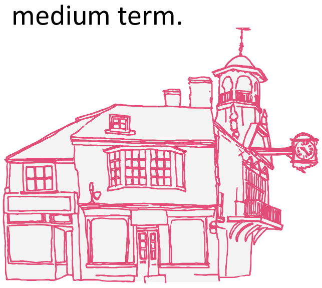
Extra Care - up to 165 units across first three planned extra care sites, with an estimated pre-planning land value of £5.5M. SCC capex of **£1.8M**. Total investment of **£7.3M.** Future phases to deliver up to 725 units.

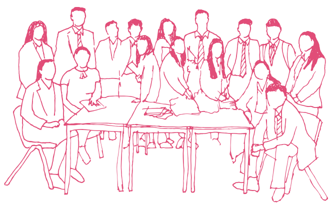


SEND - Up to **£31M** on specialist provision and a new SEND school. Further phases in future years.

River Thames Flood Alleviation Scheme - £237M and Wider Surrey Flood Alleviation Scheme – £33M to protect thousands of homes and businesses from the risk of flooding.

Community Investment Fund – £100M fund to regenerate high streets and visible investment in communities over the medium term.





Schools Basic Need - SCC will invest a further **£70M** to provide school places.

TOP STRATEGIC RISKS FOR UPCOMING YEAR & GOVERNANCE

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 risk management reports to Audit & Governance Committee. The strategic risk register will continue to be refined and developed during 2020/21.

Strategic Risk Register

Financial Resilience

- failure to develop sustainable medium term financial plans
- failure to deliver savings plans
- lack of transformation of SEND services

results in reactive service reductions and reduction in council resilience.

Organisational Resilience

- failure to respond effectively to COVID-19
- insufficient capability and competency for change

leads to severe service disruption and reduction in capacity.

Ways of Working

- volume and pace of change
- insufficient buy in, understanding and engagement
- ineffective partnership working

leads to inability to generate service improvements and planned outcomes.

Social Care

- failure to transform the provision of Children's Services
- lack of availability of provider market

results in people left in harmful situations and an inability to maintain services.

RECENT EVENTS - POST BALANCE SHEET EVENTS – COVID-19

Surrey County Council has a vitally important role in helping to lead the local response to COVID-19 via the Surrey Local Resilience Forum (LRF) which has the primary objective to save lives, protect the NHS, to ensure our residents are protected wherever possible and that crucial public services continue to operate in these unprecedented times. As the national and local situation developed rapidly, we supported our decisions and response with the latest Public Health information about COVID-19, and updated Cabinet on the strategic and sensitive issues arising from the extensive response work and initial recovery planning, going on across Surrey. Since a major incident was declared by the LRF on 19 March, the council has taken a number of steps to ensure it is protecting residents and staff, and using its resources as effectively as possible to combat COVID-19

Response in 2019/20

Having undertaken a comprehensive business continuity planning process, the council was able to suspend certain non-essential services and re-deploy staff into areas and activities that have been critical to our emergency response – that includes over 100 staff working as part of and supporting the LRF

The council's Community Helpline was set up to help residents access advice, guidance and support – and has now received over 4,000 calls

Response subsequently

- Food deliveries from Spectrum Centre – over 1,600 food boxes have gone out to date
- Parking permits critical workers – parking concessions on-street and in LA-owned car parks
- Support for schools and early years settings helped them stay open over Easter, giving over 2,000 children access to places
- Testing for keyworkers and care homes ramped up
- Online mental health and emotional wellbeing hub launched for Surrey residents
- 39,327 shielded residents (3.3% of population)
- Headley Court repurposed as temporary community hospital
- Effective governance - Cabinet meetings, weekly group leader calls, Council meeting virtually in May

FOR PEOPLE

FOR PLACE

Recognising the potential financial impact of COVID-19 on providers, the council has put in place a number of support measures designed to protect them and of course the essential services they provide.

Financial support includes

- 10% goodwill **grant payments to ASC providers** £9m (April–June 2020)
- Surrey organisations able to access small grants via the **Community Foundation** (in addition to the Hardship Fund)
- Officers identifying **non-care suppliers** at risk and coordinating financial support

Partners have an active role in planning and managing our response**, Surrey Community Action** are part of the Local Resilience Forum - Community Settings Cell, and are also on weekly calls with the Integrated Care System. **Surrey Care Association** now attending the LRF Community Care Settings Cell.

RECENT EVENTS - POST BALANCE SHEET EVENTS – COVID-19 - FINANCIAL IMPLICATIONS

When announcing the initial support of £1.6bn to local authorities, the Government stated that the allocation would form part of the first phase of the response. The Government committed to review the adequacy of the funding. A further £1.6bn funding was provided subsequently, and there is an expectation that the government will shortly provide further information on a comprehensive support package for local government. This is not however expected to seek to fund all aspects of the crisis, so there remains some uncertainty about the extent of the funding that will be provided.

The Council has received £47m of COVID-19 related funding (£25m received in 2019/20). £0.9m was utilised for 2019/20 CV19 costs with the balance carried forward to 2020/21. At Month 2 (May 2020), the Council is forecasting £73.2m gross pressure including forecasted costs, loss of income and non-delivery of efficiency proposals for 2020/21. After taking into consideration the grant funding, there is a deficit of £27.1m. However this position is constantly being refined as information emerges. Further details are published in the Cabinet Committee papers.

At the current time, there remains uncertainty about the financial impact of the COVID-19 crisis on the Council's finances, both in terms of the additional expenditure that will be incurred and the income that will be forgone, and in relation to the extent to which government will provide additional funding to cover this. However, based on our current estimates of these variables, we expect that we will be able to contain the financial impact of the crisis as it manifests during 2020/21 without significant change to our financial plans.

The level of uncertainty about the impact and the funding position for future years is even less clear, but our relative financial strength should ensure that solutions that protect the whole sector are sufficient to maintain our financial sustainability too. It would appear inevitable though that our medium term financial outlook is significantly more challenging than might have been the case prior to the emergence of the COVID-19 public health crisis.

EXPLANATION OF ACCOUNTING STATEMENTS

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2020. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which in turn is underpinned by International Financial Reporting Standards.

The Core Statements are:

The **Comprehensive Income and Expenditure Statement** – this records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area. The bottom half of the statement deals with corporate transactions and funding.

The **Movement in Reserves Statement** is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "useable", which can be invested in capital projects or service improvements, and "unusable" which must be set aside for specific legal or accounting purposes.

The **Balance Sheet** is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year-end date.

The **Cash Flow Statement** shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

The Group Accounts include:

The assets and liabilities of companies and similar entities, which the Council either controls or significantly influences.

The Supplementary Financial Statements are:

The **Annual Governance Statement**, which sets out the governance structures of the Council and its key internal controls (this will be included in the final audited version of the accounts).

The **Pension Fund Account**, which reports the contributions received, payments to pensioners and the value of net assets invested in the Local Government Pension Scheme.

The **Notes to these financial statements** provide further detail about the Council's accounting policies and individual transactions.

A Glossary of key terms can be found at the end of this publication.

MATERAL ITEMS & GROUP ACCOUNTS

Details of specific material items of income and expenditure include:

- Expenditure on the Council's Private Finance Initiative Schemes (note 36),
- 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 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:

- Hendeca Group Ltd (formerly 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 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.

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 17 to 113 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 2020; that the firefighter pension fund accounting statements on pages 126 to 128 give a true and fair view of the financial transactions of the firefighter pension fund during the year ended 31 March 2020; that the statement of accounts on pages 129 to 171 presents a true and fair view of the financial position of the Surrey County Council Pension Fund at 31 March 2020 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
May 2020	Aug 2020

Comprehensive Income and Expenditure Statement

Restated year ended 31 March 2019 (see Note 42) Gross Expenditure £000	Income £000	Net Expenditure £000		Year ended 31 March 2020 Gross Expenditure £000	Income £000	Net Expenditure £000
555,906	(274,799)	281,107	Children, Families, Learning & Culture	526,871	(252,612)	**274,259**
331,814	(331,672)	142	Delegated Schools	376,005	(361,295)	**14,710**
487,263	(123,448)	363,815	Adult Social Care	504,750	(129,539)	**375,211**
30,487	(30,430)	57	Public Health	30,795	(809)	**29,986**
59,289	(2,715)	56,574	Community Protection	46,565	(6,283)	**40,282**
164,506	(21,204)	143,302	Transport & Environment	209,041	(22,968)	**186,073**
123,236	(12,729)	110,507	Resources	145,778	(18,508)	**127,270**
27,041	(1,492)	25,549	Transformation, Partnership & Prosperity	45,270	(14,863)	**30,407**
8,041	3,650	11,691	Central Income & Expenditure	1,474	(1,123)	**351**
1,787,583	(794,839)	992,744	**Cost of Services – continuing operations**	**1,886,549**	**(808,000)**	**1,078,549**
35,829	(25,711)	**10,118**	Other Operating Income & Expenditure (note 10)	21,809	(23,526)	**(1,717)**
242,545	(91,382)	**151,163**	Financing & Investment Income & Expenditure (note 11)	156,108	(72,709)	**83,399**
	(891,657)	**(891,657)**	Local Taxation (Note 12)		(821,853)	**(821,853)**
	(180,143)	**(180,143)**	General grants & contributions (note 12 and note 31)		(165,134)	**(165,134)**
	(1,071,800)	**(1,071,800)**	Taxation, general grants & contributions		(986,987)	**(986,987)**
2,065,957	**(1,983,732)**	**82,225**	**(Surplus) or Deficit on Provision of Services**	**2,064,466**	**(1,891,222)**	**173,244**
		(64,655)	(Surplus) or deficit on revaluation of non-current assets			**(48,285)**
		120,173	Remeasurement of the net defined benefit liability			**(249,916)**
		55,518	**Other Comprehensive Income & Expenditure**			**(298,201)**
		137,743	**Total Comprehensive Income & Expenditure**			**(124,957)**

Movement in Reserves Statement

2019/20	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 2019	**(212,973)**	**(46,858)**	**(110,610)**	**(370,441)**	**772,933**	**402,492**
(Surplus) or deficit on provision of services (accounting basis)	173,244			**173,244**		**173,244**
Other comprehensive income & expenditure					(298,201)	**(298,201)**
Total comprehensive income & expenditure	**173,244**			**173,244**	**(298,201)**	**(124,957)**
Adjustments between accounting basis & funding basis under regulations (note 8)	(227,627)	1,888	17,532	**(208,207)**	208,207	
Increase/decrease in year	**(54,383)**	**1,888**	**17,532**	**(34,963)**	**(89,994)**	**(124,957)**
Balance at 31 March 2020	**(267,356)**	**(44,970)**	**(93,078)**	**(405,404)**	**682,939**	**277,535**
2018/19						
Restated Balance at 31 March 2018	**(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					55,518	**55,518**
Total comprehensive income & expenditure	**82,225**			**82,225**	**55,518**	**137,743**
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)**	**176,665**	**137,743**
Balance at 31 March 2019	**(212,973)**	**(46,858)**	**(110,610)**	**(370,441)**	**772,933**	**402,492**

* See note 9 earmarked reserves and note 22 usable reserves

Balance Sheet

As at 31.03.2019 £000		Note:	**As at 31.03.2020 £000**
1,750,724	Property, plant & equipment	13	1,729,439
1,024	Heritage assets		1,024
138,225	Investment property	14	133,789
6,727	Intangible assets		7,278
93,087	Long term investments	16	92,949
235,949	Long term debtors	16	235,563
2,225,736	**Long term assets**		**2,200,042**
	Short Term:		
268	Intangible assets		
400	Assets held for sale	19	2,515
1,165	Inventories		1,296
209,234	Short term debtors	17	137,856
55,471	Cash & cash equivalents	18	54,189
266,538	**Current Assets**		**195,856**
	Short Term:		
(279,026)	Borrowing	16	(239,698)
(226,373)	Creditors	20	(216,584)
(5,974)	Provisions	21	(735)
(11)	Revenue grants receipts in advance		(176)
(105)	Capital grants receipts in advance		(34)
(16,938)	Other current liabilities	35	(17,084)
(528,427)	**Current liabilities**		**(474,311)**
(40,862)	Provisions	21	(20,777)
(397,786)	Long term borrowing	16	(442,263)
(1,927,691)	Other long term liabilities	35	(1,736,082)
(2,366,339)	**Long term liabilities**		**(2,199,122)**
(402,492)	**Net Assets/(Liabilities)**		**(277,535)**
(370,441)	Usable reserves	9,22	(405,404)
772,933	Unusable reserves	23	682,939
402,492	**Total Reserves**		**277,535**

Cash Flow Statement

2018/19 £000		Note	2019/20 £000
82,225	Net (surplus) / deficit on the provision of services		173,244
(247,354)	Adjustments to net (surplus) / deficit on the provision of services for non-cash movements	40	(280,726)
(28,936)	Adjustments for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities		(29,485)
(194,065)	**Net cash inflow from operating activities**		**(136,967)**
149,876	Purchase of property, plant & equipment, and investment property	41	143,067
(9,021)	Proceeds from the sale of property, plant & equipment		(14,704)
23,255	Payments for short-term and long-term investments		(13)
	Receipts of short-term and long-term investments		
74,085	Other receipts & expenditure from investing activities		(3,326)
238,195	**Net cash outflow from investing activities**		**125,024**
17,938	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		18,374
750,502	Payments for short-term and long-term borrowing		954,961
(816,817)	Receipts of short-term and long-term borrowing		(960,110)
(48,377)	**Net cash inflow from financing activities**		**13,225**
(4,247)	**Net increase (-) / decrease in cash & cash equivalents**		1,282
(51,224)	Cash & cash equivalents at the beginning of the reporting period		(55,471)
(55,471)	Cash & cash equivalents at the end of the reporting period	18	(54,189)

The cash flows from operating activities in 2019/20 include interest received of £15.3m (2018/19, £13.0m) and interest paid of £32.7m (2018/19, £31.7 m).

Note 1: Expenditure and Funding Analysis

2019/20	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
Children, Families, Learning and Culture	244,728	(528)	244,200	30,059	274,259
Delegated Schools*	0	3,094	3,094	11,616	14,710
Public Health	29,965	0	29,965	21	29,986
Adult Social Care	362,617	2,412	365,029	10,182	375,211
Community Protection	33,668	385	34,053	6,229	40,282
Transport & Environment	129,186	(32,001)	97,185	88,888	186,073
Resources	70,202	501	70,703	56,567	127,270
Transformation, Partnership & Prosperity	15,286	382	15,668	14,739	30,407
Central Income & Expenditure **	(44,175)	67,201	23,026	(22,675)	351
	841,477	**41,446**	**882,923**	**195,626**	**1,078,549**
Other Income and Expenditure	(844,330)	(92,976)	(937,306)	32,001	(905,305)
Surplus (-) or deficit	**(2,853)**	**(51,530)**	**(54,383)**	**227,627**	**173,244**

2018/19	£000	£000	£000	£000	£000
Children, Families, Learning and Culture	245,127	2,697	247,824	33,283	281,107
Delegated Schools*		(8,942)	(8,942)	9,084	142
Public Health	75	(41)	34	23	57
Adult Social Care	356,281	(243)	356,038	7,777	363,815
Community Protection	33,556	1,012	34,568	22,006	56,574
Transport & Environment	132,150	(20,442)	111,708	31,593	143,301
Resources	70,931	(2,296)	68,635	41,872	110,507
Transformation, Partnership & Prosperity	19,370	4,746	24,116	1,433	25,549
Central Income & Expenditure **	40,515	(16,444)	24,071	(12,379)	11,692
	898,005	**(39,953)**	**858,052**	**134,692**	**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**

General fund balance (including earmarked) reserves reconciliation

2018/19 £000		2019/20 £000
(160,508)	Opening general fund balance (including earmarked reserves)	(212,973)
(1,370)	Adjustment to opening balance for IFRS9	
(161,878)	Revised Opening Balance	(212,973)
(51,095)	(Surplus)/Deficit on general fund	(54,383)
(212,973)	**Closing general fund balance (including earmarked reserves)**	(267,356)

*Delegated schools budget 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.

***This amount is the movement in the general fund not reported as part of the management accounts. This will generally be due to contributions and drawdowns in earmarked reserves

The objective of the expenditure and funding analysis is to demonstrate to council tax payers how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. The expenditure and funding analysis also shows how this expenditure is allocated for decision-making purposes between the council's departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the comprehensive income and expenditure statement.

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
2019/20	£000	£000	£000	£000
Children, Families, Learning and Culture	12,276	18,970	(1,187)	30,059
Delegated Schools*	295	11,321		11,616
Public Health *		20	1	21
Adult Social Care	(2,271)	12,405	48	10,182
Community Protection	1,372	4,845	12	6,229
Transport & Environment	84,773	4,133	(18)	88,888
Resources	47,349	9,236	(18)	56,567
Transformation, Partnership & Prosperity	12,692	2,024	23	14,739
Central Income & Expenditure **	(7,853)	(14,822)		(22,675)
Net Cost of Service	**148,633**	**48,132**	**(1,139)**	**195,626**
Other Income and Expenditure	(40,063)	45,969	26,095	32,001
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit	**108,570**	**94,101**	**24,956**	**227,627**
2018/19	£000	£000	£000	£000
Children, Families, Learning and Culture	17,594	16,724	(1,035)	33,283
Delegated Schools	494	8,590		9,084
Public Health		22	1	23
Adult Social Care	(1,386)	9,161	2	7,777
Community Protection	1,325	20,647	34	22,006
Transport & Environment	27,789	3,791	13	31,593
Resources	33,734	8,134	4	41,872
Transformation, Partnership & Prosperity	(17)	1,451	(1)	1,433
Central Income & Expenditure	(836)	(11,565)	22	(12,379)
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**

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 i.e. 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.

Note 1b: Customer income - segmental analysis

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

2018/19 £000	Service	2019/20 £000
(42,063)	Children, Families, Learning and Culture	(40,581)
(20,849)	Delegated Schools	(21,363)
(62,632)	Adult Social Care	(69,038)
(1,671)	Community Protection	(2,144)
(12,570)	Transport & Environment	(13,912)
(7,696)	Resources	(4,688)
(167)	Transformation, Partnership & Prosperity	(1,055)
(75)	Central Income & Expenditure	(168)
(147,723)	**Total**	**(152,949)**

Note 2: Income and expenditure analysed by nature

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

2018/19 £000		2019/20 £000
	Expenditure	
515,896	Employee benefits expenses	556,467
180,192	Staff expenditure at voluntary aided and foundation schools	184,611
75,741	Depreciation, amortisation and impairment	79,890
	Loss in fair value of investment properties	4,007
107,507	Derecognition of non-current assets	70,232
1,061,434	Other service expenses	1,044,669
124,088	Interest payments	123,482
1,099	Precepts and levies	1,108
2,065,957	**Total expenditure**	**2,064,466**
	Income	
(770,751)	Government grant and contributions	(737,916)
(219,715)	Fees, charges and other service income	(266,898)
9,354	(Gain) or loss on disposal of non-current assets	(348)
(19,581)	Gains in fair value of investment properties	
(891,657)	Income from council tax and business rates	(821,853)
(91,382)	Interest and investment income	(64,207)
(1,983,732)	**Total income**	**(1,891,222)**
82,225	Deficit on the provision of services	**173,244**

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Note 3. Accounting policies

i. General principles

The statement of accounts summarises the council's transactions for the 2019/20 financial year and its position at the year ending 31 March 2020. 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 2019/20 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 (i.e. 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 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, and it makes up part of the council's daily cash management. 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 (i.e. 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.

4

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 Hendeca Ltd (formerly 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 2019/20 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. The investment properties held by subsidiaries are held at fair value (see section xv). The council's investment in the subsidiaries are held as cost on the council's balance sheet.

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 2019/20 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 currently have any material finance leases. However from April 2021 under IFRS16, all leases will be treated as if they are finance leases and will be on the balance sheet. See Note 3a Accounting standards issued but not yet adopted for further details.

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 two PFI contracts and one similar long-term contract, namely:

- 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 is usually between 3 and 20 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 up to 7 years for minor works and up to 40 years for bridge strengthening.

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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, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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 general fund 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

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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 (i.e. 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 standards 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 2021. It is too early to give an accurate estimate but this is likely to have a material impact on the council's balance sheet.

- **IAS28 Investments in Associates and Joint Ventures:** Clarification that IFRS9 applies to long term interests in an associate of joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The Council currently has no joint ventures or associates, but any in the future will be evaluated under IFRS9.

- **IAS19 Employee Benefits:** Amendments on the treatment of curtailment or settlements for defined pension obligation schemes. The effect of these amendments will depend on future actuarial assessments so it is not possible to determine if there will be 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. The Fair Funding Review will no longer take place in 2020/21 with no timeline for when it will commence. 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.
Carrying value of assets not revalued in 2019/20	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. All valuations have been made in light of the impact of COVID-19 and is the best estimate of the valuers at the time of valuation.
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 i.e. the governing body, including the head teacher, 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. This PFI contract ended in 2019.
- 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 36 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 £29.0m for the Eco Park as at 31 March 2020 (£87.4m as at 31 March 2019). The amount has been adjusted due to a change in our assessment of the probability of realising economic benefits from the asset.

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:

- Hendeca (formerly 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.

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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 39, and any material items are disclosed in note 6.

The items in the council's Balance Sheet at 31 March 2020 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.
	With respect to the impact of COVID-19, our valuers have indicated that values are likely to fall but that it is not possible to predict the extent at this stage, given the unprecedented circumstances. They have stated that they can attach less weight to previous market evidence to inform valuation opinions This will be kept under review and revised as appropriate.	A reduction in value could be increase revaluation losses and lees than estimated sale proceeds from disposals
Council Tax and Business Rates Baseline	There is a high degree of uncertainty around the council tax and business rates base. The onset of the COVID-19 pandemic has seen a number of households fall into council tax support, which will lower the council tax base and thus the income from council tax.	The requirement for business premises may reduce, which will also have an impact on the amount of business rates collectable. This is likely to impact the collection fund in future years. It is unclear at this stage if the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision

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 actuaries have also taken into consideration the estimated effects of COVID-19 in 2019/20 return on asset valuation.

With the considerable market volatility leading into 31 March 2020 due to COVID-19, there has been additional uncertainty regarding the Fund's investment valuations, specifically private equity and property. Market conditions would lead our actuaries to believe that this a material uncertainty. See the Surrey Pension Fund accounts Note 5 for further details.

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 £274m for the LGPS and £51m 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 £142m for the LGPS and £16m for the firefighters' pension fund.

A reduction in the value of the assets would increase the net pension liability on the Council's balance sheet.

Debtors

At 31 March 2020, the council had a balance of £217m 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 £25m for doubtful debts was sufficient.

Debtors are monitored regularly and should general debtors rise in 2020/21 the council may consider raising its provision for bad and doubtful debt. This provision is reviewed quarterly.

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Fair value measurements

When the fair values of assets and liabilities cannot be measured based on quoted prices in active markets (i.e. 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.

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).

With the effects of COVID-19 potentially having a major impact on the economy, there is uncertainty over the impact the crisis will have on investment property valuations. There have been major adverse effects on stock markets, growth forecasts and business confidence. Capital and rental values may change rapidly, especially in the retail sector. While there have been mitigations from central government and empirical evidence of the impact is still relatively scarce, the valuers have indicated there could be a material uncertainty in their 19/20 valuations.

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.

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

With our valuers less confident of the accuracy of their opinions there is a greater risk that the proceeds of any sale of assets would be less than estimated

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 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.

The UK government imposed coronavirus (covid-19) lockdown measures in England on 26 March 2020 and subsequently revised and extended them. As a result, many workers were furloughed and almost all schools, businesses, venues, facilities and amenities were closed. Although March saw the first few weeks of the covid-19 crisis, the full financial consequences will fall in 2020/21 and future years and therefore is considered as a non-adjusting event with conditions arising after the reporting date

The financial impact on COVID-19 in 19/20 was not material on reserves, and was reflected in the year end valuations of our assets. The events after the reporting period do not indicate that the Council would be unable to continue as a going concern.

Note 7: 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 £27.9m related to the derecognition of academy schools (£107.5m in 2018/19). 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 2019/20, 11 schools transferred to academy status (22 in 2018/19).

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 2019/20 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.

2019/20	General Fund and Earmarked Reserves	Capital Receipts Reserve	Capital grant & contributions unapplied reserve
	£000	£000	£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)	(94,101)		
Council tax and business rates (transfers to Collection Fund)	(26,095)		
Holiday pay (transferred to the Accumulated Absences Reserve)	1,139		
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	(75,069)		
Revaluation gain on property, plant & equipment	(4,229)		
Other movements in valuation on property, plant and equipment			
Movement on fair value on investment property	(4,007)		
Amortisation of intangible assets	(1,080)		
IFRS9 Capital Impairments	30		
Disposal of academies	(27,944)		
Net gain/(loss) on disposal of investment property	1,050		
Net gain/(loss) on disposal of financial assets	1,536		
Revenue expenditure funded from capital under statute	(29,485)		
Deferred Income in respect of PFI schemes	998		
Reversal of donated asset adjustment	77		
Net book value of disposals and derecognitions	(41,939)		
Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Account	63,544		(63,544)
Total Adjustments to the Revenue Resources	**(235,575)**		**(63,544)**
Adjustments between Revenue & Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve		(17,540)	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	19,030		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,692		
Total Adjustments between Revenue & Capital Resources	**20,722**	**(17,540)**	
Adjustments to Capital Resources			
Application of capital grants to finance capital expenditure			81,076
Application of capital receipts to reduce capital financing requirement		6,654	
Use of Capital Receipts to fund Revenue Expenditure	(12,774)	12,774	
Total Adjustments to capital resources	**(12,774)**	**19,428**	**81,076**
Total Adjustments	**(227,627)**	**1,888**	**17,532**

2018/19	General Fund and Earmarked Reserves	Capital Receipts Reserve	Capital grant & contributions unapplied reserve
	£000	£000	£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)	
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)**

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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 2019/20.

	Balance at 31/03/18	Transfers In	Transfers Out	**Balance at 31/03/19**	Transfers In	Transfers Out	**Balance at 31/03/20**
	£000	£000	£000	**£000**	£000	£000	**£000**
Investment Renewals	**5,044**	319	(134)	**5,229**		(71)	**5,158**
Equipment Replacement	**2,247**	761	(65)	**2,943**	1,671	(734)	**3,880**
Budget Equalisation	**22,576**	9,781	(356)	**32,001**	16,856	(4,451)	**44,406**
Streetlighting PFI Fund	**3,735**		(637)	**3,098**		(636)	**2,462**
Insurance	**9,185**	1,229		**10,414**	321	(15)	**10,720**
Eco Park Sinking Fund	**6,697**	17,717	(8,000)	**16,414**	19,312	(8,000)	**27,726**
Child Protection	**120**		(120)	**0**			
Capital Investment	**4,807**	68		**4,875**	88		**4,963**
Interest Rate	**1,000**			**1,000**			**1,000**
Economic Prosperity	**11,744**			**11,744**			**11,744**
Revolving Investment & Infrastructure Fund	**11,139**			**11,139**			**11,139**
Pension Stabilisation	**39**		(39)				
Business Rate Appeals	**3,612**	28,575	(3,586)	**28,601**			**28,601**
Transformation					2,000	(244)	**1,756**
COVID-19 Emergency Fund					25,163	(929)	**24,234**
CFLC Inspection and System Improvements					1,250		**1,250**
Total General Fund Reserves	**81,945**	58,450	(12,937)	**127,458**	66,661	(15,080)	**179,039**
Schools Balances	**41,986**	5,399	(4,153)	**43,232**	3,967	(6,401)	**40,798**
Transfer of Schools Balances to Academies		2,991	(2,991)		1011	(1011)	
DSG High Needs Deficit			(18,675)	**(18,675)**	247	(30,204)	**(48,632)**
SEND High Needs Block		18,675		**18,675**	30,204	(247)	**48,632**
Total School Reserves	**41,986**	27,065	(25,819)	**43,232**	35,429	(37,863)	**40,798**
Revenue Grants Unapplied	**15,249**	16,067	(10,361)	**20,955**	4,410	(2,002)	**23,363**
Total Earmarked Reserves	**139,180**	**101,582**	**(49,117)**	**191,645**	**106,500**	**(54,945)**	**243,200**

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 2019/20 movement includes

£3.0m service budget carry forwards into 2020/21, £2.4m to support various projects and pressures and a further £2.5m which has been agreed to support the 2020/21 budget. Also £2m was moved from this reserve to the transformation reserve (see below)

Street Lighting PFI reserve: 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. 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.

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 2019/20 due to the delay in the PFI scheme leading to a budget underspending.

Capital Investment 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 Prosperity reserve: This reserve will be used to fund projects that will increase economic development in the county. This reserves includes a balance that was previously held separately in a reserve called Economic Downturn reserve.

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.

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.

Transformation Reserve: This reserve is to provide a source of funding for the council to invest in the continuing transformation of its services

COVID-19 Emergency Funding reserve: Funding received to support the authority to fund the loss of income and extra costs for 2020/21 arising from COVID-19.

CFLC Inspection and System Improvements reserve: This reserve will be used to fund additional costs in preparation for the OFSTED re-inspection as well as reviewing and renewal of the monitoring and recording case system for children social care services.

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

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.

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.

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Note 10: Other operating income and expenditure

Net Expenditure 2018/19 £000		Gross Expenditure 2019/20 £000	Income 2019/20 £000	**Net Expenditure 2019/20 £000**
1,099	Land Drainage Precept	1,108		**1,108**
(335)	Contributions from Trading Services	20,701	(23,178)	**(2,477)**
9,354	(Gain) or Loss on disposal of non-current assets		(348)	**(348)**
10,118		**21,809**	**(23,526)**	**(1,717)**

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 2018/19 £000		Gross Expenditure 2019/20	Income 2019/20	**Net Expenditure 2019/20**
31,626	Interest payable and similar charges	32,696		**32,696**
43,228	Net interest on the net defined benefit liability (Note 38)	90,786	(47,023)	**43,763**
(16,485)	Interest receivable and similar income		(15,603)	**(15,603)**
1,893	Net (gains)/losses on financial assets at fair value through profit and loss		(1,581)	**(1,581)**
(16,606)	Income & expenditure in relation to investment properties (Note 14)	4,682	(8,502)	**(3,820)**
107,507	Disposal charge for the derecognition of schools that transfer to Academy status	27,944		**27,944**
151,163		**156,108**	**(72,709)**	**83,399**

Note 12: Council tax and general grants & contributions

2018/19 £000		2019/20 £000
	Local taxation:	
(704,417)	- Council tax income	**(733,068)**
(187,240)	- Business rate income	**(88,785)**
	Grants and contributions:	
(49,391)	- Non ring-fenced government grants	**(101,590)**
(130,752)	- Capital grants and contributions	**(63,544)**
(1,071,800)		**(986,987)**

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Note 13: Property, plant & equipment

Cost	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
Balance at 1 April 2019	**1,204,101**	**72,060**	**1,020,910**	**6,981**	**53,024**	**130,044**	**2,487,120**
Additions*	49,425	9,993	48,529	278	23	(12,739)	**95,509**
Donations		77					**77**
Revaluations increases recognised in the Revaluation Reserve	47,979				960		**48,939**
Revaluations decreases recognised in the Revaluation Reserve	(23,804)				(2,071)		**(25,875)**
Revaluation increases (reversal of previous losses) recognised in the deficit on the CIES	8,410				30		**8,440**
Revaluation decreases recognised in the deficit on CIES	(11,377)				(6,027)		**(17,404)**
Transfers between asset classes	38,955	18	37		(1,171)	(38,514)	**(675)**
Derecognition & Disposals	(806)	(8,608)			(11,691)	(42,288)	**(63,393)**
Derecognition - Academies	(29,448)	(567)			(21)		**(30,036)**
Assets reclassified	(2,354)				11		**(2,343)**
At 31 March 2020	**1,281,081**	**72,973**	**1,069,476**	**7,259**	**33,067**	**36,503**	**2,500,359**
Accumulated Depreciation and Impairment							
at 1 April 2019	**(59,802)**	**(45,553)**	**(630,559)**		**(482)**		**(736,396)**
Depreciation charge	(26,947)	(5,619)	(42,504)				**(75,070)**
Impairment		(143)					(143)
Depreciation written out to the Revaluation Reserve	25,081				140		**25,221**
Revaluation losses recognised in the CIES	2,566				146		**2,712**
Revaluation increases (reversal of previous losses) recognised in the CIES	2,404						**2,404**
Transfers between asset classes							
Derecognition - Disposals	63	8,004			192		**8,259**
Derecognition - Academies	1,688	405					**2,093**
At 31 March 2020	**(54,947)**	**(42,906)**	**(673,063)**		**(4)**		**(770,920)**
Net Book Value							
at 31 March 2019	**1,144,299**	**26,507**	**390,351**	**6,981**	**52,542**	**130,044**	**1,750,724**
at 31 March 2020	**1,226,134**	**30,067**	**396,413**	**7,259**	**33,063**	**36,503**	**1,729,439**

Cost (revalued)	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
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 between asset classes	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 between asset classes	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**

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* These amounts include assets acquired under PFI schemes (see note 36), but excludes £29.4m revenue expenditure funded from capital under statute (£28.9m in 2018/19).

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 current 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. Valuations were carried out in light of COVID-19 and is the best estimate of the assets' values at 31 March 2020.

		Land and Buildings £'000
Carried at historical cost		239
Carried at current value not valued in last 5 years		10,526
Carried at current value. Last revalued as at:		
	31 March 2016	244,588
	31 March 2017	162,957
	31 March 2018	253,866
	31 March 2019	269,160
	31 March 2020	284,798
	Total	**1,226,134**

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

Revaluation changes

During 2019/20 the council has recognised a net revaluation gain of £47.0m in total across all PPE classes. The result was a revaluation loss of £1.3m charged to the Comprehensive Income and Expenditure Statement, and a £48.3m gain offset from the balance in the revaluation reserve in relation to these assets. The majority of land and building assets are re-valued based on existing use value, as part of the five year rolling programme by external valuers. Schools buildings and fire stations are re-valued at direct replacement cost.

Capital commitments

At 31 March 2020, the council has entered into a number of contracts for the acquisition/enhancement of Property, Plant & Equipment in 2020/21 and future years. The majority of these contracts are Schools Basic Need capital projects - total cost £20.9m (£21.6m as at 31 March 2019).

Additionally, ongoing capital contracts are in place for provision of rolling maintenance programmes across Property and Highways with a value that varies according to agreed works.

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 2020, 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):

2018/19		**2019/20**
£000		**£000**
5,642	Rental income from investment property	**7,452**
(8,617)	Direct operating expenses arising from investment property	**(675)**
(2,975)	**Net gain/(loss)**	**6,777**
	Gain on sale of investment property	**1,050**
19,581	Net gain/(loss) on fair value adjustments	**(4,007)**
16,606	**Income & expenditure in relation to investment properties**	**3,820**

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

2018/19		**2019/20**	Offices	Retail	Other	Fair Value Hierarchy
£000		**£000**	£000	£000	£000	
74,800	Balance at start of the year	**138,225**	132,700	4,375	1,150	Level 2
22,097	Additions	**882**	882			
21,747	Reclassification	**189**	112		77	
	Disposals	**(1,500)**	(1,500)			
19,581	Net gain/(loss) from fair value adjustments*	**(4,007)**	(3,682)	(325)		
138,225	**Balance at end of the year**	**133,789**	128,512	4,050	1,227	Level 2

*the valuation of Investment Properties is based on prevailing market conditions and existing lease agreements as at 31 March 2020.

The fair value of the council's investment properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. The fair value calculation takes into account the prevailing market conditions and lease agreements in place as at 31 March 2020, with consideration given to the estimated effects of COVID-19.

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

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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 i.e. the governing body including the head teacher 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 2019/20, 11 schools had transferred to academy status (6 Community Schools, 4 Voluntary Aided 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 2019 (Restated)	31 March 2020
	£000	£000
Fair value through profit or loss		
Long Term Investments		
Cash	30,720	32,200
Total	**30,720**	**32,200**
	£000	£000
Amortised Cost		
Long Term Investments	93,087	92,949
Long Term Debtors	235,949	235,563
Short Term Investments		
Short Term Debtors	125,785	94,093
Cash	24,751	21,989
Total	**479,572**	**444,594**
Total Financial Assets	510,292	476,794
Non-Financial Assets	1,981,982	1,919,104
Total	**2,492,274**	**2,395,898**

Financial Liabilities	1 April 2019	31 March 2020
	£000	£000
Amortised Cost		
Long Term Borrowings	397,786	442,263
Short Term Borrowings	279,026	239,698
Short Term Creditors	155,234	142,127
PFI, Lease	132,764	98,366
Other 3rd Party Balances	2,222	1,970
Total Financial Liabilities	**967,032**	**924,424**
Non-Financial Liabilities	1,927,734	1,749,009
Total	**2,894,766**	**2,673,433**

Financial Instruments Designated at Fair Value through Profit or Loss

The balance of financial assets at 31 March 2020 was £477m, a decrease of £33m from the opening balance at 1 April 2019.

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

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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

	2018/19		2019/20	
	Surplus or Deficit on the Provision of Services	**Other Comprehens -ive Income and Expenditure**	**Surplus or Deficit on the Provision of Services**	**Other Comprehens -ive Income and Expenditure**
	£000	**£000**	**£000**	**£000**
Net gains/(losses) on:				
Financial assets measured at fair value through profit or loss – fair value	(225)		1,536	
Financial assets measured at fair value through profit or loss – dividend	(230)		(15)	
Total net gains /(losses)	**(455)**		**1,521**	
Interest revenue:				
Financial assets measured at amortised cost	(14,528)		(15,335)	
Interest expense:				
Financial assets measured at amortised cost	31,626		32,626	

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 31/3/19 £000	As at 31/3/20 £000
Fair Value through Profit or Loss				
Cash (Money Market Funds)	Level 1	Unadjusted quoted prices in active markets for identical shares	30,720	32,200

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;

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- 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 2019**		**31 March 2020**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£000	**£000**	**£000**	**£000**
Long Term Borrowings - PWLB	387,247	546,439	426,246	603,008
Long Term Borrowings - Other	10,539	16,400	16,017	22,360
Short Term Borrowings	279,026	279,026	239,698	239,698
Short Term Creditors	155,234	155,234	142,127	142,127
PFI, Lease	132,764	200,002	98,366	167,525
Other 3rd Party Balances	2,222	2,222	1,970	1,970
Total	**967,032**	**1,199,323**	**924,424**	**1,176,688**

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 2020, arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	**31 March 2019**		**31 March 2020**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£000	**£000**	**£000**	**£000**
Long Term Investments	93,087	93,087	92,949	92,949
Long Term Debtors	235,949	235,949	235,563	235,563
Short Term Debtors	125,785	125,785	94,093	94,093
Cash	24,751	24,751	21,989	21,989
Total	**479,572**	**479,572**	**444,594**	**444,594**

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 2020			
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		625,368		625,368
Short Term Borrowings		239,698		239,698
Short Term Creditors		142,127		142,127
PFI, Lease			167,525	167,525
Other 3rd Party Balances		1,970		1,970
Total		**1,009,163**	**167,525**	**1,176,688**
Financial assets				
Long Term Debtors		235,563		235,563
Long Term Investments			92,949	92,949
Short Term Debtors		94,093		94,093
Cash		21,989		21,989
Total		**351,645**	**92,949**	**444,594**

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

- average rate of interest at 31 March 2020 of 0.69% 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 2020 of 0.88% for loans payable based on new lending rates for equivalent.

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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 the Audit and Governance Committee on 7 February 2019 and is available on the Council website.

The key issues within the strategy were:

- The Authorised Limit for 2019/20 was set at £1,696m. This is the maximum limit of external borrowings or other long-term liabilities;
- The Operational Boundary was set at £1,108m. 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 32% 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 2019/20 was approved by the Audit and Governance Committee on 7 February 2019 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 majority of the Council's long term debtors and investments are with the subsidiary company Halsey Garton, which is an investment property vehicle. While there are inherent market risks of changes in value of investment property, the council has full control of the company so the risk of default is deemed to be negligible. The investment portfolio is spread between a variety of locations and uses, reducing the risk of a loss of value in one area.

A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise.

Amounts Arising from Expected Credit Losses (ECL)
The changes in loss allowance during 2019/20 are as follows:

	12 Month ECL	Lifetime ECL	Lifetime ECL – Simplified Approach	Total
	£000	**£000**	**£000**	**£000**
Opening balance 1 April 2019	1,663		9,431	11,094
Change in credit loss	(30)		413	383
Closing balance 31 March 2020	1,633		9,844	11,477

12 Month ECL includes some third party loans. 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 2019	31 March 2020
	£000	**£000**
Less than one year	181,256	148,282
Between one and five years		
More than five years	329,036	328,512
Total	**510,292**	**476,794**

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 2019**	**31 March 2020**
	%	**%**	**%**	**%**
Less than one year	0%	60%	41%	35%
Between one and two years	0%	50%		
Between two and five years	0%	50%		1%
Between five and ten years	0%	75%		8%
More than ten years	25%	100%	59%	56%

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.

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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

31/03/2019		**31/03/2020**
£000		**£000**
6,171	HMRC Debtors	4,386
21,828	Accounts Receivable Debtors	17,914
104,032	Collection Fund Debtors	35,340
18,006	Adult Social Care Debtors	20,772
19,092	Payments in Advance	12,237
40,105	Other Debtors	47,207
209,234	**Total**	**137,856**

Note 18: Cash and cash equivalents

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

31/03/19		**31/03/20**
£000		**£000**
24,751	General account	21,989
30,720	Money market funds	32,200
55,471	**Total cash and cash equivalents**	**54,189**

Note 19: Assets held for sale

Assets held for sale (current) 31/03/2019 £000		Assets held for sale (current) 31/03/2020 £000
10,100	**Balance outstanding at 1 April**	**400**
	Assets newly classified as held for sale:	
	- Property, plant and equipment	
(9,200)	Assets de-classifieds as held for sale	**2,354**
	Revaluation gain	**800**
	Revaluation loss	**(1,039)**
(500)	Assets sold*	
400	**Balance outstanding at 31 March**	**2,515**

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

Note 20: Creditors

31/03/19 £000		31/03/20 £000
(16,537)	HMRC Creditors	**(19,032)**
(38,900)	Accounts Payable Creditors	**(29,557)**
(23,041)	Collection Fund Creditors	**(17,726)**
(40,450)	Receipts in Advance	**(52,033)**
(107,445)	Other Creditors	**(98,236)**
(226,373)	**Total**	**(216,584)**

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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 2019	27,763	5,162	3,500	3,000	5,913	1,498	**46,836**
Additional provisions made in 2019/20					675		**675**
Amounts used in 2019/20					(5913)	(3)	**(5,916)**
Unused amounts reversed in 2019/20	(19,883)					(200)	**(20,083)**
Balance at 31 March 2020	7,880	5,162	3,500	3,000	675	1,295	**21,512**
Current Provisions					675	60	**735**
Non-Current Provisions	7,880	5,162	3,500	3,000		1,235	**20,777**
	7,880	5,162	3,500	3,000	675	1,295	**21,512**

	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

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 2020. 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 2020 there is a provision of £0.7m to cover the cost of redundancies agreed during 2019/20 but for which the expenditure will not be incurred until 2020/21.

Other provisions

A number of other smaller provisions have been identified.

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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 2019	Transfers In	Transfers Out	**Balance at 31 March 2020**
	£000	£000	£000	**£000**
Revenue				
General Fund Balance	21,328	2,828		**24,156**
Earmarked Reserves	191,645	104,500	(52,945)	**243,200**
Total revenue reserves	212,973	107,328	(52,945)	**267,356**
Capital				
Capital Grant Unapplied	110,610	63,544	(81,076)	**93,078**
Capital Receipts Reserve	46,858	17,540	(19,428)	**44,970**
Total capital reserves	157,468	81,084	(100,504)	**138,048**
Total usable reserves	370,441	188,412	(153,449)	**405,404**

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.

31/03/19		**31/03/20**
£000		**£000**
(563,317)	Revaluation Reserve	(579,445)
(436,655)	Capital Adjustment Account	(379,662)
19	Financial Instruments Adjustment Account	19
1,798,283	Pensions Reserve	1,642,468
(32,015)	Collection Fund Adjustment Account	(5,920)
6,618	Accumulated Absences Account	5,479
772,933		**682,939**

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.

31/03/19		31/03/20	
£000		**£000**	**£000**
(550,175)	**Balance at 1 April**		**(563,317)**
(67,095)	Upward revaluation of assets	(49,256)	
5,107	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	971	
	Asset reclassification		
	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the Provision of Services		(48,285)
9,134	Difference between fair value depreciation and historical cost depreciation	9,079	
39,712	Accumulated gains on assets sold or scrapped	23,078	
	Amount written off to the Capital Adjustment Account		32,157
(563,317)	**Balance at 31 March**		**(579,445)**

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.

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31/03/19 £000		31/03/20 £000	31/03/20 £000
(439,773)	**Balance at 1 April**		**(436,655)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
74,491	Charges for depreciation and impairment of non-current assets	75,069	
293	Impairment or fair value adjustments under IFRS 9	(30)	
(51)	Revaluation losses/(gains) on Property, Plant and Equipment	4,229	
(2,670)	Other movements in valuation on Property, Plant and Equipment		
(19,581)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	4,007	
	Disposal of financial assets	250	
1,200	Amortisation of intangible assets	1,080	
28,936	Revenue expenditure funded from capital under statute	29,485	
(220)	Deferred Income	(998)	
(67)	Donated Assets credited to the Comprehensive Income and Expenditure Statement	(77)	
86,170	Amounts of non-current assets written off on disposal or derecognition as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	61,509	
168,501			174,524
(9,134)	Adjusting amounts written out of the Revaluation Reserve		(9,079)
159,367	Net written out amount of the cost of non-current assets consumed in the year		165,445
	Capital financing applied in the year:		
(40,345)	Use of the Capital Receipts Reserve to finance capital expenditure	(6,654)	
(12,123)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(13,068)	
(85,155)	Application of grants to capital financing from the Capital Grants Unapplied Account	(68,008)	
(19,913)	Statutory provision for the financing of capital investment charged against the General Fund	(19,030)	
(713)	Capital expenditure charged against the General Fund	(1,692)	
(436,655)	**Balance at 31 March**		**(379,662)**

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 2020 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 2019/20.

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.

31/03/19 £000		31/03/20 £000
1,575,845	**Balance at 1 April**	**1,798,283**
120,173	Actuarial (gains)/losses on pensions assets and liabilities	**(249,916)**
181,062	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	**181,070**
(78,797)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(86,969)**
1,798,283	**Balance at 31 March**	**1,642,468**

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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.

31/03/19		**31/03/20**
£000		**£000**
777	**Balance at 1 April**	**(32,015)**
(32,792)	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	**26,095**
(32,015)	**Balance at 31 March**	**(5,920)**

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.

31/03/19		31/03/20	**31/03/20**
£000		£000	**£000**
7,575	**Balance at 1 April**		**6,618**
(7,575)	Settlement or cancellation of accrual made at the end of the preceding year	(6,618)	
6,618	Amounts accrued at the end of the current year	5,479	
(957)	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		**(1,139)**
6,618	**Balance at 31 March**		**5,479**

Note 24: 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 2019/20. The council recognises its share of income, expenditure, assets and liabilities in its accounts.

2019/20

	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	(21,647)							**(21,647)**
- Surrey Downs CCG		(18,101)						**(18,101)**
- Guildford & Waverley CCG			(12,609)					**(12,609)**
- East Surrey CCG				(11,237)				**(11,237)**
- Surrey Heath CCG					(5,863)			**(5,863)**
- North East Hampshire & Farnham CCG						(2,745)		**(2,745)**
- East Berkshire CCG							(726)	**(726)**
	(21,810)	(18,182)	(12,665)	(11,309)	(5,893)	(2,754)	(733)	**(73,346)**
Expenditure met from the pooled budget	22,193	18,095	12,662	11,268	6,039	2,745	670	**73,672**
(Surplus) or deficit	383	(87)	(3)	(41)	146	(9)	(63)	**326**
SCC Share	191	(44)	(2)	(21)	73	(5)	(31)	**161**

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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)**
- Windsor, Ascot & Maidenhead 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)**

Orbis Joint Operating Budget

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. 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 2019/20 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 2019/20 Surrey, East Sussex and Brighton & Hove Councils operated a joint operating budget to fund business services.

2018/19 £000		2019/20 £000
	Funding provided to the pooled budget	
(32,931)	- Surrey County Council	(33,430)
(14,112)	- East Sussex County Council	(13,644)
(12,776)	- Brighton and Hove City Council	(13,277)
(59,819)		(60,351)
59,819	Expenditure met from the pooled budget	60,351
	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 25: Member allowances

2018/19 £000		**2019/20 £000**
1,659	Member Allowances*	**1,681**
60	Member Expenses	**54**
1,719		**1,735**

*Includes the employer's contributions for national insurance £119k (2018/19, £118k).

Note 26: 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 2019/20. 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

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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 – Joanna Killian	19/20	220,728			220,728		220,728
	18/19	219,409			219,409	(2,363)	217,046
Executive Director for Children, Families Lifelong Learning and Culture - Dave Hill	19/20	190,000			190,000		190,000
	18/19	174,694			174,694	23,511	198,205
Executive Director for Public Health (1)	19/20	36,230		78,514	114,744	4,839	119,583
	18/19	134,595			134,595	19,355	153,950
Executive Director, Adults Social Care (2) – Simon White *	19/20	289,660	722		290,382		290,382
	18/19	163,374	119		163,493		163,493
Executive Director for Highways, Transport and Environment (3)	19/20	44,176		60,000	104,176	5,443	109,619
	18/19	105,057			105,057	15,548	120,605
Executive Director for Community Protection, Transport and Environment (3 and 4)	19/20	82,034			82,034		82,034
	18/19						
Executive Director for Corporate Resources (5) – Leigh Whitehouse *	19/20	237,150	121		237,271	20,535	257,806
	18/19	168,900	143		169,043		169,043
Executive Director for Transformation, Partnerships and Prosperity (6)– Michael Coughlin	19/20	175,000			175,000	25,900	200,900
	18/19	130,780			130,780	19,355	150,135
Director for Community Protection and Emergencies (7)	19/20	126,299			126,299	18,675	144,974
	18/19	121,573			121,573	12,480	134,053
Total 2019/20		**1,401,277**	**843**	**138,514**	**1,540,634**	**75,392**	**1,616,026**
Total 2018/19(8)		1,218,382	262		1,218,644	87,886	1,306,530

*Salary includes agency fees

Notes to Senior Officer's Remuneration table:

1. The Executive Director of Public Health left June 2019. Public Health is now under the Executive Director for Adult Social Care.

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

3. The Executive Director for Highways, Transport and Environment left in July 2019. This post was replaced by the Executive Director for Community Protection, Transport and Environment and was filled on an interim basis from August 2019 until March 2020. The current Executive Director started March 2020 on a permanent basis.

4. The amount shown in the salary column is the cost of this post including agency fees for the interim director.

5. This post (formerly Executive Director for 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.

   The current Executive Director was in place as interim until June 2019. He is now employed on a permanent basis. The amount shown in the salary column includes £98,400 paid for the interim cost of this post, including agency fees.

6 This is post was created 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.

7 This post was previously disclosed as Chief Fire Officer. This new post still incorporates the statutory post of Chief Fire Officer.

8 This line includes the 2018/19 costs for the posts in the table. The total senior officer remuneration for 2018/19, including those who left in 2018/19 was £1,721,535.

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Note 27: Officers' remuneration

2018/19 Non school numbers	Schools numbers	Total numbers	Remuneration (£)	2019/20 Non-schools numbers	Schools numbers	Total numbers
176	89	265	50,000 - 54,999	194	103	297
131	69	200	55,000 - 59,999	94	56	150
75	49	124	60,000 - 64,999	99	53	152
40	21	61	65,000 - 69,999	51	29	80
22	39	61	70,000 - 74,999	21	29	50
14	8	22	75,000 - 79,999	19	12	31
17	7	24	80,000 - 84,999	13	6	19
6	4	10	85,000 - 89,999	8	12	20
6	3	9	90,000 - 94,999	5	2	7
2	1	3	95,000 - 99,999	3	3	6
5	2	7	100,000 - 104,999	3		3
1		1	105,000 - 109,999	1	1	2
2		2	110,000 - 114,999	7		7
			115,000 - 119,999	2		2
3		3	120,000 – 124,999	1		1
1		1	125,000 - 129,999	2		2
2		2	130,000 - 134,999	1		1
			135,000 - 139,999			
1		1	140,000 - 144,999			
			145,000 – 149,999			
			150,000 – 154,999			
1		1	155,000 – 159,999			
1		1	160,000 – 164,999			
			165,000 – 169,999			
			180,000 – 184,999			
			220,000 - 224,999			
			235,000 – 239,999			
506	**292**	**798**		**524**	**306**	**830**

The table above includes 107 staff (100 in 2018/19) 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 2018/19) at East Sussex County Council and 27 staff (21 in 2018/19) at Brighton and Hove City Council that earned over £50,000 in 2019/20. 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 28: 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:

2018/19					2019/20			
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**
24	7	31	210	0-20,000	85	76	161	**1,151**
3	3	6	153	20,001-40,000	15	13	28	**818**
2	4	6	288	40,001-60,000	7	11	18	**896**
1	0	1	61	60,001-80,000	4	2	6	**427**
0	0	0	0	80,001-100,000	1	4	5	**433**
3	2	5	633	100,001-150,000		3	3	**369**
0	0	0	0	150,001 – 200,000				
1	0	1	215	200,001 – 250,000				
34	16	50	1,560	**Total cost included in bandings**	**112**	**109**	**221**	**4,094**
36	252	288	6,290	ADD: Amounts provided for in CIES not yet paid**	**10**	**17**	**27**	**763**
70	268	338	7,850	**Total cost included in CIES**	**122**	**126**	**248**	**4,857**

* 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 2019/20 but for which no payment had yet been made.

Note 29: External audit costs

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

Note 30: Dedicated Schools Grant

The council's expenditure on schools in 2019/20 was funded primarily by grant monies provided by the Education and Skills Funding Agency (ESFA), 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) (no.2) Regulations 2018. The school budget includes elements for a range of educational services provided on an authority-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 at the end of 2019/20 there is a cumulative £31.5m deficit on the DSG. This is the net amount from an overspend on the High Needs Block of £48.6m, less unspent balances on the other blocks of £17.1m. The High Needs Block overspend is matched by an ear marked reserve of the same value (see Note 9).

Details of the deployment of DSG receivable for 2019/20 are shown on the table below:

Ref:	2018/19 £000s		Central £000s	ISB* £000s	2019/20 £000s
A	837,579	Final DSG before academy recoupment (ESFA gross allocation)			**857,159**
A1	(15,520)	Less deducted by ESFA for high needs place funding			**(16,136)**
B	(334,236)	Academy figure recouped			**(363,748)**
C	487,823	Total DSG after academy recoupment			**477,275**
D	4,043	Brought forward from prior year			**(5,971)**
D1	(1,972)	Early years adjustment in respect of prior year			**961**
D2		Other prior year adjustments			**28**
	489,894				**472,293**
E	2,845	Less Carry forward agreed in advance			**(35,061)**
	487,049				**507,354**
F	487,049	Agreed initial budgeted distribution	162,895	344,459	**507,354**
G		In year adjustments	(24)	24	
H	487,049	**Final distribution**	162,871	344,483	**507,354**
I	(142,332)	Actual central expenditure	(162,040)		**(162,040)**
J	(355,674)	Actual Individual Schools Budget (ISB)		(341,771)	**(341,771)**
K	2,142	Local authority contribution			
	(495,864)	**Total funded by DSG**	(162,040)	(341,771)	**(503,811)**
L	(8,815)	DSG spent less budgeted distribution	(831)	(2,712)	**(3,543)**
M	(5,970)	**Total amount carried forward**			**(31,518)**
		Split of Deficit:			
	(18,675)	Overspend on high needs block			**(48,633)**
	12,705	Combined underspend on other blocks			**17,115**
	(5,970)				**(31,518)**

*Individual Schools Budget

NOTES

A Final DSG figure before deducting academy recoupment and funding for high needs places directly funded by the ESFA, and before the January 2020 early years block adjustment (which will be made in summer 2020) The early years block adjustment is estimated to be an increase in grant of £913,000

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 for which funding is paid directly to the academy by the ESFA, plus funding for post 16 places in maintained special schools and SEN units and resources in maintained mainstream schools, which is paid separately to the authority as sixth form grant

B Figure recouped from the authority in 2019/20 by the Dept for Education (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 2018/19 as agreed with the Department

D1 Additional grant received from DfE in July 2019 because the number of 2, 3 and 4 year olds taking up the early years free entitlement in Jan 2019 was higher than in Jan 2018 (In 2018/19 the corresponding adjustment was a deduction)

D2 Refund of place funding deducted by DfE in 2018/19 in respect of a college merger

E (Surplus)/deficit which the authority decided after consultation with the Schools Forum to carry forward to 2020/21 (or later year) rather than allocating in 2019/20

F Initial budgeted distribution of DSG, adjusted for carry forward, as agreed with the Schools Forum

G In year adjustments comprise adjustments to budgets for permanently excluded pupils, and reductions in de-delegated budgets for central services as more schools convert to academies

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

I Actual amount of central expenditure items in 2019/20

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 2019/20 (none in 2019/20) Under the 2019/20 DSG conditions of grant, any overspends on the Schools Budget must be carried forward and met from DSG in future years, unless the Secretary of State allows all or part of the overspend to be funded from other sources. Authorities with a DSG deficit are expected to develop a recovery plan to repay those deficits over a number of years

L Variation against 2019/20 budgets:
For central expenditure, the difference between final budgeted distribution of DSG and actual expenditure , plus any local authority contribution
For ISB, the difference between amount allocated to individual providers and funding budgeted for that purpose

M Sum carried forward to 2020/21 (a negative figure=a deficit) This is the total underspend against the final 2019/20 budget (L) plus the amount by which the initial budget exceeded available DSG funding (E). The overspend is made up of a cumulative overspend of £48.6m on the high needs block (provision for pupils with special educational needs and disabilities), offset by underspends of £17.1m on mainstream school and early years provision.

Note 31: 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:

2018/19 £000		2019/20 £000
	General grants & contributions	
7,998	Private Finance Initiative Grant	**9,355**
20,457	Business Rate Grants	**11,148**
6,757	Public Health*	**35,575**
2,890	New Homes Bonus	**2,689**
8,471	Dedicated Schools Grant (non ring-fenced)	**8,214**
	COVID-19 Emergency Funding	**25,163**
	Social Care Support Grant	**6,825**
2,818	Other Revenue Grants	**2,621**
63,703	Education Funding Agency (Schools Basic Need & Schools Condition Allocation)	**21,415**
31,327	Highways Maintenance & Integrated Transport Grant	**21,034**
12,716	Capital developer contributions	**9,695**
13,548	Local Growth Deal	**5,268**
4,562	Capital contributions from schools	**4,264**
4,896	Other Capital grants & Contributions	**1,868**
180,143		**165,134**

*Public Health grant was previously shown as split between general and service grants, but from 19/20 it is now shown as a general grant.

Grants credited to services are analysed in the following table:

2018/19 £000		2019/20 £000
489,535	Dedicated Schools Grant	**495,597**
29,783	Public Health Grant	
10,603	Young People Learning Agency	**9,563**
14,380	Pupil Premium	**13,443**
1,630	Teachers Pay and Pensions Grants	**10,367**
9,404	Universal Infant Free School Meals	**8,643**
35,273	Other revenue grants	**35,169**
590,608	**Total**	**572,782**

Note 32: 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 2019/20 is shown in Note 25.

In addition, a survey of the related party interests of members in office during the 2019/20 financial year and their immediate family members was carried out in preparing this statement of accounts. There were responses from 80 of 81 members. The council had transactions with 33 bodies that members declared an interest in, with a total value of £9.0m. Of this, payments of £3.9m 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.

Senior Officers are deemed to include all officers earning over £69,855. The council had transactions with 7 other bodies in which an interest was declared totalling £3.4m.

Entities controlled or significantly influenced by the council

The council wholly owns the following companies

- Hendeca Group Limited (formerly 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 trading.

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

Group accounts for 2019/20 have been prepared and are presented in these accounts to show the combined financial performance and position of the county council, Hendeca Ltd, Surrey Choices Ltd, and Halsey Garton Property Ltd.

During 2019/20 the council received £14.3m in interest payments from Halsey Garton Property Ltd (£12.2m 2018/19) and £0.3m in recharges from the company for services provided in year (£0.5m 2018/19). At 31 March 2020 the company owed SCC £234m in long term loans, as well as £0.09m in short term payables.

The council purchased £12.4m of Adult Social Care services from Surrey Choices Ltd (£12.4m 2019/20). It received £2.8m in recharges from the company for services provided in year (£2.5m in 2018/19). At 31 March 2020 the company owed SCC £2.8m in long term loans, as well as £0.55m in short term payables.

The council received £0.4m in recharges from Hendeca for services provided in year (£0.4m in 2018/19). At 31 March 2020 the company owed SCC £0.09m in short term payables.

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 24.

Surrey Pension Fund

The fee payable by the Surrey Pension Fund to the county council for services provided in 2019/20 was £2.8m (£2.1m in 2018/19). This is split into the fee for providing pension administration services £2.4m (£1.8m in 2018/19) and £0.4m (£0.3m in 2018/19) for treasury management, accounting and managerial services.

During 2019/20 the council paid employer pension contributions of £74.5m (£64.0m in 2018/19).

Net amounts owed by the council to the fund as at 31 March 2020 were £3.1m (£4.6m at 31 March 2019).

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 2019/20 Surrey, East Sussex, and Brighton & Hove operated a joint operating budget to fund business services at each council. (See note 24 for more information).

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Note 33: 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:

2018/19 £000		2019/20 £000
	Capital Financing	
1,151,877	Opening Capital Financing Requirement	**1,234,634**
	Capital investment:	
111,847	Property, Plant and Equipment	95,509
22,097	Investment Properties	882
48	Intangible Assets	1,167
28,936	Revenue Expenditure Funded from Capital Under Statute	29,485
78,300	Long Term Debtor	
	Sources of Finance	
(11,491)	Capital receipts	(6,654)
(97,279)	Government grants and other contributions	(81,076)
	Sums set aside from revenue	
(714)	Direct revenue contributions	(1,692)
(28,854)	Application of capital receipts to prior year capital expenditure	
(19,913)	Minimum Revenue Provision	(19,030)
(220)	PFI Deferred Income	(998)
1,234,634	**Closing Capital Financing Requirement**	**1,252,227**
	Explanation of movements in year	
118,692	Increase in underlying need to borrowing (unsupported by government financial assistance)	53,645
(28,854)	Application of capital receipts	
(19,913)	Minimum Revenue Provision	(19,030)
13,052	Assets acquired under finance leases	(16,024)
(220)	PFI Deferred Income	(998)
82,757	**Increase / (decrease) in Capital Financing Requirement**	**17,593**

Note 34: Leases

Council as lessee

Operating leases:

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

31 March 2019 £000	Operating lease liabilities - land and buildings	31 March 2020 £000
2,366	Not later than one year	2,644
8,411	Later than one year but not later than five years	9,373
9,401	Later than five years	12,419
20,178		**24,436**

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

2018/19 £000	Amounts charged to the Comprehensive Income and Expenditure Statement during the year Operating leases - land and buildings	2019/20 £000
3,168	Minimum lease payments for the year	**3,921**

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;
- economic development to provide suitable affordable accommodation for local businesses.

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

31 March 2019 £000	Lease liabilities - land and buildings:	31 March 2020 £000
9,162	Not later than one year	8,532
25,610	Later than one year but not later than five years	22,428
64,776	Later than five year	63,410
99,548		**94,370**

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.

Note 35: Other short-term and long-term liabilities

31 March 2019 Other liabilities Short term	Long-term	Total		31 March 2020 Other liabilities Short term	Long-term	Total
£000	£000	£000		**£000**	**£000**	**£000**
16,938	115,826	132,764	PFI finance lease liabilities (Note 36)	17,084	81,282	**98,366**
	11,360	11,360	Deferred income liabilities (Note 36)		10,362	**10,362**
	1,798,283	1,798,283	Pension liabilities (Note 38)		1,642,468	**1,642,468**
	2,222	2,222	Balances held for third parties		1,970	**1,970**
16,938	1,927,691	1,944,629		**17,084**	**1,736,082**	**1,753,166**

Note 36: 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 39.

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, which happened in 2019/20. There is therefore no further Unitary Charges for Anchor Care Trust. 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:

2018/19 Land & Buildings £000	2018/19 Infra-structure £000	2018/19 Asset Under Construction £000		2019/20 Land & Buildings £000	2019/20 Infra-structure £000	2019/20 Asset Under Construction £000
100,928	76,653	74,299	**Gross cost at 1 April**	100,928	76,653	87,351
		13,052	Additions			(16,024)
100,928	76,653	87,351	**Gross Cost at 31 March**	100,928	76,653	71,327
(29,752)	(14,467)		**Accumulated Depreciation and Impairment at 1 April**	(31,800)	(16,383)	
(2,048)	(1,916)		Depreciation charge for the year	(2,013)	(1,917)	
			Impairment losses recognised in the Surplus/Deficit on the Provision of Services			
(31,800)	(16,383)		**Accumulated Depreciation and Impairment at 31 March**	(33,813)	(18,300)	
71,176	62,185	74,299	**Net book Value at 1 April**	69,128	60,270	87,351
69,128	60,270	87,351	**Net book Value at 31 March**	67,115	58,353	71,327

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.

Payments remaining to be made under the PFI contract at 31 March 2020 (excluding any estimation of inflation and availability/performance deductions) are as follows:

Payable in 2019/20 £000		Payable in 2020/21 £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						
50,480	- Waste	53,346	198,377				**251,723**
7,731	- Care UK	7,731	30,924	15,462			**54,117**
2,900	- Street Lighting	2,905	11,723	15,121	16,623		**46,372**
61,111		63,982	241,024	30,583	16,623		**352,212**
	Reimbursement of Capital Expenditure						
14,688	- Waste	14,688	59,691				**74,379**
107	- Care UK	114	528	315			**957**
2,143	- Street Lighting	2,282	10,764	18,343	25,969		**57,358**
16,938		17,084	70,983	18,658	25,969		**132,694**
	Interest						
7,118	- Waste	5,787	8,905				**14,692**
65	- Care UK	58	159	29			**246**
6,257	- Street Lighting	6,114	22,713	23,036	13,909		**65,772**
13,440		11,959	31,777	23,065	13,909		**80,710**
91,489	**Total**	**93,025**	**343,784**	**72,306**	**56,501**		**565,616**

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

2018/19 Finance Lease Liability £000	2018/19 Deferred Income Liability £000		**2019/20 Finance Lease Liability £000**	**2019/20 Deferred Income Liability £000**
(137,649)	(11,580)	**Balance outstanding at 1 April**	(132,764)	(11,360)
17,937		Payments during the year	18,374	
(13,052)		Capital expenditure incurred in the year	16,024	
	220	Amortisation of deferred income		998
(132,764)	(11,360)	**Balance outstanding at 31 March**	**(98,366)**	**(10,362)**

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

31 March 2019 £000		**31 March 2020 £000**
64	not later than one year	63
246	later than one year but not later than 5 years	242
467	later than 5 years	408
777		**713**

Note 37: 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 2019/20, the council paid £43.3m to teachers' pensions in respect of retirement benefits. The employer's contribution rate was 16.48% until the 31 August. On 1 September this increased to 23.68%. The figures for 2018/19 were £38m 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 2019/20 the council paid £533k to NHS pensions representing 16.88% of pensionable pay (2018/19, £676k, 14.38%). This will increase to 20.6% in 20/21 following the latest 4 year revaluation.

Note 38: 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. 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	
	2018/19	**2019/20**	2018/19	**2019/20**
	£000	**£000**	£000	**£000**
Comprehensive Income & Expenditure Statement				
Cost of Services:				
- current service cost	108,056	**124,340**	**8,600**	**9,600**
- past service cost	11,318	**2,927**	**21500**	**100**
- (gain)/loss on settlements	(7,113)	**(1,654)**		
Financing & Investment Income & Expenditure				
- net interest on the net defined benefit liability	25,928	**29,363**	17,300	**14,400**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	138,189	**154,976**	47,400	**24,100**
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)	59,951	(258,153)		
- actuarial gains and losses arising on changes in demographic assumptions	0	72,532	(46,200)	18,600
- actuarial gains and losses arising on changes in financial assumptions	(238,981)	247,548	45,600	52,100
- other experience	(743)	121,689	(59,000)	(4,400)
Total remeasurement of the net defined benefit liability	(179,773)	**183,616**	(59,600)	**66,300**
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	(41,584)	**338,592**	(12,200)	**90,400**
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	(138,189)	**(154,976)**	(47,400)	**(24,100)**
Actual amount charged against the General Fund Balance for pensions in the year:				
- employers' contributions to the scheme/ retirement benefits paid direct to pensioners	64,997	**66,875**	13,800	**18,100**

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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	
	2018/19 £000	**2019/20 £000**	2018/19 £000	**2019/20 £000**
Present value of the defined benefit obligation	(3,148,375)	(2,841,800)	(605,800)	**(545,500)**
Fair value of plan assets	1,955,892	1,744,832		
Net liability arising from defined benefit obligation	(1,192,483)	(1,096,968)	(605,800)	**(545,500)**

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	
	2018/19 £000	**2019/20 £000**	2018/19 £000	**2019/20 £000**
Opening Balance at 1 April	(2,786,837)	**(3,148,375)**	(630,459)	**(605,800)**
Current service cost	(108,056)	**(124,340)**	(8,600)	**(9,600)**
Interest cost	(75,602)	**(76,386)**	(17,300)	**(14,400)**
Contributions by scheme participants	(20,028)	**(17,895)**	(2,200)	
Remeasurements:				
- Actuarial gains and losses arising on changes in demographic assumptions		**72,532**	46,200	**18,600**
- Actuarial gains and losses arising on changes in financial assumptions	(238,981)	**247,548**	(45,600)	**52,100**
- Other experience	(743)	**121,689**	59,000	**(4,400)**
Pensions and lump sum expenditure			16,000	**18,100**
Benefits paid	70,422	**83,148**		
Past service costs (including curtailments)	(11,318)	**(2,927)**	(21,500)	**(100)**
Settlements	16,897	**3,206**		
Employer contributions adjustment*	5,871		(1,341)	
Closing balance at 31 March	(3,148,375)	**(2,841,800)**	(605,800)	**(545,500)**

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	
	2018/19 £000	**2019/20 £000**	2018/19 £000	**2019/20 £000**
Opening fair value of scheme assets at 1 April	1,841,448	**1,955,892**		
Interest income	49,674	**47,023**		
Remeasurement:				
Return on assets excluding amounts included in net interest	59,951	**(258,153)**		
Employer Contributions	64,997	**66,875**		
Employer contributions adjustment*				
Contributions by scheme participants	20,028	**17,895**		
Benefits paid	(70,422)	**(83,148)**		
Settlements	(9,784)	**(1,552)**		
Closing fair value of scheme assets at 31 March	1,955,892	**1,744,832**		

* 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 £1,642m 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 2019.

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.

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The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2018/19	**2019/20**	2018/19	**2019/20**
Mortality assumptions:				
- longevity at 65 for current pensioners (60 for firefighters):				
- Men	22.5 years	22.1 years	27.3 years	26.4 years
- Women	24.6 years	24.3 years	29.4 years	28.5 years
- longevity at 65 for future pensioners (60 for firefighters):				
- Men	24.1 years	22.9 years	28.4 years	27.5 years
- Women	26.4 years	25.7 years	30.6 years	29.7 years
Rate of inflation	3.5%	2.9%	3.5%	2.8%
Rate of increase in salaries	2.8%	2.8%	3.5%	2.8%
Rate of increase in pensions	2.5%	1.9%	2.5%	1.9%
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.3%

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	10%	274,340	9%	51,147
1 year increase in member life expectancy*	5%	142,090	3%	16,219
0.5% increase in the salary increase rate	1%	21,448	1%	6,305
0.5% increase in the pension increase rate	9%	250,955	8%	41,441

*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 2019 Quoted prices in active markets £000			31 March 2020 Quoted prices in active markets £000	
		Quoted prices in active markets		
		Equity securities		
52,962	3%	Consumer	49,788	3%
33,985	2%	Manufacturing	37,162	2%
30,140	2%	Energy & utilities	13,506	1%
30,341	2%	Financial institutions	29,384	2%
25,915	1%	Health & care	30,050	2%
57,910	3%	Information technology	56,952	3%
5,164	0%	Other	991	0%
236,417			**217,833**	
		Debt securities		
	0%	UK government	98,657	6%
	0%	Other		
			98,657	
		Real estate		
92,770	5%	UK property	87,330	5%
33,935	2%	Overseas property	38,340	2%
126,705			**125,670**	
		Investment funds & unit trusts		
1,072,104	54%	Equities	918,116	52%
326,712	16%	Bonds	203,085	12%
		Other		
1,398,816			**1,121,201**	
		Derivatives		
		Interest rate		
11,415	1%	Foreign exchange	(17,537)	-1%
11,415			**(17,537)**	
66,603	3%	Cash & cash equivalents	59,415	3%
1,839,956	**94%**		**1,605,239**	**92%**
		Sub-total		
		Quoted prices in non-active markets		
115,936	6%	Private Equity	139,593	8%
1,955,892	**100%**	**Total**	**1,744,832**	**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 2019 and the next review will take place during 2021/22 with a valuation date of 31 March 2022.

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 2020/21.

Note 39: Contingent assets and 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.

Contingent Liabilities

The council embarked upon a PFI for waste disposal in 1999. By the end of 2019/20 £137.3m has been received in PFI credits in relation to the waste contract. 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 £3.6m to £4.3m. 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.

Contingent Asset

Royal Mail: The council forms part of a class action against Royal Mail, relating to the charging of VAT on services for which it has not been able to recover as normal. The case has been ongoing for over 4 years and continues. The outcome and any potential financial settlement are uncertain. The council has no liability in relation to any potential costs if the claim is lost, as it has entered into an insurance arrangement with a large number of other claimants.

Note 40: Cash flow statement- adjustments for non-cash movements

2018/19 £000		2019/20 £000
(182,302)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(181,070)
80,038	Employer's pensions contributions and direct payments to pensioners payable in the year	86,969
220	Deferred Income in respect of PFI schemes	998
(74,491)	Charges for depreciation & impairment of non-current assets	(75,069)
(1,200)	Amortisation of intangible assets	(1,080)
51	Revaluation (losses)/gains on property, plant & equipment	(4,229)
19,581	Change in fair value of investment properties	(4,007)
(1,663)	IFRS9 Capital Impairments	30
(107,507)	Disposals of academies	(27,944)
(24,992)	Contributions to provisions	25,324
(9,354)	Net gain/(loss) on sale disposal of property, plant & equipment	(41,939)
	Net gain/(loss) on sale disposal of investment property	1,050
	Net gain/(loss) on disposal of financial assets	1,536
(19,571)	Movement in creditors	8,484
167	Movement in third party balances	252
198	Movement in inventories	131
72,446	Movement in debtors	(71,378)
958	Movement in accumulated absences	1,139
67	Donated asset adjustment	77
(247,354)		**(280,726)**

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Note 41: Cash flow statement - purchase of property, plant & equipment

2018/19		2019/20
£000		**£000**
98,795	Enhancement/Purchase of Property, Plant & Equipment	**111,533**
22,097	Enhancement/Purchase of Investment Property	**882**
48	Enhancement/Purchase of Intangible Assets	**1,167**
28,936	Revenue Expenditure Funded from Capital Under Statute	**29,485**
149,876		**143,067**

Note 41a: Reconciliation of liabilities arising from Financing Activities

	Balance at 1 April 2019	Financing Cash Flows	Non Cash Changes	Balance at 31 March 2020
Long Term Borrowings	(397,786)	(44,477)		(442,263)
Short Term Borrowings	(279,026)	39,328		(239,698)
PFI Liabilities	(132,764)	18,374	16,024	(98,366)
Net cash outflow from financing activities	**(809,576)**	**13,225**	**16,024**	**(780,327)**

	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)	17,937	(13,052)	(132,764)
Net cash outflow from financing activities	**(748,146)**	**(48,378)**	**(13,052)**	**(809,576)**

Note 42: Prior period adjustments

This note summarises the adjustments made to the 2018/19 comparators in these accounts from the figures in the 2018/19 Statement of Accounts for:

a) The comprehensive income and expenditure statement changes in structure for Highways, Transport and Environment, Resources, and Transformation, Partnership and Prosperity departments. It also reflects the summarising by department on the statement.

2018/19 Original format (subtotals from CIES):

	Expenditure	Income	Net Expenditure
	£000	£000	£000
Delegated Schools	331,814	(331,672)	142
Children, Families, Lifelong Learning and Culture	555,906	(274,799)	281,107
Health, Wellbeing & Adult Social Care	517,750	(153,878)	363,872
Highways, Transport & Environment	224,633	(23,960)	200,673
Customer, Digital & Transformation	125,980	(11,303)	114,677
Finance, Law & Governance	12,619	(2,868)	9,751
Central Income & Expenditure	18,881	3,641	22,522
Cost of Services - Continuing Operations	**1,787,583**	**(794,839)**	**992,744**

Restated in revised 2019/20 management structure:

	Expenditure	Income	Net Expenditure
	£000	£000	£000
Children, Families, Learning & Culture	555,906	(274,799)	281,107
Delegated Schools	331,814	(331,672)	142
Adult Social Care	487,263	(123,448)	363,815
Public Health	30,487	(30,430)	57
Community Protection	59,289	(2,715)	56,574
Transport & Environment	164,506	(21,205)	143,301
Resources	123,236	(12,729)	110,507
Transformation, Partnership & Prosperity	27,041	(1,492)	25,549
Central Income & Expenditure	8,041	3,651	11,692
Cost of Services - Continuing Operations	**1,787,583**	**(794,839)**	**992,744**

These changes are also reflected in Note 1 and Note 1a, Expenditure Funding Analysis, and in the Group Accounts.

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, Hendeca Ltd (formerly 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 trading as at 31 March 2020. 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 2019 Gross Expenditure £000	Income £000	Net Expenditure £000	Gross Expenditure	Year ended 31 March 2020 Gross Expenditure £000	Income £000	Net Expenditure £000
555,906	(274,799)	281,107	Children, Families, Learning & Culture	526,871	(252,612)	274,259
331,814	(331,672)	142	Delegated Schools	376,005	(361,295)	14,710
484,890	(125,047)	359,843	Adult Social Care	503,217	(131,577)	371,640
30,487	(30,430)	57	Public Health	30,795	(809)	29,986
59,304	(3,840)	55,464	Community Protection	46,908	(7,209)	39,699
164,506	(19,764)	144,742	Transport & Environment	209,041	(21,553)	187,488
124,155	(11,328)	112,827	Resources	146,907	(17,937)	128,970
27,041	(1,489)	25,552	Transformation, Partnership & Prosperity	45,270	(14,825)	30,445
8,041	3,650	11,691	Central Income & Expenditure	1,474	(1,123)	351
1,786,144	**(794,719)**	**991,425**	**Total services' revenue expenditure**	**1,886,488**	**(808,940)**	**1,077,548**
35,829	(25,711)	**10,118**	Other Operating Income & Expenditure	21,809	(23,526)	**(1,717)**
261,549	(95,452)	**166,097**	Financing & Investment Income & Expenditure	191,257	(75,901)	**115,356**
	(891,657)	**(891,657)**	Local Taxation		(821,853)	**(821,853)**
	(180,143)	**(180,143)**	General grants & contributions		(165,134)	**(165,134)**
2,083,522	**(1,987,682)**	**95,840**	**Deficit on Provision of Services**	**2,099,554**	**(1,895,354)**	**204,200**
		708	Tax expense of subsidiaries			**1,137**
		96,548	**Group deficit**			**205,337**
		(64,655)	(Surplus) or deficit on revaluation of non-current assets			**(48,285)**
		120,173	Remeasurement of the net defined benefit liability			**(249,703)**
		55,518	**Other Comprehensive Income & Expenditure**			**(297,988)**
		152,066	**Total Comprehensive Income & Expenditure**			**(92,651)**

Group Movement in Reserves Statement

2019/20	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	SCC Share of Subsidiary Reserves £000	Total Group Reserves £000
Balance at 31 March 2019	**(212,973)**	**(46,858)**	**(110,610)**	**(370,441)**	**772,933**	**402,492**	**29,183**	**431,675**
Adjustment to Opening Balance							851	851
Revised Opening Balance	**(212,973)**	**(46,858)**	**(110,610)**	**(370,441)**	**772,933**	**402,492**	**30,034**	**432,526**
(Surplus) or deficit on provision of services	173,244			173,244		173,244	32,093	205,337
Other comprehensive income & expenditure					(298,201)	(298,201)	213	(297,988)
Total comprehensive income & expenditure	**173,244**			**173,244**	**(298,201)**	**(124,957)**	**32,306**	**(92,651)**
Adjustments between accounting basis & funding basis under regulations	(227,627)	1,888	17,532	(208,207)	208,207			
Increase/decrease in year	**(54,383)**	**1,888**	**17,532**	**(34,963)**	**(89,994)**	**(124,957)**	**32,306**	**(92,651)**
Balance at 31 March 2020	**(267,356)**	**(44,970)**	**(93,078)**	**(405,404)**	**682,939**	**277,535**	**62,340**	**339,875**

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	SCC Share of Subsidiary Reserves £000	Total Group Reserves £000
Balance at 31 March 2018	**(161,878)**	**(92,504)**	**(77,137)**	**(331,519)**	**596,268**	**264,749**	**12,367**	**277,116**
(Surplus) or deficit on provision of services	82,225			82,225		**82,225**	16,816	**99,041**
Other comprehensive income & expenditure					55,518	**55,518**		**55,518**
Total comprehensive income & expenditure	**82,225**	**0**	**0**	**82,225**	**55,518**	**137,743**	**16,816**	**154,559**
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)**	**(38,922)**	**176,665**	**137,743**	**16,816**	**154,559**
Balance at 31 March 2019	**(212,973)**	**(46,858)**	**(110,610)**	**(370,441)**	**772,933**	**402,492**	**29,183**	**431,675**

Group Balance Sheet

As at 31.03.2019 £000		Note:	As at 31.03.2020 £000
1,750,856	Property, plant & equipment		1,729,569
1,024	Heritage assets		1,024
440,225	Investment property	5	401,739
6,727	Intangible assets		7,278
401	Long term investments	6	263
683	Long term debtors	6	301
2,199,916	**Long term assets**		**2,140,174**
	Short Term:		
268	Intangible assets		
400	Assets held for sale		2,515
1,165	Inventories		1,296
208,782	Short term debtors		138,348
61,480	Cash & cash equivalents		60,721
272,095	**Current Assets**		**202,880**
	Short Term:		
(279,026)	Borrowing		(239,698)
(233,331)	Creditors		(222,937)
(5,974)	Provisions		(735)
(11)	Revenue grants receipts in advance		(176)
(105)	Capital grants receipts in advance		(34)
(16,938)	Other current liabilities		(17,084)
(535,385)	**Current liabilities**		**(480,664)**
(40,862)	Provisions		(20,777)
(397,786)	Long term borrowing		(442,266)
(1,929,653)	Other long term liabilities		(1,739,222)
(2,368,301)	**Long term liabilities**		**(2,202,265)**
(431,675)	**Net assets/liabilities(-)**		**(339,875)**
(341,258)	Usable reserves		(343,064)
772,933	Unusable reserves		682,939
431,675	**Total Reserves**		**339,875**

Group Cash Flow Statement

2018/19 £000		**2019/20 £000**
96,548	Net surplus (-) / deficit on the provision of services	205,337
(109,584)	Adjustments to net surplus / deficit on the provision of services for non-cash movements	(313,426)
(28,936)	Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities	(29,485)
(41,972)	**Net cash inflows from operating activities**	**(137,574)**
74,871	Purchase of property, plant & equipment, and investment property	143,154
(9,021)	Proceeds from the sale of property, plant & equipment	(14,704)
5,014	Payments for short-term and long-term investments	(16)
0	Receipts of short-term and long-term investments	
14,026	Other receipts & expenditure from investing activities	(3,326)
84,890	**Net cash outflows from investing activities**	**125,108**
17,938	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	18,374
750,502	Payments for short-term and long-term borrowing	954,961
(816,817)	Receipts of short-term and long-term borrowing	(960,110)
(48,377)	**Net cash inflows from financing activities**	**13,225**
(5,459)	**Net increase (-) / decrease in cash & cash equivalents**	759
(56,021)	Cash & cash equivalents at the beginning of the reporting period	(61,480)
(61,480)	Cash & cash equivalents at the end of the reporting period	**(60,721)**

The cash flows from operating activities in 2019/20 include interest received of £15.3m (2018/19, £13.0m) and interest paid of £32.7m (2018/19, £31.7 m).

Note 1: General

The Group Accounts should be read in conjunction with the Surrey County Council single entity accounts. 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 Hendeca (formerly 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.

- Hendeca Group 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 31/03/2020 only the holding company and Halsey Garton Property Investments Ltd were 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 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. 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:

Hendeca Group 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.

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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 2019/20 there was no material items of Income and Expenditure other than those disclosed in Surrey County Council's accounts.

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 2020, 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:

2018/19		**2019/20**
£000		**£000**
20,986	Rental income from investment property	**25,142**
(9,709)	Direct operating expenses arising from investment property	**(1,599)**
11,277	**Net gain**	**23,543**
	Gain on sale of investment property	**1,050**
1,858	Net (loss)/gain on fair value adjustments	**(38,057)**
13,135	**Income & expenditure in relation to investment properties**	**(13,464)**

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

2018/19		**2019/20**	Office	Indust-rial	Retail	Other	Fair Value Hierarchy
£000		**£000**	£000	£000	£000	£000	
319,425	Balance 01/04/2018	**440,225**	166,900	56,350	182,175	34,800	Level 2
97,195	Purchases	**882**	882				
21,748	Reclassifications	**189**	112			77	
	Disposal	**(1,500)**	(1,500)				
1,857	Net loss from fair value adjustments	**(38,057)**	(4,182)	1,450	(29,775)	(5,550)	
440,225	**Balance at 31/03/19**	**401,739**	**162,212**	**57,800**	**152,400**	**29,327**	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 2019**	**31 March 2020**
Fair value through profit or loss		
Long Term Investments		
Cash	30,720	**32,200**
Total	**30,720**	**32,200**
	£000	**£000**
Amortised Cost		
Long Term Investments	401	263
Long Term Debtors	575	301
Short Term Debtors	125,333	94,585
Cash	30,760	28,521
Total	**157,069**	**123,670**
Total Financial Assets	**187,789**	**155,870**
Non-Financial Assets	**2,284,222**	**2,187,184**
Total	**2,472,011**	**2,343,054**

Note 7: External audit costs

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

2018/19 £000		**2019/20** £000
	Fees payable to the external auditors with regards to external audit services carried out by the appointed auditor for the year	
126	Grant Thornton	140
24	UHY Hacker Young	47
8	Fees payable to the external auditors for the certification of grant claims and returns for the year	4
0	CFO Insights Subscription Fee	13
158	Total	**204**

ANNUAL GOVERNANCE STATEMENT 2019/20

Surrey County Council (the 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 and appropriate controls and that public money is safeguarded, managed and accounted for. Despite having achieved a significant amount over the last 18-24 months, especially with regards to stabilising the finances for the medium-term, we recognise we are still on a journey of change and transformation. There is still much more to do.

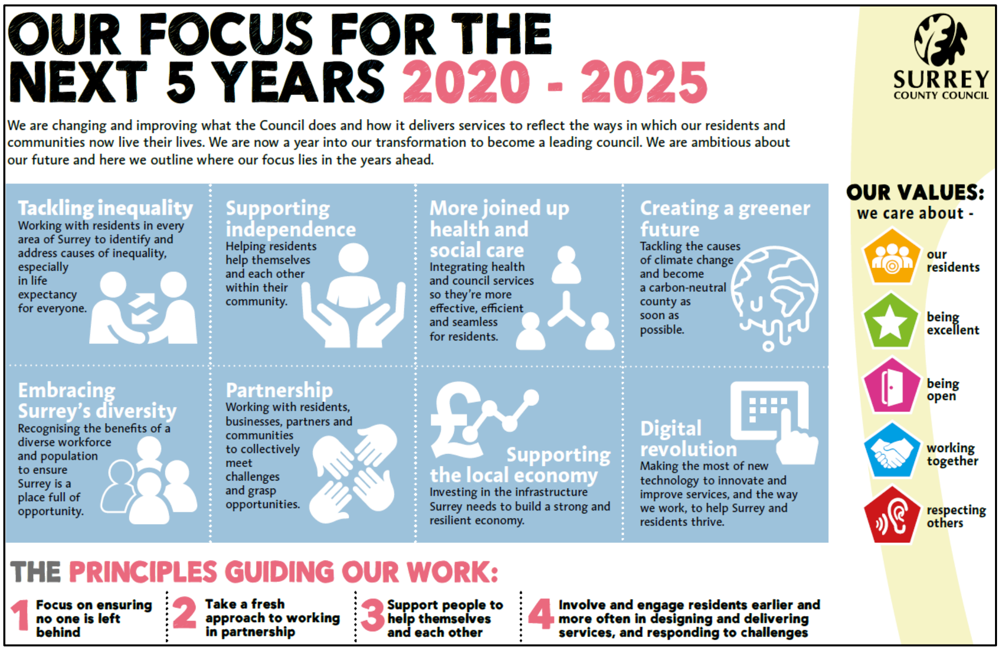
Since March 2020, the COVID-19 pandemic has had a significant impact on all council services, partners and operations. This has cut across all aspects of council governance described in this Annual Governance Statement (the Statement), therefore significant changes to a number of key governance systems were introduced in March 2020 to accommodate this new environment.

The first section of this Statement sets out the council's governance arrangements during 2019/20 and the second section details the changes implemented in response to the pandemic and the associated emerging risks for 2020/21.

2019/20 Context

We have made significant steps forward in stabilising our finances and simultaneously improving service performance over the last 18 months. The benefits are now emerging, having built greater resilience into our 2020/21 budget and medium-term financial position. Our clear strategic focus has helped us take decisions to transform the organisation at scale and pace to secure better outcomes for residents and develop a council that is fit for the future.

The current context of an uncertain and rapidly changing environment has informed the refreshed Organisational Strategy for 2020 – 2025. The Organisational Strategy puts us in a strong position to look ahead to the next five years and positions us well to deliver our ambitious agenda through the next phase of our transformation journey.



The Council's Transformation Programme

Over the last year we have made good progress in delivering the far reaching and ambitious transformation programme, agreed by County Council and launched in November 2018, alongside a refresh of our organisational priorities. The transformation programme was developed to address immediate financial and performance challenges and to commence the fundamental reform of the organisation to ensure we deliver the best possible outcomes for our residents. At the end of 2019/20, the programme achieved £39m (75%) of the £52m efficiency target which formed part of the total £82m required to balance the budget. The programme has been co-ordinated and tracked through the Transformation Support Unit and the relevant Select Committees have reviewed specific projects in order to help shape the transformational agenda and scrutinise progress.

Different approaches have now been applied in key service areas and we are seeing the positive impact this can have for residents. For example, the new strength-based practice approach in Adult Social Care and the Effective Family Resilience Model in Children's Services.

In October 2019, the Cabinet agreed a refreshed transformation programme, alongside a revised Organisational Strategy and the 2019/20 Budget and Medium-Term Financial Strategy. The refocussed transformation programme has moved towards a focus on outcomes, designed around residents' needs. It also deepens our joint work with the health system through collaborative work with Surrey Heartlands, delivering a single set of shared transformation goals which are aligned to the Health and Wellbeing Strategy.

Systems and Process Transformation

The Digital Business & Insights (DB&I) Programme has been put in place to deliver a more modern, intuitive, and efficient back office. This will enable the council to achieve its ambitions to drive service transformation, improve management decision making, deliver sharper insight, and move to a more flexible and mobile workforce. The programme is now at an advanced stage of the procurement process, which has moved at pace during 2019/20.

The Executive Director of Resources (Section151 and Senior Responsible Officer for the Programme) chairs the Strategic Programme Board comprising corporate directors, directorate leadership and programme delivery leads, which sponsors the transformation, makes strategic decisions, allocates resources and ensures the effective management of escalated issues and risks. A three-tier governance framework will be in place for the implementation stage. This will ensure that programme business is conducted effectively at the appropriate level in the framework and involve the right stakeholders. This will facilitate timely decision making and efficient and productive delivery. Transformation programmes of this calibre have supported the organisation in achieving its ambition of financial sustainability over the medium-term.

Financial Management Transformation – Revenue and Capital

This financial year has seen an ambitious step change in the financial management and resilience of the council. Although we began the year in a significant projected overspend (£10.3m), we are proud to say that we have ended the year with a small surplus. This is due to the tireless work of our services in continuing to deliver transformation activity to ensure we have a grip on our finances, whilst also supporting our residents' needs.

This time last year, the budget set for 2019/20 was focused on achieving two important benchmarks: that it was realistic and achievable, and that it avoided the use of general fund reserves to make it balance. This followed an in-year recovery plan that avoided the planned use of reserves during

2018/19 and ended a three-year period of using reserves and one-off funding in order to balance the budget.

We have successfully achieved a balanced budget for 2019/20 without the use of reserves and the 2020/21 Budget has been set without such a requirement. The COVID-19 pandemic has recently added financial pressure to the council in delivering its services and we are constantly refining our costs, income loss and risk projections. In 2019/20 we received £25.2m from Central Government as a contribution to the cost of the pandemic and have also received an additional £21.8m (a total of £47m). A proportion of this has been allocated to costs and income loss (£0.9m) experienced in 2019/20 and the balance has been carried forward to 2020/21.

Over the last 12 months significant strides have been made towards improving the quality of our performance to secure better outcomes for our residents, supported by robust finances. The Budget for 2020/21 builds on this foundation and moves us closer towards the overall objective of financial sustainability.

The council's External Auditors' 2018/19 report on value for money, published in September 2019, gave a qualified conclusion: *'Because of the significance of the matters we identified in our work, we were not satisfied that the council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.'* This was due to issues in Children's Services regarding performance management and development of the workforce, and the council's continuing financial challenges and monitoring of savings targets.

The Finance Improvement Programme was established in September 2018 and phase 1 has tackled all aspects of improving financial management:

- Critically evaluating the skills and behaviours needed of a modern finance function (for both the Finance team and the business)
- Implementing a Business Partner culture
- Designing and appointing a new Finance Leadership Team
- Restructuring the department from top to bottom and recruiting people with the desired behaviours
- Co-designing a Partnership Agreement with services
- Making improvements to processes and
- Designing a Finance Academy to support the Finance team and services, as well as elected members.

The Programme's success has been validated by the fact that the Finance team have been shortlisted for the Public Finance Team of the Year award 2020. Phase 1 has been formally closed down with affirmation from Cabinet and we will swiftly move onto phase 2.

Whilst we have come a long way, we still have much more to do to achieve the financial resilience and sustainability ambitions we have identified. We are currently working through a reset of the 2020/21 budget in light of COVID-19 and the additional Central Government funding, to ensure we can continue to deliver a balanced budget despite the pressures being felt, by refining the costs, income loss, risks and opportunities estimates. In conjunction, we are revisiting and refining the delivery of efficiency targets for 2020/21, including those associated with the transformation programme.

To improve the efficiency and effectiveness of the administration of our financial affairs, we have updated our Financial Regulations. They include our new capital governance arrangements, clearer guidance on approval for reserves and revenue virements and the new finance operating model (the Partnership Agreement for Excellent Financial Management and adoption and embedding of a Business Partnering approach).

We have also redesigned our capital budgeting, monitoring and approvals processes to allow for faster reporting and decision-making, with the appropriate level of accountability. Capital projects are subject to a rigorous governance process to ensure they are aligned with the council's priorities, represent value for money and are capable of being delivered within expected timescales.

Capital Strategy Groups for Infrastructure, Property and IT develop projects throughout the budget setting process. These are scrutinised and approved by a Capital Programme Panel; a group of officers from across the organisation, including the council's Section 151 Officer (or Deputy) and senior service representatives. Projects approved by the Capital Programme Panel are then included in the budget for approval by Cabinet and County Council. These new processes have required a signficant shift in the culture and decision-making processes of the council over the past year.

Organisational Culture

Much work has been undertaken during 2019/20 in support of shifting our organisational culture. This has included a root and branch review of pay and reward, leading to the introduction of a new pay model and associated terms and conditions, a fundamentally different approach to performance reviews and sponsored leadership development activity, as well as targeted development for priority areas within the council in support of service specific transformation ambitions.

The cultural diagnostic work undertaken during 2018/19 led this year to the development of new corporate values and "working principles" designed to prompt the shift in behaviour needed to create a culture that is, amongst other things, open and inviting. This cultural shift is vital in supporting our transition to agile working, where our vision is for a workforce who can work anytime, anywhere, with the adoption of technology and working practices that will enable us to be an increasingly modern, flexible and responsive organisation.

Leadership has remained a vital element in the growth of our people over the last year, supported by an increased focus on supporting employees and managers to have effective performance/career conversations. We have made significant progress in our shift to more digital ways of Learning and Development delivery to ensure our people can quickly get to the content they need to support them in their roles. This has included our frontline staff undertaking the statutory training necessary for compliance with professional standards.

Another key area of cultural focus has been diversity and inclusion. This saw the launch of our #Talking Diversity Tour which ran during November-December 2019, reaching around 250 staff across the county, including targeted sessions with young employees, women, BAME and LGBTQ+ staff. In parallel a survey was undertaken, attracting over 150 responses. Our aim is to create a working environment that celebrates and embraces difference, enables a sense of belonging and provides equal opportunity for all. One where the residents we serve feel respected, listened to and valued as members of our community, both of which support a key objective of the Community Vision 2030: "no-one left behind".

Looking forward, the council's People Strategy has been refreshed to align with the refreshed Organisational Strategy. The following areas of focus reflect our priorities for 2020/21 and beyond:

* Strong and nurturing leadership	* Clarity of purpose	* Culture of innovation
* Diversity and inclusion	* Collaboration	* Agile workforce
* Skills for the future	* Roles that can flex	* A compelling employer brand

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, has been going through a process of fundamental 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 fully effective. Services for children and families are being transformed at pace with a renewed focus on quality and consistency of practice.

As part of the first stage of the improvement programme we have:

- Completed a top to bottom reorganisation of the structure with the new model for all services in place from April 2019;
- Implemented the new front door arrangements and our Single Point of Access, ensuring the council has preventative and early help services in place to assist at the earliest possible moment in a child's life;
- Implemented the Family Safeguarding Model first pioneered in Hertfordshire, which will improve the quality of work we do with families, and outcomes for children and parents;
- Set up a new Quality Assurance division to enable us to monitor and report on our practice and deliver consistent, high quality and cost-effective support to children;
- Launched the Surrey Children's Services Academy in January 2019, which provides a learning & development offer for staff meaning we can drive up and maintain professional standards;
- Committed to strengthen our relationship with foster carers, adopters and other carers and significantly increased our recruitment of foster carers;
- Transitioned to the new Safeguarding Partnership arrangements in Surrey designed to ensure strong and effective partnership working in child protection and safeguarding practice across the county and promote the continuous improvement of these services; and
- Increased capital investment in Looked After Children (LAC) through Community Children's Homes, developing specialist children's placements for children with complex needs, contact family centres and Care Leaver accommodation.

The Children's, Families and Lifelong Learning directorate has made significant progress on its county-wide transformation programme in the last 12 months. In order to continue this progress and deliver the efficiencies within the 2020/21 budget and beyond these changes need to be embedded. Hence we are working in collaboration with both internal and external partners to ensure transformation programmes are deliverable and effective.

Health

The health and care system in Surrey is complex, with a complicated governance architecture across multiple NHS partnership boundaries. There are a large number of meetings needing attendance and servicing which have contributed to making working towards closer integration between the County and the NHS challenging. During 2019/20 the council has continued to progress work with NHS partners to integrate health and social care. Commissioning arrangements have evolved with a Surrey-wide commissioning committees-in-common forum established.

A new ten-year Surrey Health and Wellbeing Strategy has also been launched – the product of unprecedented collaboration between the NHS, the council and wider partners, including the voluntary and community sector and the police. The revised Board membership is 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 "Waste Infrastructure Grant" (PFI credits) over its 25-year term, currently £3m per year, and this amount is 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 continues to monitor progress closely, whilst also assessing available options on the future of the waste contract to allow an informed decision to be made. The current contract is due to expire in 2024 and work has commenced to commission new service arrangements.

Compliance and Risk

The council's financial management arrangements during 2019/20 fully complied with CIPFA's Statement on the Role of the Chief Finance Officer (CIPFA, 2010). The Executive Director of Resources (s151) met his financial responsibilities during the year and ensured financial management arrangements were in place. He reports directly to the Chief Executive and had regular contact with the Leader and key Members, Monitoring Officer, Chief Internal Auditor and other Executive Directors.

During the year, a strategic risk management baseline review was carried out by an independent risk consultant. Their recommendations were both operational and strategic. We are currently in the process of seeking a risk management partner to help us embed this culture in the organisation, through an integrated council-wide approach. The recommendations will form part of the council's overall business planning and performance monitoring framework and will be reported to the Corporate Leadership Team and the Audit & Governance Committee.

The Chief Internal Auditor has provided reasonable assurance that the council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2019 to 31 March 2020. Significant effort continues to be made by the organisation to strengthen governance, risk management and internal control. Additionally, major transformational programmes have started to deliver their anticipated benefits during the year. The next phase is to turn our focus to the reporting of their delivery and achievement of organisational objectives.

Performance Reporting

The Insight, Analytics and Intelligence team, formed at the end of 2018/19, has implemented a new Business Planning and Performance Framework, providing greater insight and assurance on the authority's ability to achieve 2025 objectives and the impact for our people, projects and programmes for our residents.

The new framework has resulted in the following:

- Implementation of the 2030 Vision for Surrey, supported by an evidence-based dataset of qualitative, quantitative analytics and resident insight.
- Agreed delivery plans for each service, aligned to the strategic outcomes in the organisational strategy.

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- Focused performance conversations with senior and operational leads, challenging progress against a range of key performance indicators
- A framework focused on People, Place, Organisation, Transformation, Risk, Finance and Service Improvement.
- Improved use of Tableau, a data visualisation tool, utilising data automation techniques to provide timely & accurate data and reduce the burden of producing manual performance reports.

The response to the COVID-19 outbreak has seen an improvement in performance reporting and data quality. The organisation has been able to respond quickly; providing data to support timely decision making ensuring services are in place to support Surrey residents.

The Council's response to the COVID-19 pandemic in March 2020

Robust governance arrangements were put in place at the beginning of the pandemic in March 2020, with clear reporting and escalation to ensure effective and swift decision making in response to COVID-19 activity. This included:

- A Strategic Coordination Group to ensure coordination across partners to support the response;
- The setup of a number of Strategic Coordination Group cells to co-ordinate activity to address the impact of COVID-19 on individuals, communities and services;
- A SCC resources co-ordination and mobilisation hub that acted as a single point of access for resources and reporting;
- A COVID-19 Operational Group that identified priority needs linked to risks, solved any blockers and escalated specific resources gaps; and
- The Corporate Leadership Team that provided strategic oversight on resource management.

The Surrey Local Resilience Forum (SLRF) is coordinating the county-wide response to COVID-19 and incorporates all partners across Surrey. SLRF is led by Surrey County Council, Surrey Police and Surrey Fire and Rescue Service working closely with District and Borough councils and all health partners. They also work alongside many community, voluntary sector and faith groups who co-ordinate projects at a local level.

A process for capturing, recording and reporting COVD-19 costs and risks was put in place by Finance, Procurement and Legal to ensure a robust process with a clear audit trail. Costs and risks were updated and reviewed regularly by the COVID-19 operational group and the Corporate Leadership Team.

Reporting of Finances during COVID-19

Over the course of the pandemic we have been providing regular updates of our finances to MHCLG and internally to the Corporate Leadership Team and Cabinet. We have filed two returns with MHCLG with the next return imminent. We continue to include the COVID-19 related financial information with respect to costs, income loss and risks through our routine financial reporting. We have done a significant amount of work to support our providers, businesses and the VCF sector over this period by evaluating how we can ensure we facilitate them to be financially viable.

Decision Making

The Leader and Council amended their schemes of delegation to ensure transparent decision making could continue in the possible absence of formal council meetings. The council put in place arrangements to enable remote committee meetings to take place so that Members could continue their decision-making roles. Any decisions that were taken under delegated authority have been published on the council's website, reviewed by the Audit and Governance Committee and reported at the monthly Cabinet meeting.

HR & Organisational Development

The COVID-19 pandemic inevitably brought a number of employment related challenges. The council responded swiftly to the Government's announcement that as many people as possible should work from home. The vast majority of our non-frontline staff were doing this ahead of lockdown, supported by the technology and, where necessary, office equipment to enable them to undertake their role. The rapidly changing circumstances of the pandemic resulted in the need to make very quick decisions in response, e.g. the redeployment within days of over 100 staff to support the Local Resilience Forum alongside, through delegated decision making arrangements agreed by Full Council in early March and the temporary reinstatement of terms and conditions dissolved through previous pay reviews.

These fundamental changes to working practices necessitated specific support alongside the usual Organisational Development offer to ensure the council did all it could to protect the welfare of our workforce: for managers who found themselves leading remote teams; for staff suffering anxiety and isolation; for those people experiencing bereavement and in particular, for our frontline staff facing unprecedented challenges. This support was developed and promoted at pace and has been adapted throughout the various stages of the pandemic.

Culturally, our aim of being "open and inviting" has been put to the test through the pandemic; partnership working has accelerated immeasurably through working towards common goals, one example of which has been the creation, in an extraordinarily short timescale, of the new NHS Mary Seacole Headley Court community hospital; the product of truly excellent multi-agency working.

Internal Audit

At the outset of the COVID-19 outbreak Internal Audit suspended the majority of its planned activities in order to support the organisation in different ways. This included providing advice and assurance where processes and controls were changed to facilitate faster and different responses to pressures on services and providing assurance around the robustness of operating practices in key activities such as business continuity arrangements and COVID-19 response protocols.

A Recovery Coordinating Group (RCG) has been put in place to oversee the steps that need to be taken to resume the County's normal operating procedures where appropriate and ensure essential services are in place as the lockdown measures are eased. In parallel, the RCG has established a number of Sub-Groups (e.g. health and social care, economy and retail, travel and transport, etc.) to work on and coordinate the detailed recovery activity that needs to be undertaken to restore basic services.

The council is currently capturing lessons learned during the pandemic and identifying areas of focus for the future. This includes feedback from staff surveys to capture the experience of staff, qualitative feedback from redeployees, and quantitative analysis of relevant workforce data (for example numbers redeployed, where staff were redeployed to and sickness levels).

2018/19 Annual Governance Statement Action Plan – Follow Up

Issue identified during 2018/19	Action taken during 2019/20
Financial Sustainability Significant level of risk in the 2019/20 budget, including challenging savings targets.	The council set a balanced budget for 2019/20 without the use of Reserves. Our outturn position reported a small surplus (c£0.2m) and has enabled us to build General Fund Reserves and the Contingency for 2020/21 to set us in good stead for the medium-term. Of the £82m Savings Programme for 2019/20 £72m (88%) of savings were delivered, the balance of £10m was substituted by one-off alternative savings. The 2020/21 budget includes efficiency targets of £38m. We have already

Issue identified during 2018/19	Action taken during 2019/20
	commenced planning for the 2021/22 -2025/26 Budget and MTFS, including a review of the efficiency programme
Organisational Culture Ensure the organisational culture is aligned to our strategy.	We have developed new corporate values and "working principles" designed to prompt the desired shift in behaviour.
Children's Services Major change in response to two consecutive Ofsted ratings of 'Inadequate.'	We have continued to deliver against the Children's Improvement Plan with regular progress reports to Cabinet and the Ofsted Priority Action Board.
Decision Making Ensure transparency and strong engagement on key issues and decisions.	The council's scrutiny function has been reviewed and a new model consisting of four select committees and an informal Select Committee Chairmen's Group was approved at the May 2019 County Council meeting and implemented. The Audit and Governance Committee was charged with reviewing the effectiveness of the new arrangements and has undertaken some work on this but due to COVID-19 this work will now continue into 2020/21. A report including updates to the council's Scheme of Delegation to streamline decision making was taken to the Leader's decision-making meeting on 3rd September and then to County Council on 8th October for ratification. A review of the processes around Cabinet has been undertaken to ensure that teams are working effectively together and that processes are focussed, efficient and agile. The decision-making processes were found to be fit for purpose and actions arising from the review include developing improved ways of working across the organisation to support the democratic processes and work is underway to implement this.
Performance Reporting Lack of council performance monitoring.	A new Business Planning and Performance Framework has been implemented, providing greater insight and assurance on the authority's ability to achieve its vision and objectives.
Partnerships Progressing the Vision for Surrey ambition of closer working with our partners	We have: - further developed our partnership with health, through Surrey Heartlands, for example creating an integrated transformation unit to drive and coordinate joint programmes; - brought the Health and Well-being Board and Community Safety Partnership together to ensure closer alignment of their work and simplified strategic governance; - established a Growth Board to bring together a range of partners with an economic focus;

Issue identified during 2018/19	Action taken during 2019/20
	- worked closely with and supported the Community Foundation for Surrey, assisting many charitable, voluntary and faith bodies; and - worked with District and Borough Councils on a range of services and issues, including developing proposals for enhanced locality partnerships.
Land & Assets Improve capacity and capability of property services in line with recommendations from external review.	A new leadership team has been put in place including recruitment of key delivery roles and new senior roles linked to services. An Improvement Programme Board has been set up as part of the transformation programme, including scope and full Business Case. A condition and compliance assessment of the estate has been completed.
Corporate Resource Capacity Recognise the need for more/improved corporate resources to support the organisation through period of significant change	All services within the Resources directorate have undertaken improvement projects during 2019/20, including service restructures and the start of implementing a business partnering approach.
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.	The Agile Workforce transformation project has been working with teams across the organisation to establish an understanding of agile working and identify good practice. The technology used by council staff is being upgraded to more modern computer devices, with the Windows 10 operating system rollout underway.

2020/21 Improvement Plan

Issue identified during 2019/20	Action being taken during 2020/21
COVID-19 Recovery Programme	A 'Recovery, Reset and Reform' programme of work is being initiated to ensure: • The council is able to function effectively and fulfil its duty of care to residents and staff throughout the pandemic; • There is a smooth transition from the LRF structures to existing partnership arrangements and the county council's own governance processes to allow the major incident to close when appropriate;

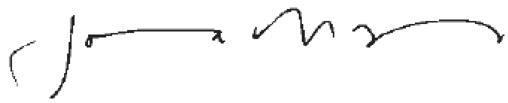
Issue identified during 2019/20	Action being taken during 2020/21
	• The impacts of COVID-19 are accurately reflected in the current budget and activities adjusted in year to maintain financial sustainability (*with a Cabinet/Council decision on this in September if required*); and • The council can continue to be ambitious in its vision for the county and has clear strategies in place that still deliver on the overarching aims of Vision 2030 with plans adjusted to mitigate the long-term impact of COVID-19 and take advantage of any opportunities presented to accelerate transformation.
Agile workforce Changing our culture and the way we organise ourselves as a council, as well as the practical aspect such as technology.	Rethinking the way we work through a culture of empowerment where staff determine where, when and how they work to be most effective and deliver the best performance and outcomes, underpinned by our working principles.
Children's Services Greater focus on the impact of the Children's Improvement Programme.	Carrying out significant quality assurance activity including monthly case audits, themed auditing and focused mock inspections. Alongside the ongoing business as usual activities, the Children's directorate priorities for 2020/21 focus on: • Response to the COVID-19 Pandemic • Starting well: first 1000 days • Children's Services Improvement • SEND and additional needs transformation • Emotional Health and Wellbeing • Libraries and Cultural Services transformation • Enabling our people, utilising our technology and embedding equality and diversity for all.
Performance Reporting and Risk Management Embedding the performance management and risk management frameworks.	Analysing and understanding the impact of COVID-19 across Surrey, revising the 2030 vision, organisational strategy and performance reporting framework and risk impacts. Engaging a risk management partner to support the implementation of the baseline review recommendations and embed a risk management culture into the everyday workings of the council.
Land & Assets Improving the effectiveness, efficiency and commercialisation of the Land and Property function to ensure it supports service delivery to residents and organisational objectives for the council.	Implementing the Improvement Plan including: **Business Performance**: Updating Risk, Audit, Governance and business reporting including accurate forecasting. **Systems, Data & Processes**: Embedding quality and compliance processes and new systems to provide efficient data, workflows and management information. **People, Communication and Culture**: Strengthening skills, capabilities and investment in people and ensuring clear

Issue identified during 2019/20	Action being taken during 2020/21
	accountabilities through a partnership approach to delivery aligned to the corporate strategy and business needs.
Governance Improvements to the council's governance including the Member Code of Conduct and Governance Panel.	The Audit and Governance committee will consider and recommend to Council the adoption of a new Code of Conduct for councillors appropriate for the council further to the publication of the new model code by the Local Government Association. The officer Governance Panel will complete a review and action plan for all strands of council governance in adherence with the CIPFA code of good governance to fully inform the improvement of governance systems across the council and contribute to the Annual Governance Statement assurance in 2021.
Digital Business and Insights Programme to enable transformative process improvements To facilitate the transformation of our core processes through the replacement of the existing SAP corporate system	This programme is nearing completion of a procurement process to replace the existing SAP corporate system, which manages the council's back office finance, procurement, HR & payroll processes. This transformation programme is now moving towards its implementation phase, which will enable the council to achieve its ambitions to transform our core processes in Finance, HR and Procurement. This will improve reporting with more insightful information to facilitate management decision making and fully enable a flexible and mobile workforce.
Pensions Administration Improvement Programme	This function has long suffered from many issues across people, processes and systems. Despite much effort from many over the last few years, it has not been able to progress to the level required to deliver the best practice service we aspire to. As a result, the leadership, governance and ways of working of this function have been redesigned and a new, streamlined programme will be set in train for 2020/21 for delivery over the next 12-24 months.

Tim Oliver

Leader of the Council

July 2020



Joanna Killian

Chief Executive

July 2020

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 central 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 38 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 £51m.

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.

2018/19 £000	Ref: Note	Firefighters' pension fund account	2019/20 £000
		Contributions Receivable:	
(2,813)	1	Contributions receivable from employer (normal)	**(5,139)**
(2,277)	1	Contributions receivable from employees	**(2,339)**
	3	Individual transfers in from other schemes	
(5,090)			**(7,478)**
		Benefits payable	
13,297	2	Pensions	**14,081**
2,160	2	Commutations and lump sum retirement benefits	**5,005**
	2	Lump sum death benefits	**197**
	3	Individual transfers out to other schemes	
15,457		Total amounts payable	**19,283**
10,367		**Net amount receivable for the year before top-up grant**	**11,805**
(8,350)	4	Top-up grant received from DCLG	**(7,096)**
(2,017)	4	Top-up grant still owing from DCLG	**(4,709)**
(10,367)		**Net amount payable / receivable for the year**	**11,805**

Net Asset Statement

31 March 2019 £000		31 March 2020 £000
	Current assets:	
2,017	Pension top-up grant receivable from Central Government	**4,709**
2,017		**4,709**
	Current liabilities:	
(2,017)	Cash overdrawn	**(4,709)**
(2,017)		**(4,709)**

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 £11.8m in 2019/20 (£10.4m in 2018/19) as contributions were insufficient to meet the cost of pension payments due for the year. £7.1m was received in year leaving an outstanding balance of £4.7m due from government (£2.0m 2018/19).

SURREY PENSION FUND ACCOUNTS 2019/2020

Surrey Pension Fund - Fund account

2018/19 £000		Note	2019/20 £000
	Contributions and benefits		
176,776	Contributions receivable	7	**186,625**
14,954	Transfers in	8	**11,082**
191,730			**197,707**
(149,832)	Benefits payable	9	**(161,643)**
(10,946)	Payments to and on account of leavers	10	**(15,339)**
160,778			**176,982**
30,952	**Net additions from dealings with members**		**20,725**
(13,641)	Investment and governance expenses	14	**(12,431)**
(1,829)	Administration expenses		**(2,270)**
(15,470)			**(14,701)**
15,482	**Net additions including fund management expenses**		**6,024**
	Return on investments		
59,055	Investment income	16	**51,320**
(785)	Taxes on income		**(551)**
185,943	Change in market value of investments	17	**(512,885)**
244,213	**Net return on investments**		**(462,116)**
259,695	**Net increase in the fund during the year**		**(456,092)**
	Closing Net Assets of the Scheme		
4,055,883	**At 1 April (Opening)**		**4,315,578**
4,315,578	**At 31 March (Closing)**		**3,859,486**

Surrey Pension Fund - Net asset statement

31 Mar 2019		Note	31 Mar 2020
£000			**£000**
	Investment assets	17	
706,529	Bonds		**661,248**
2,489,806	Equities		**2,090,123**
283,240	Property unit trusts		**280,413**
402,589	Diversified growth		**394,217**
255,964	Private equity		**305,912**
	Derivatives	17c	
1,329	- Foreign exchange contracts		**1,905**
150,680	Cash		**130,996**
	Other short term investments		
3,407	Other investment balances	17b	**3,590**
4,293,544	**Total investment assets**		**3,868,404**
	Investment liabilities		
	Derivatives	17c	
(1,452)	- Foreign exchange contracts		**(40,336)**
(3,445)	Other investment balances	17b	**(2,114)**
	Borrowings		
4,288,647	**Net investment assets**		**3,825,954**
5,450	**Long-term debtors**	12	**3,630**
30,635	**Current assets**	11	**36,277**
(9,154)	**Current liabilities**	13	**(6,375)**
4,315,578	**Net assets of the scheme available to fund benefits at the reporting period end**		**3,859,486**

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.

Border to Coast Pensions Partnership

In the July 2015 Budget, the Chancellor announced the Government's intention to work with the LGPS administering authorities with the goal to transition assets into larger asset pools, increasing buying power, economies of scale amongst other benefits. Border to Coast Pensions Partnership (BCPP) was established in 2018, as a joint partnership between 12 Local Government Pension Schemes, including Surrey Pension Fund.

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 2019 and 31 March 2020 are:

Surrey Pension Fund	**31 Mar 2019**	**31 Mar 2020**
Total Number of Employers	**271**	**310**
Employees in the Scheme		
Surrey County Council	17,151	17,133
Other Employers	17,141	18,325
Total	**34,292**	**35,458**
Pensioners		
Surrey County Council	12,721	13,483
Other Employers	13,208	13,761
Total	**25,929**	**27,244**
Deferred Pensioners		
Surrey County Council	31,342	29,991
Other Employers	18,632	18,621
Total	**49,974**	**48,612**
Total Number of Members	**110,195**	**111,314**

b) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Regulations 2013 'as disclosed in the introduction 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 2019 and new rates

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applied from April 2020. 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

	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		**LGPS 2014 employee contribution rates for 2019/20**	
Pensionable payroll banding	Contribution rate	Pensionable payroll banding	Contribution rate
Up to £13,700	5.5%	Up to £14,400	5.5%
£13,701 to £16,100	5.8%	£14,401 to £22,500	5.8%
£16,101 to £20,800	5.9%	£22,501 to £36,500	6.5%
£20,801 to £34,700	6.5%	£36,501 to £46,200	6.8%
£34,701 to £46,500	6.8%	£46,201 to £64,600	8.5%
£46,501 to £87,100	7.2%	£64,601 to £91,500	9.9%
More than £87,100	7.5%	£91,501 to £107,700	10.5%
		£107,701 to £161,500	11.4%
		More than £161,501	12.5%
Estimated overall LGPS average	6.5%	Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website or the LGPS 2014 scheme website

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2019/20 financial year and its position at the year end at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 2019/20.

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.

In the preparation of accounts, there has been additional market volatility as a result of the global COVID-19 outbreak as at 31 March 2020, also requiring additional assurance being sought from the Fund's external service providers in preparing the accounts, specifically the Fund Custodian and the Fund's Investment Managers.

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 2020 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

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. This has led to the creation of eight asset pools in the UK, and Surrey Pension Fund, along with 11 other funds, is now a partner fund of Border to Coast Pensions Partnership. Each Partner Fund had invested in Class A and B Shares at a cost (transaction price) of £1 and £833,333 respectively. This investment has been valued at cost and will continue to be, as the fair value of these assets cannot be reliably estimated. More information on this can be found in Note 4.

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) Financial Assets

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

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.

An 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 of Class A Shares & B Shares in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2020 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd is intending to trade at a break even position (no/minimal profit or loss) with any values off-set against Partner Fund future costs. The company have now published a set of full year audited accounts and these show the company equity as equal to the 'Called up Share Capital' i.e. Class B Regulated Capital of £10m (shared equally between the twelve partner fund.
- They will always use a cost based methodology.
- The shares will never be traded externally
- As a significant event after the reporting date of 31 March 2020, Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. *The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020* (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020. All shares traded between the two funds, along with the redistribution of shares between all Partner Funds, were traded at cost.

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 2020 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 £538m a +0.5% increase in Salary Increase Rate will increase liabilities by £47m a +0.5% increase in the Discount Rate will increase liabilities by £589m 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. These are usually classified as Level 3 Investments	The total private equity investments in the financial statement are £305.9 million. There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund These investments are not publicly listed and as such there is a degree of estimation involved in the valuation using best available dates of valuation. These are usually classified as Level 3 Investments	The total private equity fund of fund investments are £107.3 million. There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments

COVID-19 Outbreak	Due to considerable market volatility leading into 31 March 2020, there has been additional material uncertainty regarding the Fund's investment valuations, specifically its private equity and pooled property investments. With their nature being illiquid assets, there has not been a direct correlation on the market value of these assets in comparison to public markets, as a result of COVID-19 Property valuers of pooled property funds have indicated that values are likely to fall and they can attach less weight to previous market evidence to inform market opinions. There have been adverse effect on stock markets, growth forecasts and business confidence, which means rental and capital values may change rapidly in the investment property market The above applies similarly to private equity, specifically uncertainty regarding future economic growth forecasts, and business confidence. There is also additional uncertainty of future cash flow forecasts of these private equity assets, resulting in a reduced level of certainty that can be attached to the valuation of these investments.	The effect of this is that the assets held by the pension fund could decrease in value. The Fund will request updated valuations from its fund managers where possible, and will make the necessary amendments to the Accounts, if they are seen to be material

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.

Pension Fund Merger within Border to Coast Pensions Partnership

Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. *The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020* (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020. From 1 April 2020 onwards there will be 11 partner funds within Border to Coast Pensions Partnership

COVID-19

The most significant post balance sheet date event as at 31 March 2020, was the global pandemic of COVID-19. This has contributed to additional uncertainty regarding the Fund's investments and had decreased the Fund's market value from £4.3bn to £3.8bn between February and March 2020. The Fund value had increased back to circa £4.3bn as at 1 September 2020, so only a non-adjusting disclosure note is required.

Note 7: Contributions receivable

By Category:

2018/19		2019/20
£000		£000
38,502	**Total Employees' Contributions**	**39,470**
	Employers' Contributions:	
95,662	Normal Contributions	104,583
	Augmentation Contributions	
42,612	**Employers deficit**	42,572
138,274	**Total Employers' Contributions**	**147,155**
176,776		**186,625**

By Authority:

2018/19		2019/20
£000		£000
80,839	Administering authority	84,191
87,698	Scheduled bodies	93,981
8,239	Admitted bodies	8,453
176,776		**186,625**

The latest actuarial valuation carried out as at 31 March 2019, set contribution rates for fund employers with effect from April 2020. The financial year 2020/2021 is the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

2018/19		2019/20
£000		£000
14,954	Individual transfers in from other schemes	**11,082**
14,954		**11,082**

Note 9: Benefits payable

By category

2018/19 £000		2019/20 £000
126,014	Pensions	134,183
19,571	Commutation and lump sum retirement benefits	23,829
4,146	Lump sum death benefits	3,539
101	Interest on late payment of benefits	92
149,832		**161,643**

By employer

2018/19 £000		2019/20 £000
70,690	Administering Authority	77,586
67,001	Scheduled Bodies	70,730
12,141	Admitted Bodies	13,327
149,832		**161,643**

Note 10: Payments to and on account of leavers

2018/19 £000		2019/20 £000
10,732	Group transfers to other schemes	14,844
217	Refunds of contributions	503
(3)	Payments for members joining state schemes	-8
10,946		**15,339**

Note 11: Current assets

2018/19 £000		2019/20 £000
2,391	Contributions – employees	2,938
10,847	Contributions – employer	8,842
17,397	Sundry debtors	24,497
30,635		**36,277**

Analysis of current assets

2018/19		2019/20
£000		**£000**
2,535	Central government bodies	5,073
23,435	Other local authorities	25,519
4,665	Other entities and individuals	5,685
30,635		**36,277**

Note 12: Long term debtors

2018/19		2019/20
£000		**£000**
5,450	Central government bodies	3,630
5,450		**3,630**

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 2020 is £5.450m but £1.815m was due in 2019/20, leaving a long term debtor of £3.630m.

Note 13: Current liabilities

2018/19		2019/20
£000		**£000**
8,885	Sundry creditors	6,061
269	Benefits payable	314
9,154		**6,375**

Analysis of current liabilities

2018/19		2019/20
£000		£000
1,345	Central government bodies	908
4,424	Other local authorities	3,141
3,385	Other entities and individuals	2,326
9,154		**6,375**

Note 14: Investment and governance expenses

2018/19		2019/20
£000		£000
10,256	Investment management fees	10,427
171	Investment custody fees	85
3,214	Oversight and governance costs	1,919
13,641		**12,431**

The investment management fees includes £612k in respect of transaction costs (2018/19: £569k).

As part of its oversight and governance costs in 2019/20, the fund had also spent £500k in respect of pooling costs as part of Surrey Pension Fund's ongoing transition into the Border to Coast Pensions Partnership (BCPP)

Note 15: External Audit Costs

2018/19		2019/20	
£000		£000	
21	Payable in respect of external audit	31	
0	Payable in respect of IAS 19 Assurance Letters	16	*
21		**47**	

* £7k of these costs relate to 2018/19

Note 16: Investment income

2018/19 £000		2019/20 £000
	Bonds	
	UK	
5,491	Overseas	**5,529**
	Equities	
23,526	UK	**9,264**
13,733	Overseas	**19,286**
11,101	**Property unit trusts**	**13,231**
1,693	**Diversified growth**	**2,166**
2,821	**Private equity**	**1,457**
519	**Interest on cash deposits**	**302**
171	**Other**	**85**
59,055		**51,320**

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2020
	£000	**£000**	**£000**	**£000**	**£000**
Bonds	**706,529**	5,525		(50,806)	**661,248**
Equities	**2,489,806**	1,110,692	(1,088,114)	(422,260)	**2,090,124**
Property unit trusts	**283,240**	64,376	-56,096	(11,108)	**280,412**
Diversified growth	**402,589**	2,607	0	(10,979)	**394,217**
Private equity	**255,964**	64,769	(42,561)	27,740	**305,912**
Derivatives					
- Futures	**0**				**0**
- Forex contracts	**(123)**	73,771	(72,332)	(39,747)	**(38,431)**
	4,138,005	**1,321,740**	**(1,259,103)**	**(507,160)**	**3,693,482**
Cash	**150,680**				**130,996**
Other Short Term Investments					
Other investment balances	**(38)**				**1,476**
Other Fund Movements				-5,725	
	4,288,647			**(512,885)**	**3,825,954**

Note 17a: Reconciliation of movements in investments and derivatives 2018/19

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 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		**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)**
Other Fund movements					20,372	
	4,030,058				**185,943**	**4,288,647**

Note 17b: Analysis of investments

	31 Mar 2019	31 Mar 2020	
Fixed interest securities	**£000s**	**£000s**	
UK public sector & quoted	211,246	216,201	Level 2
Overseas pooled fund	495,283	445,047	Level 1
	706,529	**661,248**	
Equities			
UK quoted	219,113	**174,990**	Level 1
UK pooled funds	492,713	**385,440**	Level 1
Overseas quoted	309,803	**302,373**	Level 1
Overseas pooled funds	1,468,177	**1,227,320**	Level 1/2
	2,489,806	**2,090,123**	
Property unit trusts			
UK property funds	206,301	196,394	Level 2/3
Overseas property funds	76,939	84,019	Level 2/3
	283,240	**280,413**	
Diversified growth			
Overseas diversified growth funds	402,589	394,217	Level 1
	402,589	**394,217**	
Private equity			
UK limited partnerships	104,877	110,636	Level 3
Overseas limited partnerships	51,366	87,894	Level 3
Overseas fund of funds	99,721	107,381	Level 3
	255,964	**305,912**	
Derivatives			
FX forward contracts	(123)	(38,431)	Level 2
	(123)	**(38,431)**	
Cash deposits	**150,680**	**130,996**	Level 1
Other investment balances			
Outstanding sales	1,137	**1,347**	Level 2
Outstanding purchases	(3,444)	**(2,114)**	Level 2
Tax due on accrued income	0	**1,475**	Level 1
Accrued income - dividends and interest	2,269	**768**	Level 2
	(38)	**1,476**	
Total investments	**4,288,647**	**3,825,954**	

Note 17c: Analysis of derivatives

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 2020 the Fund had forward currency contracts in place with a net unrealised loss of (£38.4m) (net unrealised loss of (123k) at 31 March 2019).

2019/20

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'000
2	One Month	GBP	EUR	291	(328)	0	0
1	One Month	GBP	JPY	25	(3,319)	0	0
1	One Month	GBP	USD	14,622	(17,214)	744	0
1	One Month	USD	GBP	1,838	(1,490)	0	0
1	Three Months	JPY	GBP	496,500	(3,483)	231	0
2	Three Months	GBP	JPY	82,348	(11,768,100)	0	(5,696)
1	Three Months	USD	GBP	19,289	(14,622)	930	0
3	Three Months	GBP	EUR	161,914	(19,317)	0	(9,225)
7	Three Months	GBP	USD	533,601	693,926	0	(25,408)
						1,905	**(40,329)**

2018/19

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'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**

4

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2019/20 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 2020 the value of quoted securities on loan was £42.6 million in exchange for collateral held by the fund custodian at fair value of £47.1 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 into the BCPP Global Equity Alpha Fund in September 2019, 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 2019		Manager	Market value 31 March 2020	
£000	**%**		**£000**	**%**
464,200	11.1	Border to Coast UK Equity Alpha	364,115	9.4
0	0	Border to Coast Global Equity Alpha	446,212	11.6
464,200			**810,327**	

Investments managed outside of Border to Coast Pensions Partnership Ltd;

£000	**%**		**£000**	**%**
1,190,723	28.3	Legal & General Investment Management (LGIM)	1,000,839	25.9
243,621	5.8	Majedie Asset Management	192,295	5.0
0	0	UBS Asset Management	0	0
505,222	12.0	Marathon Asset Management	0	0
333,760	7.9	Newton Investment Management	327,631	8.5
422,967	10.1	Western Multi Asset Credit	379,937	9.8
72,316	1.7	Franklin Templeton Investments	65,110	1.7
161,151	3.8	Baillie Gifford Life Limited	147,141	3.8
287,636	6.8	CBRE Global Multi-Manager	288,479	7.5
121,748	2.9	Ruffer	125,886	3.3
119,691	2.8	Aviva	121,190	3.1
3,458,835			2,648,508	
3,923,035			**3,458,835**	

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 2019 £000	%	Security	Market value 31 March 2020 £000	%
501,089	11.6	Marathon Global Contractual Fund	0	0
492,637	11.4	LGIM - TLCV Bespoke (34048)	235,681	6.1
464,200	10.8	Border to Coast UK Equity Alpha	364,115	9.4
0	0	Border to Coast Global Equity Alpha	446,212	11.6
422,967	9.8	Western Multi-Asset Credit EUR AC	379,937	9.8
352,109	8.2	LGIM – MSCI World Low Carbon	335,219	8.7
345,977	8.0	LGIM – Rafi Multi Factor	305,439	7.9
0	0	LGIM World Developed Equity Index	0	
0	0	Legal & General UK Equity Index	0	
2,578,979			**2,066,603**	

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 Hierarchy	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 & 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
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 cash flows, 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 2020. With the outbreak of COVID-19 and the illiquid nature of the Fund's Level 3 investments, the Fund is still satisfied with the below sensitivity range,

	Assessed Valuation Range (+/-) %	Value at 31 March 2020 £000	Value on Increase £000	Value on Decrease £000
Private Equity	10%	305,912	336,504	275,321
Property funds	10%	132,022	145,224	118,820
Total		**437,934**	**481,728**	**394,141**

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 17 above) produce different price results

Note 18b: Reconciliation of Fair Value Measurements within Level 3

	Market value at 31 Mar 2019	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 2020
	£000	**£000**	**£000**	**£000**	**£000**	
Property unit trusts	**142,704**	**0**	**9,353**	**(3,528)**	**(16,507)**	**132,022**
Private equity	**255,964**	0	**64,769**	**(42,561)**	**27,740**	**305,912**
	398,668	**0**	**74,122**	**(46,089)**	**11,233**	**437,934**

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 2019				**As at 31 March 2020**		
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			
706,529			Bonds	661,248		
2,489,806			Equities	2,090,124		
283,240			Property unit trusts	280,412		
402,589			Diversified growth	394,217		
255,964			Private equity	305,912		
1,329			Derivatives			
	150,680		Cash		130,996	
			Other short term investments			
3,407			Other investments	3,590		
	36,085		Debtors		39,907	
4,142,864	**186,765**		**Total financial assets**	**3,735,503**	**170,903**	

			Financial liabilities			
(1,452)			Derivatives	(38,431)		
(3,445)						
			Other investment balances	(2,114)		
		(9,154)	Creditors			(6,375)
			Borrowings			
(4,897)		**(9,154)**	**Total financial liabilities**	**(40,545)**		**(6,375)**
4,137,967	**186,765**	**(9,154)**		**3,694,958**	**170,903**	**(6,375)**

Note 18d: Net gains and losses on financial instruments

31 March 2019 £000		31 March 2020 £000
	Financial Assets	
196,397	Designated at Fair Value through profit and loss	(467,439)
20,210	Loans and Receivables	
	Financial Liabilities	
(30,826)	Fair Value through profit and loss	(39,741)
	Loans and Receivables	(5,695)
185,781	**Total**	**(512,885)**

Note 18e: Fair Value Hierarchy

31 March 2020	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at Fair Value	2,148,280	1,151,134	437,934	3,737,348
Loans and Receivables	47,067	1,366	0	48,433
Financial Liabilities at Fair Value	0	(42,450)	0	(42,450)
Net financial assets	**2,195,347**	**1,110,050**	**437,934**	**3,743,331**

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**

Note 18f: Book cost

The book cost of all investments at 31 March 2020 is £3,235million (£3,164 million at 31 March 2019).

Note 19: Outstanding commitments

At 31 March 2020 the Fund held part paid investments on which the liability for future calls amounted to £378.5million (£195.1million as at 31 March 2019)

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

Asset type	Value at 31 March 2020	Change	Value on increase	Value on decrease
	£000	%	£000	£000
UK equities	560,430	21.3	679,802	441,058
Overseas equities	1,529,693	16.8	1,786,681	1,272,705
Bonds	445,047	10.2	490,442	399,652
Index-linked	216,201	6.5	230,254	202,148
Cash	130,996	2.1	133,811	128,181
Property	280,413	5.4	295,482	265,344
Alternatives	305,912	4.8	320,501	291,323
Diversified growth fund	394,217	6.0	418,028	370,406
Other assets	-36,955	2.1	(36,161)	(37,749)
Total Investment Assets	3,825,954	8.4	4,173,287	3,478,621

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 2019/20 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 year

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Asset type	Value at 31 March 2019	Change	Value on increase	Value on decrease
	£000	%	£000	£000
UK equities	711,826	9.9	782,308	641,344
Overseas equities	1,777,980	9.3	1,942,938	1,613,022
Bonds	495,283	4.1	515,368	475,198
Index-linked	211,246	9.8	231,966	190,526
Cash	150,680	0.5	151,433	149,927
Property	283,240	4.3	295,504	270,976
Alternatives	255,964	6.0	271,348	240,580
Diversified growth fund	402,589	4.1	419,244	385,934
Other assets	-161	0.5	-162	-160
Total Investment Assets	4,288,647	4.6	4,485,771	4,091,523

(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 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2019		As at 31 March 2020
£000		£000
150,680	Cash & cash equivalents	130,996
0	Other short term investments	0
495,283	Fixed interest securities	445,047
645,963	**Total**	**576,043**

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 2020	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	130,996	1,310	(1,310)
Other short term investments	0		
Fixed interest securities	445,047	4,450	(4,450)
Total	**576,043**	**(5,760)**	**(5,760)**

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)**

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 2019/20 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2020 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,299,887	7.35	1,395,460	1,204,314
Fixed interest	495,283	7.35	477,769	412,325
Property and Private Equity	228,026	7.35	299,829	258,759
Diversified Growth	402,589	7.35	423,201	365,233
Cash and Other Assets	11,619	7.35	12,473	10,765
Total	**2,437,404**	**7.35**	**2,608,732**	**2,251,396**

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**

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 2020.

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 Lloyds Bank and 5 accounts with money market funds, managed by JP Morgan (Aberdeen, Black Rock, Deutsche, Goldman Sachs and Aviva). In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

Balance at 31 March 2019 £000		Balance at 31 March 2020 £000
	Call account	
19,000	Lloyds	19,000
	Money market fund	
25,000	Goldman Sachs	1,800
25,000	Aberdeen MMF	25,000
0	Aviva	20,000
0	Blackrock	15,100
0	Deutsche	1,600
	Current account	
18,948	HSBC	123
87,948	**Internally Managed Cash**	**82,623**
62,732	Externally Managed Cash	48,373
150,680	**Total Cash**	**130,996**

The fund's cash holding under its treasury management arrangements as at 31 March 2020 was £82.6million (£87.9million at 31 March 2019).

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 the Orbis Treasury Function 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 2019/20

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 2019/20 amounted to £74,480k (£63,982k in 2018/19).

2018/2019		**2019/2020**
£000		**£000**
41,466	Employers' current service contributions	48,894
21,299	Lump sum payments to recover the deficit in respect of past service	21,126
1,217	Payments into the fund to recover the additional cost of early retirement liabilities	4,460
63,982		**74,480**

ii) Surrey Pension Fund paid Surrey County Council £2,277k for services provided in 2019/20 (£2,136k in 2018/19).

2018/2019		2019/2020
£000		£000
307	Treasury management, accounting and managerial services	453
1,829	Pension administration services	2,270
2,136		**2,723**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2020 were £3,070k (£4,619k at 31 March 2019).

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.

2018/19	Position	2019/20	
£		£	
25,356	Executive Director of Corporate Resources	17,754	1
26,485	Director of Corporate Finance	10,637	1
91,202	Strategic Finance Manager (Pensions)	100,904	2
23,599	Senior Specialist Advisor	52,619	2
54,956	Senior Pensions Finance Specialist	60,297	2
221,598		**242,211**	

2018/19

1. 15% of time allocated to pension fund
2. 100% of time allocated to pension fund

2019/20

1. 10% of time allocated to pension fund
2. 100% of time allocated to pension fund

The Members of the Pension Fund Committee as at 31 March 2020 are shown below;

Elected Members:
Tim Evans (Chairman), Ben Carasco (Vice-Chairman), John Beckett, David Mansfield and Hazel Watson, Charlotte Morley,

Co-opted Members:
Ruth Mitchell, Tony Elias and Philip Walker

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 market investments and internally held cash. For the Fund's private market investments, the custodial arrangements are managed by the individual private market partnership with each custodian in charge of all private market assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private market funds are as follows:

Private Market 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.
Border to Coast	Northern Trust International Banking Corporation

Note 24: Actuarial statement for 2019/20 - 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 2020. 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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least a 70% likelihood that the Fund will achieve the funding target 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 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,286 million, were sufficient to meet 96% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £196 million.

Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS. Contributions have the aim of achieving full funding within an appropriate time horizon and with an appropriate likelihood of success.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.2%
Salary increase assumption	3.2%
Benefit increase assumption (CPI)	2.3%

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 2018 model, an allowance for smoothing of recent mortality experience and a 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	22.1 years	24.3 years
Future Pensioners*	22.9 years	25.7 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in volatile market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

6 May 2020

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 2019/20 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	31/03/2020	31/03/2019
Active members (£m)	2,265	3,135
Deferred members (£m)	1,576	1,519
Pensioners (£m)	2,205	1,918
	6,046	**6,572**

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. 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 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 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £528m. I estimate that the change in impact of the change in the demographic and longevity assumptions is to decrease the actuarial present value by £141m.

Financial assumptions

Year ended (% p.a.)	31 March 2020	31 March 2019
Pension Increase Rate	1.9%	2.5%
Salary Increase Rate	2.8%	2.8%
Discount Rate	2.3%	2.4%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and 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	22.1 Years	24.3 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	22.9 Years	25.7 Years

Please note that the longevity assumptions have 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 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	538
0.5% p.a. increase in the Salary Increase Rate	1%	47
0.5% p.a. decrease in the Real Discount Rate	10%	589

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 2020 for accounting purposes'. The covering report identifies the appropriate reliance and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston AFA (For and on behalf of Hymans Robertson LLP) 4 May 2020

Note 26: Additional Voluntary Contributions

Market Value 2018/19 £000	Position	Market Value 2019/20 £000
14,520	Prudential	13,548
14,520		**13,548**

Additional Voluntary Contributions, net of returned payments, of £2.1million were paid directly to Prudential during 2019/20 (£2.6million during 2018/19).

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 2019/2020 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.

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.

M**inimum 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.

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.

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Grant Thornton

The Audit Findings for Surrey County Council and Surrey County Council Pension Fund

Year ended 31 March 2020

November 2020

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audits of Surrey County Council ('the Council') and Surrey County Council Pension Fund ('the Pension Fund') and the preparation of the Group financial statements, as well as the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group, the Council and the Pension Fund. The Council has faced extensive front-line challenges as a result of the pandemic such as administration of grants to businesses, closure of schools and car parks with additional complexities of reopening services under new government guidelines. The Pension Fund have had to contend with risks in relation to the possibility of delayed contributions, volatile returns on investments, disruptions to administration of the Fund and prioritising the health and safety of staff and members. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addenda to management in 17 April 2020. This was shared with the Audit and Governance Committee in the papers for the meeting held on 22 May 2020. In the addenda (one for the Council and one for the Pension Fund) we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7. Restrictions for non-essential travel have meant that Council and Pension Fund and audit staff have undertaken the accounts closedown and audit process remotely making use of remote access to financial systems and video conferencing, including screen sharing to verify information provided by the entity. The financial statements were published and provided to the audit team on 1 June 2020. We are grateful for the support and positive working relationships from the Council and Pension Fund finance teams towards the audit team as a result of remote working although, by its nature, remote working takes significantly longer than auditing on-site. We did however encounter some difficulties in obtaining documentation from departments outside of finance, particularly documentation relating to IT General Controls and receipt of information for pension administration tests, given the understandable prioritisation of the front-line Covid-19 response.

Headlines

This table summarises the key findings and other matters arising from the statutory audits of Surrey County Council ('the Council') and Surrey County Council Pension Fund ('the Pension Fund') and the preparation of the Group financial statements, as well as the Pension Fund's financial statements for the year ended 31 March 2020 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 financial statements, and the Pension Fund's financial statements: • give a true and fair view of the financial position of the group and Council, and Pension Fund, and the group and Council and Pension Fund'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 has been completed remotely during July-November. Our findings are summarised on pages 6 to 23. We have identified 3 adjustments to the Council financial statements that have resulted in a £68.4m adjustment to the Council's Comprehensive Income and Expenditure Statement. We also identified 4 significant deficiencies in the IT General control environment. Audit adjustments, including unadjusted misstatements for both Council and Pension Fund, 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 other than the emphasis of matter paragraphs mentioned below, there are no matters of which we are aware that would require modification of our audit opinions (separate items on the agenda) or material changes to the financial statements, subject to the outstanding matters outlined on page 6 of this report. We have concluded that the other information to be published with the financial statements is not inconsistent with our knowledge of your organisation. Our anticipated audit opinion for the Council will be unqualified. It will include an Emphasis of Matter, highlighting material uncertainties around the valuation of land and buildings, investment properties and the net pension liability as at 31 March 2020. Our anticipated audit opinion for the Pension Fund will be unmodified. It will also include an Emphasis of Matter, highlighting material uncertainties around the valuation of pooled property investments and private equity investments as at 31 March 2020.

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Headlines

Value for Money arrangements **(Council only)**	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. We have concluded that Surrey County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for the failure to meet the required standards in the provision of childrens services. We have updated our VfM risk assessment in April to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any further VfM risks in relation to Covid-19. Our work was focussed on assessing the three significant risks previously identified and communicated in our audit plan (Financial Resilience, Provision of Childrens Services and governance in relation to the development of the Eco Park. We therefore anticipate issuing a qualified 'except for' value for money conclusion. Our findings are summarised on pages 24 to 31.
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, and have completed the majority of the work under the code. We expect to be able to certify the completion of the audits when we give our audit opinion, subject to being able to complete our work no the Whole of Government Accounts and the review of the Pension Fund Annual Report.

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff across the Council during these unprecedented times.

Audit approach

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 group, Council, and Pension Fund's business, and is risk based, and in particular included:

- An evaluation of the group, Council and Pension Fund internal control environments, including IT systems and controls; and
- 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. From this evaluation we determined that an audit of Halsey Garton Property Limited was required, which was completed by UHY Hacker Young LLP and to whom we issued group audit instructions. We determined that analytical procedures were sufficient to gain assurance over other entities in the Group, namely Surrey Choices Limited and Hendeca Group.

We have altered our audit plan, as communicated to the Audit and Governance Committee in January 2020, to reflect our response to the Covid-19 pandemic and its impact on the Council and Pension Fund's financial statements and the Council's value for money arrangements as reported to the Audit and Governance Committee in May 2020.

Conclusion

We have substantially completed our audit of the Council and Pension Fund's financial statements and, subject to outstanding queries being resolved, anticipate issuing unqualified audit opinions following the Audit and Governance Committee meeting on 5 November 2020, as detailed in Appendices E and F. These outstanding items include:

- independent review of derivative valuations in the Pension Fund accounts;
- tracing audit adjustments through to the final version of the accounts
- engagement lead and review partner quality review of audit files and resolution of any arising queries;
- updating our review of events after the reporting date;
- receipt of management representation letters; and
- receipt and review of the final sets of financial statements.

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.

For the group and Council, materiality levels remain the same as reported in our audit plan. For the Pension Fund, we have reduced materiality levels to reflect the increased risk arising as a result of the reduction in the Fund's net assets from the 2018/19 position.

	Group Amount (£)	Council Amount (£)	Pension Fund Amount (£)
Materiality for the financial statements	26,000,000	25,800,000	38,500,000
Performance materiality	18,200,000	18,060,000	28,875,000
Trivial matters	1,300,000	1,290,000	1,925,000

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: • working with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach and materiality levels. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 1 June 2020; • Liaising with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arise. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluating the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluating whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely; • evaluating whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and the recovery of receivable balances; and the pension fund liability valuations ; • evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussion with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The Council's property valuation specialists reported that valuations of land and buildings were subject to material valuation uncertainty as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. In addition, management have ascertained that pooled property investments within the Pension Fund financial statements (£280.4m), as well as private equity investments (£305.9m) are subject to material uncertainties on valuation on the same basis. This impacts upon both the valuation of these investments in the Pension Fund net assets statement, and the valuation of the net defined benefit liability in the Council's balance sheet. Management have agreed to disclose these uncertainties in Note 5 to the Council's financial statements and Note 5 to the Pension Fund financial statements. These disclosures will be referred to in our auditor's reports for the Council and Pension Fund respectively in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions. No further issues have been identified which are required to be reported to those charged with governance. We will update this position to the date of issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the 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.	Council and Pension Fund	In our audit plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and Pension Fund, we had determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition; and • opportunities to manipulate revenue recognition are very limited; and • 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 seen as unacceptable. Therefore we did not consider this to be a significant risk for Surrey County Council, or Surrey Pension Fund. Our assessment remains consistent with that reported in our audit plan.
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 Council and Fund, which was one of the most significant assessed risks of material misstatement.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: • evaluation of the design effectiveness of management controls over journals; • analysis of the journals listing and determine the criteria for selecting high risk unusual journals; • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluating the rationale for any changes in accounting policies or significant unusual transactions. Our audit procedures in this area are now complete. No issues have been identified which are required to be reported to those charged with governance.

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Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of land and buildings The council re-values its land and buildings on an rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.14 billion PY) and the sensitivity of the estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council financial statements is not 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.	Council	Audit procedures undertaken in response to the identified risk included: • review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • consideration of the competence, expertise and objectivity of any management experts used; • discussions with the valuer the basis on which the valuation is carried out and challenge of the key assumptions; • review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; • testing revaluations made during the year to ensure they are input correctly into the Council's asset register; • testing information provided to the valuer to ensure it agreed to underlying records; • appointed an auditors expert to assist in the review and challenge of land and building valuations; and • evaluating 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. Our audit procedures in this area are now complete. As discussed under 'Covid-19' above, the Council's property valuation specialists reported that valuations of land and buildings, including investment properties, were subject to material valuation uncertainty as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management have agreed to disclose this uncertainty in Note 5 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. No further issues have been identified which are required to be reported to those charged with governance. Should any issues arise that require reporting, we will do so before issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
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 (£1.19 billion PY) 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.	Council	Audit procedures undertaken in response to the identified risk included: • Update 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; • Evaluate the instructions issued by managements to their management expert for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund liability • Test 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; • Undertake 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 Our audit procedures in this area are now complete. As discussed under 'Covid-19' above, management have assessed that the Pension Fund's pooled property investments are subject to material valuation uncertainty as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. As the majority of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. Management have agreed to include this uncertainty in Note 5 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. No further issues have been identified which are required to be reported to those charged with governance. Should any issues arise that require reporting, we will do so before issuing our auditor's report.

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Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
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.	Pension Fund	Audit procedures undertaken in response to the identified risk included: • gaining an understanding of the Fund's process for valuing level 3 investments and evaluating the design of the associated controls; • reviewing the nature and basis of estimated values and considering what assurance management has over the year end valuations provided for these types of investments; and • for a sample of investments, testing the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciling those values to the values at 31 March 2020 with reference to known cash movements in the intervening period. Our audit procedures in this area are now complete. Management prepared the draft accounts based on cash adjusted movements from audited December valuations to the 31 March 2020 for private equity holdings where valuations had not been given at year-end; the total valuation in the draft accounts was £305.9m. Updated fund manager valuations for 31 March 2020 were obtained after management had prepared the draft accounts. The updated valuations represented a £13.8m decrease from the position reported, to £292.1m. Differences to management's estimate are due to unrealised losses that could not be predicted through the cash adjustment exercise. We challenged the 31 March 2020 valuations, which are un-audited, through reperformance of the Fund's cash adjustment exercise, finding a difference below performance materiality levels. Management have decided not to adjust the draft accounts given that the movement is not material. We have reported this as an unadjusted misstatement on page 45. Furthermore, given the complex nature of private equity valuations and the uncertainty within financial markets at the balance sheet date caused by Covid-19, management have agreed to include a disclosure to state that private equity valuations are subject to material valuation uncertainty. We will refer to the disclosure made by management in an emphasis of matter paragraph in the audit opinion.

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
IT General Controls Our review of IT General Controls was concluded in October 2020. The review, carried out by our specialist IT audit team, identified 4 significant deficiencies in the control environment for SAP, the Council and Pension Fund's general ledger.	We have given a full commentary, along with recommended actions, in Appendix A on pages 34 and 35 of this report. Significant deficiencies in the IT control environment primarily relate to inappropriate or privileged access rights within the general ledger.	We have adapted audit procedures in response to the findings, including within journal entries testing, and in our wider procedures to gain assurance over the completeness and accuracy of information produced by the entity. This is to address the enhanced risk of management override of control and manipulation of financial data that are presented by the findings. We have reviewed our materiality levels and, having regard for the increased risk of management override of controls arising from the significant deficiencies identified, remain satisfied that materiality at 1.25% of Gross Revenue Expenditure remains appropriate. We have not identified any instances of noted users with inappropriate access rights as having posted journal entries or having influence over financial transactions. Refer to pages 34 and 35 for full details.
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	Management disclosed in Note 3a to the financial statements the title, date of initial application and the nature of changes in accounting policy which would arise from IFRS 16 implementation. This disclosure also includes a statement that it is too early to give an accurate estimate but it is likely to have a material impact on the council's balance sheet. We reviewed management's process for compiling information about leases to ensure completeness and found these to be adequate. The statement that the impact of the revised accounting standard is expected to be material for the Council is reasonable in the context of the Council's material future operating lease commitments disclosed in the financial statements.	For 2020/21, management will need to be in a position to provide a monetary estimate of the impact on assets, liabilities, income, expenditure and reserves of the transition to IFRS 16 to allow for auditor assessment of the adequacy of associated disclosures in the financial statements.

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
Dedicated Schools Grant The Council had a cumulative overspend against the Dedicated Schools Grant (DSG) of £48.6m as 31 March 2020 due to an overspend on the High Needs Block. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position."	We wrote to management on 27 May 2020 setting out Grant Thornton UK LLP's position on accounting for accumulated DSG deficits in light of CIPFA's Bulletin 05 on closure of the 2019/20 accounts. In our response to the DfE's consultation we disagreed that changing the conditions of the grant would be sufficient in isolation to achieve the Government's intention to require overspends to be carried forward and not charged against general reserves, as this would be at odds with the requirements of proper accounting practice and the Code. Management have created an earmarked reserve from revenue resources to offset the cumulative overspend.	Management's approach is acceptable and we await further information for the Department for Education on the longer term approach to this issue.

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Significant findings – key estimates and judgements – Group / Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other – £1,226m	Other land and buildings comprises £389.7m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£836.4m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Bruton Knowles to complete the valuation of properties as at 31 March 2020, on a five yearly cyclical basis. 21.57% of total assets were revalued during 2019/20. With regard to assets not formally revalued at the balance sheet date within the rolling programme, the council has consulted with its valuers and has determined that whilst there have been inflationary pressures in the market that would increase the value of assets valued at DRC, 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. All valuations have been made in light of the impact of Covid-19 and is the best estimate of the valuers at the time of valuation. In line with RICS guidance, the Group's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council agreed to include a disclosure in Note 5 to the financial statements to reference the uncertainty. The total year end valuation of land and buildings was £1,226m, a net increase of £81.5m from 2018/19 (£1,144m). This net increase arises from the valuation process in combination with additions, enhancements, disposals and completions of buildings during the year.	• No material issues have arisen in relation to the valuation of the Council's operational land and buildings included within the accounts. • We have assessed management's expert, Bruton Knowles, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. • Valuation methodologies applied are consistent with those applied in the prior year. • We have challenged management's assessment that those assets not valued at the balance sheet date are not materially misstated, who have produced a paper setting out their rationale, which we have assessed to reasonable. • We appointed an auditor's expert, Gerald Eve, to review the valuations produced by the Council's experts to support the valuation in the financial statements • We also asked our expert to review the cost to replace the service potential of the Eco Park assets under construction prepared by the Council's own valuation specialist. For more information on the Eco Park assets, refer to page 19.	● (green)

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 estimates and judgements – Council

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Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,642m	The Council's total net pension liability at 31 March 2020 is £1,642m (PY £1,928m) comprising defined benefit obligations relating to Surrey County Council Pension Fund and the Firefighters' Pension scheme. The Council uses Hymans Robertson to provide actuarial valuations of the assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. This has led to material experience liabilities arising during 2019/20 as assumptions used were normalised for actual data. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £258m net actuarial loss during 2019/20.	See below	

- We have assessed the actuary, Hyman's Robertson, to be competent, capable and objective;
- We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2019/20 calculation carried out by the actuary;
- We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions for Surrey County Council Pension Fund:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	
Pension increase rate	1.9%	1.8% - 2.0%	
Salary growth	2.8%	1.8% - 2.9% (CPI – RPI)	
Life expectancy – Males currently aged 45 / 65	**45:** 22.9 **65:** 22.1	**45:** 21.6 – 23.3 **65:** 20.5 – 22.2	
Life expectancy – Females currently aged 45 / 65	**45:** 25.7 **65:** 24.3	**45:** 24.6 – 26.3 **65:** 22.9 – 24.3	

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate;
- We have confirmed there were no significant changes in 2019/20 to the valuation method.
- Our work confirms that the decrease in the IAS 19 estimate is reasonable.

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 estimates and judgements – Pension Fund

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in private equity funds that in total are valued on the net assets statement as at 31 March 2020 at £305.9m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. Valuations are based on forward looking estimates by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. Management prepared the draft accounts based on cash adjusted movements from audited December valuations to the 31 March 2020 for private equity holdings where valuations had not been given at year-end The value of unquoted private equities at 31 March 2020 was £305.9 million (£256 million at 31 March 2019).The value of the investment has increased by £49.9m due to net purchases of £22.2m and an increase in the market value of the underlying assets on valuation of £27.7m.	• We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2019; • We have assessed the consistency of the estimate against peers and industry practice; • We have reviewed the reasonableness of the increase in the estimate; and • We have assessed the adequacy of disclosure of estimate in the financial statements As discussed on page 11, updated fund manager valuations for 31 March 2020 resulted in a £13.8m decrease in valuation from the position reported in the accounts. We challenged the 31 March 2020 valuations, which are un-audited, through reperformance of the Fund's cash adjustment exercise, finding a difference below performance materiality levels. Differences to management's estimate are due to unrealised losses that could not be predicted through the cash adjustment exercise; we assess that management's exercise was reasonable.	● (green)

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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 estimates and judgements – Pension Fund

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2 investments	The Pension Fund have investments in derivatives, indexed–linked securities, pooled equity and pooled property funds that in total are valued on the net asset statement as at 31 March 2020 at £1,686m. 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 valuations provided by investment managers. Management have assessed that material estimation uncertainty is present in the valuation of pooled property investments (£280.4m), given that underlying valuations of property within the portfolio are subject to valuation uncertainties in the market arising from the Covid-19 pandemic at 31 March 2020.	• We have assessed the appropriateness of the underlying information used to determine the estimate; • We have assessed the consistency of the estimate against peers and industry practice; • We have reviewed the reasonableness of the increase in the estimate; • We have independently assessed the valuation of derivative investments, which are material to the Fund on a gross liability basis; • The majority of the Fund's pooled property investment valuations were provided as at December 2019 by the fund manager, and were not updated to 31 March 2020 in the draft financial statements. This is because more updated valuations were not available to management at the time, in part due to covid-19. Updated valuations for 31 March 2020 were since received, indicating that pooled property is overstated by £2.3m in the accounts. Management have decided not to adjust the draft accounts given that the movement is not material. We have reported this as an unadjusted misstatement above triviality on page 46. • We have assessed the adequacy of disclosure of estimate in the financial statements. Management have updated the financial statements to reference the material estimation uncertainty with respect to pooled property investments caused by covid-19. Our audit opinion will include an emphasis of matter paragraph and will reference the updated uncertainty disclosure made my management.	

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 – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Minimum Revenue Provision The Council's minimum revenue provision ('MRP') policy deviates from the requirements of the Statutory Guidance in two areas	The two areas of deviation in the policy are as follows: **1. Loans to other bodies** The Council's policy follows that where loans are made to other bodies for their capital purposes, and are to be repaid under separate arrangements, no MRP will be charged on those loans. The capital receipts generated by the repayment of those loans will be set aside to repay the debt. The Council's view is that, if they were to provide MRP on these loans, then any loan repayment accounted for as a capital receipt would be available to spend on future capital expenditure. However, if the Council were to ringfence loan repayments for the repayment of the related Capital Financing Requirement, then to also charge MRP would result in an over-provision. **2. Equity Investments** The council determines MRP on equity investments based a 20 year life. However, for equity investments in asset backed companies, a 50 year life is assumed to match the Council's policy for investment assets. The Council's view is that, given the majority of the Council's shareholdings relate to Halsey Garton (an equity investment in a company backed by significant property assets), the MRP policy should match the calculation for these particular shareholdings to that taken for Surrey-owned investment properties – that is, to be charged over 50 years, using an annuity methodology.	The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) require a local authority to make a revenue provision for the repayment of debt "which it [the local authority] considers to be prudent" and to "have regard" to the statutory guidance. With respect to charging MRP on loans, we would expect the repayment period to be based on the useful life of the assets on which third party expenditure is incurred. The Council's policy therefore results in MRP being lower than what the guidance suggests. Concern could be raised as to the Council's ability to refinance or repay its related £234m loans (mainly with PWLB) when they mature – predominantly in the period 2050 to 2065. However, the Council is confident of its ability to re-finance them. In the context of the Council's loans to Halsey Garton, the counterparty's ability to repay the debt can be judged by comparing the value of assets and retained earnings to the level of outstanding debt. At 31st March 2020, Halsey Garton's investment properties held a carrying value approximately of £269m, some £35m more than the outstanding debt of £234m. In addition, Halsey Garton holds a Profit and Loss Reserve of £4.8m. This demonstrates that the company holds assets of sufficient value that (if sold) could repay the outstanding debt. Halsey Garton's properties have been revalued downwards by £27m in 2019/20. This reduction in value is held in a fair value reserve and does not represent a permanent impairment. The £269m asset value already accounts for a £60m reduction over the previous two years. Given that this is not currently a permanent impairment, the underlying value of the assets is £329m. Based on the above, while we believe the Council's policy to be imprudent, we are satisfied that it is not unlawful. An added degree of uncertainty surrounding repayments exists in the current economic climate increasing the risks for the Council. We have made recommendations on page 37 regarding the policy.

Significant findings – matters discussed with management (continued)

Significant matter	Commentary	Auditor view
Eco Park valuation	The draft financial statements included assets under construction of £71.3m for the Eco Park as at 31 March 2020. The assets under constructions consists of a gasifier held at £42.3m, part of the larger waste PFI contract. The delivery of the Eco Park scheme remains significantly delayed. We challenged the Council to prove that the assets under construction (AUC) were not materially misstated and requested the Council carry out an impairment review. We also challenged them to confirm whether it was probable that an asset will pass to the them at the end of the contract, and that they will get economic benefit from. Management engaged Mott Macdonald to prepare a valuation of the Eco Park AUC based on an assessment of the cost to replace the service potential. The valuation provided costs to replace the service potential of the gasifier and other assets within the Eco Park, giving the Council assurance that, assuming the Eco Park is adopted at full capacity, the carrying value is not materially misstated. The Council has been working closely with it's technical, legal and financial advisors to monitor and manage the delivery of the Eco Park and has recently concluded that it is improbable that future economic benefit will flow to them from the facility, and as such the Council has concluded that it is not probable that the gasifier would be brought into use. The Council has therefore updated the accounts to derecognise this AUC.	We have considered the accounting treatment for the Eco Park assets under construction against the requirements of the CIPFA Code We have challenged management to prove that the assets under construction were not materially misstated as at 31 March 2020. We have reviewed reports to the Waste Advisory Board on progress with the delivery of the Eco Park assets. We have reviewed the assessment of costs to replace the service potential for the assets under construction provided by the Council's technical advisors We have appointed an auditors expert (Gerald Eve LLP) to review the work carried out by Mott Macdonald to assess the approach adopted by them. We have met with the Executive Director of Resources and the Executive Director of Environment, Transport and Infrastructure to understand the Council's position in relation to the development of the Eco Park and the ongoing contract management. We have reviewed the Council's revised accounting treatment for the Eco Park assets under construction and sought evidence of advice from the Council's technical advisers to support the position. Our work in this areas is now substantially complete.
Transfer from surplus assets to investment properties.	A transfer of £10,914k was made between surplus assets and investment properties in 2019/20. This was the result of an exercise through which the Council re-assessed the portfolio and determined that a number of surplus assets had changed use and were now being held solely for rent or capital appreciation – therefore, investment properties under the Code. Upon audit challenge, management deemed that while there was not an in-year change of use, the use had changed and prior years.	The exercise carried out by management identified that a change in intention for the assets happened in prior years, and did not happen this financial year. We previously reported to the Audit and Governance Committee that no adjustment was required based on management's explanation, but upon further challenge it has not been possible to prove that a change in use, as required by IAS 40 had in fact happened. Management have now transferred the Investment Property assets back to surplus assets within Property, Plant and Equipment, representing a reclassification of the gross balances and the underlying loss on revaluation within the accounts. The audit adjustment is detailed on page 40.

Going concern – Group and Council

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

The Council's financial statements have been prepared on a going concern basis, as disclosed in Note 2.

Management provided a narrative going concern assessment and Medium Term Financial Strategy extending to 2024. Management's assessment refers to paragraph 2.1.2.9 of the Code, which states that "*an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future".* Management's assertion is that if the Council was in financial difficulty, alternative arrangements would be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year, as has been borne out in recent years. Management acknowledge that the financial outlook for the Council is challenging, with a significant level of savings required to produce a balanced budget in future years.

Work performed / commentary

In 2019/20 the Council delivered a balanced budget enabling a significant contribution to reserves, arising from an overall directorate surplus of £5.3m and an unused budgeted contingency of £8.9m. The Council included £82m of efficiency proposals in the annual budget for 2019/20, of which £72m (88%) were reported as achieved. Given the overall scale of savings required in the medium term, as flagged by management in their Going Concern assessment, past performance bodes well for the delivery of the ambitious programme. Indeed, the Medium Term Financial Strategy identifies a cumulative funding gap of £162.3m by 2024/25. To close this gap, additional efficiencies of c.£40m per year would need to be identified and delivered. The Council is currently working on reviewing and updating its MTFS in light of Covid-19.

In consideration of the next 12 months, the County has sufficient reserves, cash balances, short term investments and headroom for short term borrowing to address going concern issues. Operating cashflows are all positive whilst the budget for the next three years indicates positive cashflows. Furthermore, the Council has sufficient headroom in terms of availability of short term borrowing; the Council's treasury management strategy involves a number of short-term investments in other authorities to maximise useable cash reserves as well as investments in money markets for excess cash.

We have also reviewed the audited accounts for the Council's subsidiary companies and are satisfied that the auditors have not raised any material uncertainties in respect of their financial performance or position as at 31 March 2020. Valuation of the assets held by Halsey Garton is higher than the Council's current financial commitment to the company.

We are satisfied that management's assessment is based on accurate information including prudent assumptions around future income and expenditure levels, and likely shortfalls based on known events and best available information. We are satisfied that the Council holds sufficient useable reserves to mitigate the risk of any short-term funding shortfalls which may arise throughout the period of management's assessment.

Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council's financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern
- the disclosures in the Council's financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

Going concern – Pension Fund

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

The Pension Fund's financial statements have been prepared on the going concern basis. As disclosed in Note 2 to the financial statements:

The 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.

The CIPFA Code requires that the Pension Fund's financial statements be prepared on a going concern basis, with paragraph 2.1.2.29 stating:

an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

Management provided a written going concern assessment and supporting cash flow forecast, covering the period to November 2021.

Work performed

We reviewed management's disclosures and going concern assessment, corroborating key inputs to our wider knowledge and supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment. None were identified.

We are satisfied that management's assessment is based on accurate information including assessments over funding levels provided by the Fund's actuary. In the most recent triennial valuation, the actuary has assessed that the Fund is 117% funded on their most likely future scenario.

There is no plan by the Ministry of Housing, Communities and Local Government to wind up the Surrey County Council Pension Fund; the Fund continues to receive contributions and investment income as expected.

Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Pension Fund financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Pension Fund's ability to continue as a going concern
- the disclosures in the Pension Fund financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

Other matters for communication

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	Auditor commentary
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 issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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 incidences from our audit work.
Written representations	Letters of representation have been requested from the Group and Council, and from the Pension Fund, which are appended. Specific representations have been requested from management in respect of the significant assumptions used in their accounting treatment for Eco Park assets under construction, the policy for the Minimum Revenue Provision, and material uncertainty disclosures made both in the Council and Pension Fund accounts.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all banking and investment counterparties. This permission was granted and the requests were sent. Requests have been returned with positive confirmation. We are still awaiting a response to the school's bank letter. We sent letters to those solicitors who worked with the Group and Council, and Pension Fund during the year and responses were received.
Disclosures	Our review of disclosures found no material omissions in the financial statements of either the Group or Pension Fund. The changes made to disclosures during the course of the audit are summarised in Appendix C.
Audit evidence and explanations/significant difficulties	Delays were incurred in obtaining information from the Council's IT team, meaning that our work in assessing the IT General Controls environment was delayed. However work in this area has now been finalised. There were no other significant delays experienced and the finance has provided excellent assistance throughout the audit.

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Other responsibilities under the Code

Issue	Commentary
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.
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.
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 threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. At the time of writing, the group instructions have yet to be issued by the NAO, with these due to be communicated to group auditors later in 2020. These procedures will be completed alongside the issue of our auditor's report.
Certification of the closure of the audit	Subject to the completion of WGA work and our review of the Pension Fund Annual Report, we intend to certify the closure of the 2019/20 audit of Surrey County Council and Surrey County Council Pension Fund in the audit report, as detailed in the separate item to the Committee.

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 April 2020. 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:

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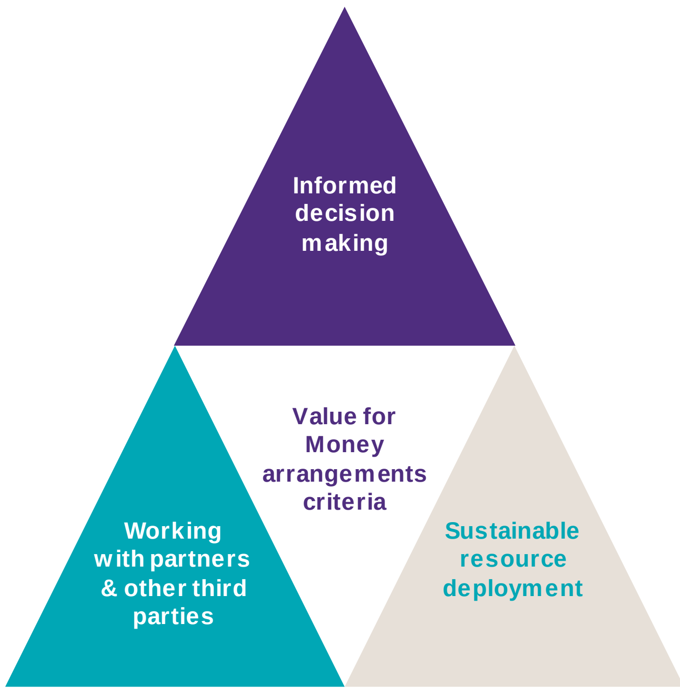

Risk assessment

We carried out an initial risk assessment in January to March 2020 and identified a number of 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 29 January 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We did not identified any new VfM risks in relation to Covid-19; however we have considered and commented on the potential impact of Covid-19 on the Council's future financial sustainability as part of our work in addressing the previously identified significant VfM risks.

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.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Revenue and capital outturn for 2019/20
- Approved revenue and capital budget for 2020/21
- Officer assessment of the impact of Covid-19 on forecasted costs and income for 2020/21 and future years
- Medium term financial plan;
- Ofsted inspection reports;
- Council and Committee reports; and
- Discussions with key officers around the Eco Park

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 25 to 30

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that, except for the matter we identified in respect of children's services, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We therefore propose to give a qualified 'except for' conclusion the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found in a separate agenda item to the Committee.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money – Financial Resilience

Overview

The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. In 2017/18 we reported that the Council was carrying an underlying deficit and it would not be able to continue to use reserves to supplements the cost of services in the medium term. However, we noted that in September 2018, a wide ranging Finance Improvement Plan (FIP) had been put in place to improve the Council's finances and develop the finance function. This led to significant improvements in the financial position that we reported on in our VfM conclusion for 2018/19.

The Finance Improvement Plan (FIP) has now been completed enabling the Council to plan for a sustainable medium term financial position. In 2019/20, the Council delivered in line with its planned budget and made a net contribution to reserves. COVID-19 has put additional pressure on the Council from 2020/21 onwards. While the council should now be well equipped to manage the financial pressures arising in 2020/21, significant challenges lie ahead with particular uncertainty around the impact on council tax and business rates in future years.

Financial performance 2019/20

During the financial year 2019/20 the Council delivered a balanced budget enabling a significant contribution to reserves, arising from an overall directorate surplus of £5.3m and an unused budgeted contingency of £8.9m.

We note that within this position the Children, Families, Lifelong Learning & Culture (CFLC) Directorate, reported a net overspend of £2.7m for the year. Which was mitigated by underspends on other service budgets. The key driver of the overspend was Special Educational Needs (SEN) transport and other children's transport services due to higher than expected demand. We note that a review of the service identified some mitigating actions but was not successful in wholly mitigating the pressure. **The Council should continue to monitor and consider ways to mitigate demand in SEN transport and ensure that the measures taken to deal with this in the 2020/21 budget are adequate, once the service returns to normality following the recent school closures.**

The SEND deficit

The Council carried forward a liability of £30.0m on the Special Educational Needs and Disabilities (SEND) budget relating to an ongoing overspending on activity funded by the Dedicated Schools Grant (DSG) - High Needs Block. This was driven by an increase in the number of Non-Maintained Independent (NMI) placements outstripping the available funding. This is a sector wide issue for top tier councils. **Until the current dialogue on SEND funding with the Department for Education is concluded, there remains a risk that the Council will be required cover this liability from general resources which could pose a significant threat to financial resilience. The Council will need to continue to manage the risk within its existing resources.**

Delivery of savings

The Council included £82m of efficiency proposals in the annual budget for 2019/20 which was approved by Council in February 2019. We noted that £72m (88%) was reported as achieved. The £10m of non-delivered savings was made up of a combination of project delays, decisions taken not to pursue savings, specific savings not identified, and savings shortfalls against original targets. The shortfall was offset by alternative one-off measures in year, with the recurrent impact rolled forward into the updated Medium Term Financial Strategy (MTFS). Given the overall scale of savings to be delivered, this reflects effective management and delivery of savings plans.

Value for Money – Financial Resilience (continued…)

Capital budget

The capital Programme spend for the year was £117.2m against a budged of £126.7m, which represents £9.5m (7.5%) net slippage of the programme. The capital position was reprofiled twice during the year (in M2 and M7) to more accurately reflect the delivery of the programme.

The outturn for 2019/20, including contribution to reserves, demonstrates a continued improvement in the Council's use of resources and achievement of efficiencies.

Reserves and contingencies

The surplus of £5.3m generated from directorate budgets, has been used to increase reserves and contingencies, as follows:

- Contingency: The 2020/21 budget contingency has been increased to £32m by transferring the unused balance of £8.9m from the 2019/20 contingency and adding £2.5m of the 2019/20 Directorate surplus.
- General Fund Reserve: The remaining £2.8m of the 2019/20 Directorate surplus has been added to the General Fund Reserve, bringing this to a total of £24.1m.

Two additional reserves have been created

1. CFLC Inspection and System Renewals (£1.2m) – to fund, amongst other things, additional cost in preparation for the OFSTED re-inspection
2. COVID-19 Emergency Funding (£24.3m).

The Council's reserves position continues to improve and provides a temporary buffer against financial risk, for example if savings are not delivered to target.

Budget 2020/21 and Medium Term Financial Strategy (MTFS)

On 4 February 2020, a balanced budget of £968.4m for 2020/21 was approved by members. To achieve this balanced budget, £38m of savings and efficiencies were identified.

Looking over the following 4 years, a cumulative funding gap of £162.3m was projected by 2024/25. To close this gap, additional efficiencies of c.£40m per year would need to be identified and delivered. This was seen to be achievable in early 2020, however, the Council is currently working on reviewing and updating its MTFS in light of COVID-19.

The Council approved a capital budget for 2020/21 of £175.7m in February 2020. At M1, this has been re-forecast at £159m to recognise the impact of COVID-19 on scheme delivery.

Financial outlook 2020/21

Based on the M2 (May) forecast reported in July 2020, the Council is forecasting an overspend of £4.7m in the business as usual budget (BAU), which excludes the impact of COVID. We note that it is good practice to track cost pressures that are not directly attributable to COVID-19 and manage them separately, so that a good understanding of the underlying financial position is retained.

The key pressures are from increased waste disposal costs, and pressures in CFLC (non achievement of health income targets, demand for placements and agency staffing) which is partly mitigated by one–off underspends in school transport due to school closures. A further £1m of underlying pressure in ASC is currently being funded by non-recurrent income. We note that the high level of transparency provided in the reports to members reflects the best practice principles adopted as a result of the Finance Improvement Programme.

The report notes that there remains uncertainty about the indirect effect that COVID-19 may be having on the service activity reported as BAU. **Aside from the challenging environment presented by COVID-19 uncertainties, the Council should continue to review and manage underlying BAU budget pressures separately.**

Value for Money – Financial Resilience (continued…)

Managing the impact of COVID-19

To cover the costs and loss of income associated with the COVID-19 pandemic, the Council received £25.2m funding from the Government. £0.9m of this has been absorbed in 2019/20, and the remaining £24.3m has been set aside as a reserve to offset against budget overspends caused by COVID-19 (e.g. future costs and loss of income).

Since the year end, a second (£21.8m) and third (£6.4m) tranche of support funding from the Government have been received, bringing the balance on the COVID reserve to £52.5m. Furthermore, the government has committed to further funding to support lost income from sales fees and charges in selected services, however the exact allocation is not yet known.

This excludes a range of other COVID-19-related financial support for specific purposes and to support businesses, providers and the wider community (e.g. Infection Control Fund and Bus Service Support Grant).

The table below describes the Councils current analysis of COVID-19 cost pressures expected to impact in 2020/21. The position is under continual review and is subject to change.

We note that since the initial estimates of COVID-19 Impact, the Council has reduced its assessment of the forecast cost to be managed from £66.7m to £51.9m (a reduction of £14.8m). This is attributed to greater confidence that the planned savings programme for 2020/21 will suffer less disruption than had initially been projected. The Council continues to monitor the position.

COVID-19 Cost Pressures in 2020/21	£m
Gross expenditure pressures	32.9
Lost income	14.7
Risks to the efficiency programme (non-deliverable savings)	4.3
TOTAL	**51.9**

Taking into account the second and third tranches of COVID-19 funding and income support, for 2020/21 the available support funding is projected to cover majority of COVID pressures. However, there are likely to be unfunded pressures, which the Council will need to manage. As noted, the council has significant resources in place to manage financial risk, including the £32m budget contingency, which could be used to help with additional pressures that could arise from a range of scenarios, including a second wave of the virus and/or a local lockdown. The council is well placed to manage COVID related pressures in 2020/21 and to protect the current level of reserves.

The implications for 2021/22 could be significant, particularly if a prolonged economic downturn and high unemployment start to erode council tax and retained business rates income, creating potentially significant deficit on the collection fund. The Council is in the process of analysing the medium term financial implications of COVID-19 as it develops its budget for 2021/22.

The financial impact of COVID-19 in 2020/21 and in the medium term remains fluid and uncertain and should continue to be closely monitored. In particular, the Council should develop a plan to manage the potential impact of increased levels of Local Council Tax Support and a reduced business rates base.

Value for Money – Financial Resilience (continued…)

The Finance Improvement Programme (FIP)

In September 2018 the Finance Improvement Programme (FIP) was launched, in response to the report commissioned by CIPFA in summer 2018, which raised concerns about the Council's financial position and its standards of financial management. The FIP has delivered:

- A newly restructured Finance function.
- A new framework for budget management across the Council, including six hallmarks of a "good" budget – these were developed and self-assessed when developing the 2020/21 budget and Medium-Term Financial Strategy (MTFS), which were approved on 4th February 2020.
- A learning and development platform (The Finance Academy).

The External Assurance Panel was also established at the inception of the FIP as a sounding board.

The Council has concluded that it has addressed each issue raised in the CIPFA report and so the FIP was completed and closed in June 2020. The success of the FIP appears to have greatly improved the Council's ability to achieve Economy, Efficiency, and Effectiveness in use of its resources.

Budget Process Evaluation 2020/21

Once the budget had been set, a review of the process took place, with officer and member participation and buy-in. A number of themes emerged and high-level actions agreed which will feed in to the 2021/22 process. One of the key underlying themes which came through the evaluation process was to engage better, to foster transparency and allow feedback and scrutiny earlier in the budget process, including through earlier involvement of select committees.

This culture of self-review will enable the Council to continuously improve its budgeting processes and it will need to ensure that the findings from this review are integrated into processes going forward.

Partnership Agreement for Excellent Financial Management

We noted that this is one of the main focus areas of the new Organisational Strategy 2019-23. A key strand of the agreement is to embed the Finance Business Partner approach where the Finance Service operates at the heart of the organisation and is trusted, proactive and insightful.

The Finance Business Partner approach offers a good opportunity to improve the Council's standards of financial management. As it is at the early stages of embedding, we will continue to monitor its progress.

Minimum Revenue Provision

As noted on page 13, the Council's MRP policy statement diverts from the requirements of the Statutory Guidance in a number of areas, most significantly:

- Where loans are made to other bodies for their capital expenditure, and are to be repaid under separate arrangements, no MRP will be charged. The capital receipts generated by the repayment of those loans will be set aside to repay the debt.
- The council will determine MRP on equity investments based a 20 year life. However, for equity investments in asset backed companies, a 50 year life will be assumed to match the Council's policy for investment assets.

Having considered these two items and the legal advice provided by the Council's in-house legal team we are satisfied that the Council's actions are not unlawful.

We have taken the above items into account in considering the Councils financial resilience arrangements.

Conclusion

We are satisfied that the Council has made significant progress in ensuring that its financial position is resilient and that adequate arrangements are in place as at 31 March 2020.

Value for Money – Children's 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".

2019/20 Monitoring visits

Following the 2018 inspection report the Council had two monitoring visits from inspectors in March, June and December 2019.

In December 2019 inspectors evaluated the timeliness and effectiveness of strategy meetings and child protection investigations; the quality and timeliness of assessments completed about children and families; the progress made for children who are the subjects of child in need and child protection plans; and the response to older children who are experiencing, or who are at risk of, child exploitation.

They concluded that Senior leaders and managers have made substantial progress in improving the response to children who are at risk of significant harm, and children who have subsequently become subject to child protection and child in need plans, since this area of practice was last evaluated at the September 2018 monitoring visit.

A new practice model is being rolled out through a phased implementation programme, and all social workers seen during the visit have undertaken some initial training and have taken part in development activities. Critically, social worker caseloads in the assessment and family safeguarding teams have reduced markedly to an average of 15 cases, and these manageable workloads are enabling social workers to undertake an improving standard of assessment, planning and direct work with children.

Management oversight and supervision are visible and regular. The recording of supervision often comprises lengthy reviews of work undertaken, and rarely features evidence of proactive, inquisitive approaches, generating questions and ideas for social workers to help them address entrenched difficulties. Some specialist workers, notably child and adolescent mental health professionals, are already working alongside social workers, helping them to formulate ideas and plans in order to strengthen their direct work with children and parents.

An extensive audit programme continues to provide managers with a comprehensive and accurate assessment of the quality of social work practice and frontline management oversight. The significant time and effort invested in a high standard of quality assurance activity is a cornerstone of continuing effective improvement work.

Conclusion

Overall, improvements in the quality of social work, management oversight and supervision are gathering momentum, but practice is not yet consistently strong for all. The Authority was preparing for a follow up inspection towards the end of 2019/20 however the Covid pandemic has meant that a number of expected inspections did not take place as planned. As a result the previous qualification of the value for money conclusion in respect of the adequacy of Childrens Services will remain in place for 2019/20.

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. In the draft accounts the Council has recognised payments totalling £71.3m 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 has passed minimum performance and reliability tests.

The Gasification facility was due to be operational by 7 November 2017 and so is significantly delayed. Management have been working with their technical, financial and legal advisors to manage the delivery of the whole PFI scheme as well as the delivery of the Eco Park assets. The Council's waste assurance board has received regular reports on progress with the development and ongoing contract management arrangements for the wider PFI scheme.

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 are being managed by the Council, hence the decision not to change the liability recognised in the accounts in 2019/20.

Conclusion

We are satisfied that the Council's arrangements to manage the impact of the delays to the delivery of the Eco Park are adequate and that it is utilising the full range of external advisors to ensure that it takes appropriate advice in relation to its duties and responsibilities under the contract.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit-related 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 which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate (Council)	4,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £140,415 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.

	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights Subscription (Council)	12,500	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 £12,500 in comparison to the total fee for the audit of £140,415, 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. The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

Action plan – IT General Controls: Group, Council and Pension Fund

We have identified a number of recommendations 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 2020/21 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
● High	**1. Users with highly privileged access in SAP** During our audit, we observed that access to SAP_ALL and SAP_NEW had been allocated to 3 dialog accounts for the whole of the financial year. In addition, the SAP support accounts had SAP_ALL access for 2 days after the financial year end and post the financial year end, end-dated for August 2020 The SAP_ALL authorisation profile contains virtually full system rights and should not be used with any dialogue type accounts within the production environment. The profile provides access to all IT functions as well as business transactions which with misuse can cause operational stability and financial misstatements	**1. Users with highly privileged access in SAP** Management should ensure that access to the SAP_ALL profile is removed from all accessible SAP user accounts. The SAP_ALL profile should be reserved for use within an emergency or firefighter type ID that can be locked immediately when not in use, as most day-to-day administrative activities do not require such wide-ranging access as provided by SAP_ALL. Where access to this account / level of privileged is required a process should be put in place for it to be requested, approved, and then disabled as soon as the requirement is completed. *Management response* Only 2 of the 5 userIDs mentioned are in regular use but SAP_ALL and SAP_NEW profiles will be removed immediately from all of them.
	2. Programmers have access to development keys in Production During our review, we noted that two users have development access in the production environment. This is achieved by possessing a development key in production, as well as access to certain transactions. Access to both live data and system programming utilities are incompatible user permissions. There is a risk that unauthorised program changes transported into the production environment could be exploited through the execution of business transactions and result in fraudulent transactions. The risk of maintaining active users in the production environment with development keys and access to transactions SCC4 and SE38 is very high, as it allows system functionality to be changed, potentially leading to inappropriate financial postings.	**2. Programmers have access to development keys in Production** Programmers should not have access to any SAP transport utilities. This should be achieved by removing all user records for programmers. Furthermore, programmers should not have any privilege access to the operating system on the SAP server or have the ability to remotely call the SAP transport program 'tp'. Furthermore, no user should have any direct editing ability of ABAP programs in production. All development and editing should be confined to the development environment and as such this access should be removed from the relevant users. Where this is not possible compensating controls such as the monitoring of activity on SCC4 and SE38 should be implemented to mitigate the severity of this risk *Management response* The user in question is a SAP developer but no active user should have a development key in the productive system. They have been generated there in error. We will remove them. The other user does not have a developer key in the Production system

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan – IT General Controls (continued)

Assessment	Issue and risk	Recommendations
High	**3. Users with inappropriate debugging access in production** During our review, we observed that there were 10 dialog accounts who had been provided with DEBUG access in production throughout the whole financial year. The assignment of DEBUG access within SAP, allows users to alter system source code and logic directly in the production environment. This therefore potentially allows users to bypass the configured transport route and change controls in place. This increases the risk of inappropriate and unauthorised changes being made to the system. Where this access is granted either for an extended period or to users outside of IT the risk is further increased	**3. Users with inappropriate debugging access in production** Management should ensure that DEBUG access is removed from all dialog users in the production environment. In addition, we recommend that an evaluation is performed to identify and provide the relevant t-codes that these users require for their business duties within IT. This access should be appropriately assigned to these users. Management should review audit security logs within SAP, using transaction SM20 and SM21, to verify that no unauthorised transactions were executed by these users within the financial year. *Management response* The users listed are technical users and all, except the 3 SAP developers, have display only access to DEBUG in the productive clients. We will make the necessary access role changes to remove the DEBUG change mode from the developers in production. .
	4. SAP developers with access to modify the ledgers SAP developers with access to modify the ledgers During our review we noted that the following users had access to development keys and the ability to modify the ledgers in the SAP production environment during the financial year. The risk is bypass of system enforced internal control mechanisms through inappropriate use of administrative functionality leading to financial misstatement.	**4. SAP developers with access to modify the ledgers** Management should remove the ability to modify the SAP ledgers in the production environment from all developers / IT staff. *Management response* We will work with Corporate Finance Team to review the objects F_BKPF and take the appropriate actions

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan – Group and Council

We have identified a number of recommendations for the Group and Council 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 2020/21 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
Low	**Recommendations arising from Value for Money Audit Work** 1. The Council should continue to consider ways to mitigate demand in SEN transport and ensure that the measures taken to deal with this in the 2020/21 budget are adequate, once the service returns to normality following the recent school closures. 2. Until the current dialogue on SEND funding with the Department for Education is concluded, there remains a risk that the Council will be required cover this liability from general resources which could pose a significant threat to financial resilience. The Council will need to continue to manage the risk within its existing resources 3. Aside from the challenging environment presented by COVID-19 uncertainties, the Council should continue to review and manage underlying BAU budget pressures separately. 4. The financial impact of COVID-19 in 2020/21 and in the medium term remains fluid and uncertain and should continue to be closely monitored. In particular, the Council should develop a plan to manage the potential impact of increased levels of Local Council Tax Support and a reduced business rates base.	See specific recommendations under the issues set out to the left. **Management response** Management will continue to review the arrangements for the SEND deficit in light of emerging guidance from DfE.
Medium	**Property, Plant and Equipment Disposals** Our sample testing of Property, Plant and Equipment disposals identified three assets that should have been written out of the balance sheet in earlier years, but had only been written out this year following a review of the asset register. Two of such assets related to other asset classes relating to former academies, the total value of which was shown to be £1.6m. The third error identified an asset with a book value of £2.9m that had not been written out historically due to a small typo within the asset name within the asset register, meaning it was not picked up in previous reviews. If assets remain on the balance sheet in excess of true disposal dates, excess depreciation is charged to the CIES and the balance sheet will be overstated.	Management should carry out more regular existence review of assets held on the balance sheet, particularly VPE assets, to gain assurance that those assets remain theirs and in use. **Management response** We have provided working papers for this. We reviewed the assets and derecognised them. The Council are satisfied that the impact is immaterial in 19/20 and that we will carry out regular reconciliations going forward.

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan – Group and Council

We have identified a number of recommendations for the Group and Council 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 2020/21 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
Medium	**Minimum Revenue Provision ('MRP')** As described on page 18, the MRP policy is deemed imprudent, although not unlawful. An added degree of uncertainty surrounding repayments exists in the current economic climate so the policy is risky.	The Council should review their MRP policy as soon as practicable to reflect market uncertainty, with regard to the statutory guidance. To address the combined issues of prudent provision and liquidity, the below could be considered trigger points for review: - The underlying value of properties and retained earnings full below outstanding debt, or; - If there is any other indication that the Council would be unable to fulfil its obligations to repay the outstanding PWLB loans. Should the Council decide to stick with the existing policy in the coming years, the Audit and Governance Committee should document their approval of this on an annual basis; the Council should review the relevant loans each year as part of the agreement. **Management response** We will review the policy to ensure that our provision remains prudent
Medium	**Historical creditor balances on the balance sheet** Our sample testing of short term creditors identified several errors within the creditor balance relating to uncleared balances on account codes from earlier financial years. We have shown the indicative impact of this errors on page 39.	Management should review accounts payable ledgers for uncleared transactions and balances. **Management response** We agree there can be improvements in this area and will carry out work in 20/21 to investigate errors and uncleared balances

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan – Group and Council

We have identified a number of recommendations for the Group and Council 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 2020/21 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
Low	**Allowance for expected credit losses** The Council account for the impairment of their receivable balances using a model based on general provision percentages applied to the ageing of outstanding debt, based on management's judgement on the type and collectability of the debt. The total provision in the accounts is £24.5m From our review of management's assessment at year-end, the method applied by the Council is found to not consistent with the requirements of IFRS 9. £14.6m of the provision relates to collection fund debt; the County places reliance on the District Councils having calculated their provisions appropriately for this. The debt relating to the remaining balance of £9.9m (which relates to adult social care and general accounts receivable balances) should be assessed for forward looking assumptions, particularly in light of uncertainties created around the recoverability of debts in the Covid-19 pandemic.	IFRS 9 requires that expected credit losses are factored into the assessment based on the default rate percentages from historical credit loss experience adjusted for forward looking assumptions. Given the relative size of the balances, application of IFRS 9 is unlikely to be material, but we recommend that management factor the expected credit loss model into their assessment to ensure compliance with the standards going forwards. **Management response** Given the nature of the majority of the non-collection fund debt we do not they will be materially impacted by COVID-19 economic impacts

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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 the Group, Council and Pension Fund's 2019/20 financial statements, which resulted in 1 recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated (Pension Fund)	Update on actions taken to address the issue
x	In the prior year audit, our testing of membership data found that supporting documents such as evidence for sending out the welcome pack could not be obtained due to an administration backlog of these being sent out. The length of delay was of the order of 4 - 6 months. This supported the findings of an Internal Audit Report during 2018/19 into pension fund administration which provided a minimal assurance opinion. Part of this was due to a large backlog of tasks that were incomplete.	**Management response** The 2018/19 audit report identified issues with new starter processing due to a case backlog. The new starter backlog has now been resolved and a process review completed to mitigate future backlog in this area. Backlog still exists in other case areas, but, resource has been allocated to backlog clearance and this has reduced from c20,000 cases in April 2019 to c3,000 cases in April 2020. It is on-track to be fully cleared by January 2021 **Auditor assessment** Our testing of membership data identified that an administration backlog still exists. Internal audit also carried out a further review of the Pensions Administration system, also finding that work to clear the historic back log spanning all six funds administered by SCC continues.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments – Group and Council

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 2020.

Detail	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Derecognition of Eco-Park Gasifier Derecognition of the carrying amount the Eco Park gasifier given the view that it is no longer probable that the economic benefits or service potential will flow to the entity, resulting in a £42.3m reduction in the CIES.	42,288	(42,288)	42,288
Collection Fund Adjustments Collection fund account balances, transactions and disclosures are taken directly from the District and Borough returns. The Council received these following production of the draft accounts and therefore rolled forward figures from the prior year for the purpose of preparing the draft financial statements. The returns subsequently provided have allowed for updates to income and expenditure from NDR and Council tax recorded in the CIES and Note 11, as well the corresponding entries to the balance sheet within debtors, creditors, bad debt provisions, and the NDR appeals provision. The combined impact is a £26m reduction in the CIES.	26,095	(26,095)	Nil
Reversal of property assets back to surplus assets from investment properties. As explained on page 18, management have transferred the Investment Property assets back to surplus assets within Property, Plant and Equipment, representing a reclassification of the gross balances on the balance sheet and the underlying loss on revaluation within the CIES.	(2,534) 2,534	10,914 (10,914)	Nil
Overall impact	**£68,383**	**(£68,383)**	**£42,288**

Audit adjustments – Group and Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 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	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Halsey Garton Equity Investment We challenged the fact that investments in Halsey Garten had been held at historic cost within the draft accounts, at £92.9m. Management subsequently prepared a valuation based on the net present value of future cashflows to enforce their view that the carrying value is not materially different to the fair value. We are satisfied with the valuation, which suggests that the investment should be held at £89.2m, a decrease of £3.7m.	3,748	(£3,748)	3,748	The impact is not material to the financial statements
Property, Plant and Equipment disposals We identified a school as one that should have been disposed in 2019/20 due to it having attained Academy status in-year, but the school in question could not be identified on the asset register. It transpires that the school should have been added in 2014/15 following CIPFA guidance on re-admission of foundation schools, after being disposed in the 2013 financial year with a book value of £2.2m. Uplifts in build cost indices from 2013 would give an indicative estimated carrying value of £3.3m for the school within the current year, had it remained on the balance sheet and been revalued. The missed annual depreciation charges are judged to be circa £144k, assuming a useful life of 20 years.	144	(144) (3,300) 3,300	144	The impact is not material to the financial statements and it is not possible to identify the true retrospective impact of subsequent valuations
Property, Plant and Equipment additions Our sample testing of additions noted a capital expense recorded in 2019/20, but the underlying capital works took place in 2018/19. No accrual had been recorded, meaning that additions in 2019/20 are overstated. It was not possible to isolate the error, and as such the error rate in our sample was extrapolated over the total additions balance, giving an extrapolated overstatement of £5.7m	Nil	(5,749) 5,749	Nil	Extrapolations are not true errors, so adjustment would not be appropriate.
Overall impact	**£3,892**	**(£3,892)**	**£3,892**	

Audit adjustments – Group and Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 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	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Errors in Creditors Testing Our creditors testing identified historical creditor balances which should have been cleared. We have been able to isolate the impact of these balances. We also identified an error within accruals that could not be isolated and so has been extrapolated. The total uncertainty arising from this testing is an overstatement of £3,184k within creditors.	(3,184)	£3,184	(3,184)	Extrapolations are not true errors, so no adjustment is required
Overall impact (including adjustments on previous page).	**£708**	**(£708)**	**£708**	

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Audit adjustments – Group and Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Assumptions made about the future and other major sources of estimation uncertainty	Additional detail was added to the disclosure note to emphasise valuation uncertainties relating to property assets arising from the impact of the Covid-19 pandemic, including specific narrative for investment properties, to more fully reflect the nature and cause of the uncertainties reported by management's property valuation specialist. An additional disclosure was also added to reflect material valuation uncertainties relating to the net defined benefit liability in the Council's balance sheet.	✓
Financial Instruments	We challenged the Council as to why the fair value of PFI debt was equal to the amortised cost. The Council subsequently valued PFI debt on a cashflow basis with the use of an expert. Adjustments to the 2019 and 2020 fair value of the PFI leases have resulted in an adjustment to the fair value disclosed on these assets in both current and prior year figures; from £132.7m to £200m in 2019, and £98.4m to £167.5m in 2020. As the liabilities are correctly held at amortised cost in the accounts, there is no impact on the Comprehensive Income and Expenditure Statement.	✓
Financial Instruments	Investments in Halsey Garten are held should be changed from level 1 to Level 3 given that given that shares in Halsey Garton are not traded in active markets, and valuation bases for non-listed companies are not based on observable inputs.	✓
Financial Instruments	The Fair Value of other long term borrowings has increased from £16.9m to £22.4m as the Council had omitted the Local Enterprise Partnership ('LEP') borrowing from the fair value analysis. As the carrying value correctly includes the LEP, this does not impact any figure in the general ledger and represents a disclosure adjustment.	TBC
Post balance sheet events	The Council does not reference Covid-19 as a post balance-sheet event. We would expect covid-19 to be referenced in the PBSE disclosure given the financial impact of the pandemic on the Council after 31 March 2020.	✓
Group Movement in Reserves Statement	In the draft accounts, the Group MiRS statement did not fulfil the disclosure requirements of the CIPFA Code. The statement did not include adjustments between group accounts and authority accounts, nor the authority's share of the reserves of subsidiaries, associates and joint ventures. Management have updated the accounts accordingly.	✓
Defined benefit pension schemes disclosure	Within note 38, reversals of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits through reserves were disclosed incorrectly and should have been (£154,976k) and not the (£64,428k) disclosed.	✓

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Audit adjustments – Group and Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Eco Park disclosure changes	Following on from the derecognition of the Eco Park gasifier, adjustments are required to: • EFA and EFA note • Financial Instruments • Expenditure by nature • Group Accounts • Critical Judgements • Narrative Statement – Overall deficit and asset balances • Critical Judgement disclosures	✓
PPE revaluations disclosure	The historic revaluation balances note (within PPE Note 13) have been reclassified in the disclosure note, moving £11.4m from current value classification to assets valued in 2018 - £5.509m, 2019 - £3.949m and 2020 - £1.912m, following a re-assessment. This has had no impact on bottom line balances.	✓
Income and Expenditure by Nature Note	The Council did not separately disclose the loss in fair value of investment properties within Note 2 – Income and Expenditure by Nature. The value of this is £4m (following the adjustment for the surplus assets transfer). The amount was previously included within the other service expenses line within the note.	✓
Creditors	It was identified that £10.7m of receipts in advance should have been classified as part of collection fund creditor, which represents a misclassification within these line items of the creditors note. The misclassification had also occurred in 2018/19, where the balance on this account code was the same, so the same adjustment has been made to prior year figures too. The adjustment has no impact on the balance sheet or CIES.	✓
Other, minor amendments	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and understandability.	✓

Audit adjustments – Pension Fund

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

No adjusted misstatements impacting on the Fund Account or Net Assets Statement have been identified through our audit procedures.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 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	Fund Account £'000	Net Assets Statement £' 000	Reason for not adjusting
Private Equity Valuations: Updated fund manager valuations for 31 March 2020 were obtained for private equity funds after management had prepared the draft accounts. The updated valuations represented a £13.8m decrease from the position reported, to £292.1m.	(£13,767)	(£13,767)	**Management response:** It was based on our understanding of Private Markets and discussions with our Head of Alternatives at Border to Coast, that private markets wouldn't be as significantly impacted in their valuations compared to publicly listed equities, given their nature as illiquid assets. As the £13.8m is not material at an audit level, we are happy to not make this adjustment to our valuations
Pooled Property Valuations: Updated fund manager valuations for 31 March 2020 were obtained for pooled property investments after management had prepared the draft accounts. The updated valuations represented a £2.3m decrease from the position reported, to £278.1m.	(£2,319)	(£2,319)	**Management response:** Similar to private markets, given the nature of property funds as illiquid assets, we expected any change in valuation to not be as significantly impacted in their valuations as at 31 March 2020 compared to publicly listed equities during COVID-19. Any market reaction in global property markets as a result of COVID-19, is still unclear and less correlated than public markets. As the £2.3m is not material at an audit level, we are happy to not make this adjustment to our valuations
Overall impact	**(£16,068)**	**(£16,068)**	*Below audit performance materiality*

Audit adjustments – Pension Fund

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Disclosure amendment	Detail	Adjusted?
Sources of estimation uncertainty	Management have enhanced the disclosures in the financial statements around sources of estimation uncertainty to make specific reference to material valuation uncertainties around pooled property and private equity investments, as a result of the impact of the Covid-19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.	✓
Other Covid-19 amendments	The Fund does not reference Covid-19 as a post balance-sheet event. We would expect covid-19 to be referenced in the PBSE disclosure given the financial impact of the pandemic on Fund investments after 31 March 2020.	✓
Stock Lending	No prior year comparator was included in Note 17c for stock lending or associated collateral. The prior year values are £53.8m and £57.9m respectively, and need to be included in the note.	✓
Key Management Personnel disclosure	Some key management personnel were originally omitted from the note, but have now been included.	✓
Other, minor amendments	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and understandability.	✓

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Impact of prior year unadjusted misstatements

No unadjusted misstatements relating to the Pension Fund were identified during the 2019/20 audit.

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£140,415	TBC
Pension Fund Audit	£31,371	TBC
Total audit fees (excluding VAT)	**£171,786**	**TBC**

The fees reconcile to the updated financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services: • Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	4,000	4,000
Non-Audit Services: • CFO Insights subscription • Responding to assurance requests from Surrey District auditors for the purpose of IAS19	12,500 8,500	12,500 8,500
Total non- audit fees (excluding VAT)	**£25,000**	**£25,000**

Grant Thornton

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SURREY
COUNTY COUNCIL

Grant Thornton UK LLP
30 Finsbury Square
London
EC2N 4AY

5th November 2020

Dear Sirs

Surrey County Council and Surrey Pension Fund
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Surrey County and its subsidiary undertakings, Halsey Garton Property Limited, Surrey Choices Limited and Hendeca Group, for the year ended 31 March 2020, and Surrey Pension Fund, for the purpose of expressing an opinion as to whether the group and Council and Pension 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 2019/20 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 group and 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 2019/20 ("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 group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and 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 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, including those relating to land and buildings not revalued as at 31 March 2020. 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.

vi. 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

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properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the [group and]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 group and Council 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 Council 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. There are no material prior period errors to bring to your attention.

xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xvi. We are satisfied that the Council's Minimum Revenue Provision (MRP) policy for 2019/20 is lawful and that we have had regard to the statutory guidance in preparing a prudent MRP for the year.

xvii. We are satisfied that the accounting treatment of the assets under construction as part of the Council's Waste PFI contract reflect our views of the probability that future economic benefit will flow to the Council from those assets.

xviii. As disclosed in Note 5 to the Council and Group Financial Statements we are disclosing a material uncertainty in respect of the valuation of property assets, investment properties, the net pension liability as a result of market uncertainty created by the Covid-19 pandemic. However ,we are satisfied that the values presented in the financial statements represent the best evidence of value as at 31 March 2020.

xix. As disclosed in Note 5 to the Surrey Pension Fund Accounts we are disclosing a material uncertainty in respect of the valuation of Property Funds and Private Equity assets as a result of market uncertainty created by the Covid-19 pandemic. We are satisfied that the values presented in the financial statement represent the best evidence of value as at 31 March 2020.

Information Provided

xx. 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 Council's 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. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xxi. We have communicated to you all deficiencies in internal control of which management is aware.

xxii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxiii. 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.

xxiv. 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 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 financial statements.

xxv. 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.

xxvi. 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.

xxvii. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxviii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxix. 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

xxx. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

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Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 05 November 2020.

Yours faithfully

Name……………………………

Position…………………………..

Date…………………………….

Name……………………………

Position…………………………..

Date…………………………….

Signed on behalf of the Group